2017 White Paper
on
Chinese Economy and Japanese Companies

- Tentative Translation -

The Japanese Chamber of Commerce and Industry in China
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Your feedback is welcome. 欢迎纠错
**Premble**

The two countries, Japan and China, will celebrate the 45th anniversary of the normalization of diplomatic relations in 2017 and will celebrate the 40th anniversary of the conclusion of the Japan-China Treaty of Peace and Friendship in 2018. A number of commemorative projects have been implemented so far, and commemorative projects will be planned and implemented to promote exchanges across a wide range of interregional fields in both countries such as youth, culture, tourism, sports and economy. The Japanese Chamber of Commerce and Industry in China has registered the “2017 Japanese Business in China White Paper” which will be the 8th edition as a memorable project commemorating these special 2 years.

This white paper has been published since 2010 to promote dialogue with the central government and local governments of China. This particular white paper summarizes proposals to analyze and solve issues that Japanese companies are facing. A total of 8,852 corporate members of the Japanese Chamber of Commerce and Industry in China and other chambers of commerce and industry around China participated in the analysis. Consisting of 27 chapters with 53 proposal items, the 2017 White Paper is divided in 4 sections; “Current Status of the Chinese Economy and Japanese Companies”, “Common Issues and Proposals”, “Current Status of Each Industries and Proposals” and “Current Status of Each Areas and Proposals”. This white paper describes nothing but the current status of the economy in China from the viewpoint of Japanese Companies. It reveals various issues that Japanese companies, who have been engaged in business across China over a long period of time, have been facing as they are pursuing growth in China.

In the National People’s Congress held in March 2017, based on the 13th 5-year plan, the importance of development by “innovation” was further emphasized and at the same time it revealed to intensify the reform such as “simplification of administration and delegation of authority”, “combination of mitigation and management” etc. “Non-Discrimination”. This was a main request point in the proposal of the 2017 White Paper, and is precisely the foundation of innovation and is brought about by intensifying the reform. In the proposal of this White Paper, we believe that it contains many tips for the Chinese government to intensify these reforms and to promote the development of innovation.

The importance of foreign investment in Chinese economy reform is immeasurable, and especially Japanese companies have been playing a tremendous role. In recent years, as the uncertainty surrounding the world increases, the Japanese Chamber of Commerce and Industry in China will take over our predecessors’ achievement, further strengthening and making the economic cooperation relationship between Japan and China firmer, and actively make suggestions continuously to the Central Government and local governments in China to enhance the business environment in China.

This White Paper is made up with precious contributions that member companies of the Japanese Chamber of Commerce and Industry in China provided us while engaging in their own work. Upon compiling this White Paper, the research committee office (Japan External Trade Organization (JETRO) Beijing Office) played the central role. Furthermore, the Secretariat office of the Japanese Chamber of Commerce and Industry in China and JETRO offices in Shanghai, Dalian, Guangzhou, Qingdao, Wuhan and Chengdu played roles in collaborating with local chambers of commerce and industry around China. We would like to take this opportunity to express our sincere appreciation for all those who have made a great contribution.

The Japanese Chamber of Commerce and Industry in China sincerely hopes that the 2017 White Paper will facilitate dialogue between Japan and China and strengthen the bond of the two countries, thus lead to further prosperity together.

Akihiro Ueda
Chairman
The Japanese Chamber of Commerce and Industry in China
Appeal points of the proposals in 2017

<Whole concept>
“Securing fairness”

<Three elements of the proposals>

1. Fully equipped modern market system
We request the review of various systems that impede fair competition, fair treatment for domestic companies, and foreign-capital companies, and further reform of intellectual property rights system in order to construct a market system where orderly competition is carried out.

2. Deepening the reform of administrative management system
We request the simplification and speeding up of administrative procedures and the substantial abolition of authorizations/certifications in order to construct a constitutional government/service-type government.

3. Completeness of opening to the outside world
In order to adapt to the globalization of the economy, we urge further opening up restrictions on the entry of foreign capital in the manufacturing and service industries, and further adopting global standards.

<Priority Areas of the Year>

1. “Investment”
We request the improvement of the problem of non-transparent institutional management observed as foreign investment risk of China-based companies. We request that domestic and foreign interests are treated equally by further relaxing entry conditions for foreign capital; simplification of procedures in the labor field, such as employment of foreigners; and further adoption of global standards in the tax field.

2. “Logistics”
In order to improve the efficiency of the supply chain, we request further improvement of human, physical, and institutional infrastructure concerning procedures such as customs clearance, distribution, and transportation. We request the establishment of a system that contributes to improving predictability, such as unification of judgment of HS code (Harmonized Commodity Description Coding System Code) classification for import and export, and expansion of an advance ruling system.
Executive summary

Direction of Chinese Economic Reform and Main Proposals

Hope for further deepening of reform

In the 13th 5-year Plan (hereinafter referred to as the 13.5 Plan), in order to achieve the full-scale completion of a moderately prosperous society, the government states it will deal with firm establishment and through realization of 5 growth philosophies; namely, innovative development, coordinated development, green development, open development and shared development.

In regard to this, it emphasizes again to promote structural adjustments through the reform and the importance of the role that the market plays in the 13.5 Plan.

In the Government Work Report of the 5th meeting of the 12th National People’s Congress held in March 2017 (hereinafter referred to as the “Government Work Report”), as the priority work mission in 2017, the government will “address overcapacity, reduce inventory, deleverage, lower costs, and bolster areas of weakness” to deeply push forward the process. In addition, it is pointed out as issues to be solved that some reform measures and policies are not thoroughly implemented, such as issues with a large collection of various fees from companies and the existence of cases lacking standards/fairness/rational thinking in administrative law enforcement. Furthermore, based on this recognition, intensifying reforms and enhancing policies will reduce corporate transaction costs caused by the system and lower other costs such as logistics.

Among other priority work missions, the government “will intensify the reform of important fields and key areas” and in order to fulfill a decisive role of the market in resource allocation and at the same time to effectively manifest the function of the government, it will also intensify the reform of “simplification of administration and delegation of authority”, “combination of mitigation and management” and “optimization of services”.

Japanese companies hope that 2017 will be the year the intensifying of the reform will be carried out that leads to the improvement of the business environment with “high transparency” where “non-discrimination” is secured. At the same time they are ready to actively contribute to the Chinese government in intensifying the reform and realizing the 5 growth philosophies through various businesses.

The 13.5 Plan stipulates the Chinese government will intensify the reform with the aim to improve the modern market system, to deepen the reform of the administrative system and to improve the new system for opening up. In view of this we have organized the issues that Japanese companies are facing in the business scene in China by various fields as follows.

This white paper compiled recommendations to analyze and solve issues that Japanese companies, who have been engaged in business across China over a long period of time, have been facing. Upon intensifying the reform, we believe this white paper contains many useful proposals. We hope it will be of some reference to future policy administration.

Improving the Modern Market System

In the 13.5 Plan, it has emphasized to thoroughly reorganize/abolish various regulations and methods that are obstacles to uniformed market and fair competition, to implement a screening system to allow fair competition, and to ease market entry restrictions. Along with this direction, this white paper proposes reviewing various systems that are obstructing fair competition in line with the market economy to adequately leverage the market principles.
• **Investment:** As the market economy progresses, it is a natural trend and unavoidable for companies to be restructured by revitalizing competition, therefore, we propose improving system to reduce the time and cost burden on business restructuring including withdrawal to alleviate. Especially, the tax related burden is significant. For example, it is necessary to shorten the time taken for deletion of tax registration. With these measures, it is expected that predictability will be improved, and it will attract new investments, and lead to optimization of China’s industrial structure.

• **Taxation/Accounting:** With regard to tax relief procedures and appeal system, the tax reexamination proposal will be applied after tax has been paid in advance and then appealed to the upper level tax bureau administrative level higher than the corresponding tax bureau. However, in reality the reexamination system is not fully functioning, hence we would like to request further system improvement. We would like to request the State Administration of Taxation for reexamination request and the establishment of Tax Courts.

• **Labor:** Expatriates etc. who are working in China are in a situation where they have to pay social insurance premiums in duplicate in Japan and China, which is a heavy burden for Japanese companies. By means of the early conclusion of the Japan-China Social Security Agreement, it is possible to resolve issues such as double payment of social insurance premiums. So we propose raising the frequency and accelerate the negotiation of the Japan-China Social Security Agreement so as to reduce the burden on Japanese companies and expatriates etc.

• **Logistics:** Although the standard of customs clearance and quarantine system is being upgraded, there are still some parts that have not kept pace with the expansion of regional customs integration. There are differences in system level and settings depending on the region, as well as frequent delays caused by system failure itself, thus hindering the filing procedures. We propose improving the system, with consideration to efficiency, stability and versatility.

Furthermore, in the 13.5 Plan, it showed the determination of completion of developing the intellectual property right system that is beneficial to promote innovation. Moreover, it emphasizes to intensify the reform in the field of intellectual property rights and to enhance judiciary protection. In addition, in the Government Work Report, it is necessary to urge to improve the property rights protection system, to guarantee various property rights owned by economic organizations and individual citizens based on the law, to encourage people to build wealth by entrepreneurship and innovation, to arouse and protect entrepreneur spirit, to create an environment for entrepreneurs to be able to endeavor business and invest with peace of mind; establishing a strict policy that cracks down on acts that infringe corporate property rights. As for intellectual property issues, there are still strong calls from Japanese companies for improvement, we request appropriate measures for various policies and measures to suppress acts of counterfeiting etc.

• **Protection of Intellectual Property:** The employee invention system is defined in a comprehensive manner under the Patent Law and the Law for implementing the Law in the first place. Expanding the scope of application to new rights such as new plant variety rights and other rights such as integrated circuit placement rights without superseding rules like the Patent Law may cause confusion in the legal system. Hence it is not necessary to establish the employee invention regulations. Furthermore, even if it is enacted, in view of the above, we request that the subjects of this regulation be exclusively to patent and to thoroughly implement the “agreement priority principle”（约定优先原则） agreed between the business entity and the inventor.

• **Protection of Intellectual Property:** In order to unify actions that fall under repeated offences, sharing of punitive information for seizure by the Industry and Commerce Administration Bureau, the Quality and Technical Supervision Bureau, the Intellectual Property Bureau, Customs and public security institutions including both the central and regional office. Furthermore, in order to prevent repeated offenses, we request further facilitation of criminal transfers between administrative agencies and public security institutions and to closely cooperate with right holders, by providing information owned by the custom etc. We also request to appropriately proceed with the legal management of severe punishment against repeated offences and the implementation of these efforts on a nationwide scale.
Deepening the reform of the Administrative System

It was emphasized in the 13.5 Plan, that the government will create open, transparent, effective and speedy fair governmental services for all by intensifying the reform of the administrative examination/approval system, reducing the interference to corporate management by the government, and the maximum scale down of examination/approval items. In 2016, the government withdrew a total of 165 items from administrative examination and approval items that the provincial governments were implementing under the administrative examination and approval items of each department of the State Council and the designation of the State Council, as well as implementing initiatives such as organizing and standardizing 192 examination and approval intermediary service items.

We request further positive development of simplifying/expediting administrative procedures, abolishing permits/licenses and authentication, and enhancement of governmental services, as Japanese companies continue to call for in many fields in this white paper.

- **Trade**: For the advance ruling system of the HS number, we request improvement from the application of only the customs office of the application destination to a system that can be used uniformly nationwide. We also request improvement of the system so that the customs authorities can speed up the response when using this system and make inquiries to the direct customs by an easier method such as email. At the same time, we propose releasing documents that interpret the items subject to HS numbers in details. We also propose unifying necessary documents, time required at the time of permission related to entering to port, docking and loading as much as possible.

- **Technical standard/certification**: In some standards, it is seen there are unrealistic setting of test conditions or high numerical setting of target values and ideal values. We request to avoid developing excessive specifications and excessively detailed standards. We also request that simplification be promoted by consolidation and elimination of standards. Standards that do not consider technical level or social situation can hinder technological progress and free competition and do not conform to the direction of China’s policies to promote innovation.

- **Chemicals**: Hazardous criteria for chemicals differ among administrative departments, and China MSA, IMDG, the Bureau of Quality Inspection and Quarantine and Customs generally judge according to the hazardous chemical inventory. As a result, the place of customs clearance and storage were divided due to the difference in the judgment result between China MSA and the Bureau of Quality Inspection and Quarantine/Customs, and the hazardous chemicals have to be moved over and over again many times. Thus increasing further risks. Therefore, we request the unified adoption of criteria based on the concept of hazardous & dangerous goods in the administrative departments that manage and supervise chemicals in harbors.

- **Banking**: In addition to regulations concerning foreign exchange transfers, external remittances, etc., guidance and management are also recognized to be reinforced. If this situation becomes prolonged, there is a possibility that negative impacts, such as obstacles to fund management based on customers’ actual demand, may become obvious. It is also highly likely that it will be a concern for foreign companies entering China. Furthermore, enhancing the degree of freedom and transparency of exchange transactions and cross-border transaction is essential for promoting the internationalization of the RMB. For these reasons, we propose easing and optimization of regulations, guidance and management concerning this matter.

Improving the New System for Opening Up
In the 13.5 Plan, it is stipulated the thorough implementation of the market environment where fair completion exists, realization of fair and transparent application of the laws, liberation and innovation of service/financial sector. Also in the Government Work Report, it indicated that it would revise the “Foreign Investment Industry Guidance Inventory”, to further ease the entry conditions for foreign capital in the manufacturing and service industries, etc., to further strengthen the conditions for entry of foreign capital, and to treat domestic companies and foreign-affiliated enterprises equally in terms of qualification permission, standardization, government procurement, and policy application of “Made in China 2025” etc. thus China’s initiatives to become a more open market are progressing.

There are 2 key pillars in this aspect. We request further liberation of the participation of foreign investment and further application of global standards.

- **Investment**: We propose easing of the foreign investment regulation against certain industries. For example, in a car production enterprise, foreign capital companies cannot invest more than 50%. Even with an investment ratio of 50% or less, it is necessary to obtain permission from related government agencies such as the National Development and Reform Commission, the Ministry of Industrial and Information Technology, and the Ministry of Commerce against changes in the contribution ratio. As a result, it is impossible to grasp the real control right of a joint venture company, and changes in the investment ratio within 50 % are often conditioned by relevant authorities, thus it has made it possible for the State to exercise its influence on the direction of business of individual companies. The “China Automobile Medium- to Long-term Development Plan” indicated that its direction is to gradually ease restrictions on ownership of joint ventures. We request that specific measures will be clarified.

- **Taxation/Accounting**: Currently, while the transition to IFRS(International Accounting Standards) is being considered internationally, from a viewpoint of responding to consolidated financial results, we request flexible application of the Chinese corporate accounting system where not only the current December settlement of accounts in China but also companies can set the fiscal period by themselves.

- **Technical Standards/Certification**: In the public standard formulation process such as national standards, or industry standards, etc., the operation method is not unified and lacks transparency, for example, the membership fee and membership expenses etc., are still differentiated by domestic and foreign-capital. We propose increasing transparency and impartiality by facilitating the participation of foreign-affiliated enterprises such as making the process of formulation and revision related to standardization activities open to the public in principle, and making conditions to participate in the standardization technical committee and standardization formulation work group etc. the same for foreign enterprises as Chinese enterprises.

- **Information and Communication**: Cloud computing and data centers etc., are the core of ICT business in the future, and foreign-affiliated enterprises can exercise their uniqueness and identity further. We request deregulation for the cloud service business so that foreign-affiliated companies will be able to provide the service.

**Main items that have improved from the last year’s proposals**

The followings are main items that we have seen improvement out of last year’s proposals. We believe we saw the improvement along the lines of the proposals in these items and we thank the Chinese government for the initiatives to improve the business environment. However there are still many fields we would like to see improvement and we hope the bold reform will continue to be implemented.

1) Simplification of establishment of foreign-affiliated enterprises and modification procedure

(2016 White Paper, p32、Proposal ①)
If it does not fall under the field of special control measures for foreign investment entry regulated by the government, the establishment and modification of foreign affiliated enterprises can be done only by submitting related materials by designated online system based on the “Interim measures on Notification Management of Foreign Investment Enterprise Establishment and Modification” enacted by the Ministry of Commerce on 8th of October 2016.

2)-Promotion of mutual understanding with relevant authorities (2016 Waite Paper p132, Proposal IV)

By carrying out exchanges of experts between the Japan Chemical Industry Association and the State Administration of Work safety and the Environment Protection Division, it promoted mutual understanding on chemical laws and regulations of both Japan and China.

3)-Opening up Chinese Citizens Outbound Travel Operation of the Wholly Foreign-investment Travel Agency (2016 White Paper, p258, Proposal ①)

- In Article 23 of the “Travel Agency Regulations”, a foreign investment travel agency is not supposed to deal with the outbound sightseeing travel business of the Chinese citizens and the sightseeing travel business to Hong Kong, Macao, and Taiwan. However, in July 2016, the State Council suspended this tentatively in the Free Trade Area and admitted Chinese outbound sightseeing travel business (excluding Taiwan) to foreign investment travel agencies that satisfied the conditions.

Japanese Companies Business Initiatives in China

Japan’s investment in China in 2016 was 3.1 billion USD, which was a drop of 3.1% compared with last year. It has decreased for 4 consecutive years (Fig. 1). With the background of raising labor cost, difficulty in securing labor force, and the changing business environment in China; we believe the recent underlying downward trend has been manifested. Furthermore, looking at the amount of investment to China from the rest of the world in 2016, it decreased by 0.2% (USD base), and it began to decline for the first time since 2012. By industry, the manufacturing industry is down 10.2% to 2-digit declines, and the non-manufacturing industries maintained positive growth of 4.2%, owing to favorable conditions such as leasing and commercial services, wholesale and retailing, Information and communication and computer services.

The survey conducted on Japanese companies in China by JETRO in September 2016 (Fig. 2) shows that 40.1% of companies expressed “expansion”, 52.8% expressed “remaining the same” for their direction of business expansion in the next year or two. The intention to expand business in China increased by 2.0 points from the previous year, although it dramatically reduced compared to 2011 (66.8% → 40.1%).

However not all industries expressed the decline of intention to expand, but there are variations depending on the type of industry etc. When we see the ratio of “expansion” by type of industry, the Non-manufacturing industry has higher intensity of expansion than the manufacturing industry (Fig. 3, Fig. 4). Furthermore, within the manufacturing industry, “Food (53.6%)”, “Transportation Equipment (43.0%)” and in the Non-manufacturing industry, “Wholesale/Retail (54.7%)” are industries that are specifically domestic-sales orientated, that are showing higher intention of expansion. On the other hand the fiber industry that is an export-orientated business showed less than 20% (19.1%) in the same ratio of intention of expansion.

It can be seen that the superiority of China for export-orientated industries has been declining. On the other hand, domestic-market orientated industries view China as a promising market, and continue to strengthen the development of the China Market.

Although the value of investment in China from the world has declined, in order to increase investment in China, it is beneficial to smoothly realize the investment intentions of Japanese domestic sales type companies to develop consumption field, since it synthesizes with China’s move towards a shift from an investment-led to a consumption-led economy. To that end, improvement and establishment of the investment environment
are indispensible. In the 13.5 Plan, it highlighted to improve the standard of openness to the international community, and cooperation with other countries in strategic mutual trust, cooperation in investment, economic and trade etc. Furthermore, in the Government Work Report, it mentioned that the government would be active and play a leading role in opening-up to the international community. It is expected that easing conditions for further entry for foreign capital, simplifying procedures in the labor field such as employment of foreigners and adoption of global standards in the tax field. Such promotion of opening up to the international community at a higher level realizes mutual complementation with each other’s strengths, and at the same time, it is imperative to intensify the win-win relationship in increasing investment in China and the smooth realization of the consumption field of Japanese companies.

Furthermore, in order to further develop the consumer market, it is necessary to reduce the distribution cost. For that purpose, we believe that further development of human, physical and institutional infrastructure regarding custom clearance, distribution, transportation, etc. will be important. In the 13.5 Plan, it was highlighted to lower the logistics cost of enterprises, to work on the development of green logistics and cold chain logistics etc. In addition, in the Government Work Report, the reduction of distribution cost was cited as an issue, and it was included in the priority work mission. Since logistics is a fundamental industry involved in many industrial sectors we believe that the effect of cost reduction, such as integration of customs clearance and simplification of various procedures, will affect a wide range of fields.

Japanese companies would like to continue to make contributions in these issues.

Japan in the Chinese Economy

Japanese companies have played very important roles for China in expanding the economic scale as China has been trying to enhance the quality and efficiency of the growth. As for trade, Japan came in second in 2016 as the destination country for exports of China by country with the volume of 129.2 billion USD. In import category, Japan came in the second with the volume of 145.6 billion USD. Thus Japan is a very important trade partner for China. China imports production goods such as parts and components and capital goods such as machinery to utilize in production in China, then export the products worldwide. Especially many key parts and machining tools are imported from Japan.

As for investment, Japanese companies top the number of companies present in China by country with the number of Japanese companies that have business in China are 23,094 (as of the end of 2012) that is 7.9% of the whole foreign-owned enterprises. They produce more than 10 million jobs directly/indirectly, thus they contribute in creating jobs. They are also working on improvement of the work environment and enhancement of the welfare system.

Furthermore, many Japanese companies have superior technologies/know-how, thus they are contributing to the improvement of technical capacity and management efficiency of Chinese Companies in both receiving and placing orders and enhancement of competitiveness. Moreover, the presence of Japanese companies is high in the supply chain of some industries since the supply of some key parts and special raw materials in high-tech product that cannot be substituted by others.

As the economy is globalized and supply chains are complexly intertwined, Japanese companies are trying to continue to grow together with China.
Figure 1: Japanese investment in China

Source: Ministry of Commerce, CEIC

Figure 2: Direction of Business Expansion in the Next Year or Two

Source: JETRO “Survey on Business Conditions of Japanese Companies in Asia and Oceania”
Figure 3: Direction of future business development in manufacturing industry and export/domestic sales ratio (FY 2016)

Source: “Survey on Japanese companies entering Asia and Oceania” conducted by JETRO

Direction of future business development in the non-manufacturing industry and export/domestic sales ratio (FY 2016)

Source: “Survey on Japanese companies entering Asia and Oceania” conducted by JETRO
Part 1: Chinese economy and the current situation of Japanese companies
Chapter 1: China economy and the current situation of Japanese companies

**Chinese economy in 2016**

Regarding the Chinese economy in 2016, GDP growth rate was 6.7% over the previous year, which was within the government target (6.5–7.0%). This was a year when stable growth was confirmed in line with the growth process of the economy after entering into a “New Normal state.” In 2015, in addition to the fluctuations in the financial markets—such as the stock market—there was significant downward pressure on the economy—such as the stagnation of the manufacturing industry and the mining industry—due to excessive production capacity. In 2016, in addition to steady consumer spending centered on automobiles, the booming real estate markets and public investment supported the Chinese economy, and certain achievements were also observed in overcoming the excessive production capacity.

**Table 1: Major economic indicators and forecast target values**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (real)</td>
<td>6.5 to 7.0%</td>
<td>6.7%</td>
<td>Around 6.5%</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>Around 3%</td>
<td>2.0%</td>
<td>Around 3%</td>
</tr>
<tr>
<td>All society fixed assets investment (nominal)</td>
<td>Around 10.5%</td>
<td>7.9%</td>
<td>Around 9%</td>
</tr>
<tr>
<td>Total amount of retail sales of social consumer goods (nominal)</td>
<td>Around 11%</td>
<td>10.4%</td>
<td>Around 10%</td>
</tr>
<tr>
<td>M2</td>
<td>Around 13%</td>
<td>11.3%</td>
<td>Around 12%</td>
</tr>
<tr>
<td>Registered unemployment rate in urban areas</td>
<td>4.5% or less</td>
<td>4.02%</td>
<td>4.5% or less</td>
</tr>
<tr>
<td>Number of newly employed people in urban areas (million people)</td>
<td>1,000 or more</td>
<td>1,314</td>
<td>Over 1,100</td>
</tr>
<tr>
<td>Per-capita disposal income nationwide (real)</td>
<td>6.5 to 7.0%</td>
<td>6.3%</td>
<td>Around 6.5%</td>
</tr>
</tbody>
</table>

Driver consumption of steady growth continued to expand strongly, and increased by 10.4% from the previous year, against a background of solid income and employment environment. It accounted for more than 60% of the economic growth, impressing the shift to a consumer-led economy. Among the consumers, automobile sales also recorded a record high of 28,030,000 units (increased by 3.7% from the previous year) in the form of boosting tax cuts preferential measures, driving consumption.

Considering fixed asset investment (excluding farm households), public-related investment continued to grow at a high level throughout the year due to the rise in local governments and PPP-related (Public Private Partnership) infrastructure projects. Investment for real estate also recovered against the backdrop of the booming real estate market. As a result, in 2016, investment in fixed assets increased by 8.1% from the previous year—which was relatively high—supporting the stable growth of the Chinese economy.
Elimination of excess production capacity

“Elimination of excess production capacity” was raised as one of five major duties in promoting structural reformation of the supply side in 2016 at the Central Economic Council, and overseas production capacity was promoted in industries, such as steel and coal.

The Chinese government announced that “in 2016, we achieved an annual target of excess production capacity reduction of over 65 million tons for steel and over 290 million tons for coal” (Government Work Report). Considering the current producer price index (PPI), it continued to be negative for a long time in comparison to the same month of the previous year. However, in September 2016, it turned to be positive in comparison to the previous year for 54 months, and continues to show an increasing trend. The supply and demand in the Chinese manufacturing industry and macroeconomic improvement in corporate earnings were observed—it can be stated that certain achievements were seen in the elimination of excess production capacity. From 2017, the Chinese government and the vigorous efforts of each industry are expected to draw attention as to whether excess production capacity will be eliminated.

Figure 3: PPI and CPI

[Graph showing PPI and CPI trends from 2011 to 2017]

Risk factors

While stable growth trajectories are confirmed in this manner, several risk factors have become apparent.

For real estate, although it supported the Chinese economy, there was a feeling of overheating in terms of price and closing price in houses in some cities, including one-line-class cities. Considering the price, in one-line-class cities, for the first time, it rose to the level exceeding 30% in comparison to the previous year.

In response to overheating of the real estate market, the Chinese government also increased its cautionary attitude, and at the end of 2016, the Central Economic Council launched the “Focus on Asset Bubble Prevention.” Essentially, in some cities where overheating in the real estate market was observed, efforts to attenuate the real estate market have been made, such as local governments launching measures to restrain purchases before and after the National Day, and calm in terms of groundwork, prices, and contracts is beginning to appear.
The Yuan also continued to decline against the USD in 2016.

In addition to the strong prospect for raise in interest-rate by the US Federal Reserve (in fact, the rise in interest-rate was implemented in December 2016), in the foreign exchange market, the USD appeared to rise against other currencies due to factors such as election of the candidate Donald Trump in the US Presidential Election in November, leading to a decline in the Chinese Yuan versus the USD.

Furthermore, foreign direct investment by Chinese companies (excluding finance, which was announced by the Ministry of Commerce 商务部) increased significantly to US$ 170.1 billion (44.1% increase over the previous year), exceeding the domestic direct investment for the first time. Although the active overseas development of Chinese companies based on the “Go Global” strategy was once again highlighted, these movements also contributed to the outflow of capital and the depreciation of the Chinese Yuan.

Government authorities, such as the People’s Bank of China, responded by carrying out original purchases and dollar exchange in the exchange market; the foreign currency reserve, which was close to US$ 4 trillion in 2014, declined to nearly US$ 3 trillion. Under these circumstances, authorities appeared to be coping with capital outflow and the decline of the Chinese Yuan by strengthening the oversight of capital and foreign exchange transactions.

Figure 5: Chinese Yuan versus dollar rate and foreign reserve preparation

Source: CEIC, Wind
**Perspectives of 2017**

In the Government Work Report (政府工作报告) expressing the policy of economic policy management of the Chinese government, the target value of the economic growth rate in 2017 was lowered to approximately 6.5% (2016 target: 6.5 to 7.0%, results: 6.7%) in comparison to the previous year. Based on the actual situation of the Chinese economy under the “New Normal,” it can be stated that the target set by the Communist Party is to follow the establishment of a moderately prosperous society (小康社会) in 2020.

Regarding administration management principles, the fiscal policy is “to make it more aggressive and effective.” The principle that was declared is to support the economy by reducing corporate burden by reducing taxes. On the other hand, monetary policy shows a principle of “moderation and neutrality,” and in view of risk factors, such as soaring real estate prices as a side effect of monetary policy that has been relaxed so far, it seems that a marginally tighter monetary policy management will be adopted from the end of 2016.

Considering the business confidence of the future, solid consumption and infrastructure investment continued since the latter half of 2016. In addition, the purchasing managers’ index (PMI) of the manufacturing industry has also been stronger than October 2016 and exceeded 51 (good / recessive milestone is 50), showing a steady business confidence.

Based on this solid business confidence and the economic policy management principal of the Chinese government, the main scenario is the continuation of stable growth in 2017 as well. In the Government Work Report (政府工作报告), the attitude to prioritize stability was emphasized. Simultaneously, it announced that the Chinese economy will be maintained within a reasonable range with positive and flexible macro control. This attitude of emphasizing stability has to do with a large political event to be held in autumn, the National Congress of the Communist Party, which is held once every five years.

It appears that stable economic growth will continue in this manner. However, as risk factors, we can mention (1) the downward economic fluctuation caused by excessively tightening of the monetary policy and measures to restrain real estate purchases, and the slowdown in infrastructure investment; and (2) the trend of the Chinese Yuan decline and capital regulation, which must be considered a risk factor surrounding corporate management.

**Management situation of Japanese companies in China**

According to the “Survey on Japanese companies entering Asia and Oceania” conducted by the JETRO each year (number of companies that sent valid responses in 2016: 604 companies; valid response rate: 43.8%), the proportion of Japanese-affiliated companies in China who answered to “operating profit (projected)” in 2016 as “surplus” increased by 4.0 points to 64.4%, exceeding 60% for the fourth consecutive year (Figure 6).
In this questionnaire, there were also questions about management problems in a multiple-choice format. According to it, the highest one was “Increase in wages of employees,” which was similar to the previous year. The response rate was prominent at 77.8%, which shows the size of the problem (Table 2). It continued with “Cost reduction is approaching the limit” (48.2%), “Difficulty of quality control” (45.0%), “Rise of competitors (competition in terms of cost)” (44.4%), and “Employee quality” (42.4%).

Japanese companies are facing severe cost reduction pressures (“Cost reduction is approaching the limits,” “Rise of competitors [competing in terms of cost],” and “Requests for price reduction from major customers”), in addition to rising costs (“Increase in wages of employees”). In addition, there are problems on the labor side (“quality of employees”). Furthermore, “the fluctuation in exchange rate of the local currency versus the Yen” was the only response rate that increased among the top 10 items.

### Table 2: Management problems of Japanese-affiliated companies in China

<table>
<thead>
<tr>
<th>Response items</th>
<th>Response rate (%)</th>
<th>Fluctuation (points)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st place Employee wage increase</td>
<td>77.8</td>
<td>84.3</td>
</tr>
<tr>
<td>2nd place Cost reduction approaching the limit</td>
<td>48.2</td>
<td>54.2</td>
</tr>
<tr>
<td>3rd place Difficulty in quality control</td>
<td>43.0</td>
<td>61.4</td>
</tr>
<tr>
<td>4th place Rise of competitors (competing in terms of cost)</td>
<td>44.4</td>
<td>50.7</td>
</tr>
<tr>
<td>5th place Employee quality</td>
<td>42.4</td>
<td>55.5</td>
</tr>
<tr>
<td>6th place Development of new customers does not progress</td>
<td>40.9</td>
<td>44.7</td>
</tr>
<tr>
<td>7th place Changes in local currency against Yen exchange rate</td>
<td>36.8</td>
<td>34.5</td>
</tr>
<tr>
<td>8th place Request for price reduction from major customers</td>
<td>36.6</td>
<td>44.7</td>
</tr>
<tr>
<td>9th place Complicated procedures, such as customs clearance</td>
<td>34.2</td>
<td>39.1</td>
</tr>
<tr>
<td>10th place Decrease in order quantity from business partners</td>
<td>32.2</td>
<td>36.0</td>
</tr>
</tbody>
</table>

Source: “Survey on Japanese companies in Asia and Oceania (each yearly edition)” conducted by JETRO

In addition, according to the “Survey Report on Overseas Business Development by Japanese Manufacturing Companies,” which was based on a questionnaire survey conducted by the Japan Bank for International Cooperation, the ratio (response rate) of companies that considered China to be a “medium-term (approximately for the next three years) promising business destination country/region” declined significantly to 37.5% in the 2013 survey, and for the first time, it dropped from the top to the fourth position. However, in the 2014 survey, it recovered to 43.7%, ranking third, and in 2015 it decreased to 38.8%. However, it was
second together with Indonesia. In the 2016 survey, it was the second largest individually, and the response rate increased by 3.2 points from the previous year (Indonesia fell to the third position). The top position for promising reasons was “future growth of the local market” (67.0%) and the second place was “current scale of the local market” (62.4%). On the other hand, regarding the problems that were mentioned, “Labor cost increase” was the most frequent with 66.3%, followed by “Severe competition with other companies” (55.1%) and “Legislative operation uncertain” (50.8%).
Part 2: Common issues and proposals
Chapter 1 Trade

The total trade volume of China in 2016 was 6.8% lower than the previous year at US$ 3.6849 trillion, exports were US$ 2.0974 trillion (7.7% decrease from the previous year), and imports were US$ 1.5875 trillion (5.5% decrease). All were negative for the second consecutive year. Regarding the trade in 2016, while favorable trends have been seen every quarter, we evaluate that the basis for recovery is not sufficient as there are many uncertainties in domestic and overseas economies. In the Government Work Report (政府工作报告) of March 2017, the government stated that it will encourage continued stability and improvement of foreign trade, promoting the unification of trade contacts, realizing the nationwide integration of customs clearance, and the progress of these is drawing attention.

According to JETRO, which looked at Japan–China trade in 2016 on an import basis based on Trade Statistics of Japan and Customs Statistics of China, the total amount of trade fell by 0.6% from the previous year to US$ 301.60491 billion, a decline for two consecutive years (Note 1). Exports from Japan (below, same as Chinese imports from Japan) increased by 1.6% to US$ 144.99645 billion, increasing from 12.2% in 2015. Electrical equipment (HS Code 85), which accounts for 27.9% of the export value, increased by 4.3% from the previous year. Among these, the integrated circuits used for items such as smartphone memory elements significantly increased, and vehicles (category 87), which accounted for 9.6% in composition ratio, increased by 11.9 points. All these contributed to the boost.

On the one hand, imports declined by 2.5% to US$ 156.60846 billion and the negative width decreased by 8.8 points from the 11.3% decrease in 2015. However, main items, such as clothing and clothing accessories (category 61), continued to decrease in almost all cases. In addition, the trade deficit on the Japanese side declined by 35.3% from the previous year to US$ 11.61201 billion, showing a deficit for five consecutive years since 2012.

Although the amount of trade between Japan and China decreased marginally on a dollar basis, China’s share of total trade in Japan was 21.6%, rising 0.4 points from 2015, and it was 5.8 points away from the second place occupied by the United States.

According to China’s statistics (Note 2), the number of Japanese-affiliated companies in China at the end of 2000 was 23,094 companies, exceeding 20,000 companies. Japanese companies set up production and sales bases in China to tilt management resources toward strengthening competitiveness in China and developing domestic demand. Simultaneously, they actively developed businesses, and engaged in daily trade in the global supply chain.

After its affiliation to the WTO, the Chinese government, in terms of trade and customs, is making various efforts, such as improving institutional aspects, as well as transparency and service, and the environment has improved considerably in comparison to the past. However, according to Japanese companies, there is a continuing need for improvement following the 2016 white paper. There are great expectations for further improvement of the legal system, unification of operations, and simplification of customs procedures among others. Moreover, 34.2% of companies (604 companies) that responded to the survey conducted by JETRO on Japanese companies in China (Note 3) mentioned “problems such as customs clearance being complicated” as management problems. Although the answer decreased by 4.9 points from the previous year’s survey, it is still a high figure and we would like to request for further efforts in this regard.

Note 1: However, in terms of Yen conversion, the total amount was 29.3783 trillion Yen (10.0% decrease), exports decreased by 6.5% to 12.3619 trillion Yen, and imports decreased by 12.4% to 17.0164 trillion Yen.
Note 2: “Statistical Yearbook on China’s Overseas Economic Trade 2013”
Specific problems in trade and customs clearance

Legal system and operational non-transparency

There are nearly 4,000 customs offices in China. Due to the fact that there are so many offices, there are still problems such as differences in customs examination and interpretation of legal system at each customs office. There are cases where the same goods are judged to be HS number categories that differ depending on customs officials, and tariffs and export value-added tax (VAT) refund ratios are different. We urge the unification of operations throughout the country by strengthening training and developing more detailed manuals.

In addition, we request the improvement of the HS number pre-ruling system, from having customs as the only application destination to a system that can be used uniformly nationwide. We also request improvements so a prompt response can be received from the General Administration of Customs (海关总署) when using the system, and also improving convenience, such as allowing inquiries to be sent directly to customs via E-mail. In addition, by disclosing documents interpreting detailed items of the HS numbers, the convenience of the company could be enhanced, reducing the burden on government officials.

Furthermore, regarding dangerous goods, in addition to several laws and regulations that have been promulgated, and many jurisdictions and regulatory operations against dangerous goods being strengthened after the Tianjin explosion accident, we request clarification of the management policy and establishment of a unified consultation helpdesk.

There remain strong opinions from Japanese companies, but when implementing changes in regulations/systems accompanying customs clearance, we ask for information disclosure and specific implementation methods to be thoroughly understood, such as ensuring an adequate preparation period and posting it on the customs website beforehand through a document.

Complex (cumbersome) customs procedures

The Chinese government is making various efforts to improve the efficiency of customs clearance and the service. The situation has significantly improved in comparison to the previous state. Also, some Japanese companies have positively evaluated the progresses, such as paperless customs clearance. The State Council (国务院) promulgated “Some Opinions on the Promotion of Stable Growth of Imports and Exports (国务院办公厅关于促进进出口稳定增长的若干意见)” in July 2015, further showing that the convenience of trade is improving, and that related departments are working toward its realization has been welcomed.

However, upon importing second-hand goods of production machines, there are pre-loading preliminary inspections (if applicable) and cargo arrival inspections based on the “Law on inspection, supervision, and control of imported second-hand machinery products (进口旧机电产品检验监督管理办法).” There are opinions that import procedures are complicated and time-consuming. There are also requests for unification of the contact points related to customs clearance and product inspection, as well as simplification of procedures. We would like to continue requesting simplification of procedures related to customs clearance and product inspection, and the shortening of lead-time through the unification of application desks and preferential treatment for good-standing companies.
In that sense, from June 2016, the Shanghai Municipal Government started reform measures to unify nationwide customs. The policy to disseminate the reform measures nationwide was announced, which was welcomed. Even in the process of enforcement of this system, we request further enhancing the provision of information on the system to the relevant authorities and Japanese affiliated companies, and a thorough implementation of unified operations at the stage of deployment in each region. Through these means, we would like that the enhancement of convenience for companies continues.

Regarding other issues, while research on royalty payments has been strengthened, for individual projects, information on the necessity of taxation and the adequacy of price based on what type of grounds and standards are determined by customs has not been sufficiently disclosed to companies. In addition, if the customs authorities (海关) do not agree to the company’s assertions and explanations, there is a case to unilaterally ask the company to prove its argument without clarifying the reason. In order to reduce the response burden of companies, we request the customs side to clearly present the grounds for judgment.

**Expectation for further liberalization**

In order to further liberalize trade, the Chinese government has been promoting efforts to conclude aggressive Free Trade Agreements (FTAs) with foreign countries and regions in recent years, and this is welcomed. Negotiations are being conducted for the Japan–China–Korea FTA, as well as the Regional Comprehensive Economic Partnership (RCEP), which includes 16 countries consisting of member states of the ASEAN, China, Japan, South Korea, India, Australia, and New Zealand. By concluding these agreements, it is expected that elimination and a gradual reduction of tariff/non-tariff measures will be brought about, and liberalization and facilitation of trade will advance more than ever. Thus, we would like an early conclusion.

On the other hand, with only liberalization of the Certificate of Origin (原产地证明) necessary for FTA use, such as in the enforcement regulations, China and ASEAN FTAs have a provision that the HS code described in the Certificate of Origin shall be the HS code of the importing country. However, for items with different HS codes considering the importing country and the exporting country (China), there are cases where commercial inspection offices in China request to describe the HS code of their country (China). We request that thorough instructions are provided to the local commercial inspection offices to avoid situations in which requests inconsistent with the provision or not mentioned in the provision are made to companies.

Furthermore, in order to improve the operational efficiency of both customs (海关) and companies, and to realize smooth customs clearance, we request the establishment of a system whereby companies can have prior consultations with the competent customs authorities (海关). In addition, from the viewpoint of further improving the efficiency of logistics, we also request the expansion of areas that can handle customs clearance even during holidays, public holidays, and after hours.

**Proposal**

1. When implementing the regulation/system change accompanying customs clearance, we request the consideration of ensuring sufficient preparation period, the information disclosure timing, such as publishing it on the customs website in advance in documents, and a specific implementation method.

2. The interpretation of the customs inspection concerning the import/export declaration, such as the HS number of the same product and the certificate of origin, as well as the operation, rules, and regulations of the bonded zone, logistics park or bonded port area, also varies depending on the area and person in-charge. We request nationwide unification of operations by strengthening training and preparing more detailed manuals.
(3) Regarding the HS number prior ruling system, we request improvement from having the customs office as the only application destination to a system that can be used uniformly nationwide. We also request improvement of the system, so that the customs authorities (海关) can speed up the response when using the system, and inquiries can be sent directly to customs in a more convenient manner through E-mail. Simultaneously, we also request publication of documents that interpret detailed items of HS number. We request the unification of the necessary documents, entry time required, time required for port handling, berthing, and cargo handling permission as much as possible.

(4) For dangerous goods, many laws have been promulgated and many jurisdictional agencies are involved. In actual operation, customs (海关) and CIQ (customs, immigration and quarantine) in various regions are struggling to respond. We request clarification of operations and simplification of procedures. In addition, after the Tianjin explosion accident, regulatory operations have been strengthened against dangerous goods, but we request clarification of the investment policy and establishment of a unified consultation helpdesk.

(5) When incidents occur due to customs system trouble or software upgrade, import/ export customs clearance may be suspended or significantly delayed. As this is an unnecessary cost burden on logistics companies and shippers companies, and an impact on production activities, we request the construction of a system for maintenance of normal customs operations, such as backup against troubles. Furthermore, if the system cannot be used, we urge that customs clearance is delayed, such as carrying out temporary handling.

(6) Regarding import restrictions caused by the accident at Fukushima Daiichi Nuclear Power Plant, severe measures have been taken to prohibit the full importation of food and feedstuff from 10 prefectures, but we will continue discussions on an ongoing basis with the Japanese government and request that the regulation be eased to a reasonable extent based on scientific data.

(7) We request simplification of procedures related to customs clearance and product inspection and shortening of lead-time through the unification of application desks and further preferential treatment for good-standing companies. We request the early implementation of the “three ones” (one application, one examination, and one approval) currently being promoted nationwide.

(8) When importing second-hand goods of production machines, pre-loading preliminary inspections (if applicable) and cargo arrival inspections are carried out based on the “Law on inspection, supervision, and control of imported second-hand machinery products.” However, several individuals consider that import procedures are complicated and time-consuming. Thus, we request simplification and shortening of lead-time.

(9) In the case of factory construction and similar, companies consider their logistics plan with a time margin before the actual customs clearance. However, in order to realize smooth customs clearance, we request the establishment of a system whereby companies can have consultations with local authorities in advance.

(10) We also request the expansion, to the extent possible, of the working hours of customs clearance to include holidays, public holidays, and after hours.

(11) There are cases where the subsidiary in China adds royalties of manufacturing technology licenses paid to the parent company to the material price imported from the Japanese parent company. If manufacturing technology licenses are not imported items, but related to finished product manufacturing, we request that these are not added.

(12) In recent years, research on royalty payments has been strengthened. However, for individual projects, information on the necessity of taxation and the appropriateness of price based on what type of grounds and standards are determined by customs is not sufficiently disclosed to companies. In addition, there is a
case where companies are unilaterally asked to prove their arguments without clearly explaining the reason, if customs office does not agree with the company’s argument and explanation. In order to reduce the response burden of companies, we request the customs side to clearly present the grounds for judgment.

(13) Reform measures for nationwide customs integration have been initiated and policies to disseminate the reform measures throughout the country have been announced. Even in the process of enforcement of this system, we request to further enhance the information provision of the system to the relevant authorities and Japanese affiliated companies, and a thorough implementation of a unified operation at the stage of deployment in each region.

(14) The General Administration of Customs (海关) promulgated on October 29, 2016 the “Public Notice on Enforcement of the Pilot Program Concerning Tax Collection and Management (关于开展税收征管方式改革试点工作的公告)” and from 1 November, the target areas and target items of “voluntary declaration,” “voluntary tax payment,” and “post-examinations of customs declaration” have been expanded. In this, there is a concern about adverse effects on corporate activities, if there is frequent occurrence of cases in which a company receives a different tax judgment in comparison to a prior declaration in the customs after-examination. We request the completion of the system concerning information provision and consultation, including communicating with Japanese companies about the system, further simplifying the advance ruling system, and establishing a consultation helpdesk at customs, to ensure that there will be no difference between the examination results of the preliminary declaration and the subsequent one.

(15) Regarding the certificate of origin, we urge that thorough instructions are provided to local commerce inspection offices, so as to not make requests to companies that are inconsistent with the provision or not stated in the provision. For example, in China’s ASEAN FTA, there is a provision in the enforcement regulations that stipulate that the HS code described in the certificate of origin must be the HS code of the importing country. However, for goods with different HS codes considering the importing country and the exporting country (China), the commerce inspection offices in various parts of China are requesting to describe the HS code of their own country (China). Certificates of origin that are issued as requested by the commerce inspection office violate the provision on importing countries. In this case, the FTA cannot be used or it takes time to negotiate with the commerce inspection office, which may delay the use of FTAs.

(16) We request an early conclusion of the Japan–China–Korea FTA and the RCEP.
Chapter 2 Investment

According to an announcement of the Ministry of Commerce (商务部), foreign direct investment in China (excluding banking, securities, and insurance) in 2016 was 27,900 cases, an increase of 5.0% from the previous year, and it increased for the third consecutive year. The investment amount based on execution decreased by 0.2% to US$ 126 billion, which began to decline for the first time since 2012. Until 2015, it was renewing a record high for three consecutive years (On the Chinese Yuan basis, the figure for 2016 was 813.2 billion Yuan, up 4.1% from the previous year. As the rate of growth since 2015 is announced only on the Chinese Yuan basis, we calculated the growth rate on the USD basis.) In addition, the figure for 2016 was marginally lower than the government target of US$ 128 billion.

Considering direct investment in 2016 by industry, the manufacturing industry declined 10.2% to US$ 35.492 billion, a two-digit decrease (a contribution of -3.2 points), while the non-manufacturing industry increased by 4.2% to US$ 88.515 billion (same 2.8 points). In the non-manufacturing industry, real estate continued to be the largest investment field, similar to 2015, but the contribution was -7.4 points, down 32.2% from the previous year. Meanwhile, lease and commercial services increased by 60.5%, wholesale and retail sales increased by 32.0%, and information and communication services increased by 120.1%, contributing to an increase in the non-manufacturing industry.

By country/region, the top ranking was still Hong Kong, but it decreased by 5.9% from the previous year to US$ 87.180 billion, while the composition ratio fell below 70% (73.4% in 2015). It was one of the major slowdown factors in the growth of investment in China. Japan decreased 3.1% (1.7% increase on Chinese Yuan basis) to US$ 3.11 billion—the ranking was fourth in 2014, fifth in 2015, and then it dropped to the seventh place.

According to the Ministry of Commerce (商务部), at the end of 2015, the number of Japanese companies that established companies in China reached nearly 50,000 companies, and their total investment was US$ 101.82 billion, exceeding US$ 100 billion, becoming the third largest investment country/region for China.

In the “Survey on Japanese companies entering Asia and Oceania” conducted by JETRO, regarding the future direction of the Chinese business, the percentage of companies that answered “expansion” was 38.1% in 2015, which was the first time that it was less than 40% since the surveys began in 1998. In 2016, it increased by 2.0 points to 40.1%. In addition, the proportion of companies that answered “shrinking” or “relocating/wrapping to a third country (region)” totaled 7.1%, decreasing by 3.4 points from the previous year. Furthermore, by industry and region, the disparity continues. Considering the ratio of “expansion” by industry, the non-manufacturing industry was higher than the manufacturing industry. Among the manufacturing industries, the ratio was relatively high in domestic sales industries, such as “food” (53.6%), “chemicals/medicines” (43.4%), and “transport machinery and equipment” (43.0%). On the other hand, export-type “fiber” (19.1%) was less than 20% in the same ratio. Even by region, the ratio was relatively high in regions with high internal sales ratios, such as “Hubei Province” (50.0%), “Beijing City” (46.7%), and “Shanghai City” (45.9%).

Although there remain scenarios where investment risk in China is highlighted, it is no surprise that Japanese companies regard China as one of the world’s largest giant markets. It is expected that a move to strengthen the expansion of the expanding Chinese market will continue in domestic-type companies and industries.

Under these circumstances, “China Improvement of the New Framework for Opening to the Outside World 13th Five-Year Plan (中华人民共和国国民经济和社会发展第十三个五年规划纲要)” was launched in the “for the national economic and social development of the People’s Republic of China,” indicating the principle of legalization, internationalization, and creation of a smooth business environment, and also the
improvement of systems and mechanisms that can adapt to international investment and trade regulations, which contributes to cooperating and win-win. According to this principle, in January 2017, the State Council (国务院) promulgated “Some measures to expand openness to the outside world and actively use foreign capital (关于扩大对外开放积极利用外资若干措施的通知),” which stated that 20 measures will be developed from three perspectives: further expansion of openness to the outside world, improvement of a more equitable competitive environment, and further strengthening the introduction of foreign capital. The Government Work Report (政府工作报告) at the NPC in March 2017 also emphasized the focus on optimizing the foreign investment environment and the expectation of accelerating various initiatives.

Specific problems in investment

Completion of the modern market system

In March’s Government Work Report (政府工作报告), it is assumed that constant promotion of the function change of the government, implementation of fair measures, and opening the gate of convenience raised the subject of providing equal treatment to domestic companies and foreign-capital companies in terms of features, such as qualification permission, standardization, government procurement, and policy application of “Made in China 2025” 《中国制造 2025》.

In order to construct a market system where orderly competition is carried out, we request improvements on the problem of non-transparent institutional management, which is seen as foreign investment risk for China-based companies. Improvements that contribute to predictability, such as unified operation of legal system interpretation, securing sufficient preparation period in case of system change, simplification/ speeding up of various procedures, and written answers on applications/ inquiries among others are desired.

Deepening of administrative management system reform

In March’s Government Work Report (政府工作报告), it is stated that the reform of “administrative simplification and transfer of authority,” “combining relaxation and control,” and “optimizing service” has to be deepened, which is a complete revolution of the government itself. In addition, it is assumed that a list-type management system will be fully implemented, the authority and responsibilities lists of each department of the State Council (国务院) will be formulated, and that the system of during-the-event and after-the-event supervision will be enhanced.

Based on this principal, the Ministry of Commerce (商务部) promulgated the “Interim measures on Notification Management of Foreign Investment Enterprise Establishment and Modification” (外商投资企业设立及变更备案管理暂行办法). We welcome the fact that the establishment and change of foreign investment companies can be made only with a notification if it does not fall under the field of special management measures for the entry of foreign investment. We request that a unified operation is created throughout the country for future practice. In addition, regarding converting the foreign currency basis capital into the Chinese Yuan and reinvesting it, we also urge the increase of reinvestment feasibility, such as opening up to foreign investment companies whose main businesses are not investments.

Completion of a new system to open to the outside world
In March’s Government Work Report (政府工作报告), “Foreign Investment Industry Guidance Inventory” (《外商投资产业指导目录》) was revised to further ease the conditions for entry of foreign capital into the service industry, manufacturing industry, and mining industry. In addition, China, which keeps opening the door to the outside, will certainly continue to be the most attractive investment destination for foreign capital, emphasizing future expansion and attractiveness as an investment destination.

In order to adapt to the globalization of the economy, further opening of restrictions on foreign capital entry in the manufacturing and service industries is desirable. We request relaxation on foreign investment restrictions for specific industries that exist in fields, such as construction and communication. In addition, as the market economy is progressing, business restructuring by companies is a natural flow, and we request measures such as reducing the time taken for deletion of tax registration, so that these companies can smoothly conduct business restructuring procedures. Furthermore, as the Internet society progresses, we request the adequate development of government agencies’ websites and immediate disclosure of new policies.

<Proposal>

(1) Regarding the non-transparent institutional management that is regarded as a risk of foreign investment in China, we request improvements that contribute to predictability, such as unified operations of legal system interpretation, securing sufficient preparation period for system change, simplification and speeding up of various procedures, and written answers on applications and inquiries, to name a few.

(2) The Japan–China–Korea Investment Agreement that came into effect on May 17, 2014 is the first legal framework in the economic field by the three countries of Japan, China, and South Korea. We hope this agreement will be implemented properly. In addition, the China–Korea FTA was signed on June 1, 2015, and was put into effect from December 20, 2015, but we also request the China–Japan–Korea FTA will be concluded as soon as possible.

(3) In the investigation procedures including commercial bribery cases against companies, it is still possible to exchange information using the officials’ private E-mail address. This is a serious problem from the viewpoint of maintaining confidentiality and ensuring security, and we request that this is stopped immediately.

(4) We welcome the fact that it is now possible to establish and change foreign investment companies by only submitting related documents via the designated online system. However, this is only for cases that do not fall under the field of special management measures for the entry of foreign investment, which is prescribed by the government according to the “Interim measures on Notification Management of Foreign Investment Enterprise Establishment and Modification” (《外商投资企业设立及变更备案管理暂行办法》) enforced by the Ministry of Commerce (商务部) since October 8, 2016, and other regulations. We request that a unified operation is created throughout the country for future practice.

(5) It can be appreciated that in the revised version of the “Foreign Investment Industry Guidance Inventory [Catalogue]” (《外商投资产业指导目录》) that came into effect on April 10, 2015, the number of restricted items was reduced to 42 and prohibited items, to three, in comparison to the 2011 catalog. Although the opinions submitted about the draft of this catalog were implemented, we request further reduction of restrictions and prohibitions, and an increase in incentives.

(6) Regarding reinvestment of foreign investment companies, on May 26, 2006, the SAIC issued a “Notice concerning the implementation of the ‘Executive opinions on the review approval of foreign investment companies and some problems in applying the law concerning registration management (‘关于实施《关于外商投资的公司审批登记管理法律适用若干问题的执行意见》的通知’),’” and it was clarified that Articles 5 and 6 of the “Provisional provision on domestic investment by foreign investment
companies (《关于外商投资企业境内投资的暂行规定》)” promulgated on July 25, 2000 by the Ministry of Foreign Trade and Economic Cooperation and the SAIC will not be enforced. Thereafter, the Ministry of Commerce (商务部) promulgated “Decision on the revision of certain regulations and normality documents (《商务部关于修改部分规章和规范性文件的决定》)” on October 28, 2015, and deleted Article 5, paragraph 1 and Article 6. However, in that case, as Article 5 paragraphs 2 and 3 were not deleted, cases have been reported in which local commerce departments still use qualification requirement of the fact that profits are already being obtained. We request unification with the SAIC, and also the increase of the feasibility of reinvestment.

(7) In principle, it is not possible to reinvest in China using the Chinese Yuan obtained by converting foreign currency based capital into the Chinese Yuan. However, the regulation was relaxed in June 2015 according to the “Notice on the Reform of the Foreign-currency Capital Funds Transfer Control System for Foreign Investment Companies (《关于改革外商投资企业外汇资本金结汇管理方式的通知》)” promulgated by the State Administration of Foreign Exchange (exchange publication [2015] 19). We appreciate that foreign investment companies with investments as their main business are allowed to reinvest in China by changing the capital to the Chinese Yuan. However, this is not permitted for foreign investment companies that do not have investments as their main business, and thus, we request further deregulation.

(8) Regarding cumulative medium- and long-term foreign currency borrowings and total short-term foreign currency borrowings remaining, foreign investment companies cannot exceed the difference between total investment and registered capital (difference in injection) according to Article 18 of the “Provisional Law of Foreign Debt Management (《外债管理办法》).” Considering this reason, domestic procurement is necessary when the overseas borrowing frame set by capital is exceeded, but there is a problem that the interest differential becomes large. On the other hand, if additional capital is introduced, the interest rate problem will be solved, but another problem of collection of invested capital will arise. We also request relaxation of regulations related to investment differences, so that aggressive investments can be made. We welcome the fact that it became possible to select a macro prudential management method that makes up twice the net asset as foreign bonds and that options were expanded. However, we request the possibility to make changes flexibly, considering the fact that when the selection is made it is not possible to change it.

(9) We request relaxation of foreign investment restrictions for specific industries. For example, regarding the feasible construction contract scope (设计资质) of foreign investment construction companies (100% foreign-owned construction companies), currently, it is limited to jobs such as construction work by the Chinese-foreign alliances with over 50% foreign investments. There are also restrictions on acquisition of design qualification (JVs with the China Design Institute, the number of resident foreign designers, etc.) that exist for foreign companies. Furthermore, the system does not permit acquiring a business license under foreign capital monopoly or foreign capital majority in the communications field. For gas station chains establishing more than 30 branches, the equity control has to be on the Chinese side.

(10) When the Foreign Investment Law (《中华人民共和国外国投资法》), which is currently being formulated, is enforced, we request that an adequate preparation period including prior explanation before enforcement is ensured. Simultaneously, appropriate relevant laws and regulations that are most effective are clearly enacted after the enforcement.

(11) As the market economy progresses, and through the revitalization of competition, it is a natural flow that companies are forced to restructure their businesses, thus we request that a system is prepared to reduce the time and cost burden related to business restructuring including withdrawal. In particular, the burden of tax relations is large. For example, it is necessary to shorten the time taken for deletion of tax registration. With these measures, it is expected that predictability will be improved, which will result in new investment, and China’s industrial structure will be optimized.
As China’s personal information protection policy is not well-developed, the leakage of personal information frequently occurs. The employee’s work is obstructed in a state where prank phone calls, short messages, and E-mails, to name a few, cannot be prevented, which is a heavy burden on everyday life. We urgently request that appropriate personal information protection policy and punishment measures against willful acts of nuisance are imposed, and situations where personal information protection is inadequate are improved.

At the time of adjustment of legal regulations and policies, the route for foreign companies to obtain relevant information is relatively limited. Furthermore, it is challenging for companies to obtain accurate information on necessary laws, regulations, policies, and the likes, as government websites are not well developed. We request that each government agency improves the information disclosure policy on its website, related information be promulgated on a timely basis through multiple routes, and consider the increase in foreign language version documents.
Chapter 3  Competition law

Competition review system was established in 2016. In addition, drafts for requesting opinions on the guidelines stipulating the specific operations of the Antimonopoly Law (《反垄断法》) were announced one after another. Also, following the previous year, the Antimonopoly Law and the Unfair Competition Prevention Law (《反不正当竞争法》) were enforced for foreign companies. First, regarding exclusive agreements, there are penalties on cartel and restraining resale prices in the pharmaceutical industry and medical equipment industry. In relation to transaction limitation and tying, there have been cases in which companies were considered to be abusing their market dominant position, and punishment was imposed. In addition, regarding the declaration of business combination (经营者集中申报) to the Ministry of Commerce (商务部), which is necessary for the establishment of M&A and JV (joint ventures) to name a few, the number of declarations increased as a whole due to the effect of the simplified procedures introduced in 2014. There are also cases related to Japanese companies being punished for not making a declaration. Furthermore, in addition to the revision of the law regarding commercial bribery, the execution continues to be carried out by the regional offices of the Ministry of Commerce (商务部), mainly in Shanghai.

Introduction of competition review system and acceleration of establishment of guidelines

As criteria for the nation’s fair competition examination system, the “Opinion of the State Council on Establishing a Fair Competition Review System in Market System Construction (《关于在市场体系建设中建立公平竞争审查制度的意见》)” was announced in June 2016, which states that what should be paid attention to by the central and local government departments in the future are the detailed bylaws of the system. In 2016, the NDRC adopted and accepted the leniency program, and with this, drafts of guidelines for requesting opinions related to the discontinuation of investigations (February), antimonopoly operations (March) of automobile industry, exemptions of monopoly agreement (May), and confirmed illegal income and fines (June) have been published one after another. In addition, the SAIC released a draft guideline on the exercise of intellectual property rights.

Cases concerning cartel / resale price restriction

In China, NDRC is responsible for law enforcement related to violations of the Antimonopoly Law concerning prices, and SAIC is responsible for law enforcement of non-price related violations. In 2016, NDRC imposed a total of 65,680,000 Yen in civil penalties (January) for the price/sales market division cartel action of five companies that manufactured Chinese allopurinol tablets, and also imposed 42,740,000 Yen in civil penalties for the price cartel and joint boycotting acts of three Chinese “estazolam” raw material manufacturing companies (July).

Regarding resale price restriction, civil penalties of approximately 1.946 billion Yen were imposed on foreign medical equipment companies (December). On the other hand, the SAIC, in addition to punishment of cartels, such as insurance companies and accountant offices, imposed penalties of approximately 10.5 billion Yen on Tetra Pak regarding misuse of market dominant position. Furthermore, local offices of the SAIC imposed punishments on utilities companies for misuse of their dominant market position. In addition, there were cases in which companies filed administrative lawsuits due to dissatisfaction with the punishment decisions.

Transition of business combination cases
When acquiring or investing in a company or establishing a JV, if related parties have certain sales in China and globally, it may be necessary to submit a business combination declaration to the Ministry of Commerce (商务部) in China. The declaration is a prior notification system, and if there is a problem under the Antimonopoly Law, a prohibition decision or a conditional approval decision may be made.

In 2016, 395 judgment decisions were made, which was a significant increase in comparison to 312 cases in 2015. Approximately 12% of the projects in 2016 appear to have been projects related to Japanese companies, but as a result of a significant increase in declarations on joint projects between Chinese companies, the proportion of projects related to Japanese companies decreased in comparison to the previous year (approximately 25%). Regarding the time required for the review of business combination, although it takes a long time in general, due to the simplified procedure introduced in May 2014, with regard to the type of combined projects that are less impacted by the Antimonopoly Law (for example, projects of JV establishment outside China in which exports to China are not carried out and projects with remarkably low market share in China), stable operations are being carried out, as there is no extension of the examination period in principle. In 2016, there were also cases of punishment for Japanese companies that did not submit the declaration in advance.

Law enforcement against commercial bribery cases

A commercial bribe is when an individual holder of a buyer’s purchasing decision accepts a kickback in a trade between private companies. However, the legal definition is wider than this, and the acceptance of any goods or money other than the price of the goods or services may be subject to the Unfair Competition Prevention Law in principle, except for discounts, commissions, and supplementary gifts that satisfy certain conditions. In Shanghai, in 2016, many foreign-affiliated tier companies, including Japanese companies, were punished for providing cash, shopping cards, and refueling cards to distributors in particular. The “Unfair Competition Prevention Law (revision proposal)” has provisions for commercial bribery to some extent, but we consider the amount of contents based on the principle to be excessive.

**Proposal**

**Exclusive agreements and abuse of market dominant position**

(1) On May 12, 2016, the NDRC announced a call for opinions on the “Guidelines of the State Council Antimonopoly Committee on General Conditions and Procedures Involving the Exclusion of Exclusive Agreements (《关于垄断协议豁免一般性条件和程序的指南》).” This means that with regard to exemptions of Article 13 (Horizontal Agreement) and Article 14 (Vertical Agreement) of the Antimonopoly Act, this should be an important guideline for considering the boundary between generally accepted and unacceptable cases, but as for the action guidelines, its contents are not sufficient, and we request further clarification of judgment criteria by using case examples.

(2) Detailed guidelines in the regulation of Article 17 (abuse of market dominant position) of the Antimonopoly Law do not exist, and the fact that the boundary line where an action becomes illegal is unclear and increases the discretionary power of authorities, becoming an obstacle to corporate behavior. It is inadequate as guidelines for action, and we request clarification by promulgating items such as guidelines. In addition, the “Unfair Competition Prevention Law (revision proposal)” promulgated on February 25, 2016, a system that prohibits the abolition of relative superior status was introduced. However, the distinction from the market dominant position is not clear, and we request to clarify it more in the revision of the law.
(3) On December 31, 2015, the NDRC announced a request for opinions on the “Antimonopoly guidelines on abuse of intellectual property rights (《关于滥用知识产权的反垄断指南》).” Subsequently, on February 4, 2016, the Industry and Commerce Administration Bureau (工商行政管理局) promulgated the plan. These should be important guidelines in considering the exercise of intellectual property rights and conflicts with the Antimonopoly Law, but there is no consistency in the judgment criteria. There is concern that the discretion of the authorities will be significantly increased in actual execution. We request the creation of unified and clear criteria among institutions, including judicial organizations, rather than a vertical division. In addition, as patent rights are inherently monopolistic and exclusive, there is a concern that excessive restrictions on intellectual property rights, such as enforcing licenses under FRAND (fair, reasonable and non-discriminatory) conditions on standard essential patents not declaring FRAND, will hinder innovation. We request that consistent laws and regulations, as well as guidelines, be established based on the establishment and operation of laws and regulations globally.

(4) On February 2, 2016, the NDRC announced a draft for requesting opinions on the “Guidelines for Application of the Leniency System in Horizontal Exclusive Agreement Cases (《横向垄断协议案件宽大制度适用指南》).” In cooperation with the surveyed parties, verbal reports that are accepted in other major countries are accepted to a certain extent, but written confirmation and submission of documents are required. As a result, since this can be subject to discovery in a United States civil litigation, sometimes the parties hesitate to offer sufficient cooperation in the survey. Similar to other major countries, we request the thorough implementation of verbal report acceptance.

(5) Regarding administrative investigation procedures, we request that the laws be revised and put into practice, so that the statements of the parties and opportunities of defense are substantially protected. For example, in Article 30 of the “Price Administrative Penalty Procedure Provisions (《价格行政处罚程序规定》),” the grant of opportunity for explanation is set to a very short period, such as having to respond within three calendar days after receipt of the advance notice, but particularly in the case of foreign companies, it is necessary to discuss with a lawyer, considering translation and it is extremely challenging to respond.

(6) On June 17, 2016, the NDRC announced a call for opinions on “Guidelines of the State Council Antimonopoly Committee on Identification of Illegal Income by Monopoly of Business Operators and Confirmation of Fines (《关于认定经营者垄断行为违法所得和确定罚款的指南》).” The guidelines clarified the method of identifying illegal income and determining fines to some extent, but there are also cases of cumulative imposition of confiscation of illegal income and fines, and the revenue from overseas headquarters other than China can be recorded as a basis for calculating fines. As the content is ambiguous and provides a large discretionary power to the executing agency, there is concern that excessive regulation will take place, and thus, we request further clarification of the operation standard.

(7) Regarding punishment cases, the extent of publication differs from project to project, and it appears that there are many unpublished cases, particularly concerning punishment cases at the local level. Regarding cases in which punishment, such as civil penalties, was imposed, the society’s interest is also high. Thus, we request disclosure of information actively and fairly, including the reasons for punishment.

(8) In worldwide projects, the involvement of a lawyer from a foreign law firm officially commissioned by a foreign company is indispensable. However, in operations with Chinese authorities, there are many cases where lawyers are not allowed to attend hearings and such, even if they are Chinese lawyers. From the viewpoint of unity of operations with foreign countries, we request that lawyers are allowed to participate.
outside China (for example, if a JV does not assume any export to China at the time of establishing a JV between foreign companies in a foreign country), declaration in China is mandatory. Such unreasonably broad regulations are not found in other major countries, and Chinese regulations are exerting a heavy burden, particularly on foreign companies. In this regard, we request that certain legislative improvements are made, including setting exception rules to exclude transaction types that do not have any impact on the Chinese market from transactions subject to declaration.

(2) The requirement of “combination,” which is a requirement of declaration, is extremely unclear. There are cases where it is challenging for the business side to make a judgment. We urge that guidelines concerning the presence or absence of notification obligation in the case of minority equity investment are promulgated as soon as possible.

(3) When judging whether or not a company meets the declaration criteria, when declaration is necessary, it is extensively described. However, as criteria for when a declaration is unnecessary are not mentioned, we request the introduction of a “safe harbor rule,” which can be used globally.

(4) In the declaration of business combination, the period from submission of documents to formal case varies from case to case and it is too long. It has certainly been accelerated somewhat by implementation of the simple declaration system and accumulation of cases. However, in cases where the same declaration is done in several countries, it is often only the declaration in China that is delayed on schedule. Owing to this, we request further improvement of operations.

(5) Regarding business combinations among Chinese companies, particularly in the case of consolidation between state-owned companies, even if domestic market share after joining is extremely large, there are cases where it is approved and the criteria for judgment, such as the basis provisions and how to set the scope of market, are unclear. As a result, as monopolies and oligopolies progress, the barriers to entry into the Chinese domestic market in this field will also increase. In such a case, from the viewpoint of improving the transparency of the business combination review, we urge the disclosure of the concept of conformity considering the Antimonopoly Act.

(6) For some industries, it is necessary to receive a national safety review (国家安全审查), but for the target industries, the process of approval and the approval itself are unclear, and the deadline for review is not clear. We request that clarification of target industries and an examination process should be made.

(7) Punishment cases for businesses that do not comply with business combination regulations have been released. We urge further thoroughness of punishment of operators who do not comply with business combination regulations and further disclosure of punishment cases.

<Commercial bribery>

(1) The “Unfair Competition Prevention Act” announced on February 25, 2016 (revision proposal) has established the current commercial bribery prevention system to some extent, and stipulated the definition and types of commercial bribes. However, as its wording is ambiguous, we request its clarification. In particular, the criteria of “describing as it is in the contract and the accounting evidence” related to the identification of commercial bribes and the scope of the “third party affecting the transaction” are not clarified. We understand that supplementary gifts, such as excessive prizes, should be disciplined to a certain extent in the acts of sales promotion as a company, but as it is not clear how far it will be legal, it is a mechanism where punishment is at the discretion of the authorities. Thus, we request improvement in this revision of laws and regulations.

(2) The current “Tentative Provision Concerning the Prohibition of Commercial Bribery (《关于禁止商业贿赂行为的暂行规定》)” or “Unfair Competition Prevention Law” (revision proposal) leaves room for making illegal the provision of all goods and benefits associated with sales except for discounts.
commissions, and supplementary gifts that satisfy certain conditions. In addition, such remarks may be made by the officials in crackdown practice. Legislation amendments should be made to legitimize the provision of reasonable benefits so as to not excessively shrink the economic activity of companies. We request to clarify as much as possible the operation of regulatory authorities as a result of improvement in this revision of laws or guidelines and similar.

(3) The “Unfair Competition Prevention Law” (revision proposal) stipulates a “fine of more than 10% and less than 30% of the amount of illegal sales” to be imposed when it is recognized as a commercial bribe. However, the identification of the amount of illegal sales should be made based on the fact that in the case of commercial bribery, the selling act itself is legal. We urge the clarification of this revision of the law concerning the definition of sales increase by a commercial bribery act. Furthermore, if it falls under commercial bribery, we request clarification of the application criteria of administrative responsibility, criminal responsibility, and other legal responsibilities, a thorough implementation of commercial bribery prevention system by companies, as well as reduction of responsibility when an individual employee confesses bribery facts and clarification of the exemption system.
Chapter 4 Tax and accounting

Tax and accounting problems

Tax revenues in 2016 continued to exceed 11 trillion Yuan, the same as the previous year, but the growth rate only increased by 4.8% over the previous year. Following the impact of the economic downturn and tax revenue declines due to the reform of VAT, the growth rate gradually declined in recent years. On the other hand, the movement to strengthen tax collection is progressing. In addition, the operation of the new gold tax system, which uniformly manages the data of the incremental tax and income tax across the board, is also helping. The number of cases where payment taxes have been forced as a result of being pointed out by the Tax Bureau is increasing, including strengthening the transfer pricing investigation, improvement of taxation of personal income tax, and permanent establishment (PE) taxation related to money transfers of secondary employee salary and similar.

Tax issues

Problems in institutional operation

In tax practice and notifications of tax law, the official of the tax authority may make interpretations. Considering this reason, there are regional differences in the operation of the tax authorities, and there are cases in which counterparties have different responses. Regarding the promulgation of notifications, there are also cases where the preparation period for response is extremely short owing to a prompt promulgation or revision. In order to improve convenience for taxpayers, we continue to request that sufficient consideration is given to the response of taxpayers, such as those with respect to tax issues, that the tax authorities across the country have a common view and carry out a unified operation, and upon establishing the rules, being conscious of having by-laws, considering practical aspects to some extent.

In case of dissatisfaction with the taxation decision of the tax authorities on the basis of the current tax revenue control, an appeal to the senior tax office as a remedy measure in China for the taxpayer, and furthermore, a lawsuit before the People’s Court of China, are possible. However, in practice, the right to appeal cannot be obtained unless the tax amount on the taxation decision is paid to the tax authorities. Simultaneously, even if foreign companies actually appeal to the People’s Court of China, it is impossible to wipe out concerns about whether a final judgment can be obtained. In addition, mutual consultation is mentioned as another remedy measure. However, due to the shortage of personnel in-charge of the department of the tax authorities, the number of mutual consultations between National Tax Agency of Japan and the State Administration of Taxation (国家税务总局) of China has decreased, and it takes a considerable amount of time to solve the problem with mutual consultation. Therefore, this system is not sufficiently useful as a remedy for taxpayers.

Furthermore, as the movement to strengthen the collection of taxes in China is being reinforced, the taxation cost for doing business in China is rising. For example, corporate income, incremental, and personal income taxes are imposed on Chinese representatives of foreign companies, burdening companies. There is a call for demands to reduce tax burden from the viewpoint of expanding the attraction of foreign capital. There appears to be a system change that further increases the tax burden of foreign companies. As an example, with regard to the payment of employment security fees for persons with disabilities (残疾人就业保障金), in Beijing, the method of calculating the amount of money has been changed dramatically since July this year. The cost has been significantly increased for foreign-affiliated companies in which the assigned employees are enrolled. When introducing such important laws and ordinances, we hope that full consideration will be given to the impact on foreign-capital companies and more opportunities for communication between taxpayers and tax
authorities are provided. In addition, as a tax payment system, we continue to hear opinions expecting the introduction of a consolidated tax payment system.

**Distribution tax (value-added tax and business tax)**

With the transition reform from business tax to VAT expanding to the construction, real estate, financial insurance, and life-related service industries from May 2016, the VAT reform, which started from Shanghai city in January 2012, has been completed. Regarding the VAT reform itself, there are voices that evaluate tax reduction effect in certain industries and improvement of efficiency of refund procedure. However, according to Japanese companies, there are cases where a unified operation is not carried out due to reasons such as interpretation of target transaction range. Furthermore, in practice, the issuance of dedicated issue forms (专用发票) and correspondence to multiple tax rates is not catching up. In addition, concerning the refund of VAT in export transactions, the procedure is complicated, and it takes time to receive the payment. There appears to be a problem on the tax-related system in this scenario, and it is pointed out that, due to instability of export clearance information transfer from customs to the tax system, there may be a shift in the expenses refund tax and the tax payable for the current tax exemption, deduction, and refund tax amount. Considering this reason, in addition to requesting the unification of the VAT reform in terms of operation, we request that further improvement of the system is made, and that there are no delays in refund of VAT when the procedure is carried out as specified.

**Income tax (personal income tax and corporate income tax)**

In terms of personal income tax, the movement to tax the company’s share of social insurance in the home country of the assigned employee in China is becoming full-fledged. Past tax exemption notifications were abolished in January 2011, and the number of cases where instructions are received from tax authorities to include the taxable income of assigned employees is increasing in places such as Beijing city. Adjustments going back to the past have a large impact on the amount, and companies are struggling to respond. As taxation on social insurance in Japan is an excessive burden to businesses and taxpayers, measures that lead to reductions in corporate burden, such as tax exemption as before, are desired. Furthermore, in the field of corporate income tax, transfer pricing investigations by the tax authorities have been continuously strengthened. In the investigations, there are cases where high profit margins are pursued without sufficiently confirming the function and risk for companies, industry trends, and the probability of income transfer. In addition, depending on the region, tax authorities are urging companies to voluntarily adjust for reasons of only low profitability (or deficit). In tax investigations, rather than setting only the level of profit margin as the basis for determining additional taxation, it is expected that the individual circumstances of the company are considered, and that the transfer pricing taxation system will operate after unifying the interpretation method of the tax law.

On the other hand, in the field of international taxation, with the strengthening management of international taxation (Base Erosion and Profit Shifting: BEPS), a partial revision was made to the Special Tax Adjustment Validation Law (《特别纳税调整实施办法》), which is the basic rule of China’s transfer pricing taxation system. As a result, regarding the local file created by a subsidiary company, the items to be written in the document increased. More specifically, based on the new 42nd announcement, it was decided to add items such as value chain analysis and regional special factors, but it is not clear what type of detail is to be concretely described in detail. It is desirable to define more specific requirements.

**Customs duties**
In 2016, the revised laws on customs were promulgated and enforced several times. As a result, there are opinions from companies that the burden on customs handling has become heavier. More specifically, there are indications that the cost of customs handling has increased due to delays in the customs system or differences in opinion with customs concerning the entry of the customs declaration. In addition, due to the delay of documented evidence, there are cases in which recorded sales are affected, thus consideration should be given to minimize system downtime, so that the business practice will not be affected when changing the system due to the revision of the law.

Furthermore, there is a problem regarding the calculation of the taxable price. There were cases where customs officials pointed out that in certain industries, the customs price should be included in royalties or warranty expenses in imported cargoes. From the companies side, these arrangements are on-site sales measures, and as royalties and imports of goods are separate transactions, although many people think this should not be included in the taxable price, it appears that the opinion of the authorities and the actual execution situation differ from the recognition of the company side. Moving forward, operation and response from a practical perspective is desired.

**Permanent establishment (PE) taxation (常设机构（PE）征税)**

Tax issues in PE taxation accreditation are occurring in various places. The first is PE certification for business travelers from overseas, including Japan. For long-term business trips from Japan to China, PE cases are subject to PE taxation over consultant services and project management period, which may hinder technology transfer. The second is PE certification for temporary staff coming from overseas headquarters. When remitting labor costs of expatriate employees paid by overseas headquarters from the Chinese subsidiary to the headquarters, there are cases in which remittance is hindered unless tax payment is made after receiving PE taxation. In 2013, a new notification was made public by the Tax Bureau and the State Administration of Foreign Exchange, and it was clarified that PE taxation is not imposed if it is judged that the real employer of the assigned employee is a Chinese subsidiary. By registering the necessary documents in the Tax Bureau, it became possible to systematically transfer money. However, in practice, the response of the tax authorities significantly varies depending on the region. There are cases in which money remittance is requested similarly as in the past, and preliminary approval is required. In the future, uniform treatment by tax authorities is desired, so that payment remittance of expatriate expenses can be made without being subject to PE certification.

**Accounting problems**

As a problem to be noted in accounting, there are trends in the “New Business Accounting Standards in China (新《企业会计准则》)” (hereinafter referred to as “New Standards”). These are drawing attention from the following two viewpoints. First, as the direction of global accounting standards, unification with the IFRS is sought, what type of policy will have China as a major economy and how will it respond to the unification movement toward IFRS? Second, what will be the impact of the accounting standards trend in China on Japanese companies in China?

**Relationship between the new standards and the IFRS**

The current new standards were published in 2006, and since 2007, all China Stock Exchange listed companies have adopted the new standards, and published their financial statements. The new standards are accounting standards created taking the IFRS of 2006 as reference. Subsequent to the revision of IFRS, the text of the new standards was revised, but substantial updates have been made, such as the “Corporate Accounting Quantification Lecture (《企业会计准则讲解》),” which are the instruction guidelines of the Ministry of Finance. In addition, regarding aspects that were largely revised in the IFRS, at present, addition
and correction work of the text of the new standards is in progress. As a recent movement, in August 2016, the Ministry of Finance of China announced “China New Business Accounting Standards No. 16 - Government Grant (Revised) (《中国新企业会计准则第 16 号-政府补助（修订）》),” “China New Business Accounting Rules No. X - Non-current assets to be sold, retirement units and discontinued (opinion offering draft) (《中国新企业会计准则第 X 号-持有待售的非流动资产、处置组和终止经营》（征集意见稿）),” and “China New Business Accounting Standards No. 22 - Confirmation and Measurement (Revision) of Financial Assets (《中国新企业会计准则第 22 号-金融工具确认和计量（修订）》).” The call for opinions on No. 16 and No. X completed in September 2016, and the call for opinions on No. 22 completed in October 2016, and they are currently being created. The call for opinions on “Business Accounting Standards No. 14 - Revenue (Revised)” (draft for requesting opinions) (《企业会计准则第 14 号 - 收入（修订）》（征集意见稿）) published in December 2015 and “Chinese New Business Accounting Rules - Basic Rules Revised (《中国新企业会计准则-基本准则（修订）》)” published in February 2016 have already ended. As of the end of February 2017, the formal publication has not been made.

As the Ministry of Finance of China announced in the “Road Map of Chinese Business Accounting Standards (《中国企业会计准则与国际财务报告准则持续趋同路线图》)” in 2010, in China, the IFRS was not directly adopted, but was a convergence (the Chinese term is “趋同”) that incorporated the contents of IFRS into the new standards and maintained equality. The Chinese government does not want to change its accounting standards to IFRS, but rather appears to be strengthening the movement to make the new standards acceptable to the world. As a representative example of the movement, traditionally, only the Hong Kong accounting standard, which is substantially similar to the IFRS, has been accepted as an accounting standard in the Hong Kong stock market. However, as of the end of 2010, it appears that some aspects of the system have been revised, so that disclosure by the new standards is permitted in the case of domestic companies in China. Regarding how the Chinese accounting standards are converging with the IFRS, as China is growing as a major economic power, it is believed that it will have a major impact on the unification of IFRS in the world and this trend is drawing attention.

Impact on Japanese companies in China

As Japanese companies in China are unlisted companies, traditionally, the application of the new standards has not been forced, and many Japanese companies have adopted the “old business accounting standards” (旧版《企业会计准则》) and “business accounting system” (《企业会计制度》) (hereinafter, both standards together are referred to as the old standards). However, with the guidance of local authorities in recent years, regions where the application of the new standards are enforced even for large and medium-sized companies, which are private companies, are increasing, and as a result the number of Japanese companies that adopt the new standards is on the rise. Currently, the application of the new standards is planned or implemented in areas such as Guangdong Province, Fujian Province, Hubei Province, Shanghai City, Qingdao City, Liaoning Province, and Jilin Province. It is anticipated that the movement of compulsory application of the new standards will continue to extend nationwide in the future as well.

Furthermore, on February 16, 2015, “Finance No. 2015.3” was announced by the Ministry of Finance. According to it, the “old business accounting standards,” used by old standards-applying companies, were all abolished (the “business accounting system” of the old standards still remains). For this reason, it is considered that companies that have applied the old standards from a long time will be impacted. As the same guidance was originally intended to correct the situation in which two accounting standards are being used, there is a possibility that sooner or later the “business accounting system” may be abolished. As the Ministry of Finance also recommends the application of the new standards, at present, it is expected that Japanese companies that have adopted the old standards will be forced to apply the new standards, and it is desirable that they prepare for it. The application of the new standards is mainly required for large and medium-sized companies, and small businesses are also permitted to implement the new small business accounting standards(新小企业会计准则) that adopt simple accounting practices.
The important differences between the new standards and the old standards are as follows: (1) The old standards do not enforce the preparation of consolidated financial statements, but in the new standards, it is mandatory to prepare consolidated financial statements if there are subsidiaries; (2) In the old standards, tax effect accounting was arbitrarily applied, but in the new standards, it is enforced; (3) In the old standards, there was no option of considering financial product accounting, but in the new standards, a notion of financial product accounting similar to that of IFRS is adopted; (4) The accounting for impaired assets that was ambiguous in the old standards is clearly defined in the new standards; (5) In comparison to the old standards, the new standards will significantly increase the contents of the financial statements and notes, increasing the burden on people in-charge of practical work.

<Proposal>

<Tax>

(1) In tax revenue collection management, we request securing a system to support taxpayers’ proper tax payment, and eliminate regional differences, as well as taking actions that will not cause confusion as a result of interpretation of regulations.

(2) A sudden revision of the legal system has put pressure on corporate earnings. When notifying about the legal system, we request that sufficient time is provided, so that the information is disseminated.

(3) Regarding remedy procedures and the appeal system for domestic taxpayers in China, tax re-examination requests (税 务复议) have to be filed to the tax authority at the upper administrative level of the corresponding Tax Bureau after the tax amount is paid. The examination system is unclear, and it cannot be stated that it is functioning sufficiently. We request that re-examination requests can be filed at the State Administration of Taxation (国家税务总局) and that a tax court is established.

(4) Regarding bilateral mutual consultation, the number of consultations held between the State Administration of Taxation (国家税务总 局) of China and the National Tax Agency of Japan is decreasing, and as a result, double taxation by the investigation project has been neglected for a long time. We request strengthening the personnel of the department responsible for the State Administration of Taxation (国家税务总 局) and that the mutual consultation is conducted smoothly.

(5) The transfer pricing investigation has been strengthened, there are cases where the arguments of companies are not accepted, and investigations are being developed from a position based on taxation. Although the requirements of the document of transfer pricing for the same period (转让定价同期资料) increased with the BEPS, there is no explanation on specifically how much should be described, thus we request the tax authorities to indicate more specific requirements.

(6) The VAT reform throughout China has been completed, certain tax cuts are effective in certain industries, and the efficiency of VAT refund procedure has also improved. On the other hand, the interpretation and operation of the target transaction scope varies depending on the tax authorities, and there are also cases in which issuance of dedicated issue forms and correspondence to multiple tax rates do not catch up in practice. We urge further promotion of operational interpretation in the future, further promoting practical procedure simplification, and speeding up the response.

(7) As the customs clearance system is being revised, the burden of companies handling customs has become heavier. Due to the delay in the customs system or differences in views with customs concerning the
description of the customs declaration, there are companies that are facing challenges while handling customs. In the future, we request operation and correspondence from a practical perspective.

(9) The collection of personal income tax for a company’s share of social insurance in Japan of the assigned employees of Japanese companies is becoming full-fledged. As it is an excessive burden on the taxpayer in terms of procedure and cost, we request measures to reduce tax burdens, such as tax exemption.

<Accounting>

(10) While the transition to IFRS is currently being considered on a global basis, we request the flexible application of the Chinese business accounting system, such as allowing companies to set the accounting period by independent judgment, not only by the current December financial settlement in China, but also from the viewpoint of handling consolidated settlement of accounts.

(11) Transition measures to the new business accounting standards differ from place to place, and in order to make it compulsory in the future, we request a nationwide uniform response taking into consideration the preparation period. In addition, the standards were recognized as equivalent to IFRS by the European Commission in April 2012, but there remain differences and we request further efforts toward convergence.
Chapter 5  Labor

In recent years, corporate personnel expenses continue to rise and the development of companies is restricted due to the impact of factors such as slowing down of the development of the Chinese economy, increase of minimum wage standards, and the tendency for workers to select and prefer certain occupations. In order to overcome this difficult situation, many companies are forced to reduce personnel and scale down, and in some cases, the situation has ended parts of Chinese businesses. The growth of labor demand decelerated throughout China and the workers’ employment problems have become increasingly serious every passing day.

In order to stabilize the employment situation, the Chinese government is implementing a series of “burden reduction” measures for companies, such as “gradually lowering the social insurance premium rate,” “assistance for stabilizing job positions,” and “reasonable determination of minimum wage standard increase rate.” In addition, attempts are being made to alleviate the pressure on companies, while simultaneously guaranteeing the interests of workers and solving the problem of labor employment. How to maintain the balance between corporate development and worker’s benefit security is an important issue to be addressed by both the government and companies in 2017.

In addition, the Chinese government has launched a new system concerning foreign work permits, and a classification control of classes A, B, and C has been implemented for foreigners who are visiting for work. This will have a serious effect on the appointment of resident employees and the local work of foreign companies.

Main policies and administrative measures promulgated and enforced in 2016

Promotion of “Law on the Evaluation Grade of Compliance Credit based on the Corporate Labor Security Law (《企业劳动保障守法诚信等级评价办法》)” by the Ministry of Human Resources and Social Security

According to the “Law on the Evaluation Grade of Compliance Credit based on the Corporate Labor Security Law” (hereinafter referred to as the “Evaluation Law”) promulgated on July 25, 2016 by the Ministry of Human Resources and Social Security, in labor administration agencies, the grades of compliance with laws and regulations on labor security of companies and good faith are divided into three stages of A, B, and C, depending on the labor security laws of companies and the compliance with laws and regulations. It is stipulated that companies that are judged to be class C are recorded as priority targets of labor security inspection and day-to-day inspection of labor security monitoring ought to be strengthened. Furthermore, in the “Evaluation Law,” labor administration agencies also established a sharing mechanism for exchanging credit information with institutions and labor unions, such as industrial and commercial, financial, residential cities, rural construction, and taxation. Joint encouragement is provided when the credibility of companies is to be protected and disciplinary actions are taken when credibility is being lost. In addition, the influence of Labor Security Law Compliance Credit Status was further expanded. As labor administrative organizations will strengthen audits on the compliance status of corporate labor security compliance in the future, companies are more actively conducting voluntary investigations on labor security side, and standardizing the internal labor security regulation system and the act of employee use. It is necessary to prevent the influence of the credit status of the company from being affected.
Proclamation of the “Law on Disclosing Serious Labor Security Violations to Society” (《重大劳动保障违法行为社会公布办法》) (order of the Ministry of Human Resources and Social Security [2016] 29)

According to the “Law on Disclosing Serious Labor Security Violations to Society” promulgated by the Ministry of Human Resources and Social Security on September 1, 2016, it was clarified that from January 1, 2017, the labor administration agencies will make public all serious illegal acts related to labor security of the following seven types: (1) taking a cut from the workers’ labor remuneration or delaying the payment without a reason; (2) not insuring with social insurance as stipulated by law or not paying the social insurance fees; (3) violating provision of working hours, vacation/breaks; (4) violating special labor protection provisions for female employees and underage employees; (5) violating prohibition provision of child labor; (6) causing serious adverse effects on society due to labor security violation acts; and (7) other serious labor security misconduct. Information on serious labor security misconduct and information on public disclosure to society is stated in the company’s labor security compliance credit plan, and it is incorporated into the Human Resources Social Security and Social Credit system. It is necessary that companies pay sufficient attention to the “President law” to further strengthen compliance with laws and regulations in the future, and standardize employee use behavior.

Significant change of systems concerning employment and permanent residence of foreigners

In 2016, the Chinese government undertook serious reforms on the permits system related to foreigners visiting China for work and the system related to permanent residency. Trial operations started, such as foreigners’ working permit classification management system, simplification of application procedure for foreigners visiting China for work, and mechanism optimization of permanent residence management system. The system concerning employment and permanent residence of foreigners was further improved.

Promotion of the “Notice by the State Administration of Foreign Experts Affairs Concerning Printing and Publishing the Test Implementation Proposal on the Permits System for Foreigners Visiting China for Work” (《国家外国专家局关于印发外国人来华工作许可制度试点实施方案的通知》)

The State Administration of Foreign Experts Affairs announced the “Notice by the State Administration of Foreign Experts Affairs Concerning Printing and Publishing the Test Implementation Proposal on the Permits System for Foreigners Visiting China for Work” on November 8, 2016. During the period from October 2016 to March 2017, it was decided to carry out trial efforts on the new permits system for foreigners visiting China for work in Beijing City and provinces such as Shandong.

This system reform is mainly to be implemented in the following five areas: (1) Foreigners visiting China for work in the future are classified into three classes; A, B, and C, and classification management is performed based on the criteria. (2) Unifying and standardizing application documents and application procedures, as well as simplifying and integrating application documents. (3) Executing the “unification of two certificates” to unify and manage certificates. (4) Introduction of a government innovation model adopting “Internet + government service,” and realizing the integration of online system service platform and a concrete service helpdesk. (5) Providing the convenience of a “green passage” (priority response in administrative procedures) to foreign high-level human resources, adopting an oath system for some application documents, and shortening the time required for approval. After completion of the trial operation, a new permits system for foreigners visiting China for work will be implemented nationwide from April 2017. When the new system is implemented, it will have a direct impact on how resident employees are appointed and how working permits are applied.

Relaxation of restrictive conditions for permanent residence of foreigners (“green card”) application

Along with the promulgation of “Opinions on Foreigners’ Permanent Residence Service and Management (《关于加强外国人永久居留服务管理的意见》)” by the General Office of the Communist Party of China
in 2016, from July 2015 to August 2016, new policies for eliminating the conditions for issuing “green cards” in Shanghai City, Beijing City, Fujian Free Trade Area (自由贸易试验区), and Guangdong Free Trade Area (自由贸易试验区) were promulgated one after another. Furthermore, on June 7, 2016, the Ministry of Public Security conducted a hearing to collect opinions from the general public about the “Ordinance for foreigners’ permanent residence in the People’s Republic of China (draft) (《中华人民共和国外国人永久居留管理条例（草案）》).” This draft clarifies improving the mechanism of permanent residence management system, establishing flexible and practical applications for permanent residence, standardizing and optimizing the process of approval, and the permanent residence qualification treatment. In addition, the strengthening of follow-up management and similar is clearly shown. If this draft is officially enforced, it will lead to the simplification of the process of examination approval, as well as the further relaxation of the restrictive conditions on permanent residence application for foreigners.

**Significant reforms in the social insurance system**

In 2015, following the fact that the construction of a more equitable and sustainable social security system was announced in the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), documents were promulgated one after the other by relevant government agencies in 2016, and social insurance system reforms were implemented more reliably.

**“Test Implementation Proposal for Integration of Maternity Insurance and Employee Basic Medical Insurance” published by the State Council (国务院)**

In order to strengthen the mutual aid capability of the insurance fund and lower the administrative operation cost, on February 4, 2017, the General Office of the State Council (国务院) issued a printed version of the “Test Implementation Proposal for Integration of Maternity Insurance and Basic Employee Medical Insurance (《生育保险和职工基本医疗保险合并实施试点方案》).” Starting by the end of June 2017, a trial operation integrating the two insurances, maternity insurance and basic employee medical insurance, for a period of approximately one year, will be carried out in areas such as Handan City and Chongqing City in Hebei Province. The policy adjustment for maternity insurance treatment will not be carried out by the trial operation of this integration, and be integrated at the administration level. As a result, the employee basic medical insurance premium rate to be newly applied when the employer pays is the sum of payment rates of maternity insurance and basic medical insurance of employees.

**Promotion of the “Notice on Gradual Reduction of Social Insurance Rates (《关于阶段性降低社会保险费率的通知》)” of the Ministry of Human Resources and Social Security and the Ministry of Finance**

In 2015, at the Central Economic and Technical Conference, it was proposed to advance social insurance premium reduction and examination of the “five insurances one fund” system, and improve accuracy and simplification. In order to respond to this request, on April 14, 2016, the Ministry of Human Resources and Social Security and the Ministry of Finance promulgated the “Notice on Gradual Reduction of Social Insurance Rates.” From May 1, 2016, it was requested to lower the payment burden rate to 20% in provinces (wards and cities) where the burden ratio of employees in company-employee basic endowment insurance exceeded 20%. The payment burden rate of employers is 20%. In provinces (wards and cities) where the cumulative total of the employee basic endowment insurance fund reached the amount that can cover the payment amount of more than nine months by the end of 2015, it was requested that the employee’s payment burden ratio be gradually reduced to 19%, and the reduction execution period be a provisional two years. By implementing this policy, corporate costs are reduced to a certain extent, which leads to a reduction of burdens on companies.
Perspectives of 2017

Further refinement of the method of enforcement of the new system of foreign work permits

During the trial period of the new system, understanding of how to implement the new system varied among local governments, and there are parts where the method of preparing application documents is not clearly defined depending on the circumstances. Thus, companies and expatriates are confused. Considering the central and local governments, it is necessary to carefully observe whether more detailed and objective implementation regulations will be issued in 2017.

Formal promulgation of the “Ordinance on Management of Foreigners’ Permanent Residency in the People’s Republic of China”

In consideration of the important effect of “Ordinance on Management of Foreigners’ Permanent Residency in the People’s Republic of China” (hereinafter referred to as “Ordinance”) on visiting for work and stay of foreigners, and that the experience through the practice of a series of reforms on the permanent residence system that came into existence in recent years, which can be utilized in the “Ordinance” for further improvement, we urge the formal promulgation at an early date in 2017.

Further improvements to the mechanism of raising the minimum wage

Following the proposal of “Improvement of Minimum Wage Raising Mechanism” in the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), the “Regulations Outline of the Human Resources and Social Security Program of the ‘13th Five-Year Plan’ (第十三个五年规划纲要, “十三五”规划)” promulgated on July 6, 2016 by the Ministry of Human Resources and Social Security also proposes “improving the mechanism for raising the minimum wage and standard wage, as well as establishing minimum wage standard evaluation mechanism.” From the situation of the minimum wage standard raise in several regions across the country in 2016, the average increase rate of the minimum wage in provincial cities has declined in comparison to any year in the past. In 2017, the mechanism of raising the minimum wage was further improved, and the degree of minimum wage adjustment was reasonably established. We request that both, workers’ interests and corporate acceptance capabilities, are considered.

Prompt promulgation of the plan for gradually raising the retirement age

According to an announcement on February 29, 2016, the Ministry of Human Resources and Social Security has already created a plan for gradually raising the retirement age, and once the report on approval is completed in accordance with the prescribed process, there will be an opinion hearing with the general public. This proposal, which is attracting attention, is expected to be promulgated within 2017, considering the current progress situation. As raising retirement age involves the interests of companies and employees, companies need to observe this.

Proposal

(1) Working environment

- With the slowing down of the growth rate of the Chinese economy in recent years, there are many situations in which Japanese companies have adjusted their business models for various reasons, such
as to respond, change manufacturing products, review internal company systems, and carry out M&A. In addition to adjustments made by the companies themselves, situations are inevitably occurring in which employees are relocated and personnel reduced. In order to stabilize the working environment and to make personnel adjustments that have no problems in terms of compliance, the related laws and regulations have to be further improved. We request the early establishment of the “Company’s Personnel Reduction Provision” (draft for requesting opinions) among others, which will enable appropriate reductions to be realized in companies that are obliged to reduce personnel.

- Considering Japanese companies that do not carry out personnel reductions or only reduce a small number of employees, and correctly deliver unemployment insurance premiums according to the law, we hope that the scope of stable employment allowance policy is expanded by raising the level of stable employment allowance and lowering application requirements. We hope a continued implementation of stable employment allowance policy after 2020 will be considered as soon as possible.

(2) Social security

- On April 14, 2016, the “Notice on Gradual Reduction of Social Insurance Rates” was promulgated by the Ministry of Human Resources and Social Security and the Ministry of Finance by clearly stipulating the matters concerning the gradual reduction of social insurance rate. Along with this, it is welcomed that corporate costs have been reduced to a certain extent regarding social insurance rates, such as old-age insurance and unemployment insurance in the country. However, companies’ burdens are heavy due to the fact that personnel expenses that increase daily have a serious impact on corporate management activities. Thus, we request the reduction of corporate burden by further lowering social insurance premium rates, which will lead to strengthening the vitality of a company.

- There remain situations where expatriate employees working in China must pay social insurance premiums in duplicate in both Japan and China. By concluding the Japan–China Social Security Agreement, problems such as double payment of social insurance fees will be solved. Considering this reason, we urge that the negotiations are accelerated by increasing the frequency of consultations on the Japan–China Social Security Agreements, so that burdens on Japanese companies and expatriates are reduced.

- There remains the problem that medical insurance and workers’ accident insurance, which are closely related to the benefits of employees in service, are not accepted across regions, and employees often have to return to the region covered by the insurance and undergo worker’s accident certification. This causes significant inconvenience to companies and employees working in regions not covered by the insurance. We request that the system of application and use of social insurance across regions, including health insurance and workers’ compensation insurance, are improved and that the procedure for receiving insurance payments is simplified.

(3) Operation of laws

- In the labor relations field, as there are cases of clauses that contradict each other between the new laws of the existing regulations and old laws, or regulations prescribed by each government agency, the execution status of each area is not unified in practice. Considering companies, this is a challenging situation to handle. Regarding laws and regulations of government agencies that will no longer apply, we request that the competent authorities organize them in a timely manner, or clarify the application principle in case there are mutually contradicting points between the old and new regulations.
At present, the understanding and application for many laws and regulations in China are not clear, and when labor dispute resolution organizations handle labor disputes, they generally adopt interpretations that are favorable to employees. We request that this problem is ameliorated and that relevant agencies conduct fair treatment when there are obvious situations, such as “unfair long-term sick leave,” “job negligence,” and “sabotage,” on the worker’s side.

(4) **Immigration**

On September 27, 2016, the State Administration of Foreign Experts Affairs issued the “Notice Concerning Printing and Publishing the Test Implementation Proposal on the Permits System for Foreigners Visiting China for Work (《关于印发外国人来华工作许可制度试点实施方案的通知》).” In this, a series of trial plans, including the governmental innovation models “unification of two certificates” and “Internet + administration service” were presented, and it is appreciated that the administrative system to apply for work permits for foreigners working in China has been simplified and the efficiency of administrative procedures has improved. We request that, in 2017, the new system will be expanded nationwide, and the simplification of application documents will be further advanced. Obtaining a non-criminal record proof in Japan takes a considerable amount of time and effort. Regarding the high level human resources of Type A, the oath system is applied by the current policy, but we would prefer that consideration is provided to applying the oath system to other targets as well. In addition, as the problem of prolonging the time required for administrative procedures as documents cannot be successfully uploaded can be avoided by optimizing the system to be used, we request improvement.

At the time of application, renewal, deletion procedure, and others, on residence permits for work (工作类居留许可), we would like that the deposit period of original passports to government agencies is shortened so as to not hinder the business trips of Japanese employees. In addition, we request that the validity period of the residence permit be classified according to personnel type, and a longer validity term for the residence permit of high level personnel is set.

In order to realize employment of Japanese veteran technical personnel in China and have technicians with rich experience to contribute more to the development of its technology, we urge the relaxation of restrictions on visas and work permits for experienced professionals and technical personnel over 60 years old.

In the “procedure (trial) for foreigners concerning entry into the country for the purpose of carrying out short-term worker (《外国人入境完成短期工作任务的相关办理程序（试行）》)” (hereinafter referred to as “this procedure”), the five major situations stipulated as falling under “execution of short-term work” do not cover the various reasons of immigration that may occur in practice, and Japanese companies and Japanese-affiliated personnel have problems to decide whether to apply for a visa as “execution of short-term work.” For example, it is very challenging to judge whether it is “execution of short-term work” cases in which a Japanese employee enters the country several times in a year to provide lectures due to an outsourcing relationship and obtains certain earnings from this. We would prefer that it becomes possible to adapt to various types of immigration reasons that could actually occur by enacting a detailed bylaw of this procedure in order to subdivide the situation of “execution of short-term work.” We also urge further simplification of related procedures for short-term working visas, such as exempting the submission of invitation letters and invitation confirmation letters.

(5) **Labor dispatch**

We request the elimination or relaxation of the restriction that the proportion of dispatched workers must not exceed 10%, and that companies are allowed to adjust it themselves based on industry circumstances and needs.
Regarding representative organizations established by foreign companies in China, we request the elimination of the mandatory provision that employees cannot be hired unless it is through an intermediary agency, such as temporary staffing agency, and allow the representative organizations to choose direct employment based on their circumstances.

(6) Labor unions

- As the expenses to be paid by the labor union to the upper organization are unclear, we request that each upper organization clarifies the cost income and expenditure situation, and reduces the payment ratio of the labor union to the upper organization.

- It is welcomed that, in recent years, the number of situations in which the upper organization of the labor union is intervening in “collective consultations” and labor disputes has increased, which have had certain effects on maintaining a balance between legal interests of workers and corporate development. We expect that the labor union will continue to demonstrate positive guiding effect in collective consultation among others.

(7) Other issues

- In the method of calculating the annual payment amount of current disability warranty deposit, the number of employees in the office, the number of employees with disabilities, and the annual average wage of employees in the office are set as the basis of the annual payment amount. However, as the average wage of all employees including foreign expatriates became the base, there are Japanese companies for which the payment amount has increased sharply and significantly. From the viewpoint of hiring people with disabilities, we request that the average annual income of the local area is used as the calculation base, as it is considered appropriate to set the payment at the salary level of that area. In addition, we request the realization of an environment in which interaction between people with disabilities and employers is possible by establishing a talent market of people with disabilities and setting up a referral center specialized in people with disabilities.

- The acceptance of excellent interns from vocational technical schools by Japanese companies is effective for improving the education and practical skills of vocational school students. It also provides an opportunity to experience the corporate culture and appeal of foreign-capital companies. Restrictions on intern training hours and overtime were more strictly defined in the “Notice of the Provision on Training Management of Vocational School Students” promulgated on April 11, 2016 (School Personnel Notification [2016] 3). Due to this, Japanese companies that had the intention of accepting interns have stopped acceptance, and the number of Japanese companies showing intentions to accept interns have gradually decreased. We urge that matters concerning training period and over-time, among others, be more reasonably prescribed according to the industry type and business needs of companies accepting interns.

- In the event of a change in the policy of laws and regulations, depending on the region, there is a time lag in the update of the government agency’s website. Thus, companies may not be able to acquire the latest policy information on a timely basis. We request that, in addition to expanding the ways in which companies can obtain information, an inquiry helpdesk is established to further improve the responsiveness of the staff in-charge and the level of work.
Chapter 6 Intellectual property rights

Overview of the current situation

China is a major power of intellectual property. The number of applications for patents (inventions, designs, and utility models) and trademarks accounts for more than one-third of the worldwide applications, putting it in the first position in the world. The number of patent applications in 2016 increased in comparison to the previous year; approximately 1,340,000 inventions (22% increase from the previous year), approximately 650,000 designs (14% increase from the previous year), and approximately 1,480,000 utility models (31% increase from the previous year). On the other hand, the number of trademark applications in 2016 was approximately 3,690,000 (an increase of 28% from the previous year). Under such circumstances, the patent and trademark applications by Japanese companies are the highest (in 2015, inventions and utility models were first, designs were second, and trademarks were third) among foreign companies, and it can be stated that China is still promising as a business expansion destination.

In addition, regarding the number of lawsuits filed in intellectual property rights-related civil litigation in 2015, which was the year with the highest number of cases, it was approximately 120,000 for patents (20% increase from the previous year) and approximately 240,000 for trademarks (13% increase from the previous year). With this, China is already a major power of litigations. In addition, the Beijing Intellectual Property Rights Court announced in March 2017 that the average compensation amount for damages in patent cases increased from 450,000 Yuan in 2015 to 1,380,000 Yuan in 2016. There are not necessarily many cases in which Japanese companies become defendants, but it is expected that intellectual property-related lawsuits will increase further and cases involving Japanese companies will also increase.

The Chinese government is focusing on the judicial protection of intellectual property rights, and from November to December 2014, intellectual property courts specializing in the first trial proceedings of rights, such as patents, were established in the cities of Beijing, Shanghai, and Guangzhou with jurisdiction over these areas. The recruitment of technical investigators is progressing (however, the jurisdiction in the Guangzhou Intellectual Property Court is the whole province of Guangdong, excluding Shenzhen city). In addition, intellectual property courts that try intellectual property rights cases beyond their jurisdictional areas will be established in the cities of Nanjing, Suzhou, Chengdu, and Wuhan by February 2017. Furthermore, the establishment of a judicial system has been advanced, including considerations on establishing a high-level intellectual property rights court.

In December 2015, the State Council (国务院) announced “Some Opinions of the State Council on Accelerating the Construction of a Nation Strong in Intellectual Property Under New Conditions (《国务院关于新形式下加快发展知识产权强国建设的若干意见》),” aiming at the formation of an intellectual property system with efficient operation and guaranteed laws, improvement of the environment of innovation and entrepreneurship, formation of intellectual property advantages for international competition, and maintenance of several provinces and cities as strong in terms of intellectual property, all these to be accomplished by 2020. It also presented a national strategy for steady foundation consolidation toward the construction of a strong nation for intellectual property at a global level. Furthermore, in the “13th Five-Year Plan (第十三个五年规划纲要, “十三五规划” of National Economic and Social Development (2016–2020)” adopted by the NPC in March 2016, it was clearly stated that intellectual property rights will be strictly protected, and a platform to utilize it will be built in order to achieve development driven by innovation. It can be stated that this is a manifestation of the fact that protection and utilization of intellectual property rights have become increasingly important for China, aiming for the development of science and technology innovation, including artificial intelligence and Internet of Things. The movement to strengthen intellectual property protection in the justice administration mentioned above is part of this.
In this manner, the protection and utilization of intellectual property is progressing, but China is still a major power of imitations. To cope with this, the State Council (国务院) has established the “Small group that cracks down on intellectual property infringements and manufacturing and selling of counterfeit products across the country ( “全国打击侵犯知识产权和制售假冒伪劣商品工作领导小组”).” Thirty related departments are working together on this, and it is highly appreciated that major achievements have been obtained by uncovering counterfeit products. However, difficult issues, such as skillful and diversified production of counterfeit goods and counterfeit goods sold on the Internet, are becoming obvious. It appears that the situation wherein the rights holder’s burden on the cost side and the human side is significant will not change for the time being.

Other efforts are underway to improve the system of intellectual property rights law. The revised Trademark Law was enacted in May 2014, and the trademark examination and trial standards (《商标审查及审理标准》) based on it were revised in December 2016. In addition, from 2014 to March 2017, a call for opinions was carried out regarding Patent Law, the Anti-unfair Competition Law, regulations concerning prohibition of competition exclusion/ restraining action by abusing intellectual property rights (《关于禁止滥用知识产权排除、限制竞争行为的规定》), and the amendment and enactment of the ordinance on employee inventions (《职务发明条例》). Concerning these, we are submitting opinions individually as the Japanese Chamber of Commerce and Industry in China.

As mentioned above, while the situation surrounding Chinese intellectual property is changing dynamically, it can be considered that being in harmony with the intellectual property systems and operations of other countries, and constructing an environment where there is impartial and fair competition among companies, is preferable for both Japanese companies and Chinese companies. However, the following problems still remain.

**Current situation and issues of intellectual property protection**

**Draft of the Employee Invention Ordinance**

In April 2015, there was a call for opinions on the draft of the Employee Invention Ordinance organized by the Legislation Office of the State Council of China. In the past, employee invention provisions have been stipulated for patents in accordance with the Patent Law and the Law [Rules] for implementing the Law (《专利法》及其实施细则). However, this employee invention ordinance draft regulates the handling of employee inventions for rights other than patents, such as technical secrets, plant variety rights (植物新品种权), and integrated circuit placement rights (集成电路布图设计专有权). Moreover, there are provisions stipulating the “principle of placement priority;” however, although it is desirable to adopt the “principle of placement priority,” there are also some provisions that do not stipulate this principle.

**Application process**

**Examination of utility models and designs**

In order to realize the activation of true innovation, it is also indispensable to improve quality, as well as quantity, of patent rights. However, as the current utility models and designs are registered only after an initial examination and no substantial examination is carried out, it is impossible to
suppress the generation of bad rights that do not have inventiveness and creativity and do not contribute to the innovation activation. The SIPO conducted a revision of the examination guidelines 《专利审查指南》 in September 2013 to strengthen the novelty screening in the initial examination, but its effectiveness is uncertain. If bad rights without protection value are encouraged and abused, there is concern about the decline of high motivation for innovation and the inhibition of growth acceleration.

**Designs system**

A design-like creation could be the entire or part of a three-dimensional object or a planar object, and generally a product is made from a part of the creative design. In addition, the design of products with long life spans are elements that form a corporate image by making them brands, and there are cases where they are passed down to next generation products. Although the protection of screening designs (graphical user interface) (图形用户界面（GUI）产品外观设计) was introduced from May 2014 after the revision of the patent examination guidance, it is necessary to more flexibly recognize the subjects and modes of protection of designs to protect appropriate design creation.

**Trademark examination**

Even under the revised Chinese Trademark Law, regarding famous trademarks in foreign countries (外国著名商标), unless one can prove it being famous (well-known) (驰名性) in China, it is not possible to prevent others from filing malicious applications. Trademarks by these malicious applications disrupt the market and unduly impede the profits of famous (well-known) trademark owners and activities in China, which in turn, hurt consumers’ interests. In order to eliminate these malicious trademarks, it is necessary to submit a large amount of evidentiary material in order to prove the degree of famousness. Furthermore, depending on the evidentiary material, it may be rejected without being judged, and takes a long examination period for the examination, which is a considerable burden not only for the applicant but also for the authorities.

**Information provision during trademark examination**

Unlike the case of patent examination, there is a concern that trademark examination does not have an information provision system that allows the submission of evidentiary material by third parties and that rights with insufficient stability are granted.

**Misappropriated applications for patent rights and trademark rights**

There is no direct exclusion provision in Patent Law and Trademark Law regarding misappropriated applications (抢注), in which third parties illegally file applications of invention creations or foreign trademarks, forcing the burden of a major lawsuit on the true invention creator and trademark owner whose right was misappropriated. This is a problem in effectively suppressing misappropriated applications.

**Patent examination**

Regarding the examination of patents, despite an increase in the number of applications, the examination period has been shortened and speeded up, and the quality of examination has been improved and qualified. This is a favorable trend from the viewpoint of appropriate protection of patents. In addition, the Japan–China patent examination highway (Japan–China Patent Prosecution Highway [PPH]) (中日专利审查高速路 (中日 PPH) , the trial for which is currently being extended, will significantly help to not only accelerate the examination, but also to reduce the burden on the applicant. We appreciate the efforts of the authorities, such as conducting a trial and its extension, and the simplification of application documents required. On the other
hand, a priority examination system has been established as a system to promote examinations. In this regard, the target is limited to inventions to be filed internationally for the first time in China and the fact that this system cannot be used sufficiently is a problem. Furthermore, regarding Japan–China PPH, there are problems in convenience as it is conditional on items such as application disclosure, unlike applications to Japan.

**Range of claims and requirements described in the specification (权利要求书和说明书), as well as correction limitations**

The claims and requirements described in the specification are being operated according to strict examination criteria in comparison with other countries, and it is the same for corrections and revisions (修改和更正). Excessive restrictions on overly strict criteria for the claims and description of the specifications, and their corrections and revisions lack adequate protection of the invention. SIPO promulgated the patent examination guidance on February 28, 2017 and enforced it on April 1, 2017. In this regard, the criteria for examining business model inventions (商业模式发明) and computer program inventions (计算机程序发明) have been relaxed, and the method for amending the scope of claims of patent documents after registration was also relaxed. We appreciate the authorities’ efforts on these points.

**Confidentiality examination system**

In the case of filing an application for an invention or utility model completed in China to a foreign country, when a confidentiality examination by SIPO is necessary, the explanatory documents necessary for this are essentially equivalent to the application written in Chinese. A large burden of cost and labor is required even if the technical development in China was carried out for the overseas market.

**Application language**

Patent applications to SIPO are permitted only in Chinese and inventions written in foreign languages need to be translated into Chinese after filing. However, at times there are errors in translations, and there are cases in which rights acquisition and exercise are not possible due to mistranslations. In other countries including Japan, applications in foreign languages, in particular English, are widely accepted. As correction of mistranslations is also permitted, it is a preferable system from the viewpoint of the stability of rights.

**Current situation and issues of the competitive environment related to intellectual property**

**Various imitation acts**

**Recidivism**

Japanese companies actively cooperate in the detection of counterfeiters, but imitators are taking various measures, such as diversifying and sophisticating methods to avoid punishment. On the other hand, even if counterfeit goods are uncovered, punishment is not sufficient as compared to infringement acts, and there is insufficient deterrent effect on repeat offenders who deliberately repeat imitation acts due to multiple factors, such as unclear definition of recidivism. In addition, there is insufficient cooperation among authorities and information sharing system.

**Calculation of illegal business value**
Regarding the detection of counterfeit goods, calculation of illegal business value (非法经营额) becomes the basis of punishment decision and the criteria for judgment of criminal transfer. However, there remain cases that result in disappointing results for the right holders, such as punishment that appears to be inappropriate or failure of criminal transfer due to an extremely low calculated amount compared to the seized quantity. With the rapid expansion of the electronic commerce (EC) market, operations using the sales records held by Internet Service Provider (ISP) as the basis for calculating illegal business value are becoming popular, but it is challenging to state that this operation is unified in all regions of the country.

**Skillfulness of imitations**

Measures to prevent being discovered are diversifying, such as producing and storing counterfeit goods in different places, shipping the component units, and undertaking the final assembly and packing in the vicinity of the market, using no brands or other brands at the time of transportation and then switching the trademark indication of the goods and storing them, and conducting business (production, transportation, sales, etc.) during nighttime and on holidays outside the office hours of the enforcement agencies. It is a problem that it is challenging to identify the leaders due to the complicated and subdivided business networks.

**Illegal signboards**

There are stores that mislead and confuse consumers by using registered trademarks without permission in their signboards, decorations, and other similar items, and they appear as if there is some business or authorized relationship with the right holder. Although the number of stores doing this is decreasing in comparison to the past, they are still found. Moreover, even after receiving administrative guidance and being exposed, they avoid the situation by merely undertaking actions, such as covering the signboard with a cloth and then uncovering it again, deleting only one part of the letters, and deliberately prolonging the correction period. In addition, there are cases of viciously repeated offences where reliable enforcement is impossible. As there are no clear standards for identification of illegal signboards and method of enforcement, there remains a problem that the response of the enforcement agencies varies from region to region.

Furthermore, as the EC market is rapidly spreading, the above-mentioned problem at offline sites is also expanding to online shops, and it is desirable to urgently develop related laws and thoroughly implement a unified operation.

**Selling counterfeit products through the Internet**

**Preparation of an intellectual property protection program**

Considering counterfeit goods sold using the Internet, counterfeit goods shops have increased rapidly due to an increase in Internet business volume, and approximately half of the thousands of goods displayed on one site are said to be counterfeit goods. Each ISP conducts voluntary initiatives, such as the development and unification of intellectual property protection programs and active information exchange with rights holders, but there is a reality that the response cannot match the number of counterfeit goods. In addition, in Internet transactions, as the face of the counterpart cannot be seen, if the name is changed, the offense can be easily repeated. It is more challenging to identify the counterfeit goods’ dealer than the actual transactions. Furthermore, the Internet is easily accessible from overseas, and there is a high possibility that counterfeit goods will spread overseas through a small lot postal route.

**Use of foreign company names**

On the Internet, the number of websites that use the names of foreign companies and agencies or dedicated repair centers without permission is increasing, which is a malicious unfair competition of misleading consumers into thinking that they are formally contracted with a foreign company.
**Fairness and rationalization of dispute handling concerning intellectual property**

**Appropriate administrative authority against the infringement of patent rights**

The “Draft of the Patent Law Amendment (submitted for review)” of the Legislative Office of the State Council (国务院法制办公室印发的《专利法修订草案》(送审稿)), the “Special Administrative Law Enforcement Operation Guidance” (requesting opinions) of the SIPO (国家知识产权局印发的《专利行政法执行操作指南》（征求意见稿）), and in the “Guidelines for Identifying Patent Rights Infringements (trial stage)” (《专利侵权行为认定指南（试行）》) intend that administrative agencies (patent administrative departments) actively control criminal acts (Draft of the Patent Law Amendment Articles 3 and 67, etc.)

However, judgment on infringement of patent rights should be carefully judged through a professional and objective process, taking into account the claims of both parties adequately. In addition, if there is a dispute between the parties, such as the validity of a patent right or the existence of infringement of a patent right, the final decision should be left to the justice. Therefore, in case of a patent infringement, if there is a dispute between the parties concerning the validity of a patent right or a judgment on the infringement of a patent right, we think that this is a problem to be handled (enforced) as soon as possible by a specialized administrative department without waiting for the judicial decision.

**Clarification of criteria in case of abuse of intellectual property rights**

Explanations concerning the “abuse of patent rights” in relation to “damage to public interest” and “preclusion and limitation of competition” are given in Article 14 of the “Draft of the Patent Law Amendment (submitted for review)” of the Legislative Office of the State Council (国务院), the “Antimonopoly Law Enforcement Guidance Concerning Intellectual Property Abuse (7th draft)” of the SAIC (国家工商行政管理总局印发的《关于滥用知识产权的反垄断执法指南》(国家工商总局第七稿)), and the “Antimonopoly Guidance on Intellectual Property Rights Abuse (request for opinion)” of the NDRC (国家发展和改革委员会印发的《关于滥用知识产权的反垄断指南》(征求意见稿))

Regarding the abuse of intellectual property in the Antimonopoly Law (Article 55), in addition to the above-mentioned “Antimonopoly Law Enforcement Guidance Concerning Intellectual Property Abuse (7th draft)” and “Antimonopoly Guidance on Intellectual Property Rights Abuse (request for opinion),” other guidelines that are similar, but different from each other are published separately by multiple organizations, such as the “Provision on the prohibition of acts that abuse intellectual property rights and preclude and limit competition” of the Industry and Commerce Administration Bureau (国家工商总局印发的《关于禁止滥用知识产权排除、限制竞争行为的规定》), which may lead to confusion. In addition, in each guideline, although the criteria for judgment on monopolistic acts abusing intellectual property rights are listed, as detailed rules of judgment standards, concrete analysis using sample cases, and case collections among others are not available, from a company’s side, it is challenging to rationally predict how cases will be judged.

**Enhance collaboration between administrative agencies in response to intellectual property rights infringements**

In recent years, there have been cases in which multiple intellectual property rights, such as patent rights, design rights, trademark rights, and copyright and trademark rights, are infringed simultaneously. When multiple rights are infringed in this manner, even if an administrative seizure is carried out regarding the infringement of one right, there may be cases where products that do not infringe that right, but that does infringe on other rights, remain on the market afterwards. In such cases, infringement problems are solved by...
carrying out an administrative seizure again regarding other right infringements, but counterfeit goods could remain on the market for a long time. In order to prevent such a situation, if related administrative organizations can cooperate with each other and process multiple infringements of rights simultaneously, counterfeit goods can be eliminated from the market at an early stage. We think that it is very effective not only for consumers and rights holders, but also from the viewpoint of efficient utilization of administrative resources.

There are cases where counterfeit goods infringe not only trademark rights, but also patent rights, such as design rights, simultaneously. In such a case, the administrative seizure is carried out based on the right holder’s claim that was filed with the administrative agency dealing with one of the rights being infringed. Subsequently, the infringer may take measures regarding only one right infringement, but continue the infringement by not taking any measures regarding the other right. In such a case, a final solution can be obtained by filing a claim with the administrative agency that deals with the infringements of the other right, and carrying out another administrative seizure regarding the other right. However, considering this, it takes time until the final solution, during which the counterfeit goods infringing the other right will remain on the market for a long time.

Exercise of utility model right and design right

Although applications and registrations of utility models among others have increased rapidly in recent years, as utility models and similar are registered without undergoing substantial examination, it is challenging to prevent the registration of rights with invalid reasons. It is not only true that a right with invalid reasons has no protective value, but also in the case of exercising that right, it will cause tremendous damage and burden third parties affected by that exercise. Furthermore, the abuse of rights also hinders the development of industries.

Operation of the system of rights based on prior use

There are cases in which patent applications are not filed for research and development results, in order to protect them as trade secrets or as they are not patentable. However, due to reasons such as information leakage, there are cases where a third party later files a patent application for the same content. In such a case, the right based on prior use is recognized from the viewpoint of fairness. However, in China, rights based on prior use (在先使用权) are only recognized within the range of manufacturing capacity at the point in time when the use can be proved only for the product where it was implemented, not the invention. Improved products using the same invention and the expanded manufacturing range thereafter may not be recognized as prior use right. There may be no protection for prior users from the viewpoint of fairness.

Enforcement of judgments

Even if a judgment recognizing the infringement of intellectual property rights is obtained in court, there are enforcement challenges that prevent its full execution. Although there is a compulsory execution system, it is limited to cases where the enforcement target refuses the notice of execution or has the possibility of concealing property. In addition, the Supreme People’s Court promulgated “Some provisions of the Supreme People’s Court concerning the publication of a name list of offenders who are enforcement targets (《关于公布失信被执行人名单信息的若干规定》)” in July 2013, and the notice on “Operation outline regarding the execution of the plan for ‘Basically solving problems of enforcement difficulties in 2–3 years (《关于落实“用两到三年时间基本解决执行难问题”的工作纲要》)” was issued on April 2016. However, its effectiveness is uncertain.

Information disclosure
The trial decisions by the Patent Reexamination Committee (专利复审委员会) and the Trademark Examination Committee, as well as the judgments by the Supreme People’s Court, are not open to the public. In November 2013, the Supreme People’s Court promulgated the “Regulations on the Disclosure of trial documents of the Supreme People’s Court on the Internet 《关于人民法院在互联网公布裁判文书的规定》.” Although the disclosure of trial documents is proceeding, in order to enhance foreseeability and ensure fairness, it is necessary for each case to be published in a prompt and appropriate range.

Technical license related system

The Chinese technology import and export control ordinance (《中国技术进出口管理条例》) states that in a license agreement to introduce technology from foreign countries, the foreign licenser assumes a patent warranty liability in case that the Chinese licensee infringes rights such as third party’s patent rights. In addition, improved technology by Chinese licensee is attributed to Chinese licensee, and these are obstacles for foreign companies licensing technology to Chinese companies, and affect the progress of technology transactions aimed at by the Chinese government.

<Proposal>

1. Promoting appropriate protection of intellectual property

   (1) Reconsideration of Draft Ordinance on Employee Inventions

   The employee invention system (职务发明制度) is already comprehensively stipulated in the Patent Law and the Law [Rules] for implementing the Law (《专利法》及其实施细则). In addition, it is not necessary to enact this ordinance as widening the scope of application to other rights, such as plant variety rights (植物新品种权) and integrated circuit placement rights (集成电路布图设计专有权), without upper regulations, such as Patent Law, will cause confusion in the legal system. We request that even if it is enacted, in view of the above, to limit the subject of this Ordinance to exclusive rights, and in addition, to thoroughly enforce the “principle of placement priority” agreed between business entities and inventors.

   (2) Process of filing for rights applications, rationalization, and optimization of the protection period

   ① Introduction of the substantive examination (实质审查制度) principle in utility models and designs

   We request introducing the substantive examination principle regarding utility models and designs.

   ② Review of the designs system

   In addition to introducing the above-mentioned substantive examination for design applications, we request that partial designs (部分外观设计) and secret designs (秘密外观设计) systems are introduced on the premise of substantive examination. We also request the introduction of exceptional application of loss of novelty by self-disclosure. Regarding design rights, we request further extension of the protection period from 10 years to long-life protection of products.

   ③ Appropriate trademark examination

   In order to exclude third-party applications with malicious intent, in addition to conduct the examination considering the famousness in foreign countries, significance of trademark signs (商标标识的显著性), and regional brands, we request the inclusion of trademarks of different product/service classifications in the similarity judgment (相似性判断). Furthermore, in examinations and court hearings of trademarks, in light of
the current business form, even if the applicant submits documents, such as the number of homepage views and the number of Internet sales in China, and the exchange record with Chinese industry groups, we request that these are also subject to examination and trial.

4. Introduction of information provision system in trademark examinations
As raising the stability of rights is also beneficial for the right holders themselves, we request introducing a third party information provision system in laws, such as Trademark Law.

5. Measures against misappropriated applications for patent rights and trademark rights
In order to prevent that applications for patent rights and trademark rights are approved for those who have illegally acquired the contents of other’s inventions and marks, we request adding misappropriated application to the reasons of refusal and invalidity.

6. Speeding up and clarification of patent examinations
We request extending the scope of the priority examination system to applications other than “applications that will be filed in foreign countries for the first time and China is the first application.” In addition, as for the Japan–China PPH (Japan–China PPH), we request to promptly make a formal agreement and that the conditions, such as acceptance before application release, are relaxed.

7. Relaxation of the description requirement in claims and specification, as well as correction limitations
We request the relaxation of requirements, such as support requirement, to the level of foreign countries. Additionally, regarding the scope of claims, we request that flexible corrections and revisions are permitted within the scope described in the description and drawings, as long as it is intended for reduction.

8. Improvement of confidentiality examination system
As technology development in China becomes more active, in order to improve competitiveness, we request the creation of a system that allows applications in foreign countries without the necessity of a confidentiality examination in the case of filing an invention or utility model developed in China to a foreign country.

9. Acceptance of applications in foreign languages
We request the acceptance of applications in foreign languages, such as English and Japanese, and also allowing the correction of mistranslations in case of foreign language applications.

2. Realization of a fair competitive environment related to intellectual property

(1) Measures for suppressing imitation behavior

1. Preventing repeated offenses
We aim to standardize acts that fall under repeated offenses and request the sharing of punishment information for seizure by the SAIC, the Quality and Technical Supervision Bureau, SIPO, the General Administration of Customs, and public security institutions. In order to deter repeat offenses, we request further facilitation of criminal transfer between administrative agencies and public security institutions, and also request that the cooperation with right holders be made closer, such as providing information owned by the General Administration of Customs to the right holders. Furthermore, we urge to properly advance the legal management of severe punishment against recidivism and to conduct these efforts nationwide.

2. Unified and appropriate calculation of illegal business amount
In order to properly punish imitation acts that are uncovered, the calculated amount of illegal business is important, and we urge to clarify the calculation procedure and to implement unified and appropriate operations.
③ Dealing with the sophistication of imitations
We request administrative agencies to promote legislations, such as granting authority to investigate the connection of division of labor. In addition, if trademarked labels and products with no trademark are found, we request that an objective judgment is made in the sense that these trademark labels are attached to the products and that such products are seized.

④ Dealing with signboards that use registered trademarks and similar without authorization
From the viewpoint of consumer protection, we request establishing a mechanism to promptly remove and correct illegal signboards that use registered trademarks of others that induce confusion among consumers. Furthermore, we request to clarify the criteria of illegality, and that it is instructed in a way that it will be put in operation uniformly throughout the country.

(2) Dealing with sales of counterfeit goods on the Internet

① Strengthening the maintenance of the intellectual property protection program
We request further strengthening the development of intellectual property protection programs by ISPs, and also deleting fraudulent counterfeit goods selling websites and websites that illegally use registered trademarks of others, as well as creating mechanisms to control recidivism. Additionally, we request that the guidance for relevant departments will be strengthened, so that its operation can be undertaken uniformly for any website. We also request that ISPs are instructed to strengthen cooperation with ISPs outside China to build a mechanism to deter borderless counterfeit trading through the Internet.

3. Fairness and rationalization of dispute handling related to intellectual property

(1) Appropriate administrative authority against infringement of patent rights
The enhancement of the authority of administrative agencies against infringement acts (specialized administrative departments) is considered in the Draft of the Patent Law Amendment. However, when there is a dispute between the parties concerning the validity or infringement of a patent right, we request to avoid making administrative organizations respond quickly (crackdown based on a judgment of infringement, enforcement, etc.) based on official authority, and that administrative organizations cooperate with the legal institutions and respond carefully based on judicial decisions. Regarding the response of the above administrative agencies, we request clarifying the criteria of lower-level directives among others, after completing the debates in the process of revising the Patent Law, including countermeasures and relief measures of the suspected infringers.

(2) Clarification of the criteria in case of abuse of intellectual property rights
Regarding abuses of intellectual property rights which are violations of the Antimonopoly Law, we request the clarification of the criteria on what constitutes abuse and that the general exercise of intellectual property rights, which are exclusive rights, is not easily judged to abuse intellectual property right. In addition, regarding the standards (guidelines) concerning the abuse of intellectual property rights for which the drafts have been presented from multiple government agencies, we urge creating uniform standards (guidelines) across multiple government agencies in a manner that reflects above request.

(3) Strengthening cooperation between administrative agencies in coping with infringements of intellectual property rights
In cases that intellectual property rights related to several administrative organizations, such as design rights and trademark rights, have been used in one product constituting the infringement of multiple rights at the same time, and when the right holder files an claim for addressing the infringement to one of the above-
mentioned administrative agencies, we request that the administrative agency that received the claim cooperates with the other administrative agencies to take countermeasures, such as conducting simultaneous detection. In other words, we urge strengthening cooperation among administrative agencies in response to infringements.

(4) Care duty in the exercise of utility model rights and design rights

As mentioned above, we propose the introduction of the substantive examination principle in utility model and design system. If an immediate introduction is difficult, we request imposing certain legal and administrative restrictions on the exercise of rights, such as requiring the submission of utility model right and evaluation report at the time of exercise of the design right.

(5) Appropriate operation of the system of rights based on prior use

We request expanding the range (target scope and implementation scope where it is permitted to implement rights based on prior use) of the rights based on prior use. In other words, we request that permission be granted to change the form and state of implementation within the scope of not losing the identity of the invention or the identity of the project purpose.

(6) Strengthening enforcement of judgments

We urge the creation of a mechanism to ensure execution of the matters determined by the judgments, such as expanding compulsory enforcement rights and strengthening social sanctions, when enforcement is impossible.

(7) Promotion of information disclosure

We request that the prompt disclosure of the decisions of the SIPO and Trademark Examination Committee (商标评审委员会), as well as the judgments of the Supreme People’s Court, is further promoted. Furthermore, except for trade secret information, we urge establishing a system that allows anyone to see all examination documents and trial documents.

(8) Correction of the technical license related system

We request the correction of the excessive obligations of licensors under the technical import and export control ordinance.
Chapter 7 Energy Savings and the Environment

Various environmentally related policies are being formulated for the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), and the environmental protection tax law will also be enforced on January 1, 2018. It also seems that legislation will be further introduced hereafter. To increase the effectiveness of such law, strict and fair law enforcement is required regarding aspects such as full disclosure of information, enhancement of surveillance systems, and disciplinary supervision. In addition, plans for development in the energy saving and environment fields are included in the Five-Year Plan, and action plans to control soil pollution were also announced in May 2016, which indicate that the investigation and measures for soil pollution will also be enhanced. Given that many Japanese firms can contribute to the measures for a wide area of environmental issues based on their extensive experience, technology, and know-how, the government is expected to make efforts to allow Japanese companies to be extensively involved in environmentally related projects.

Current state of the problem with environmental pollution

2017 report on government activity

In the Government Work Report (政府工作报告), announced at the 5th meeting of the 12th National People’s Congress (第十二届全国人民代表大会第五次会议) held in March 2017, the Chinese government indicated its recognition that the environment remains heavily polluted. Looking back at their activities in 2016, the government mentioned that it had enhanced the construction of ecological civilization and further improved green development. The government stated that they mainly strengthened measures for air pollution and achieved outcomes, such as a reduction in sulfur dioxide (SO2) by 5.6% and a reduction nitrogen oxide (NOx) by 4%, as well as a reduction in the concentration of particulate matter (PM2.5) by 9.1% per year on average in the 74 leading cities. They also mentioned advancements in the measures for water pollution and the formulation of the action plan to control soil contamination. They cited achievements such as the execution of the central inspection of environmental protection, where environmentally related law violations were in many cases strictly inspected and treated, which further promoted environmental protection. Based on these outcomes, they would implement the general plan for 2017 to reduce energy consumption by 3.4% or more per unit of Gross Domestic Product (GDP) and continuously reduce the emission of major contaminants. The government also considered it necessary to focus on activities such as further emphasizing measures to protect the ecological environment, with a reduction in the emission of both SO2 and NOx by 3% to address air pollution, as well as largely reducing the concentration of PM2.5 in the focused areas. As specific methods, the following five items were announced: (1) the problems of pollution caused by coal combustion should be urgently solved, (2) the measures for pollution sources should be fully promoted, (3) the measures for car exhaust should be enhanced, (4) heavily polluted weather should be effectively addressed, and (5) legal implementation, as well as supervision, inspection, and censuring, in the environmental field should be tightened. The measures for water or soil pollution were also planned to be enhanced, where they defined the range of reduction in the emission of each of chemical oxygen demand (COD) and ammonia nitrogen by 2%. Soil pollution will be addressed by closely inspecting the conditions of pollution and formulating measures by category.
As stated above, improvement in air pollution was reported in the review of the activities in 2016, but a red alert was issued for air pollution in Beijing between December 16, 2016, and December 21, 2016, and an orange alert was also issued between December 30, 2016, and January 7, 2017, the longest period in the past. Consequently, measures such as stopping factory operations, restricting car use with fleet numbers, and canceling classes were taken, but serious conditions that could endanger the health of people still continued. In the 2017 government’s activities, focusing on several fields, a 24-hour online surveillance program would be conducted for the prioritized industrial contaminant sources. Specific measures would also be taken to define the final deadline for companies not having satisfied the emission standard, and if they failed to perform within the deadline, the company’s operations would be decisively suspended based on the law. These policies indicate that the measures for air pollution would be further enhanced and implemented.

**Situations of environmentally related systems and policy movements**

**Issuance of the “Action plan for controlling soil pollution”**

In May 31, 2016, the Chinese State Council (国务院) issued the “Action plan to control soil pollution (the so-called “10 articles for soil pollution”) (《土壤污染防治行动计划》（“土十条”）), consisting of 10 articles and 35 items. The plan was not intended to provide specific measures to prevent pollution; instead, it characteristically focused on the specific inspection of the pollution conditions and the development of relevant laws and regulations. Thus, the plan differed from the “Action plan for controlling air pollution (《大气污染防治行动计划》)” (issued in September 2013) or the “Action plan for controlling water pollution (《水污染防治行动计划》)” (issued in April 2013). As the overall quantitative target values, the rate of safely used contaminated farmlands would be increased to approximately 90% by 2020, and the rate of safely used contaminated lands would be increased to 90% or more by 2020. In addition, the rate of safely used contaminated farmlands would be increased to 95% or more by 2030, and the rate of safely used contaminated lands would be increased to 95% or more by 2030. To improve soil pollution, the following measures were formulated: (1) conducting inspections of the conditions of soil pollution to understand the state of soil environment quality, (2) promoting legislation to control soil pollution in order to establish laws and a standard system (3) categorizing and managing agricultural lands to guarantee safety for the agricultural production environment, (4) managing building sites to prevent potential risks to the living environment, (5) enhancing the protection of non-polluted soil to prevent further soil pollution in advance, (6) enhancing the management and supervision of the sources of pollution to prevent soil pollution in advance, (7) promoting the disposal of contaminants and restoration of lands to improve the quality and quantity of the local soil environment, (8) enhancing the research and development of scientific technologies to promote the development of the environmental protection industry, (9) building a government-led system to improve the soil environment, and (10) enhancing the examination of goal achievements to tighten accountability. Item 23 of the 10 articles for soil pollution specifies that the operations of disposal and restoration should be performed at the original sites, requiring decontaminations at such sites. Item 27 also states that the market of the soil environment observation and supervision should be liberalized, allowing private companies to participate in the market. It is a field in which Japanese firms can contribute because of their abundant experience, technologies, and technological know-how in disposing contaminated soil. It would thus be desirable for such technologies of Japanese companies to be fairly treated and for the door to market entry to be equally opened.

**Issuance of the “Environmental protection tax law” (《环境保护税法》)**

The environmental protection tax law was issued on December 25, 2016, and is planned to be enforced in January 1, 2018. In China, the “Environmental protection law (trial) (《环境保护法（试行）》)” was issued in 1979, and it formally established the cost payment system for contaminant emission. The “Ordinance for collection, use, and management of the contaminant emission fee (《排污费征收使用管理条例》)” was also
issued on July 1, 2003, and has been in force until today. It has provided inspection details of the type or number of emitted contaminants, as well as the collection and use of contaminant emission fees. The establishment and enforcement of the law has further enhanced the development of the environmental protection system and indicated a systemic reform that changed the payment of environmental protection cost to taxation. The environmental protection tax law imposes a tax on air contaminants, water contaminants, solid waste, and noise; it defines taxpayers as companies, public institutions, and other business operators producing and selling products that directly emit taxable contaminants into the environment. Such tax liability arises on the day on which taxpayers emit taxable contaminants, and the tax charges are clearly specified with the definition of the basis of calculation by taxation subject, under the environmental protection tax system. In addition, the tax collector is defined as the department managing environmental protection, according to the contaminant emission cost system, but it has been changed to the tax authority in the environmental protection tax system. In 2017, the administrative instruction, specific policies, and measures for collection and management relevant to the law were expected to be established. Since the enforcement of the law represents a large-scale systemic reform that changes the cost payment system in the tax payment system, it is strongly desirable to thoroughly familiarize the public with the environmental protection tax law before its introduction.

**Policies for the 13th Five-Year Plan** (第十三个五年规划纲要, “十三五”规划) period

Various policies have been issued since 2016 for the fields of environment and energy savings, which are effective with the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划). The “Thirteen-Five ecological environment protection plan (《“十三五” 生态环境保护规划》)” was announced by the State Council (国务院) in October 2016, and it contained substantially more structures and contents than the latest two ecological environment protection plans. To address energy saving and emission reduction, the “Thirteen-Five general measures for saving energy and reducing emission (《“十三五” 节能减排综合工作方案》)” were also issued in January 2017. The measures included the target for saving energy consumption throughout China, as well as those in each region and for the regulation of the emission of environmental contaminants, which should be achieved for the period of the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划). The plan specifies the target values to reduce the total emission of COD, ammonia nitrogen, SO2, and nitrogen oxide in China’s regions, thereby clarifying the responsibility of each region or sector for the targets, and thus, requiring rigorous assessment of the results and ensuring achievement of the targets.

The “Law for controlling the environment polluted by solid wastes (《固体废弃物污染环境防治法》)” was amended in December 2004, as well as in 2013 and 2015, and by the Standing Committee of the National People’s Congress in November 2016. The penalty has not been amended, but the assessment for hazardous wastes at the multiple departments of the ministry was removed, and the procedure was then simplified, which promoted a reduction in the time required for handling hazardous wastes. However, some Japanese firms have noted that although the disposal of hazardous wastes needs to be outsourced to qualified waste disposers, such disposers are small in number and lack disposal capacity, resulting in a negative effect on firms’ business activities. Therefore, in addition to the further development of laws to enhance disposal capacity, early enhancement of such capacity on the hardware side is also desired.

**Ordinance for controlling contamination in electrical equipment (Chinese version of RoHS)** (《电子信息产品污染控制管理办法》)

For the purpose of reducing the content of hazardous substances and lowering environmental contamination, the “Ordinance for controlling contamination in electrical equipment (Chinese version of RoHS) (《电子信息产品污染控制管理办法》)” had been in force since 2007. The “Ordinance was then amended by the ordinance for use restriction on hazardous substances for electrical equipment (the ongoing Chinese version of RoHS) (《电器电子产品有害物质限制使用管理办法》)”, which was issued on January 21, 2016, and was
enforced on July 1, 2016. With the amendment of the law, the subjects of the regulation were extended from electrical equipment, as specified in the old Chinese version of RoHS, to electronic products, including white-colored home electric appliances, lighting equipment, and electric tools.

1) The old Chinese version of RoHS (issued in February 2006, enforced in March 2007)
2) Target hazardous substances: lead, mercury, cadmium, hexavalent chrome, PBB, and PBDE
3) Target products: electronic information products, electronic radar products, electronic communication products, television, radio, computer, household electronic products, electronic materials, and their accompanying products (designated by the list)
4) Contents of the system

[First step]

If non-noxious or unharmful substances or those with less noxious or harmful effects are employed at the time of designing or producing the target products and brought to the market, their validity dates for protecting the environment, names of harmful or noxious substances, and their contents should be noted for the products or in explanatory booklets.

[Second step]

Products should be designated as those requiring intense management to control contamination, and they should be forcibly managed for product certification (China Compulsory Certificate [CCC] system) of the use restriction on hazardous substances in such products.

1) The ongoing Chinese version of RoHS (issued in January 21, 2016, enforced on July 1, 2016)
2) Target hazardous substances: lead, mercury, cadmium (and compounds consisting of them), hexavalent chrome, PBB, and PBDE
3) Target products: such products exclude electric or electronic products defined in the old Chinese version of RoHS; the scope of such products has been widely extended to those such as white-colored home electric appliances, lighting equipment, and electric tools (with the explanation of the examples of products or those excluded from the target presented in Q&A, with no designation in the list).
4) Major changes in the system: to assess the use restriction on hazardous substances in the second step, a compliance assessment system is going to be built. The system was changed to the one allowing for compliance certification by certification bodies as well as self-declaration of compliance by companies. In the old Chinese version of RoHS, preparation of the system for the second step was not completed, and only the first step was implemented. The ongoing Chinese version of RoHS has changed the system of the second step from compulsory certification to compliance assessment, but the details on the target products or the compliance assessment system are unknown, and the details of the system, which will be shown hereafter, were thus require checking.

**Ordinance of collecting and managing waste electric products (Chinese version of the waste electrical and electronic equipment directive [WEEE]) 《废弃电器电子产品回收处理管理条例》**

The Ordinance of collecting and managing waste electric products was issued in 2009 and was enforced on January 1, 2011, to promote the recycling of waste appliances, including televisions, refrigerators, washing machines, air conditioners, and personal computers. This recycling system includes a mechanism that encourages producers or importers of products to pay recycling funds, from which subsidies are deducted and paid to waste recycling companies, thereby promoting the recycling of waste appliances. The target products initially comprised five items; then, they were increased to fourteen items in February 2015, including water heaters, range hoods, mobile phones, copiers, and monitors. The ordinance was planned to be applied to the additional items from March 2016; however, no detailed definition of target products, the criteria to collect levies, and the amount of subsidy was presented as of March 2017, and the collection of levies had not begun. Payment of subsidies to recycling factories has also been prolonged more than a year, after they applied for the payment, which indicates that the system itself still requires improvement.
**Proposal**

(1) Although PM2.5 was improved, air pollution still presents a problem in large cities and their surrounding areas. It is often sufficiently severe to preclude healthy business operations. Immediate measures must also be taken for environmental problems, such as water and soil pollutions. Efforts should be made to raise public awareness regarding the environment by promoting information disclosure through measuring and reporting pollution data including component analysis of PM2.5. In addition, radical actions are needed to enhance environmental regulations and their implementation structure and to improve implementation transparency. Japanese companies are also hoping to help improve environmental pollution and are happy to participate in these relevant projects, such as the introduction and dissemination of technology and equipment. Meanwhile, it is also requested to avoid suddenly instructing given factories to take measures such as operation shutdown in the case of transient increases in the concentration of pollutants in the region. Instead, fair and reasonable rules are sought to be established on issues such as announcing the objective criteria to assign business operators or constantly issuing advanced notices. Since there are differences in the source, composition, and way of disposal of contaminants from nonproduction facilities, such as company dormitories or welfare facilities in the same site, contaminants emitted from those non-production facilities must be excluded from the industrial contaminants.

(2) The process of formulating policies, laws, and plans related to the fields of environment and energy saving should be advanced with full information exchange within the relevant industries, including foreign companies and a sufficient mutual understanding within government organizations of the countries concerned. Transparency and fairness must be ensured in the procedures. In the case of asking for suggestions or applications for starting new systems or projects, sufficient time should be set aside to enable the dissemination of good products or technologies. Policies should also continuously inform administrative instructions, clarify interpretation, and specify the contact points for inquiries on regulations. Networking events with foreign firms or training workshops on the legal restraints of those firms have also been held, indicating gradual advancement in the above issues, and further development is thus requested.

(3) With the amendment of environmental protection law, the penalties against companies’ violation of the law have been enhanced, and Japanese firms will also make good-faith efforts toward legal compliance. To enable companies’ proper compliance with the law, operation of the law is sought on the basis of a unified standard for companies regardless of whether they are domestic or foreign firms. In particular, the operation of the law, such as surveillance or crackdown by local governments, should not be arbitrarily handled by the persons in charge. Enforcement of new regulations should be addressed with necessary consideration, such as ensuring consistency with the Guo Biao (GB)（国家标准）and database (DB)（地方标准）by local region or department and by taking moratorium or transitional measures on the application to preexisting facilities. It is sometimes difficult to switch the fuel to one complying with environmental standards within the moratorium owing to infrastructure unavailability, such as natural gas. Thus, consideration should be made for infrastructure development before firms implement regulations from issued warnings. Strengthening discipline within violating companies and applying penalties are desired with cooperation between the central government, local governments, and environmental nongovernment organizations.

(4) Setting the targets for energy savings or reducing contaminant emissions should be addressed by comprehensive political measures with a wider perspective. For example, some companies have difficulty in making investments to increase their production because of the total volume control (总量控制) of the emission of contaminants, including greenhouse gas, and discussion is required to apply primary unit control (控制单位能耗), instead of total volume control, in order to not have negative effects on the activation of necessary investments. It is also requested to give preferential treatment to companies that
are remodeling or upgrading their equipment for energy savings or environmental improvement, provide such companies with financial support, to reduce differences in legal operations, and consider differences in the capability of each firm regarding the speed of investment in equipment. It is also requested that preferential treatment be discussed for companies that have obtained certifications such as ISO. The procedure to provide subsidies from local governments is currently relatively simple, leading to early approval, while that from the municipal, provincial, and national governments is complicated, associated with late approval. Therefore, it is desired to integrate and simplify the procedures, including those for materials application and those that accelerate such assessment.

(5) Since the ongoing labelling system related to issues regarding energy savings and the environment (节能环保标志制度) requires a longer time and substantial costs for certification, examination, and labelling, the system should be streamlined. For example, it is preferable to use one kind of label that states an “environment-conscious product” or that allows mutual certification between multiple areas. The schedules should be arranged in consideration of the time required for companies to handle duties, and the companies should be encouraged to firmly comply with the schedule. To disseminate such environmentally conscious products, disclosure of information such as planned targets or results on the amount of government procurement is requested.

(6) Disposal of hazardous wastes needs to be outsourced to qualified waste disposers, but they lack the ability of disposal, and bringing such waste outside cities requires approval at the destination. Consequently, such a situation has a negative effect on the activities of Japanese firms. Thus, needs for disposal should be understood according to the 46 categories of hazardous wastes to immediately invite waste disposers to the areas or the waste categories with higher demands for disposal. Assessment procedures for waste transfer outside cities or municipals should thus be simplified as much as possible, and measures for relaxing regulations or offering incentives for in-house recycling of hazardous wastes should be offered.

(7) The ordinance for use restriction on hazardous substances for electrical equipment (Chinese version of RoHS).
   - The ordinance for controlling contamination in electrical equipment was replaced on July 1, 2016, with the ordinance for the use restriction on the use of hazardous substances for electrical equipment. The target products of the compliance assessment system (target products specified in the “List to manage target achievements of the law for use restriction on hazardous substances for electrical equipment” ("电器电子产品有害物质限制使用达标管理目录") are planned to be defined separately. When these target products are considered established, added, and increased in number, foreign companies should be made fully aware to ensure transparency and fairness in system formulation procedures.
   - When the target products are considered established, added, and increased in number, a sufficient moratorium, until the enforcement is requested, should be set to recognize the time required for companies to address the target products.
   - In enforcing the compliance assessment system (including the certification system), it is important to attempt to alleviate the burden on the business of domestic and foreign firms or the whole supply chain and to efficiently implement the system of reducing noxious substances. For this purpose, it is desirable to introduce a mechanism allowing producers themselves to prove compliance (self-declaration of compliance), as seen in developed countries. For example, an optimal system for China must be developed with reference to the systems in Europe.

(8) The ordinance for collecting and disposing electric products (Chinese version of WEEE).
   - The recycle system contains some nontransparent conditions, such as the basis for setting (determining) the amount of the recycling fund, the actual state of disposal, the payment of subsidies, and the other uses of the funds. Thus, disclosure of such information is requested to ensure fairness.
   - The additional target products would be applied on March 1, 2016. It is requested to allow the target products, including the additional ones and the base amount of collection; reflect the actual state of disposal; and ensure the fairness of the system. It is also sought to manage the fund by
product, review the amounts of the subsidies and the collection in order to match it with the actual state, and also appropriately review the target products in consideration of possibly deleting some.

- To ensure the fairness between waste recycling firms participating in the system, the subsidies should be promptly paid in order to certify waste recycling firms.
Chapter 8 Technology Standards and Certification

Current condition of technology standards and certification

Trends relevant to technology standards and certification in China

The number of national standard (国家标准) reported by the Chinese government in 2016, the first fiscal year of the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), was 1,763 (lower than that of the previous year by 9%). Among them, the compulsory standards were 23, recommended standards were 1,712, and technical guidance documents were 28. As of the end of 2015, the total number of the national standard (国家标准), industry standard (行业标准), and local standards (地方标准) was 116,000.

Trends regarding the amendment of the “Standardization law (《标准化法》)”

The ongoing standardization law was issued and enforced in 1989, and has been already implemented for more than 27 years. The amendment work for the standardization law was started in 2002 by the national standardization management committee (国家标准化管理委员会), which passed the proposal for amendment for review at the State Council (国务院) at the end of 2015. The State Council (国务院) invited public comment on the amendment bill of the standardization law between March 22, 2016, and April 21, 2016. The bill passed deliberation by the standing committee of the State Council (国务院) and then started to be deliberated by the standing committee of the National People’s Congress on February 22, 2017.

Reform of the standardization system

The State Council (国务院) officially announced the “Notice of the action plan to thorough deepening of the reform of standardization projects (2015–2016) (《贯彻实施＜深化标准化工作改革方案＞行动计划（2015-2016年）》的通知) (hereafter, referred to as ‘notice of action plan’)” in August 2015, and the “Plan for construction and development of the national standardization system (2016–2020) (《国家标准化体系建设发展规划（2016-2020年）》)” in December 2015. These plans presented an entire blueprint on the direction and development of the standardization project for deepening reform of the standardization project in the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划). This reform of the standardization project comprises the construction of the mechanism for overall standardization adjustment, as well as the following five main aspects: (1) integration and simplification of the mandatory standards (强制性标准), (2) improvement and development of the recommended standards, (3) support of the standardization organizations to the developed standards, (4) regulation relaxation and activation of corporate standards, and (5) improvement in the international level of the standards. The details will be explained below.

Integration and simplification of the mandatory standards 《强制性标准整合精简工作方案》

The Chinese mandatory standards were conventionally established by the three organizational layers of each of the national government, relevant industries, and local governments. Though many industry standards and local standards are already present, they conflict with or overlap with the national standards. The notice of the
action plan indicated that the future direction of the reform aims to unify the compulsory standards with the national standards and limit the range of compulsory standards to human health and life, the safety of property, the safety of the nation, and the safety of ecological environments. Meanwhile, the industry or local standards are planned to be gradually abolished. For the standard of the chemical industry, trial projects were developed on integration and simplification of the compulsory standards by the national standardization management committee, the department of industrial informatization, and the department of agriculture. The compulsory standards were then streamlined and assessed by the department of national resources, the department of environmental protection, and local agencies in Zhejiang or Chongqing. After the completion of these processes, the findings on the trial projects for the integration and simplification of the mandatory standards were organized at the end of 2015, and the work plan for the “Integration and simplification of the mandatory standards (《强制性标准整合精简工作实施方案》)” was issued by the State Council (国务院) in February 2016.

**Improvement and development of the recommended standards**

According to the action plan notice, the number and size of the preexisting recommended standards (《推荐性标准》) will be gradually reduced, and the subjects of those standards will be properly categorized by layer or field. The ongoing national, industry, and local standards will also be intensely reviewed, and they are not suitable operationally. Those with conflicts or overlaps between layers will then be unified and revised. In addition, such standards are largely different from international standards, and those not already matched with the development conditions in the industry or technology will be gradually revised. The action plan notice also attempts to optimize and simplify the procedures for the establishment or revision of recommended standards, shorten the cycles of such establishment and revision, improve the quality of such standards, and streamline such establishment and revision.

**Support of the standardization of organizations to develop standards**

Since no standards for the standardization of organizations have been present in the current Chinese system of standards, support of such organizations represents an important measure in the current Chinese reform of standardization. The Chinese government is planning to improve standards in the future, by encouraging private organizations, such as qualified academic societies, associations, and chambers of commerce, and industrial technology alliances, to collectively establish standards through coordination with relevant market players. The government does not include the standards prepared by standardization organizations in the subject of administrative approval, considering that standards should be voluntarily established and published by private organizations or industrial technology alliances. Meanwhile, government agencies will take necessary measures, such as developing norms, guiding, and supervising on the standards of standardization organizations.

**Regulation of the relaxation and activation of corporate standards**

Companies have been previously required to notify the supervisory departments of corporate standards (企业标准) establishment. As a prioritized issue in the current reform of standards, the government is attempting to gradually abolish the notification method that has been applied to corporate standards and to replace it with a system of companies’ self-announcement and disclosure of such standards and the government’s supervision of such standards. In 2015, the national standardization management committee developed a platform for public information service of corporate standards (企业标准信息公开服务平台). Its trial projects have been conducted for 13 fields—such as stone material, synthetic panel, medical products, and home appliance—in seven provinces or cities, such as Shanghai, Fujian, and Shandong. These projects, based on those conducted in 2015, will also continuously be extended and deepened in 2016, and the system of self-announcement and disclosure (自我发布及公开制度) of corporate standards will be thoroughly enforced in 2017.
Improvement in the international level of standards

The 12th Five-Year Plan stated that the Chinese government will actively promote international standardization, and it is actually working on harmonizing domestic standards with international ones. As of the end of 2015, China has already acted as a permanent member of the International Standards Organization (ISO), the International Electrotechnical Commission (IEC), and the Technical Management Board of the ISO, and Chinese experts have assumed such posts, as the chairperson of the ISO, the vice chairperson of the IEC, and the secretary-general of the International Telecommunication Union. During the period of the 12th Five-Year Plan, the number of the international standards that were submitted or formulated by China and based on Chinese technologies or standards was as many as 102, and the number of the international standards established or issued on the initiative of China was 86. In 2015, a Chinese expert became the president of the ISO for the first time as a Chinese (term of office, 2015-2017). As of the end of 2014, the number of standards adopted as international standards accounted for approximately 40% of all the 30,680 Chinese national standards. China is further attempting to improve the level of international standardization or increase its share. It plans to promote the internationalization of Chinese standards, further enhance its ability to participate in the international standardization projects, and continuously increase the number of technology organizations that play a role in international standardization. Specifically, the percentage of international standards in which China participates in or leads aims to be involved in will increase to 50% by 2020, with all the international standards established or revised in 2020. The proportion of Chinese standards in the field of consumer products that are consistent with international standards is also planned to increase from the current proportion of 90% to 95% in 2020.

Rules of patent management related to national standards

The “Rules of the management of patents related to national standards (tentative implementation)” (《国家标准涉及专利的管理规定（暂行）》) was enacted on December 19, 2013, and enforced on January 1, 2014 by the national standardization management committee and the Intellectual Property Bureau (知识产权局). The purpose of the establishment of the rule is defined as preparing rules for the management operations of national standards, encouraging innovation and technological advancement, and ensuring the reasonable adoption of new technologies for national standards. The purpose also includes protecting the legal interests of the public, patent owners, and relevant right holders and guaranteeing the effective implementation of national standards. In 2012, before the establishment of such rules, public opinion was invited and revealed that the definition of terms or the procedure were partially unclear, and further clarification attempts should be coordinated with the patent policy (for example, the common patent policy for the International Telecommunication Union (ITU), ISO, and IEC) specified by the standardization organizations. A written statement was then submitted by the Japanese Chamber of Commerce and Industry in China, but has not been currently fully adopted. As the administrative instruction for these rules, the “GB/T2003.1 first section of the special procedures for establishment of standards, the standards related to patents (GB/T2003.1《标准制定的特殊程序 第1部分：涉及专利的标准》)” has been enforced since May 1, 2014, it is important to focus on future operation of the rules.

Individual cases (related to information security)

Information security assessment system for information technology (IT) products

The information security assessment system (信息安全审查制度) for IT products includes products added to the targets of the China compulsion certification (中国强制认证制度) (CCC) system in May 2010. Although it is problematic to disclose source coding during the certification process, the system was enforced with
Disclosure limited to the government procurement. However, with the enhanced operation of the Multi-Level Protection Scheme (《信息安全等级保护管理办法》) (MLPS), which was issued in June 2007, and stricter security requirements were imposed on some targeted operation systems, other than those of the government procurement. Thus, concerns were raised about the possibility of applying an assessment system with a similar level to that of the CCC. In an attempt to enhance the assessment of and regulations regarding the information security technologies or operation systems, instructive statements were issued for the telecommunication or internet industries (《加强网络安全的指导意见》) in August 2014 and for the banking industry in September 2014. Similarly, a draft of the management rules for insurance informatization was announced in October 2015.

In this situation, as the basic law for information security, the China cybersecurity law (《中华人民共和国网络安全法》) was issued in November 2016, and was to be enforced in June 2017. This law had provisions regarding the implementation of the system to protect cybersecurity by level, compliance with relevant national standards, and the duties of system suppliers to continue services. This law also specified the intense protection of important information infrastructure, including public telecommunication and information services, energy, transportation, finance, and others, as well as restricted operators from providing data outside China. The specific contents, including the target or inspection system, appeared to become clear in the future with the establishment of ordinances, rules, guidelines, and national standards. The IT products and services or their providers could undergo strict security assessment for their system designs.

**Ordinance of managing commercial encryption (《商用密码管理条例》)**

An ordinance was introduced in 1999 requiring application and approval for bringing encrypted products produced abroad into China or for using them. The target products are currently limited to specialized equipment or software used mainly for encryption and decryption. The national department of encryption management (国家密码管理局) stated that the ordinance of managing commercial encryption would be amended in 2011, but no amendment has been enacted at the time of this report.

**<Proposal>**

For the discussion on the amendment of the standardization law, the development to improve the system is highly valued, such as the integration of the compulsory standards, coordination between various standards, and establishment of the standard for each industry. To allow continuous increases in the transparency in the manner of international openness, ensure of fairness, and improve the systems or operations that could interfere with innovation, the following items were requested:

**<Improving the transparency and ensuring the fairness in the system design process>**

Since the amendment process or the contents of the standardization law and its system affect all industries and are of major concern to them, improvement in transparency was requested.

1. It was sought to prevent confusion caused with the interpretation of the national standards or operation of the systems, increase the transparency of the procedures for the certification or tests, and to streamline such procedures.

2. In the process of formulating public standards, such as national or industry standards, a distinction of membership qualification or the membership fee was still recognized between domestic and foreign firms. Thus, there was uneven treatment of the providers of standards, as well as a lack of transparency in the operation method. It was desired to disclose the process of formulating or revising standards in principle and to allow foreign companies to participate in the standardization technical
committee (标准化技术委员会) or the standardization formulation work group (标准制定工作组) under the same conditions of Chinese firms. These measures aimed to facilitate the participation of foreign firms, which would lead to increases in transparency and fairness.

(3) When implementing mandatory standards or certification, companies were influenced by information such as rules, internal letters, interpretation, information on explanatory meetings, and general questions and answers (frequently asked questions). Such information, not only conveyed in meetings but also issued immediately and officially on the website of all relevant agencies or departments, was desired. The standards of a new field were also to be addressed by early clarification of the department that formulates them and by the integration of contacts for suggestion.

(4) A sufficient moratorium was requested between the day of standard issuance and its enforcement. In particular, for mandatory standards, a moratorium of one to two years was to be ensured from the day when the standard was officially available to everyone.

<Improvement in the contents of standard as a basis of innovation>

(1) Some standards set test conditions or target values that cannot be achieved under real circumstances, and they set high ideal values. It was requested to avoid formulating standards that require excessive performance or that contain too many details, as well as that promote the streamlining of standards through their integration and abolishment. The standards, without taking into account technical levels or social circumstances, could interfere with technology advancement or free competition, and they do not fit the direction of Chinese policy to promote innovation.

<Chinese certification scheme for information security products>

(1) The China cybersecurity law was issued on November 7, 2016, and enforced on June 1, 2017, and the specific contents of the law became clear with the separate establishment of ordinances, detailed rules, and standards, according to the explanation by the Office of the Central Leading Group for Cyberspace Affairs. To flesh out the law, it was desired to give consideration to the formulation or operation of the system, so that the opportunities to express opinions were provided to concerned parties, including foreign companies, which should not be treated differentially.

(2) To prevent unfair differentiation of foreign companies, it was also strongly requested to improve the operation of the Chinese certification scheme for information security products (CC-IS) and the MLPS, which have been in force until now, although the relationship between these schemes and Chinese cybersecurity law remains unclear.

(3) Regarding the cybersecurity regulation system, consideration was sought for the design and operation of the systems so as not to interfere with development of new businesses, such as cloud services or unfairly differentiated foreign firms in such fields.

(4) It was requested to value the explanation by the Chinese government in 2,000 in operating the regulations of managing commercial encryption and ensure the transparency and fairness of the procedure, as well as fully consider the opinions of Japanese industries in amending the ordinance.
Chapter 9 Logistics

The Chinese economy has been continuously referred to as “slowdown,” and the real GDP in 2016 was higher than that in 2015 by 6.7%, indicating sluggish growth rate for a consecutive six years. Adopting the slogan of “new normal,” the Chinese government has attempted to make a soft landing on the path of stable growth, having set a target between 6.5% and 7.0%, the same range in which the actual performance was realized. In reaction to the results, the Chinese government acknowledged a certain effect of the series of policies based on some opinions, but uncertainty has also been noted for an unbalanced economy with weak private investment supported by public investment. The consumption that should serve as the engine of growth remains strong, as the figures show, and it has considerably contributed to GDP. However, signs of decline are also seen in the growth momentum as compared with that in 2015, indicating that the level of consumption has not been raised smoothly. The government is required to carefully assess the movement of the economy, whose growth is expected to continuously decelerate after 2017, and it is expected to swiftly and flexibly respond to changes in the business environment. A switch from quantity to quality is the challenge imposed, not only for the government, but also for private companies.

Situations surrounding logistics

External environment

The amount of both exports and imports in 2016 was lower than that in 2015, and the total amount of both exports and imports declined for the second year in a row, though the range of reduction was smaller than that in the previous year. The decline in exports appears to be attributable to external factors that delayed the recovery of the world economy and stagnated the growth of external demand. It has also been noted that internal factors increased manufacturing costs associated with rising labor costs, which lowered the competitiveness of Chinese products, and thus, reduced exports more remarkably than did internal factors.

Table 1. Comparison of total imports in China (unit: 0.1 billion dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports Amount</th>
<th>From the year earlier</th>
<th>Imports Amount</th>
<th>From the year earlier</th>
<th>Total of exports and imports Amount</th>
<th>From the year earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>20974</td>
<td>-7.7%</td>
<td>15874</td>
<td>-5.5%</td>
<td>36849</td>
<td>-6.8%</td>
</tr>
<tr>
<td>2015</td>
<td>22765</td>
<td>-2.8%</td>
<td>16820</td>
<td>-14.1%</td>
<td>39586</td>
<td>-8.0%</td>
</tr>
<tr>
<td>2014</td>
<td>23427</td>
<td>6.1%</td>
<td>19603</td>
<td>0.4%</td>
<td>43030</td>
<td>3.4%</td>
</tr>
<tr>
<td>2013</td>
<td>22096</td>
<td>7.9%</td>
<td>19504</td>
<td>7.3%</td>
<td>41600</td>
<td>7.6%</td>
</tr>
<tr>
<td>2012</td>
<td>20489</td>
<td>7.9%</td>
<td>18178</td>
<td>4.3%</td>
<td>38668</td>
<td>6.2%</td>
</tr>
</tbody>
</table>

Source: Adapted from materials of the national economy and social development statistics bulletin in 2012/2013 and the China Customs statistics

Given the stagnation of trade, which has led the Chinese economy until now, expansion of the market is the essential factor that has maintained steady growth. However, per-capita GDP remains lower than that of developed countries, with a large gap between rich and poor countries, indicating that expected growth has not been achieved. Although the proportion of the tertiary industry to GDP in 2016 has exceeded 50%, which is larger than that in 2015, the economy seems to be facing a turning point—hereafter, the full development of the service industry that would raise consumption. The freight transport volume changed to increase the weight basis in 2016 for all transportation except for the rail transport, but the volume of rail transport measured as tonnage multiplied by distance was also positive. The total rise and fall in the rail freight transport volume largely depends on coal transport, and thus, it does not always sensitively respond to the momentum of internal demand. Given the increase in the motor freight transport and advance in the development of the transportation network, the movement of goods associated with consumption activities
seems steady. However, as consumption in China is continuously decelerating, something new to spark consumption is required. Under this situation, the market of electronic commerce (EC) has attracted attention as a source of expansion of internal consumption, and Japanese companies are successively participating in the field of cross-border EC to seek new opportunities.

### Table 2. China’s freight transport volume by transportation in 2016

<table>
<thead>
<tr>
<th>Transportation</th>
<th>Freight transport weight (unit: 0.1 billion tons)</th>
<th>Freight turnover volume (unit: 0.1 billion tons × kilometers)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Weight From the year earlier</td>
<td>Turnover volume From the year earlier</td>
</tr>
<tr>
<td>Train</td>
<td>33.3 −0.8%</td>
<td>23792.3 0.2%</td>
</tr>
<tr>
<td>Car</td>
<td>336.3 6.8%</td>
<td>61211.0 5.6%</td>
</tr>
<tr>
<td>Ship</td>
<td>63.6 3.7%</td>
<td>95399.9 4.0%</td>
</tr>
<tr>
<td>Pipeline</td>
<td>0.067 6.0%</td>
<td>221.1 6.3%</td>
</tr>
<tr>
<td>Total</td>
<td>440.4 5.3%</td>
<td>185294.9 4.0%</td>
</tr>
</tbody>
</table>

Source: Adapted from materials of the national economy and social development statistics bulletin in 2016

### Policy

Among the successively announced actions for each field of the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), the plan related to improvement of the logistics environment was specifically presented. That is, logistical improvements were envisioned in such a way as to encourage the development of the transportation network including railway or freeway and TO, and thereby promote the enhancement of the relationships with surrounding countries, along with the integration of areas and the “One Belt, One Road” initiatives. In addition, since the home-delivery companies are rapidly growing in association with the popularization of EC businesses, attempts to further grow or to improve the service of such companies was also stated in the Five-Year Plan. A new measure was also announced by the government to unify the standards to crackdown on the illegal alteration or overloading of freight vehicles, indicating an advancement of infrastructure development in terms of both hardware and software. Such conditions provide opportunities that could allow Japanese firms to utilize the quality of their products and their networks in order to gain a competitive advantage. At the same time, they will be further required to have a sense of speed and flexibility to catch up with the rapidly changing social conditions.

### Proposal

1. **Streamlining the operational standards of customs and quarantine**
   In promoting the integration of customs procedures in each area across China, the system itself has become more convenient. However, the actual practice of the system includes problems such that some detailed rules on operation remain unclear, and the interpretation varies depending on area or person in charge. Operational standards should be developed with a focus placed on strengthening collaboration between areas or departments in the process of streamlining application procedures and operations integration.

2. **Improving the convenience of FTAs**
   The procedures of import and export where FTA is utilized are sometimes associated with such problems as extended periods to obtain necessary vouchers that lead to delays in the procedures, as well as a complicated application process or inconsistency in the rules interfering with the use of FTA.

3. **Improving the quality of cargo handling at container freight station**
   Import and export cargoes handled at container freight stations at airports and harbors are often damaged by designated operators’ rough handling, and they have created problems such as contamination or loss.
of commercial products, as well as improper packing after inspection. It is desired to improve the quality of cargo handling and to increase efforts to relax regulations on the access or presence of logistics service providers.

(4) Improvement in customs and quarantine systems
The systems of customs and quarantine are being upgraded. However, some of them cannot catch up with the advanced regional customs integration (区域通关一体化), and given that with system levels and settings vary depending on area and given that there are frequent delays in processing owing to system malfunctions, such integration deficiencies pose obstacles for the application procedure. Consideration regarding efficiency, stability, and versatility is requested in developing appropriate systems.

(5) Improvement in handling hazardous items
Restrictions in handling hazardous items have been enhanced for transportation. However, the contents of such regulations have not been specified, and the point of view in handling such items varies depending on area or authority, such as customs or quarantine, concerned. These conditions have created an inconvenience in arrangements for transportation, changes in the means of transport, and increases in logistics cost owing to transfer to other areas. Considering the influences on the actual business practices, proper relaxation of regulations and transparent operations is requested.

(6) Simplification of the procedures for import and export of unaccompanied goods
Rules on the import of unaccompanied goods require an import license (to open packages). Importers should thus obtain working papers and residence permits in advance. However, the valid duration of each license still varies by area, and there are many other regulations on the customs of unaccompanied goods that create inconveniences. Immediate simplification of the procedure and integration of operational rules is desired.

(7) Measures for overloading
New rules on freight vehicles were put into force in September 2016, and they established the standard for regulating alterations and overloading. The law is expected to control overloading of transport vehicles, while concerns on such problems that the law might be executed by various or unfair methods have been raised, and the regulation might cover container-transporting vehicles. Fair and reasonable operation of the rules has been requested.

(8) Reasonable operation of traffic regulations
Although differences have been presented between areas, traffic is controlled in a planned manner, with restrictions on car use based on the last digit of the license number similar to measures to alleviate air pollution or traffic jams. Meanwhile, with a short period of advance notice, temporary traffic controls in association with official events can still sometimes be seen. Traffic control is sought to be performed in a planned and reasonable manner, considering its effect on economic activities.

(9) Further improvement in the road traffic environment
Although development has been noted on major roads, for inner-city road networks, as well as for highway rest areas, no large effect on traffic congestion relief has yet been seen in urban areas. Logistical infrastructure issues include delays in cold chain development, for which intense measures should be taken. In addition to the development of collateral infrastructure, the well-balanced development of the road traffic environment, such as easing traffic congestion or enhancing safety measures, must be promoted.

(10) Further expansion of rail freight transport
Along with the promotion of the “One Belt, One Road” initiatives, the development of cross-border rail transport that departs from or arrives in China is being advanced. Rail transport shows a stable operating frequency and schedule, and it is closing the gap with sea transport in costs, showing improvement in its convenience. Measures have been requested to be taken to improve the environment for consolidated transport or reduce the running cost, so that rail transport becomes more easily available.
Chapter 10 Government Procurement

The Chinese government procurement in 2016 continuously focused on the public-private partnership (PPP) model, showing that stable development has been generally maintained. Meanwhile, large changes have been seen in the Chinese government procurement on issues such as information platform construction and procurement process improvements. More specifically, information on or the process on government procurement has been promoted, and its transparency has been improved. Punitive measures against violations of such rules on government procurement have also become further clarified and effective. However, because of the special nature of government procurement, it remains difficult and uncertain for foreign companies to fully participate in the market, and thus, attention to solving this participation problem has arisen.

Relevant formulated policies and movement in 2016

Forum for the China and the EU Agreement on Government Procurement (WTO) 《政府采购协定》and the dialogue between them held in Beijing

On October 25, 2016, the GPA forum was jointly held by the Chinese Ministry of Finance and the general department of internal markets, industries, and start-up companies, along with small- and medium-sized businesses of the European Union. A dialogue on central government procurement was also held in Beijing on October 26, 2016. Both parties mutually explained the policies and laws, the conditions of the implementation, and innovative methods related to government procurement within their countries, with cooperative consultation held on China’s inclusion in the GPA.

Prospect of accelerated participation of private capital in the government procurement investment

The PPP model showed further development in 2016. The Ministry of Finance promoted the PPP model in the fields of investment construction and operational management on pollution prevention, toll roads, public service, and public rental housing. Consequently, on August 10, 2016, the National Development and Reform Commission (国家发展和改革委员会) issued “a notice on the thorough collaboration of the government and social capital for the field of conventional infrastructure (《关于切实做好传统基础设施领域政府和社会资本合作有关工作的通知》),” clearly specifying seven broad categories, including energy, transportation, water resources, environmental protection, agriculture, forestry, and important municipal government construction. In addition, preparation for many paths for disinvesting PPP projects were suggested, including the share transfer or asset securitization that utilizes various markets where property rights or stocks are traded. The aim was to increase the flexibility of PPP projects, to attract more participation of private capital, and thereby, to ensure that reasonable investment income or multilateral withdrawal mechanisms were built.

In addition, on May 30, 2016, the Ministry of Finance and the National Development and Reform Commission (国家发展和改革委员会) jointly issued “a notice for better joint promotion of relevant operations of PPP (《关于进一步共同做好政府和社会资本合作（PPP）有关工作的通知》),” which focused on building and developing reasonable investment income mechanisms and improving the financial efficiency of the PPP project. With the successive issuance of the series of policies, more private capital was expected to be attracted to the government procurement market.
Issuance of “the instructive opinion on the enhancement of internal control of government procurement activity” (《关于加强政府采购活动内部控制管理的指导意见》)

The “Instructive opinion on the enhancement of internal control of government procurement activity was issued by the Ministry of Finance on June 29, 2016, which presented fundamental principles on the internal control of government procurement activity. It advocated a simultaneous achievement of issues, such as full-scale control and concurrent activities by multiple bodies, balance in the divided operation and emphasis placed on an operation’s efficiency, and equality in responsibility and authority as well as punishment in accordance with the law. Specific measures for internal control included the following issues: enhancing the total internal management and internal supervision by the authority concerned, defining the rights and obligations by each procurement agency, ensuring a reasonable distinction of duties and obligation of subjects by each agency, establishing a healthy mechanism for internal decision making on procurement items and internal assessment systems, defining the work deadline for each step of projects, increasing the efficiency of procurement, enhancing the management of conflict of interest, and strictly implementing the system for its avoidance.

Monetary size of government procurement throughout China in 2015 was about 2 trillion 107.1 billion yuan, first exceeding 2 trillion yuan

The aggregate data on the government procurement across the country in 2015 was officially announced on August 11, 2016, showing that the size of government procurement across China in 2015 was about 2 trillion 107.1 billion yuan, first exceeding 2 trillion yuan. It was an increase of approximately 376.5 billion yuan from the year before, with an increase of 21.8%. The huge market of China’s government procurement attracted a growth amount of private capital, which required a simplification of administrative procedures and transfer of power. To meet requirements, the government procurement authorities actively instructed procurement methods that were suitable for each region, and they then achieved consistent promotion of development of small- and medium-sized companies and foreign firms. Such achievement reflected, for the first time, the effect of its procurement policies.

Building a credit assessment system of government procurement and information platform

“A notice on the issues of reference to the credit record of government procurement” (《关于在政府采购活动中查询及使用信用记录有关问题的通知》) was issued by the Ministry of Finance on August 1, 2016, and included the following requests. A mechanism to use and reference the credit record of government procurement should be created to accelerate the building of a credit assessment system for government procurement, and actively operate joint disciplinary duties in the field of government procurement. Some suppliers might be registered on the lists of those who lost credibility and who became subject to disciplinary proceedings. Such suppliers committed a serious violation of tax laws, committed serious misconduct and lost credibility on government procurement, and did not meet other requirements of government procurement. They should be banned from government procurement activities. Agencies, which were recorded as poorly credible, owing to their bribery or false impersonation, should not be assigned as experts for assessment and review. Instead, suppliers with clean credibility records should be preferentially selected. If agencies committed misconduct that made them lose credibility in the past, the data on misconduct will be recorded on a unified platform for credibility information. Additionally, a mechanism for sharing the data on the platform will be gradually developed, and automated sending and receiving, referring, and utilizing of the credibility information will be realized.

Prospects for 2017

Various measures would be continuously taken for joining in GPA
Various possible causes of not including China in the GPA should be fully examined, and certain adjustments should then be realized. China should be encouraged to have interaction with other participants and to have maintained the mutual cooperation to actively seek understanding and support. China is also required to further open the government procurement market, as it is dominated by government-owned companies or created by municipal or provincial government, offers a large-scale project of developing infrastructure, including to agencies for government procurement. Consideration would be focused on such issues at the time of including China in the GPA.

Guaranteed by such policies, more private capital is encouraged to participate in government procurement

Since the Chinese government has already issued its policies on building an improved and reasonable mechanism to obtain income from investment, as well as a multilateral withdrawal mechanism, more private capital is expected to be introduced to the government procurement market. In 2017, the Chinese government needed to issue more detailed and feasible relevant policies and provide guarantees for the participation of private capital in government procurement at the system level.

Proposal

(1) Requests for the accelerated negotiation of participation in the WTO “Agreement on Government Procurement (GPA)”, which would lead to early participation of China’s GPA

Since the submission of the sixth offer to join the GPA by Chinese government in 2014, no progress has actually been seen in the government’s attempt to join the GPA. The dialogue between “China and the EU on government procurement and the forum for GPA between them” was held in Beijing from October 25–26, 2016. These activities represented China’s intention to join in the GPA and its effort to advance the status by the Chinese government and to thus be valued. Although a series of government-owned companies was mentioned in the sixth offer by Chinese government, other member countries of the GPA have not completely approved the range of companies or the base procurement amount. Since Chinese participation in GPA has not been realized, Chinese companies are not able to participate in government procurement in other member countries (such as the United States and the EU). Considering all aspects, the Chinese government must more actively promote the negotiation for participation in the GPA in order to promptly succeed.

(2) Request for continuous extension of the PPP model and the range of other government procurements, as well as the encouragement of foreign firms to participate in government procurement

The PPP projects and other government procurement markets have recently been growing day by day, and data showing their growth reflect the size of the Chinese government procurement market. On August 10, 2016, a notice on thorough collaboration of the government and social capital in the field of “conventional infrastructure” was issued, and it specified some fields in which priority projects should be promoted. The issuance of the notice was appreciated, as it was helpful in attracting interest in government procurement from a greater number of companies. However, the Chinese government’s procuring activity has still placed restrictions on foreign companies and excluded imported products. With the range of government procurement continuously extended by the Chinese government, it is desired to guarantee the rights of equal participation in government procurement to foreign firms, and thus, to invite more foreign firms into the Chinese market.

(3) Incorporating the Department of Government Procurement into the negotiations on Japan–China–Korea Free Trade Agreement (FTA) and the East Asia Regional Comprehensive Economic Partnership (RCEP)
The negotiations on the Japan–China–Korea FTA and the RCEP have facilitated trade liberalization efforts in fields such as trading of goods or investment in the East Asia region, including both Japan and China. Mutually opening the government procurement markets in order to allow foreign companies to enter into them would reduce the procurement costs for agencies of their own and lead to the prevention of corruption and bribery in government procurement to a certain degree or enable the action demonstration of the regulatory effect of the market. It is requested to incorporate the Department of Government Procurement in the negotiations on the Japan–China–Korea FTA and the RCEP, and to thus open wider government procurement markets in which local governments or state-owned companies are included.

(4) Request for the launch of a platform for the relevant information of government procurement and for consideration given to full demonstration of the important role of the Internet on government procurement

Some information platforms have currently been used, including the platform to announce the purchase service information by the central authorities, the Ministry of Finance’s system for management of government procurement, and the system for experts’ supervision to assess and review government procurement. Since the launch of these information platforms, the efficiency of government procurement has been increased to a certain extent, and government procurement actions have become more normative with increased transparency. It is desirable to continuously build the electronic trading platforms for government procurement, gradually realize the sharing of resources for government procurement, and achieve enhance the supervision and computerization of government procurement.

(5) Others

• It has been requested that fairness be realized in the system for each company entering the government procurement market, regardless of whether a company is domestic or foreign. For this purpose, measures should be taken to reduce foreign firms’ burden in entering the government procurement market, match requirements to submit vouchers for foreign firms with respect to domestic ones, reduce the renewal frequency of relevant documents, and set longer time periods to prepare materials.
• Employees of the Chinese government often limit their purchase of airline tickets with respect to employees of Chinese airline companies when they travel abroad on official business. They should be encouraged to decide among airline companies, based on factors such as price, safety, and service, and remove the limitation on foreign airlines in order to allow airlines to join market competition on an equal basis.
Chapter 11 Chamber of Commerce Organizations

Problems with chamber of commerce organizations

The chambers of commerce of foreign countries in China are supervised by the temporary rules of management of foreign chamber of commerce (《外国商会管理暂行规定》), which approve the presence of only one chamber of commerce by country. Therefore, the Japanese Chamber of Commerce and Industry in China located in Beijing is the only organization of the Japanese chamber of commerce that is approved by the Ministry of Civil Affairs, while many other organizations of Japanese chamber of commerce have not been authorized.

In China, 40 chambers of commerce comprise Japanese companies that have moved into the Chinese market. Each of them is operated independently, and play an important role in activities such as mutual assistance between the member companies, interaction with local governments, support for business development of member companies, and contribution to local societies. For reference, the chambers of commerce with a large number of member companies are described in descending order of number as follows; Shanghai (2336), Dalian (747), Hong Kong (675), Beijing (662), Guangzhou (616), Suzhou (604), Shenzhen (434), and Tianjin (401) (adapted from materials on the nationwide exchange meeting for Japanese in 2016). In addition, the number of Japanese living in China was 131,161 as of October 2015 (adapted from the statistics of Japanese living overseas by the Cultural Policy Division, Bureau of Consular Affairs, the Japanese Ministry of Foreign Affairs), and many of them are employees of Japanese companies, and their families.

These chambers of commerce organizations attempt to realize companies’ smooth business activities in the fields of manufacturing, trade, and service, with various support and cooperation. They thus aim to contribute to the development of economic societies in China, deepening of bilateral relationships between Japan and China and the development of the global economy.

Some issues that should be supported with specialized technical knowledge are addressed through information exchange or discussion within small groups, which have been independently organized by member companies of the organizations of Japanese chambers of commerce. Such activities develop into interactions beyond the borders of local regions in some cases. For example, the group of intellectual property rights (i.e., trademarks, patents) shares information with Beijing, Shanghai, and Guangzhou to deepen cooperation and engage in integrated activities for the further achievement of outcomes. The chemical product industry group has actively interacted and talked with the Chinese authorities concerned, with the aim of smoothing the business development of the companies in the industry. The life science industry (medical products, medical equipment, and cosmetics) has also shown accelerated interactions with the Chinese authority. They are making effective efforts in succession, having realized that the interactions and dialogues between both Japanese and Chinese government officials in discussing policies or measures can have a significant impact on business in each field.

Such activities are not just beneficial for Japanese firms, but have had great significance for the public interest in enhancing and improving the business of Chinese companies and people’s lives. Japanese companies are thus encouraged to build close cooperation with the central government and local governments in China, as well as the authorities concerned. It would be fortunate if each concerned Chinese authority could actively set up opportunities to have dialogues or interactions with Japanese industries.

Each chamber of commerce organization conducts activities with a social contribution serving a higher public interest in their own regions, such as contributing to afforestation projects, engaging with businesses inviting and dispatching Chinese individuals to Japan operations, donating to social welfare funds, and supporting earthquake victims. In addition to the information and knowledge gleaned from such activities, those
participating in various events in China (e.g., politics, economics, system, environment, and protection of Japanese) are strongly urged to share among Japanese society and the chamber of commerce organizations across China.

Meanwhile, since most organizations related to the Japanese Chamber of Commerce throughout the country are positioned as unofficial bodies, they face the following administrative problems:

(1) At the time of the interaction or negotiation with local government, Japanese chamber of commerce organizations sometimes cannot present the names of the organization because they are unofficial bodies.
(2) They cannot open a bank account with the pertinent name of organization.
(3) If the organizations need offices and personnel, they struggle with renting offices, guaranteeing the status of employees, and obtaining visas.

China is geographically a vast country, and foreign companies have moved into many cities. Desirable rules include those for flexible operation and relaxation of regulation to allow the operation and activity of the chamber of commerce organization to be closer to realization in each region. Consequently, the interactions between China and foreign firms would be facilitated, and the doors would be opened to healthy business management of foreign companies expanding into China and the sustainable development of Chinese economy.

\textbf{Proposition}

The temporary rules of management of foreign chamber of commerce are requested to be amended to enable flexible activities in such manners as approving branch organization and granting corporate status to Japanese chambers of commerce or Japanese associations across China.
Part 3: Current State of and Propositions for Each Industry
Chapter 1 Agriculture, Forestry, and Fisheries Industry and Food Industry

Recently, the standard of living in China has been rapidly changing. There was a steady improvement in the level of income in urban and rural areas. Engel’s coefficient decreased from 54.2% (1990) to 35.0% (2013) in urban areas, and from 58.8% (1990) to 37.7% (2013) in rural areas. In 2015, it stood at 29.7% in urban areas and 33.0% in rural areas (adapted from the Chinese statistics yearbook).

Under these conditions, the amended Chinese food safety act was enforced in October 2015, with growing interest in food and an increasing need of consumers for food. Regarding food companies, we would like to contribute to further improvement in the rich and a varied diet in China.

Market trend: Current state of the agriculture, forestry and fisheries industry and food industry

Food manufacturing industry

The total sales price in the Chinese food manufacturing industry was about 1 trillion, 100 billion yuan in 2004, which increased to about 8 trillion, 400 billion yuan in 2014, indicating about an eight times increase for 10 years (the ratio in the 2014 secondary industry was about 8%). The number of companies in the industry was about 34,000 as of 2015 (those in the secondary industry accounted for about 9%), and the working population was about 6.4 million as of 2015 (those in the secondary industry accounted for about 7%). For the retail industry (including industries other than the food industry), the total retail sales increased to as much as about 30 trillion yuan in 2015. Along with the rapid growth of the EC market, the growth of the retail industry, which is driven by actual retail stores, has been slowed mainly in general merchandise stores. Meanwhile, an increased growth rate has also been seen in the cross-border EC market, where foreign products can be imported and purchased via the Internet, and the number of Japanese companies entering the market has also increased. The food-service industry has benefitted from the diversification of Chinese consumers’ preferences, as well as an increase in their awareness regarding safe and secure food supply and their interest in health or food for beauty. Consequently, the sales amount of the industry reached 3 trillion, 200 billion yuan in 2015, an increase of 12% from the previous year (adapted from materials of the China Statistical Information Network).

Development of laws on safety food

Along with the changes shown above, the development of the laws on safety food and the organizational structures has advanced. In this regard, the State Council (国务院) also issued the “2016 plan of focusing on safety food supply,” which describes 11 issues that should be intensely addressed (see Tables 1 and 2).
Table 1. Development of the laws on food safety and organizational structures

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Enforcement of China's food hygene law, China’s WTO membership bid</td>
</tr>
<tr>
<td>2001</td>
<td>WTO accession</td>
</tr>
<tr>
<td>2009</td>
<td>Enforcement of China’s food safety laws (in June), Enforcement of the ordinance for implementation of China's law on food safety (in July)</td>
</tr>
<tr>
<td>2013</td>
<td>Establishment of China’s food and drug administration (CFDA) for the consolidation of the issues on food hygiene</td>
</tr>
<tr>
<td>2015</td>
<td>Enforcement of China's amended law on food safety (in October), call for comments on the bill of the ordinance for the implementation of China’s amended law on food safety</td>
</tr>
<tr>
<td>2016</td>
<td>Call for comments on the bill of the ordinance for implementation of China's amended law on food safety (the second round)</td>
</tr>
</tbody>
</table>

Table 2. The 2016 plan focusing on the safety of the food supply (issued by the State Council 国务院)

(1) Development of food safety-related laws and regulations, (2) Development of national standards, etc., (3) Enhancement of the management of agricultural products for food, (4) Enhancement of risk management, (5) Consideration of the focused issues, (6) Strict requirements for the responsibility of producers and managers, (7) Strict crackdown and punishment on illegal crimes, (8) Enhancement of the ability for supervision of food safety, (9) Enforcement of the food safety responsibility system, (10) Promotion of cooperative management of food safety, (11) Integration of the authorities in the system to supervise and manage food safety

Japanese food companies

A questionnaire survey on the future direction of business development in China was conducted in 2015 by the Japan External Trade Organization (JETRO). According to the results, among the Japanese companies of all the industries in China, those in food industry accounted for the largest proportion of those answering that they were planning to expand their business (for reference, the survey results on the food industry are as follows: 52.4% of the companies answered that they would expand their business, 42.9% answered that they would stay the same, and 4.8% answered that they would reduce the size of their business or withdraw from the market) (adapted from the research results by the JETRO). The number of Japanese food restaurants across China increased from 10,600 (2013) to 23,100 (2015), about a two-fold increase over two years. The results indicate that the number of Japanese food restaurants was the largest in China, among those with a presence worldwide, and exceeded the number of Japanese food restaurants in the Unites States (22,452). The distribution of the number of Japanese food restaurants was 4,668 in Guangdong Province (first place), 2,936 in Shanghai city (second place), 2,503 in Jiangsu province (third place), and 1,321 in Beijing city (seventh place) (adapted from the research results by the Japanese diplomatic office in China). The increased number of Japanese food restaurants was considered partly attributable to the increase in the number of Chinese individuals visiting Japan, which has been rapidly increasing since 2014 because of the increase in new airlines and because of the relaxation of requirements for visa issuance. The yearly numbers of Chinese visitors to Japan are shown as follows: 0.45 million (2003), 1 million (2008), 1.31 million (2013), 2.41 million (2014), 4.99 million (2015), and 5.51 million (October 2016). The results for October 2016 exceed the results of the previous year (4.99 million) as of September 2016 (adapted from materials by Japan National Tourism Organization).
Agricultural and fishery trade

The agricultural trade with China showed that the amount of imports of agricultural products in 2015 was US$ 116.9 billion, which accounted to about 7% of the total amount of imports (1 trillion, 682.1 billion dollars) in China. Meanwhile, the amount of export of agricultural products in 2015 was US$ 70.7 billion, which accounted to about 3% of the total amount of exports (US$ 2 trillion, 276.6 billion) in China. The imported items are arranged in descending order of proportion as seeds for oil (33%), animal products (18%), and food (8%). The exported items were arranged as fishery products (29%), vegetables (19%), and fruits (10%). The import sources were arranged in the descending order of the amount of imports to the United States, Brazil, and Australia. The export destinations were arranged in the order of Japan, Hong Kong, and the United States (adapted from the trade development report of Chinese agricultural products).

Agricultural and fishery trade with Japan

The value of exports of the agricultural and fishery products to Japan considerably dropped in 2008 and 2009, but then continuously increased to 1 trillion 313 billion yen in 2015 (1 trillion 223.3 billion yen in 2006, 977.1 billion yen in 2008, and 848.6 billion yen in 2009). The imported items with the largest values included processed chicken products (first place, 101.6 billion yen in 2015) and frozen vegetables (second place, 81.8 billion yen in 2015). The value of imports of agricultural and fishery products from Japan increased to 84 billion yen in 2015 (38.6 billion yen for fishery products, 35.9 billion yen for agricultural products, and 9.5 billion yen for forestry products). The imported item with the largest value in 2015 was common scallops, as well as fishery products, such as salmon and trout, and forestry products, such as log- and plant-ranked products (adapted from materials by the Ministry of Agriculture, Forestry and Fisheries of Japan).

China’s FTA

Regarding trade, China’s FTAs with 14 countries have already come into effect (with Hong Kong in January 2004, Macao in January 2004, the Association of Southeast Asian Nations (ASEAN) in July 2005, Chile in October 2006, Pakistan in July 2007, New Zealand in October 2008, Singapore in January 2009, Peru in March 2010, Taiwan in September 2010, Costa Rica in August 2011, Iceland in July 2014, Swiss in July 2014, South Korea in December 2015, and Australia in December 2015). China is negotiating to further establish FTAs with eight other countries and regions (the Gulf Cooperation Council, Norway, the Japan–China–Korea FTA, the RCEP, upgraded version of the FTA with ASEAN, Sri Lanka, Maldives, and Georgia) (adapted from materials of the Ministry of Commerce (商务部) and JETRO).

Problems faced by Japanese companies in China

Issues on production and approval

The application for approval in the food industry was consolidated by the CFDA, and thus, was partly streamlined. However, given the wide variety of products for sale in the industry, the formulation and update of the standard for new products or those in a new field that cannot fall into the preexisting categories faces difficulty with unclear approval criteria, and this has been recognized as a problem.

New laws and ordinances have recently been enforced, but confusion remains sporadically seen in the actual realization by the authorities concerned, which might lead to significant opportunity losses for companies. In addition, frequent inspections have been made at production sites by authorities, such as the fire, health, and environment departments, but the instructions often vary depending on the person in charge, causing confusion at such sites. In addition, owing to the amendment of laws, such as the environmental sanitation law, even issues that were not particularly flagged as problematic at the time of building manufacturing plants,
authorities sometimes derive instructions to improve issues that require a considerable amount of capital investment. Companies might also be urged to comply with such instructions, leading to pressure on corporate management.

In line with the obligation to indicate package materials, there are rules specifying the “constituents and their proportions” for the packages that could be touched directly with food, about which concerns have been raised due to the possibility of leakage of know-how in companies.

Given the performance of machines or the necessity to make machines suitable for food processing at food production plants, companies sometimes have no choice but to introduce Japanese machines that are often expensive. When importing expensive equipment, foreign joint-venture companies are required to go through bidding procedures, but such procedures are time consuming and costly. Thus, they are not a realistic approach. In the case of a joint venture involving a Chinese company, the company can adopt the techniques of the other firms, and can thus expect improvement in productive efficiency, as well as the effect on technology development. This seems to further result in a contribution to economic development in China.

**Food import and export relationships**

As a continuous problem with food imports in China, the customs operation varies by region, which can lead to confusion among Japanese firms in their running businesses at multiple areas in the country. For example, the standard applied at the time of customs clearance varies by region, which sometimes results in difficulty in companies’ decision making. The procedures from customs clearance to the issuance of sanitary certification also vary by area, and the integration of operations thus seems to facilitate import procedures.

Too much time is required from the import of food or food additives to the issuance of sanitary certification, which is also an unresolved problem. The actual time varies based on the region of customs clearance, but in certain regions, customs are cleared about 10 days after the arrival of the product at China. Then, sample inspection begins, which requires two weeks. This problem has been subsequently improved to a certain degree by the reduction in the inspection duration. Nevertheless, the time until the receipt of the sanitary certification remains 10 business days. Thus, the company needs a little over a month to provide food to customers. In addition, multiple imports of the same products would require the same procedures, which not reduce the duration of such procedures. Food products cannot be distributed without sanitary certification. Thus, those with a short expiration period sometimes require disposal. This problem serves as a contributing factor to the decline in corporate earnings and affects the food supply to Chinese citizens.

In accordance with the rules, imported food additives must first be inspected by customs, immigrations, and quarantine facilities, and they are then required to pass through inspections according to the provisions of the laws or administrative regulations on the inspections of imported merchandise. There are some food additives whose standard for use are specified in the GB, but whose specification, guidelines, and test methods have yet to be formulated. These food additives may then not have undergone analysis, as the test method has not been determined. Moreover, the sanitary certification for such imported food may also not have been issued. This issue seems to partly result from the change in the operation of the customs, immigration, and quarantine (CIQ) procedures for stricter ones, along with the enforcement of the new food safety law in October 2015. Early formulation of the specification, guidelines, and test method for each food additive is first requested, and remedies are then sought for adoption during the period of formulation.

China is still placing import restrictions on Japanese food, even though it has been six years since the 2011 Great East Japan Earthquake and Fukushima nuclear power plant accident. This is a much stricter measure than that taken by other countries. A written request was issued in 2014 by the Japanese Chamber of Commerce and Industry in China for reduction in scope of the regulation based on scientific data. Japanese firms developing business in China are hoping for early deregulation.

Currently, production of foods exported to foreign countries should first comply with the Chinese national standard. However, since the Chinese standard for the use of food additives is different from that of other
countries, it is difficult to simultaneously meet the standards of multiple countries, which poses an obstacle for the expansion of export. Attempts to simplify procedures for exporting foods, such as the promotion of a paperless system, have been noted, but they are not operational at the actual sites. Furthermore, the period of inspection on exported foods has been delayed in some cases, which has interfered with the streamlining of company operations.

Although a crackdown on the resale of smuggled products or privately imported goods has been gradually strengthened, such products or goods without import labels are still rampant in the market. As these smuggled goods escape taxation, they sell at low prices that would be impossible for regular products. Strict control of smuggled goods is desired, such that regular importers are not disadvantaged. As an issue related to cross-border EC, a crackdown on private imports of alcohol (alcoholic food) was conducted several times owing to provisions to strengthen the responsibility for mail-order imports to the amended food safety law. However, in actuality, privately imported customs-free items remain widespread among retail stores and on the internet. Thus, cross-border EC must be further tightly controlled.

**Food logistics**

The Chinese retail industry has a growing number of mass-merchandiser chains, including convenience stores, and many of them have come to sell chilled foods. The logistics network for chilled foods is gradually being developed, as it is large in not only cities such as Beijing or Shanghai, but also local cities, along with an extension of freeways. Although the number of logistics service providers selling chilled foods is increasing, many of them manage such foods in a sloppy way, which sometimes precludes the maintenance of the temperature zone for such merchandise. Further increases are expected in the number of logistics service providers that can ensure the management of chilled products to enrich the dietary life of Chinese citizens.

The time of emergencies when freight cannot be normally handled, owing to accidents at import/export harbors or during a typhoon, should be addressed by early the recovery of normal conditions, as well as the construction of alternative routes for import and export. There is a current regional difference in the inspection on imported foods. Thus, going through an alternative harbor, which is not used regularly, would require a period two to three times longer than usual owing to the transportation distance and inspection procedures, contributing to delays in the recovery of business activities.

During international conferences, national events, and issuances of red alerts for air pollution, traffic is hastily restricted (i.e., logistics restriction), but the notice is usually issued immediately before the above events, which becomes an obstacle to company activities. Given the short expiration period of foods and the minimum inventory retained by companies or logistic service providers, companies have difficulty in immediately addressing such logistical restrictions. Traffic restriction details should be provided several months in advance for available details.

To alleviate traffic congestion, car use is restricted based on the last digit of the license number in Beijing or in other cities, but in reality, loaner cars are utilized as needed, which indicates that the restriction does not seem very effective. Meanwhile, the restriction forces companies to bear the burden of increased costs. Issues on traffic manners include many pedestrians who do not comply with traffic signals, as well as an atmosphere of prioritizing cars over pedestrians. The government should actively address improvement in traffic manners.

**Energy savings and the environment**

With economic development, the environment changes near the companies; they are thus sometimes required to enhance their environmental regulations. Specifically, there may be empty land at the time during which business starts, where houses are subsequently built, resulting in a requirement for increased environmental regulations. In such cases, companies must refer to a wide variety of laws and regulations serving as a basis for such additional requirements, described by various levels and details or deadlines for implementation presented by the departments of the authorities. Many companies would thus be uncertain about their plans
regarding how much they should address these requirements, and they would spend needlessly. With the enforcement of the amended environmental protection law in fiscal year 2015, a regulation on CO₂ emissions was announced, but the stringent standards of the regulation have not allowed target achievements of companies with preexisting infrastructure in some regions. In addition, although some of firms promptly applied for upgrades, in response to the government instructions, they have received no replies.

**Restaurant industry**

On December 9, 2013, the department of industry and commerce of Beijing issued an ordinance banning bringing alcohol into restaurants. The department has been recommending the operation of “order service contracts,” which states that restaurants shall provide alcohol. The “對餐飲行業不公平格式條款認定的詳細解讀” announced on December 13, 2013 also describes that actual bringing of alcohol into restaurants is not recommended. However, by issuing this ban, consumers actually brought alcohol by the case into restaurants, which make it difficult to manage some Japanese food restaurants. In particular, since alcohol occupies a very important place, the same as food, in foreign cultures of eating and drinking, the right of a restaurant to sell alcohol should be protected in order to correctly encourage Japanese food culture in China.

**Others**

Administrative instructions on the transitional provisions for labor dispatch were issued in March 2016, putting an upper limit of 10% for the proportion of dispatched workers to total employees. As the output at production sites varies by season and the constant volume of products does not change throughout the year, the law serves as a drag on company performance. The limitation on the proportion of dispatched workers should be improved by deregulation or by setting upper limits that are appropriate for each industry.

The social insurance premium was partly revised in 2016 and was found to have various reference values for calculating the premium, depending on cities (the standard for calculation is the yearly income average in some regions, while it is the income of the previous month in others). This situation imposes a substantial burden on companies that manage employees across cities. In addition, the companies’ contribution rate is very high (approximately 50% of all salaries), which puts pressure on business management.

The business tax in the Chinese tax system transitioned into a value added tax from May 1, 2016 for the four industries of construction, real estate, finance, and life service. However, interpretation of the scope of targeted transactions and operation of the tax system partly varies by tax authority, and companies are confused.

Japanese firms thinking of assigning expatriate staff to operations in China must cope with the requirements for working papers, which become stricter every year. Since the dispatching of personnel, necessary for each firm, is extremely important for business management, the needs of companies should be respected to a certain degree. “The work permit system for foreign visitors” in China was scheduled for implementation from 2017, but the details were unclear, which created burdens on corporate management.

**<Proposal>**

**<Production and approval>**

(1) The clarification and development of the approval standards were requested for applications for the approval of newly developed products or those of a new field not included in preexisting food categories.

(2) Under the present conditions where new laws and ordinances were enforced, attention need to be paid to
make instructions that were consistent among different persons in charge of on-site instructions for the pertinent government department. If an amendment encouraged the authority to make instructions for an improvement that was associated with a large amount of capital investment, placing a moratorium on the deadline for implementation, to a certain extent, was considered.

(3) The requirement to indicate the package materials contained rules specifying the constituents and their proportions for the packages that could be touched directly with food and led to concerns about the possibility of divulging company. This issue was addressed by providing information, such as written standards, to management.

(4) When Chinese joint ventures imported expensive equipment produced in the country of the partner firms of the joint venture, it was requested to exempt them from undergoing the international bidding procedure.

<Food import and export>

(1) Improving the inconsistent operations of procedures for importing food between regions and making the operations fair and efficient seem like reasonable requests. The time from the import of food or food additives for the issuance of sanitary certification was also requested to be further shortened by accelerating procedure processing. Specifically, a rough indication of the time required for examination was sought for cargoes that required no administrative inspections, as well as those with complete documents, in order to smooth the implementation of business plans. A rough indication of the time required for administrative inspections, for the same implementation rationale, was to be specified, and the introduction of a paperless system to handle procedures and make operations efficient, such as shortening the inspection time, was desired.

(2) The import restrictions on Japanese food after the 2011 Great East Japan Earthquake was to be first addressed by clarifying the issues posing problems for food import. It was also requested to present a unified view on the necessary documents for proving safety and to lift the restrictions early or ease them to a scientifically reasonable extent.

(3) Issues on imported food additives were to be addressed by early formulation of the specification, guidelines, and test methods for food additives. Adoption of remedies was also requested during the period of formulation of standards.

(4) In China, products exclusively for exports were to be currently produced in accordance with the Chinese national standards, but the rules on management of CIQ were to be revised such that those products could be produced according to the standards of export destinations.

(5) Although the crackdown on smuggled products or privately imported goods has been gradually enhanced, products without the import label are still sold in the market, and stricter crackdown is thus requested. As the issue on the cross-border EC, some alcoholic beverages are privately imported and sold as customs-free items or on the internet. Stricter controls on such items are desired.

<Food logistics>

(1) The government’s support is sought for smooth adjustment between authorities concerned that would allow them to address road or cargo transport, and construction of a stable network for the delivery of chilled products, not only in large cities, but also local regions in accordance with the forms of development of the retail industry. Restrictions on the driving of refrigerated trucks within Beijing are also requested to be eased.

(2) Emergencies when freight cannot be normally handled because of accidents at import/ export harbors or typhoon should be addressed so as not to cause differences among regions concerning inspection details, and prolong the time for inspection procedures. Integration of inspection details and disclosure of
inspection items are also requested.

(3) Kindly avoid issuing advance notices of traffic restriction (i.e., logistics restriction) immediately before the restrictions take effect during international conference or national events, but publication of detailed restrictions should be made several months before such events. Limitations on food logistics resulting from abrupt restrictions on driving during red alerts, owing to air pollution, would have a significant effect on the population’s diet. Thus, construction of mechanisms to consider food logistics is requested.

(4) Restrictions on car use based on the last digit of the license number are actually not very effective because of the use of loaner cars. Meanwhile, the restriction places a burden of the increased cost on companies. Thus, the abolishment or revision of the restriction is requested. In addition, since current traffic manners in China leave much room for improvement, the government is required to actively take measures to improve traffic manners.

Energy saving and environment>

(1) Given the various demand details for the implementation of laws and regulations on environmental protection, the government is required to create and implement a comprehensive and unified view.

Restaurant industry>

(1) The ordinance of a ban to prohibit bringing alcohol into restaurants, which was established by the local government, should be improved or abolished. Specifically, it would be better to allow restaurants to collect a “fee of opening bottle” for bringing alcohol into restaurants if there is agreement between them and consumers in advance. In addition, measures should be taken to protect the right of restaurants to decline to sell alcohol to consumers lacking common sense. It could be such measures as those that bring alcohol by the case into restaurants that can be required to pay an appropriate amount of the “opening bottle fee” or “service costs.”

Others>

(1) The administrative instructions on the transitional provisions for labor dispatch put the upper limit of 10% for the proportion of dispatched workers to total employees. The limitation on the ratio of employees should be improved by removing regulations or by setting upper limits in accordance with the requirements of each industry.

(2) Regarding the social insurance system, the reference values to calculate the social insurance premium are requested to be unified across the country, and the very high company contribution rate (at approximately 50% of all the salary) should be revised.

(3) In applying the requirements for working papers to Japanese firms assigning expatriate staff to operations in China, the needs of such firms should be respected to a certain extent. Additionally, though “the work permit system for foreign visitors” in China was scheduled for implementation in some cities from 2017, the details of the system should be specified early.
Chapter 2 Mining Industry, Energy Industry

1. Coal

The excess production capacity in the Chinese coal industry resulting from rapid economic growth became an issue to be addressed. In 2016, the first year of the “35” plan, a government-driven policy to reduce production capacity and restrict output was implemented. Consequently, the decline of the domestic coal price showed no sign of stopping, followed by a sharp rise, which raised concerns about the coal supply in winter. Some firms with advanced production capacity were then hastily allowed to loosen the restriction on production, and there were thus significant changes throughout the year. Since the government stepped up efforts to correct the demand-supply gap that had been a factor in the decline of the domestic coal price for years, the policy trend after 2017 has attracted considerable attention.

Decline of the domestic coal price continued until the beginning of 2016

Large-scale economic-stimulus measures taken since about the end of 2008 led to increased investment in coal infrastructure and greatly enhanced the production capacity of the industry. Consequently, China’s coal production capacity was 5.7 billion tons per year at the end of 2015 (announced by the Chinese National Coal Association). Meanwhile, regarding the demand for coal, the rate of coal use dropped to 62.0% as of 2016, owing to decreased energy consumption, measures taken in response to environmental problems, and promotion of the use of renewable energy.

Table 1. Primary energy composition in China

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Energy consumption (Unit: 100 million tons [calculated based on normal coal])</td>
<td>38.7</td>
<td>40.2</td>
<td>41.7</td>
<td>42.6</td>
<td>43.0</td>
<td>43.6</td>
</tr>
<tr>
<td>Increase from the previous year</td>
<td>7.3%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>2.1%</td>
<td>1.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Coal</td>
<td>70.2%</td>
<td>68.5%</td>
<td>67.4%</td>
<td>65.6%</td>
<td>64.0%</td>
<td>62.0%</td>
</tr>
<tr>
<td>Oil</td>
<td>16.8%</td>
<td>17.0%</td>
<td>17.1%</td>
<td>17.4%</td>
<td>18.1%</td>
<td>—</td>
</tr>
<tr>
<td>Natural gas</td>
<td>4.6%</td>
<td>4.8%</td>
<td>5.3%</td>
<td>5.7%</td>
<td>5.9%</td>
<td>—</td>
</tr>
<tr>
<td>Others</td>
<td>8.4%</td>
<td>9.7%</td>
<td>10.2%</td>
<td>11.3%</td>
<td>12.0%</td>
<td>—</td>
</tr>
</tbody>
</table>

Source: (Adapted from materials of the China Statistical Information Network)

As expressed by the Bohai-Rim Steam-Coal Price Index (5,500 NAR), the decline in the price of fuel coal for domestic power production, mainly because of the demand-supply gap, continued after the price peaked at 853 yuan/metric ton (MT) in November 2011. The environment surrounding domestic coal producers had continued to worse yearly. To provide remedies for domestic coal companies, the Chinese government adopted measures to reduce the output of major coal producers, cut down on imports of coal, and reintroduce an import tax. However, no remarkable effects were noted, and the price of coal reached 371 yuan/MT at the beginning of 2016.
Structural reform on the supply side and price increase in domestic coal

Under these conditions, the State Council (国务院) issued a “notice of opinions on the alleviation of the excess production capacity, on rescue from difficulties, and the facilitation of the achievement of development for the coal industry.” The notice specified the following issues: (1) production capacity should be reduced by approximately 500 million tons/year through company reorganization; (2) the total days of operation of coal mines should be reduced from 330 to 276 days/year, and production should be suspended on the national holidays and Sundays. The concerned parties, including each government agency, were required to strictly implement the decisions. The measures resulted in not only the alleviation of excess supply, but also price spikes, having raised concerns about sufficient coal supply to people’s heating demand in winter. Thus, in October, the restriction on the operation days of some companies with advanced production capacity was hastily relaxed to the conventional 330 days as a political measure. The coal price recovered after it peaked at 607 yuan/MT in November (the prices remains about 590 yuan/MT at the present writing in March 2017).

In the beginning of 2017, a “notice of announcement of memorandum record to control abnormal volatility of the coal price” was issued, presenting guidelines to adjust the production capacity according to the reference price range. The notice also indicates the government’s idea to enhance the management of production capacity that is linked to price changes.

The present changes in the supply structure resulted in a considerable reduction in the output of raw coal to 3410 million tons in 2016, a value 9.0% lower than that of the previous year.

China’s import of coal and its influence on the international market

In response to the price increase of domestic raw coal associated with changes in the supply structure, the trend of coal imports is growing. The import volume reached 260 million tons, 25% higher than that in the previous year, indicating that China is the largest importer of coal, ahead of India. The international spot price of fuel coal (5500 NAR, negotiated contract for coal) was 89.75 dollars/MT, the highest value in four-and-a-half years. In addition, the international spot price of first-rate coking coal (negotiated contract), which serves as a raw material for blast furnace coke, was 311.5 dollars/MT, also the highest value in four and a half years. The increased import of coal accounted for the increase in the international price of coal, and Chinese domestic policy was thus again acknowledged through the year to have a very significant influence on the conditions of the international coal market.
Coal is imported into China to provide it mainly to the eastern and southern coastal regions (coking coal is provided mainly for Hebei, where many iron and steel mills operate). Meanwhile, coal produced in China must be transported from primary coal mining areas such as Shanxi, Inner Mongolia, and Shaanxi, with high costs of transportation. Thus, given these conditions of the production location, coal is expected to be continuously imported to a certain degree in the future as well.

Table 2. Changes in the demand for coal in China (unit: million ton)

<table>
<thead>
<tr>
<th>Year</th>
<th>Output</th>
<th>Supply</th>
<th>Export</th>
<th>Demand (consumption)</th>
<th>Supply (export and demand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3764</td>
<td>3945</td>
<td>224</td>
<td>3890</td>
<td>87</td>
</tr>
<tr>
<td>2012</td>
<td>3945</td>
<td>3747</td>
<td>292</td>
<td>4117</td>
<td>108</td>
</tr>
<tr>
<td>2013</td>
<td>3974</td>
<td>3410</td>
<td>204</td>
<td>4244</td>
<td>50</td>
</tr>
<tr>
<td>2014</td>
<td>3874</td>
<td>3747</td>
<td>255</td>
<td>4166</td>
<td>44</td>
</tr>
<tr>
<td>2015</td>
<td>3410</td>
<td>3410</td>
<td>204</td>
<td>3951</td>
<td>-9</td>
</tr>
<tr>
<td>2016</td>
<td>3610</td>
<td>3610</td>
<td>255</td>
<td>3665</td>
<td>-18</td>
</tr>
</tbody>
</table>

Source: (Adapted from materials of the China Statistical Information Network and the General Administration of Customs of China (海关))

In response to the slowdown in the increase in the amount of thermal power generation, coal consumption remained at 3960 million tons in 2015, marking a decrease for the second year in a row. However, though not having been officially announced yet, the total power generation in China was 5.9 trillion kilowatt-hours (kWh), a value 5.2% higher than that of the previous year. Among the total power generation, the amount of thermal power generation was 4.4 trillion kWh, 4.3% higher than that in the previous year, with steady changes. Therefore, given that the proportion of coal accounted for about 70% to 80% of all the power generation, coal seems to have been consumed to a certain extent.

Table 3. Changes in the power generation by power source in China (unit: 100 million kWh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of thermal power generation</th>
<th>Amount of hydropower generation</th>
<th>Amount of power generation of other sources (wind or nuclear power generation)</th>
<th>Total power generation</th>
<th>Percentage of thermal power generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>38137</td>
<td>6108</td>
<td>1792</td>
<td>46037</td>
<td>83%</td>
</tr>
<tr>
<td>2012</td>
<td>37867</td>
<td>7595</td>
<td>2726</td>
<td>48188</td>
<td>79%</td>
</tr>
<tr>
<td>2013</td>
<td>42153</td>
<td>7891</td>
<td>2408</td>
<td>52451</td>
<td>80%</td>
</tr>
<tr>
<td>2014</td>
<td>42049</td>
<td>9440</td>
<td>3149</td>
<td>54638</td>
<td>77%</td>
</tr>
<tr>
<td>2015</td>
<td>42102</td>
<td>9960</td>
<td>4122</td>
<td>56184</td>
<td>75%</td>
</tr>
<tr>
<td>2016</td>
<td>43958</td>
<td>10518</td>
<td>4635</td>
<td>59111</td>
<td>74%</td>
</tr>
</tbody>
</table>

Source: (Adapted from materials of the China Statistical Information Network)

China as a coal exporter

China has the largest output and consumption of coal in the world and had been the world’s leading coal exporter until the first half of the 2000s (the peak value of coal export was approximately 94 million tons in 2003). Along with increases in domestic energy consumption, a 5% export tax was imposed on coking coal in November 2006 for energy protection in China, followed by an increase in the export tax to 10% imposed on all kinds of coal in August 2008. These measures contributed to a decline in the competitiveness of Chinese coal in the international market and a substantial reduction of coal exports. Although the domestic coal consumption then largely increased, it showed a decreasing trend after 2014, with the sense of excess coal supply becoming noticeable. The export tax rate was reduced to 3% in January 2015 to protect the struggling coal companies in China.

Given the conditions of the market, Chinese coal is currently not very competitive despite the reduction of the export tax by 7%. However, the price increase in the international market in 2016 had the effect of increasing
Chinese coal exports for the first time in 13 years, which gave the impression that there was still demand from neighboring countries for Chinese coal depending on the market.

Table 4. Changes in Chinese coal exports (unit: million ton)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>85.9</td>
<td>85.8</td>
<td>93.9</td>
<td>86.6</td>
<td>71.7</td>
<td>63.3</td>
<td>53.2</td>
<td>45.4</td>
</tr>
<tr>
<td>Amount of exports to Japan</td>
<td>26.7</td>
<td>27.6</td>
<td>31.3</td>
<td>29.0</td>
<td>23.2</td>
<td>20.6</td>
<td>15.7</td>
<td>13.4</td>
</tr>
<tr>
<td>Rate of exports to Japan</td>
<td>31%</td>
<td>32%</td>
<td>33%</td>
<td>33%</td>
<td>32%</td>
<td>33%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Refund rate of value added tax (first month)</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
<td>Fuel coal/hard coal, 11%; coking coal, 5% (from January)</td>
<td>Fuel coal/hard coal, 8%; coking coal, 5% (from May)</td>
<td>No refund for value added tax (from September)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Export tax (first month)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>Coking coal, 5% (from November)</td>
<td>Coking coal, 5%</td>
<td>All kinds of coal, 10% (from August)</td>
</tr>
</tbody>
</table>

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Total exports</td>
<td>22.4</td>
<td>19.0</td>
<td>12.1</td>
<td>9.3</td>
<td>7.3</td>
<td>5.8</td>
<td>5.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Amount of exports to Japan</td>
<td>6.4</td>
<td>6.5</td>
<td>6.3</td>
<td>4.0</td>
<td>3.1</td>
<td>2.2</td>
<td>1.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Rate of exports to Japan</td>
<td>29%</td>
<td>34%</td>
<td>52%</td>
<td>43%</td>
<td>42%</td>
<td>38%</td>
<td>30%</td>
<td>31%</td>
</tr>
<tr>
<td>Refund rate of value added tax (first month)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Export tax (first month)</td>
<td>All kinds of coal, 10%</td>
<td>All kinds of coal, 10%</td>
<td>All kinds of coal, 10%</td>
<td>All kinds of coal, 10%</td>
<td>All kinds of coal, 10%</td>
<td>All kinds of coal, 3% (from January)</td>
<td>All kinds of coal, 3%</td>
<td></td>
</tr>
</tbody>
</table>

Source: (Adapted from materials of the General Administration of Customs of China (海关) and others)

**Proposal**

**Issue on trade**

(1) **Complete abolishment of the export tax on coal and resumption of the value added tax refund**

The increase in the domestic coal price from reducing excess production capacity since April 2016 helped rescue domestic coal companies, but the corporate performance of domestic electric power companies declined. As announced in the “notice of memorandum record to control the abnormal volatility of the coal price” in the beginning of 2017, healthy development should occur in the future for
both users and producers. It seems meaningful to ensure the sales destination for domestic coal companies that have been facing a deficit for a long time. At the same time, some heavy users in Japan are hoping that Chinese coal will start to be exported again as a close source of energy available in emergency situations or as a way to diversify the supply source. Since the government should be committed to coal exports to a certain degree, for the further development of the bilateral economic relationships, it is desirable to completely abolish the export tax and resume the refund of the value added tax.

### Political measures

(2) Careful implementation of structural reforms on the supply side of the coal industry

The reform of the coal supply structure was actively promoted, such as cutting back production associated with the flat restriction on the operation days of domestic coal mines from April 2016 and the relaxation of regulations on the production of some coal mines with advanced production capacity. However, domestic and foreign coal prices spiked, and then, dropped as a result, which indicated that the conditions of the international coal market were greatly influenced by the political measures related to the domestic coal production of China, the world's leading coal importer. The purpose of reducing the excess production capacity can be understood as a transition to a structure allowing efficient large-scale coal mines to stably supply the necessary amount of coal, with a shakeout of inefficient small and medium-sized coal mines. Therefore, it is requested to carefully implement the structural reforms to enable a well-ordered, lasting coal supply.

### Issue on the environment

(3) Clean and highly efficient use of coal

Contaminants in the air (particularly, particulate matter [PM$_{2.5}$]) are considered highly likely to cause damage to human health, and the source origin of PM$_{2.5}$ includes smoke and SO$_2$ emitted from coal combustion. The target to reduce the concentration of PM$_{2.5}$ was written for the first time in the amended air pollution control law, enforced in January 2016, and the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), but the current conditions remain far from eliminating concerns about people’s health. The constant recommendation is to use high rank coal, to ensure appropriate handling of smoke or SO$_2$ from coal-fired thermal power, and to research and utilize clean coal technology.
2. Electric power

The 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划) for the development of electric power was officially announced at the end of 2016, and based on the premise of a continuing stable electricity supply, which was achieved during the period of the preceding 12th Five-Year Plan. The 13th plan aims to attain multiple targets, such as the continuation of domestic economic growth and improvement in the environment, as well as the implementation of the international commitment to reduce CO₂ emissions per GDP by 60% to 65% (compared to that of 2005) by 2030. The plan also attempts to promote the expansion of overseas business, showing the Chinese policy on their future electric power development.

Under the conditions where power consumption and the size of power sources are increasing, the main details of the plan suggest further continuation of the large-scale introduction of wind and solar power generation, which had each exceeded 13% of all the capacity of power generation facilities at the end of 2016. It is also considered necessary to revise the entire electric power system, so that the system has technical and operational flexibility in power generation. In addition to the objective of further expanding nuclear power generation, the 13th plan has challenging targets such as the achievement of an improvement in the level of emissions from more than half of the coal-fired power plants, so that they are as clean as the advanced coal-fired plants in Japan.

The trend in 2016 and retrospection

In 2015, domestic power consumption in China was 0.5% higher than the previous year, showing the lowest growth rate since the 1990s, when the policies of reform and openness started to have the desired effects. However, after the beginning of 2016, the growth rate of power consumption was recovering, with preliminary estimates of 5.92 trillion kWh (approximately six times higher than the aggregate electricity demand in Japan and approximately 1.5 times higher than that in the United States), 5.0% higher than the previous year. The main reason offered was that while power consumption in 2015 decreased in secondary industry, production levels recovered after the beginning of 2016 because of the Chinese government’s economic stimulus package for housing construction, which led to increases in power consumption. Power consumption in the tertiary industry and by the public also showed strong increases because of high temperatures in the summer of 2016. This seemed to further boost the growth rate of power consumption.

Power consumption in 2017 is expected to be about 3% higher than that in 2016, as the high growth rate in 2016 was caused by climate factors.
To meet these demands for power generation, large-scale power plants are continuously built in China. The power generating capacity of all the power plants was 1650 million kilowatts, an increase of 120 million kilowatts for the single year of 2016. Consequently, shortfalls in the power supply have not occurred, and some regions have even excess generating capacity, which is regarded as a problem.

The power generating capacity that had increased in 2016 is categorized by the type of power generation, which shows that thermal power generation accounted for the largest proportion at 43%, with a value of 54 million kilowatts. It was followed by solar power generation of 35 million kilowatts (28%), and wind power generation of 17 million kilowatts (14%), with high percentages in both sources of power. So-called

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**Figure 1. Changes in GDP and the growth rate of power consumption from the previous years (1990–2016)**

Source: Adapted from Table 9-8 of the “2016 Chinese statistics yearbook.” The values for 2016 are from the “2016 statistical bulletin on national economic and social development” (announced by the China Statistical Information Network on February 25, 2017)

**Figure 2. Quarterly changes in the growth rate of power consumption by industry sector (2014–2016, year-to-year comparison)**

Source: Prepared by the author based on the monthly version of the electric power industry statistical report posted on the website of the Chinese Electricity Council (Note: because data on the 4th quarter for 2016 had not been published, data on October and November were used)
renewable sources of power, including wind or solar power generation, are given preferential treatment, and when the power generated by these sources are sold to electric transmission companies, the facilities for such power generation are shown to be built very actively.

Then, the 13th Five-Year Plan (第十三个五年规划纲要，“十三五”规划) for the development of electric power with the target year of 2020 will be introduced hereafter, and the specific details of the policy can be summarized in the following six issues.

Continuation of stable power supply achieved in the period of the 12th Five-Year Plan

The yearly growth rate of power generation between 2016 and 2020 is expected to be 3.6% to 4.8%, with the total power generation capacity increasing to 2 billion kilowatts as of 2020. It represents an increase of 470 million kilowatts for five years until the end of 2020, and this rate of increase is lower than that for the period of the 12th Five-Year Plan. The building of new coal-fired plants will be limited as much as possible, with the increase in the power generation being less than 200 million kilowatts, which accounts for 42% of the total increase in all power sources. Meanwhile, the increase in wind power generation is 79 million kilowatts (17% of the total increase) and that of solar power generation (including solar light and solar heat) is 68 million kilowatts (15%), both of which account for quite a large proportion. Attention will be also drawn to the increase in the rate of pumped-storage power generation by 20 million kilowatts (4%) and natural gas-fired power generation by more than 44 million kilowatts (8%). These increases indicate the necessity of the substantial number of power sources that would serve as the backup power for wind or solar power generation, which offer unstable power output.

Establishment of a more flexible power system on the premise of the continued large-scale introduction of wind and solar power generation

To achieve the committed target to increase the ratio of non-fossil energies for primary energy consumption from the 2015 figure of 12.0% to 15.0% in 2020, continuous and active promotion of the introduction of wind and solar power generation is indicated by policy. However, given that wind or solar power plants are unevenly located at present, it is considered necessary to enhance the transmission system in terms of both quality and quantity, and reasonably adjust the distribution and location of wind and solar power plants in order to ensure the effective use of generated power and stable operation of the power system.

Additionally, to ensure the stability of the whole power system considering the increased use of wind and solar power generation, which offer unstable power output, the abovementioned backup power sources will be prepared, and the operation of the power system will be optimized. The policy also places an emphasis on the preferred use of electric power by users, including improvement in the demand-side response.

Continuation of the expansion of nuclear power

The policy indicates that China will continue to build new nuclear power plants or increase the number of the existing ones and shift to the use of generation III reactors, independently developed by China. The electricity production by nuclear plants in operation will be 58 million kilowatts and by those in construction will be 30 million kilowatts as of 2020. The location of nuclear plants in inland areas is an issue attracting attention, but it is accurately explained that the processes for preparation will be advanced, based on which locations appear frozen for the time being.

Upgrade of coal-fired plants to more efficient and clearer ones
As for the measures for air pollution and global warming, the upgrade of coal-fired plants will be accelerated to promote clean and orderly development. The electricity generation from aging coal-fired plants will be reduced by more than 20 million kilowatts. New coal-fired plants are defined to have better heat efficiency by more than 41.0% (when operated at 300 g standard coal/kWh), and the existing ones are also defined to have improved heat efficiency by more than 39.6% on average (when operated at 310 g standard coal/kWh).

In addition, coal-fired plants with electricity production levels of 420 million kilowatts will be altered to have ultralow emissions of smoke dust, sulfur oxides, and NOx. The target values of the ultralow emission are similar to the values of advanced coal-fired plants in Japan and will thus be very challenging to achieve.

**Sophistication and internationalization of the development of electricity generation**

Application and diffusion of new technologies will be promoted in the fields of electric power generation and transmission, which are highly matured and are expected to be required from the market, and the industrialization of those technologies will be realized as soon as possible. The electric power distribution system will transition to a smart system.

On the international side, with the firm maintenance of openness, cooperation, and win-win relationships, the international and domestic markets and resources will be fully utilized to focus on promoting international relationships for the electrical equipment, technology, standards, and engineering services.

**Promotion of new reform of the electric power system**

The reform of the electric power field focuses on the commercialization of power trading, partial liberalization of retail electricity, and initial reform of the systems of electric power transmission and distribution. In particular, attention is drawn to the statement that a cost assessment will be newly performed on the businesses of the electric power transmission and distribution departments. With these measures, the electric power markets that have been operated in some pilot areas will start to operate on a full-scale basis.

In addition, policies of simplification and transition of public administration are presented, where the development of power sources and liberalization of the electric power demand and supply plan will be promoted.

**Problems Japanese firms in China are facing and requests for improvement to the Chinese government**

Only a small number of Japanese firms in China are directly involved in the upstream side of the electric power field (i.e., the businesses of electric power generation and transmission), and most of them are in the position of electric power users. Thus, from the viewpoint of users, problems with the electric power field in China and the request for improvement will be described.

As electric power users, Japanese companies have struggled with securing the allocation of electricity and addressing the scheduled cutoff of the electric supply and sudden electricity outage when power shortages have surfaced. However, since the electricity demand and supply have been substantially improved in recent years, attention was previously given to securing the necessary electricity power, which has changed the quality and cost of the electricity supply.

It would be a favorable trend for electricity power users to have more options for electricity supplier and price programs, and it would be more favorable if suppliers competed with each other in the market, which would reduce electricity prices. Therefore, it is requested to design the system of the retail electricity reform included
in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power, so as to ensure transparency in the system and operation for users and thus reduce their economic burden.

The contents of the policies in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power also seem to show the future direction that enables users to more voluntarily participate in activities in order to establish a more flexible electric power system. These activities would be promoted by users’ installation of dispersed power sources (e.g., solar) and electric storage equipment, as well as by their demand-side response. These voluntary actions of users will strongly promote the achievement of the target in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power and can be regarded as activities that meet the requirements of the policies. Thus, preferential treatment is sought on economic issues, such as preferential taxation for the introduction of such equipment.

\textit{Proposal}

(1) Improvement in the system of the electric power market

- A system design is requested to ensure electric power users transparency and allow them to have economic advantages, in implementing the electric power retail reform and in forming the more competitive electric power retail market that was specified in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power.
- A system design is also desired to ensure electric power users transparency, and allow them to have reduced economic burdens in liberalizing the power use plan.

(2) The policy for accelerating the development of dispersed power sources, described in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power, can be appreciated, since it would encourage business operators, who are electric power users, to install electric power equipment, such as those utilizing solar light, on their own premises or at nearby locations such as roofs. To accelerate these actions, the creation of economic incentives is requested, such as reductions or tax exemptions on the costs required for the installation of dispersed sources of power and preferential treatment for the selling of surplus electricity.

(3) Improvement in the demand-side response to the electric power supply

- Improvement in the demand-side response to the electric power supply described in the 13\textsuperscript{th} Five-Year Plan (第十三个五年规划纲要，"十三五"规划) for the development of electric power is sought to be advanced so as to provide advantages to users on the basis of the actual state of and measures for, their use of electric power.
- To equalize electric power use or install energy storage facilities for peak shifts, preferential treatment is requested to be taken by such means as a reduction or tax exemption for companies.
- Various electricity price programs are requested to be prepared so as to allow each company to cooperate in improving the demand-side response, according to the actual state of its electric power use.
Chapter 3 Construction industry

1. Construction

In 2016, the Chinese domestic construction market was influenced by an economic slowdown and the introduction of a value added tax, which has replaced the conventional business tax from April 2016 in the construction industry, as well as other industries (the tax reform named “営改増”). These changes made the year a severe one for the industry. In addition, the continuous decrease in direct investment from Japan for the past several years has created difficulties in the business management of Japanese construction firms in China, which can receive orders of construction only from foreign countries. Meanwhile, as measures to resolve the urban problems and environmental issues, which are becoming more serious, various government-driven policies also started to be promoted in the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划). The Chinese construction industry needs to create new business models in order to replace conventional ones and is thus at a turning point.

The amount of fixed asset investment in urban areas in 2016 was 59.6 trillion yuan, an increase of 8.1% from the previous year, showing a further lower growth rate than 15.7% in 2014 and 10.0% in 2015. The low investment in fixed assets was mainly attributed to a low growth rate in the manufacturing investment of 4.2%, which substantially decreased from 8.1% in 2015. The amount of real estate investment was also 10.2 trillion yuan, showing a low growth rate of 6.9% from the previous year.

The total area and price of sold real estate largely improved, primarily in large cities, showing growth of 22.5% and 36.1% from the year earlier, respectively. However, as represented by the quote “houses are the things used for living, not for investing” (“房子是用来住的，不是用来炒的”) mentioned in the report of the Central Economic Work Conference held in December 2016, concerns have been raised about whether the bubble economy will burst. With a background of sluggish sales in local cities, the selling stock was 690 million m² as of the end of December 2016, showing only a slight improvement from 710 million m² at the end of December 2016, and still serving as a factor interfering with new investment. The area of new residential construction in 2016 also remained at 1,660 million m², an increase of 8.1% from the previous year.

Meanwhile, political measures have been presented in a few opinions on “further enhancement of the policies for building and managing urban projects” (“中共中央国務院關於進一歩加強城市計画建設管理工作的若干意見”) released by the Chinese communist party and State Council (国务院) in February 2016. Including the target values, the measures address the following issues: improvement in the level of construction in urban regions (spread of the system of prime contracts for total construction, spread of manufactured housing), development of public services (spread of an underground comprehensive pipe gallery, optimization of road networks in urban areas, prioritized development of public transportation), and improvement in the urban residential environment (enhancement of urban sewage management, enhancement of total waste management). Under the conditions of sluggish investment in the manufacturing and real estate industries, which have been conventional markets for construction firms, considerable attention is focused on projects to improve the urban and transportation infrastructure, which is driven by the PPP model advocated by the government.

Based on the above situation, the problems that Japanese construction companies in China are facing and the requests for improvement will be presented below.

Problems related to the construction industry and requests for improvement
Items that were improved in 2016

Among the propositions provided in the 2016 white paper, improvement was noted for following issues.

(1) As stated below, it is required to flexibly operate and relax the new details on the requirements for approval and restrictions on accepting orders defined in the quality standard for construction companies issued on November 6, 2014. Additionally, the department of house and urban construction is requested to instruct regional construction authorities to operate the standard in a unified manner—not to allow them to implement additional restrictions (issue 9 of the proposition in the 2016 white paper). The indexes of the quality standard in this proposition have been further simplified in the “notice on the issue of quality control of construction companies by the department of house, rural, and urban construction” (“住房城郷建設部関于建築業企業資質管理有關問題的通知建市〔2015〕154号”), issued on October 9, 2015, as well as the “notice on the simplification of some indexes of the quality standard of construction companies” (“住房城郷建設部関于簡化建築業企業資質標準部分指標的通知建市〔2016〕226号”), subsequently issued on October 14, 2016. The simplification will reduce the burden of companies, and can thus be appreciated. The central government is expected to thoroughly make instructions to local governments in the future.

(2) The house construction department provided local governments with instructions on the establishment of subsidiary or branch offices as requirements for construction firms’ expansion into local regions other than that of the firm’s headquarters, and on the process of applying for approval of construction in the region. Continuous instructions are requested on the thorough implementation of the above instructions (issue 2 of the proposition in the 2016 white paper).

It is sought to relax the requirements below in the process of applying for approval of construction, and improve the uneven operation of these requirements by local authorities (issue 11 of the proposition in the 2016 white paper).

As an issue related to this proposition, on September 21, 2015, the authorities announced a “notice on a few provisions to promote uniform openness in the construction market by the department of house, rural, and urban construction” (“住房城郷建設部關于印発推動建築市場統一開放若干規定的通知〔2015〕140号”). Article 4 of the first item (a few provisions to promote uniform openness in the construction market) in the attached instructions of the notice states that equal treatment would be given to both domestic and foreign companies. In addition, Article 8 has specified a total of nine prohibitions, including the following rules: (1) it is prohibited to arbitrarily set any requirements for assessment and approval, items on registration, and notification; and (2) it is prohibited to demand that foreign companies establish subsidiary or branch offices. The central government is expected to offer further instruction and supervision to enable more thorough implementation of these rules, and ensure fair and uniform competition nationwide in order to realize the above proposition.

Problems required to be continuously improved after 2017

The problems that construction firms are facing include problems specific to foreign firms, including Japanese firms, and problems with the entire industry, including Chinese construction firms.

The problems specific to foreign companies were mentioned in a few “opinions on new system construction for the open economy” (“中共中央國務院關于構建開放型經濟新體制的若干意見”) issued on May 5, 2015, by the Chinese communist party and State Council (国务院), as well as in the “notice on a few measures for the expansion of opening the country to foreign investment and active utilization of foreign companies” (“國務院關于擴大對外開放積極利用外資若干措施的通知國發[2017]5号”) issued on January
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12, 2017, by the State Council (国务院). It can be noted that the policy has described further opening the door to foreign companies, including the businesses of building design. Future attempts are also expected to gradually relax the regulations on the problems mentioned below.

**Problems specific to foreign firms, including Japanese ones**

**Problems with the quality in the design by companies independently funded by foreign firms and foreign firms**

The rules for the management of wholly foreign-owned construction companies define categories of constructions allowing such companies to receive contracts as follows: (1) 100% foreign-owned companies, or foreign grant aid; (2) loans from international financial institutions; and (3) Chinese joint venture construction companies with more than 50% ownership by a foreign company and those with less than 50% ownership by a foreign company whose construction was approved by a province, autonomous region, or municipality, excluding those facing technical difficulties in completing the construction. The main proportion of the domestic construction investment is made up by 100% domestically owned firms. However, these construction projects are not open to wholly foreign-owned construction firms, except for cases in which Chinese companies face technical difficulties in construction and permission from a province, autonomous region, or municipality can be received. Consequently, the Chinese construction market is not attractive for Japanese construction firms, many of which comprise wholly foreign-owned construction companies. These conditions also indicate that there are no opportunities to utilize the experience, knowledge, and advanced technologies of Japanese companies to solve urban or environmental problems mentioned in the opening sentences, which also seems to disadvantage China.

In addition, when foreign design offices undertake design projects in China, they should cooperate with Chinese design offices (設計院) qualified to design in China, according to the rules in 建市[2004]78 号.

**Problems with architect qualifications**

By the issuance of the notice of the house construction department in February 2008, the system of project managers has been changed to a system of architects. With this change, treatment of foreign project managers, including Japanese ones, has also been changed, in the manner that foreigners considering becoming an on-site supervisor would have no choice but to take and pass the architect examination.

Consequently, Japanese technicians who have relevant official Japanese certification, such as first-class architect, with a similar technical level to Chinese qualified architects, have been led to an unstable position at construction sites, and their treatment itself has been unfair.

**Problems universally occurring in the construction industry**

**Problems with bidding**

The “bidding law” (主席令第 21 号) and the “standard on the scope and scale of bidding for construction” (No. 3 of the State Development Planning Commission) specified that bidding procedures are necessary to determine the firm that would be assigned to projects, such as the construction of infrastructure facilities, public projects, or construction with public fund investment, national finance, or funding by an international organization or foreign government.

Authorities at the provincial government level can determine the scope and scale of the bidding according to the above regulation. Then, it is unnecessary for regions such as Shanghai and Chiangsu to use the bidding procedure for private foreign investment projects (non-national investments), while it is necessary for Beijing and Tianjin to use the procedure, indicating that the operation of the bidding system varies by region.
The bidding procedure is implemented by qualified bidding agencies, and the evaluation of bidding is also performed by third-party organizations. This results in the possibility that orders do not reflect the intention of the clients, a longer time is required for the bidding procedure, and a small reward is not given to the bidding agencies, showing unfavorable effects on the implementation of the projects.

**Problems with the system to pursue a lifelong responsibility for quality**

The “law of 建築工程五方主体項目負責人質量終身責任追及暫行弁法（建質〔2014〕124号）” was issued by the house construction department in August 2014. The law places a lifelong responsibility for the quality of construction (for the period of 50 years regularly, a limit to use for the designed and constructed building) on individual persons in charge of projects of 5 parties (the client, company conducting field investigation, design company, construction company, and supervision company) involved in construction projects.

The individuals have to assume this responsibility, even after they have retired from the construction company, and must incur an administrative penalty, such as suspension of the license or criminal punishment, in the case of a problem, according to the law.

The intention of the policy is to emphasize that the quality of construction is understandable. However, given that the number of applicants for construction jobs has been decreasing every year because of the softening economy, concerns have been raised about such policies contributing to a further downturn in construction jobs. Thus, future revision is expected including abolishment of the rules.

**Various problems with the process of applying for approval of construction**

Application for the approval of construction must be made to the construction department of government agencies in the region of the planned construction. However, the demands or instructions mentioned below have been made depending on the region, which causes unfavorable effects on construction projects. In addition, construction firms are facing problems such as the abandonment of expansion into regions of planned construction and the loss of opportunities to receive orders, depending on the requirements. The notice described above (construction [2015] article 140) is expected to improve these conditions in the future, and the central government is also expected to instruct local governments to improve them.

**Problems with the establishment of branch offices**

The administrative agency of some local regions where there are construction sites sometimes imposes conditions on the establishment of subsidiary or branch offices. In these cases, companies are required to pay the guarantee money for farmer mechanics, maintain a bank account in their corporate name, and maintain an office in a certain area, which would negatively affect construction costs. Additionally, the procedure is a complicated one in that the necessary requirements or documents vary by region, which has a significant impact on the process of construction in the case of an inability to timely establish a subsidiary or branch office.

**Problems with the identification of personnel registered for construction with the use of social insurance**

In many regions in China (most of them where Japanese construction firms entered), submission of a social insurance certificate is required to prove that the qualified on-site supervisor is an employee of the firm. However, there are various forms or details of the description of the certificate issued by the social insurance department, which often precludes companies meeting the requirements of the form or details of the description specified by the construction department of governmental agencies in each region where there is a construction site. Thus, an extended period is required to solve problems.
In some regions, the authorities also do not allow social insurance certificates that were issued for the payment of the social insurance premium in the name of branch office or that were issued more than five years ago. These requirements have become stricter with each succeeding year. Thus, it is expected that the restrictions will be relaxed and the operation will be integrated.

**Problems with construction bonds**

Construction bonds, such as bonds to secure the payment of construction costs or to secure the implementation of the contract, are put up as collateral for default of both contracting parties and are pledged to other parties depending on the contract conditions. However, even if both contracting parties agree that pledging collateral is unnecessary, the construction authority in some areas sometimes instructs the company to pledge collateral (i.e., to change the contract conditions).

Although the type or amount of the bond necessary to pledge varies by region, the bonds of both contracting parties (i.e., “bond cost” for them) may total more than 10 million yen per construction depending on the region. Considering the effect in increasing construction costs, it is expected that the operation agreement between the concerned parties will be respected.

**Problems with the model form for construction contracts**

As an issue similar to that mentioned above, companies are sometimes forced to use a model form (established by the house construction department or the construction bureau in each region) in the clause of the contract for construction. Meanwhile, construction purchasers, comprising foreign firms, including Japanese ones, insist on using clauses of contracts that are uniformly adopted worldwide (such as the clauses of the Federation Internationale des Ingenieurs-Counsels [FIDIC]), and construction companies often accept these clauses. However, even if both concerned parties agree with the use of the clause of contract designated by purchasers and sign the contract, they are sometimes required to again sign the contract for applications using the model form in response to the demands of an authority. This situation may require both concerned parties to take considerable time and effort to confirm the consistency and may risk causing confusion during conflict episodes. Thus, it is expected that the agreement between the concerned parties will be respected in the operation of the system.

### Proposal

1. It is sought to relax the regulations on accepting orders (restrictions on accepting the order of construction from Chinese customers) placed on wholly foreign-owned construction companies.

2. It is requested to correct the unequal treatment in the qualification system between foreign and Chinese employees engaging in construction, as well as to improve the laws and regulations. Specifically, Japanese qualifications, such as first-class architects and construction managing engineers, are desired to be treated the same as Chinese qualifications, such as architect.

3. It is sought to relax the regulation on foreign firms to acquire the qualification of design (a necessity to establish a joint venture with Chinese firms, or the restriction on the number of foreign resident designers).

4. In the determination of the construction company for each construction process, such as preliminary investigation, supervision, design, and building for foreign construction (non-national, private investment project), bidding that needs to be conducted by the purchasers is requested to be revised, and the procedure should be simplified.

5. The central government is requested to thoroughly instruct local governments to comply with the “notice on simplification of some indexes of the quality standard of construction companies” (建市[2016]226
(6) To promote the widespread dissemination of the construction-related qualification system that contributes to improving the level of building technology in China, it is sought to abolish the system of lifetime responsibility for quality on individual persons in charge of order, field investigation, design, construction, and supervision who engage in projects.

(7) As mentioned below, it is requested to relax the demands and improve the various operations of regulations in each region when foreign firms expand into local regions or apply for approval of construction.

- The central government is required to continuously give instructions to local governments on the expansion of construction companies into areas other than the location of the company’s headquarters, and on the exclusion of the establishment of a subsidiary or branch office from the requirements for obtaining approval of construction.
- Submission of a social insurance certificate of the personnel registered for construction (qualified on-site construction managing engineer).
- Demand for pledging construction bonds where the concerned parties (purchaser and construction company) agree that it is unnecessary to do so.
- Forcing the use of the model form of the contract of construction in signing contracts.
- Submission of corporate identification (passport in the case of foreigners).
- It is desired to correct and revise the regional difference in the tax system and improve the situation of duplicate payments at the time of payment of tax or bond.
2. Real estate

Overview of Chinese real estate development in 2016

The growth pace of real estate investment was stable

The investment amount of nationwide real estate development in 2016 was 10 trillion, 258.1 billion yuan, an increase of 6.9% from the same period the previous year. Among them, housing investment was 6 trillion, 870.4 billion yuan, an increase of 6.4% from the same period the previous year; office building investment was 653.3 billion yuan, an increase of 5.2%; and commercial real estate was 1 trillion, 583.3 billion yuan, an increase of 8.4%. Housing investment accounts for 67.0% of the real estate development investment, which indicates that real estate development plays an important role in stable investment in fixed assets across the country.

Figure 1. The growth rate of real estate development investment in China

![Graph showing the growth rate of real estate development investment in China from 2015 to 2016. The graph indicates a fluctuating trend with peaks and troughs.]

Source: (Adapted from materials of the China Statistical Information Network)

The structure of real estate investment by region

More than half of real estate investment in China is made in the eastern regions, which continuously exceed the mid-west regions in the amount of investment. The development of real estate investment in the east, midland, and west regions is stable, maintaining well-balanced development.

Table 1. The situation of real estate development in areas across China (unit: 100 million yuan)

<table>
<thead>
<tr>
<th>Region</th>
<th>East region</th>
<th>Midland region</th>
<th>West region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>56233.43</td>
<td>23286.01</td>
<td>23061.17</td>
</tr>
<tr>
<td>Beijing</td>
<td>4000.57</td>
<td>1597.35</td>
<td>Inner Mongolia 1133.48</td>
</tr>
<tr>
<td>Tianjin</td>
<td>2300.01</td>
<td>1016.76</td>
<td>Guangxi 2397.99</td>
</tr>
<tr>
<td>Hebei</td>
<td>4695.63</td>
<td>864.84</td>
<td>Chongqing 3725.95</td>
</tr>
<tr>
<td>Liaoning</td>
<td>2094.85</td>
<td>4603.56</td>
<td>Sichuan 5282.64</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3709.03</td>
<td>1770.94</td>
<td>Guizhou 2148.96</td>
</tr>
<tr>
<td>Chiangsu</td>
<td>8956.37</td>
<td>6179.13</td>
<td>Yunnan 2688.34</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>7466.37</td>
<td>4296.38</td>
<td>Tibet 48.54</td>
</tr>
<tr>
<td>Fujian</td>
<td>4588.83</td>
<td>2957.04</td>
<td>Shaanxi 2736.75</td>
</tr>
<tr>
<td>Shandong</td>
<td>6323.38</td>
<td></td>
<td>Gansu 850.03</td>
</tr>
</tbody>
</table>
Table 2. The structure of real estate investment in the east, midland, and west regions across China (unit: 100 million yuan, %)

<table>
<thead>
<tr>
<th>Region</th>
<th>Real estate development investment</th>
<th>Ratio</th>
<th>Comparison to the previous year</th>
<th>Housing investment</th>
<th>Ratio</th>
<th>Comparison to the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>56233</td>
<td>54.8</td>
<td>5.6</td>
<td>37891</td>
<td>55.2</td>
<td>6.3</td>
</tr>
<tr>
<td>Midland</td>
<td>23286</td>
<td>22.7</td>
<td>10.7</td>
<td>16208</td>
<td>23.6</td>
<td>9.9</td>
</tr>
<tr>
<td>West</td>
<td>23061</td>
<td>22.5</td>
<td>6.2</td>
<td>14605</td>
<td>21.2</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Land purchase cost

<table>
<thead>
<tr>
<th>Region</th>
<th>Ratio</th>
<th>Comparison to the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>63.1</td>
<td>27.6</td>
</tr>
<tr>
<td>Midland</td>
<td>21.2</td>
<td>23.4</td>
</tr>
<tr>
<td>West</td>
<td>15.6</td>
<td>−7.0</td>
</tr>
</tbody>
</table>

Source: (Adapted from materials of Wakaba real estate)

The areas of land transactions substantially decreased, and the unit prices of transactions continuously increased

The total area of land purchased by real estate developers in 2016 was 220 million 250,000 m², a decrease of 3.4% from the previous year. The total amount of land transactions was 912.9 billion yuan, an increase of 19.8% from the previous year.

Figure 2. The growth rate of the area purchased by real estate developers in China

Source: (Adapted from materials of the China Statistical Information Network)

The growth rates of the area of housing starts and completion are decreasing overall

The total area of construction by real estate developers in 2016 was 7,589 million, 750 thousand m², an increase of 3.2% from the previous year. Within this, the area of housing construction was 5,213 million, 100 thousand m², an increase of 1.9% from the year before. The area of construction starts was 1,669 million, 280 thousand m², an increase of 8.1% from the year earlier, and within this, the area of housing starts was 1,159 million, 110 thousand m², an increase of 8.7% from the year before. The area of construction
completion was 1,061 million, 280 thousand m², an increase of 6.1% from the year earlier, and within this, the area of housing completion was 771 million, 850 thousand m², an increase of 4.6% from the year before.

**The floor space and the price of houses for sale both increased**

The floor space of houses for sale in 2016 was 1,573 million, 490 thousand m², an increase of 22.5% from the previous year. Within this, the floor space of houses increased by 22.4%, that of office buildings increased by 31.4%, and that of commercial real estate increased by 16.8%.

The selling price of houses for sale was 11 trillion, 762 billion 700 million yuan, an increase of 34.8% from the previous year. Within this, the selling price of houses increased by 36.1%, that of office buildings increased by 45.8%, and that of commercial real estate increased by 19.5%.

**Figure 3. The growth rates of the floor space and price of houses for sale across China**

![Graph showing growth rates of floor space and price of houses for sale across China]

Source: (Adapted from materials of the China Statistical Information Network)

**The investment, number of sales, and average price of houses for sale in major cities nationwide have increased overall**

In 2016, a decrease in the average price of new houses for sale was seen in Shijiazhuang, Changchun, Fuzhou, Kunming, Yinchuan, and Urumqi, among the 40 municipalities, provincial capitals, and 計画単列都市(corresponding to the government-designated city) nationwide. The largest decrease was noted in Shijiazhuang at 5.7%. There were increases in the rest of the cities in China.

**Table 3. The average price level of houses for sale by type in leading cities**

(Unit: yuan/m², %)

<table>
<thead>
<tr>
<th>City</th>
<th>Absolute value</th>
<th>House Comparison to the previous year</th>
<th>Office building Absolute value</th>
<th>Office building Comparison to the previous year</th>
<th>Commercial real estate Absolute value</th>
<th>Commercial real estate Comparison to the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>10635</td>
<td>12.4</td>
<td>16686</td>
<td>9.3</td>
<td>13266</td>
<td>4.1</td>
</tr>
<tr>
<td>Beijing</td>
<td>28489</td>
<td>27.8</td>
<td>30491</td>
<td>5.4</td>
<td>29928</td>
<td>9.6</td>
</tr>
<tr>
<td>Tianjin</td>
<td>12870</td>
<td>30.4</td>
<td>14395</td>
<td>−7.2</td>
<td>14435</td>
<td>10.0</td>
</tr>
<tr>
<td>Shijiazhuang</td>
<td>7354</td>
<td>−5.7</td>
<td>12759</td>
<td>23.9</td>
<td>12423</td>
<td>13.7</td>
</tr>
<tr>
<td>Dalian</td>
<td>9119</td>
<td>4.7</td>
<td>16249</td>
<td>27.2</td>
<td>13344</td>
<td>9.6</td>
</tr>
<tr>
<td>City</td>
<td>Average price of houses for sale (yuan/m²)</td>
<td>Comparison to the previous year (%)</td>
<td>Beijing</td>
<td>Shanghai</td>
<td>Guangzhou</td>
<td>Shenzhen</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------------------</td>
<td>-------------------------------------</td>
<td>---------</td>
<td>----------</td>
<td>-----------</td>
<td>----------</td>
</tr>
<tr>
<td>Changchun</td>
<td>6018</td>
<td>−5.6</td>
<td>7738</td>
<td>2.2</td>
<td>9958</td>
<td>−4.8</td>
</tr>
<tr>
<td>Shanghai</td>
<td>25910</td>
<td>20.5</td>
<td>29477</td>
<td>19.1</td>
<td>22854</td>
<td>14.0</td>
</tr>
<tr>
<td>Suzhou</td>
<td>13596</td>
<td>31.6</td>
<td>9895</td>
<td>6.5</td>
<td>12072</td>
<td>7.2</td>
</tr>
<tr>
<td>Fuzhou</td>
<td>11058</td>
<td>−2.4</td>
<td>15297</td>
<td>11.4</td>
<td>13254</td>
<td>−22.0</td>
</tr>
<tr>
<td>Tsingtao</td>
<td>8997</td>
<td>6.6</td>
<td>12572</td>
<td>−13.4</td>
<td>13761</td>
<td>12.3</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>16346</td>
<td>16.1</td>
<td>17390</td>
<td>1.1</td>
<td>17324</td>
<td>−8.6</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>45498</td>
<td>35.2</td>
<td>45313</td>
<td>16.6</td>
<td>35436</td>
<td>8.0</td>
</tr>
<tr>
<td>Chengdu</td>
<td>7377</td>
<td>12.0</td>
<td>8721</td>
<td>13.2</td>
<td>12801</td>
<td>−22.0</td>
</tr>
<tr>
<td>Kunming</td>
<td>6851</td>
<td>−4.6</td>
<td>8186</td>
<td>−32.0</td>
<td>10916</td>
<td>12.2</td>
</tr>
<tr>
<td>Yinchuan</td>
<td>4448</td>
<td>−1.1</td>
<td>8012</td>
<td>1.4</td>
<td>8038</td>
<td>−4.9</td>
</tr>
<tr>
<td>Urumqi</td>
<td>5829</td>
<td>−5.1</td>
<td>8921</td>
<td>−12.0</td>
<td>13556</td>
<td>−8.1</td>
</tr>
</tbody>
</table>

(Note: the house prices in each city = the cumulative sales of houses from January to December 2016 divided by the cumulative floor space multiplied by 10000)

Table 4. The average prices of houses for sale in Beijing, Shanghai, Guangzhou, Shenzhen, 40 leading cities, and nationwide

<table>
<thead>
<tr>
<th>Average price of houses for sale</th>
<th>Beijing</th>
<th>Shanghai</th>
<th>Guangzhou</th>
<th>Shenzhen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average price (yuan/m²)</td>
<td>27497</td>
<td>24747</td>
<td>16384</td>
<td>45146</td>
</tr>
<tr>
<td>Comparison to the previous year (%)</td>
<td>21.5</td>
<td>18.1</td>
<td>12.1</td>
<td>33.0</td>
</tr>
</tbody>
</table>

40 leading cities

<table>
<thead>
<tr>
<th>Average price of houses for sale</th>
<th>Average price (yuan/m²)</th>
<th>Comparison to the previous year (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10863</td>
<td>11.2</td>
</tr>
<tr>
<td></td>
<td>7476</td>
<td>10.1</td>
</tr>
</tbody>
</table>

The characteristics of changes in the market prices of houses for sale across China in 2016 are described below. The price increased in Shenzhen, Shanghai, and Beijing before measures for restrictions on home purchases could take place, which affected the prices across the country. The growth rate of prices was more rapid in the first-class cities than in the second-class cities, which also have larger growth rates than the third of fourth-class cities. Some of the second-class cities led the increase in prices during the year. There are distinct differences in the price changes between the cities, with increases in most of them and decreases in a portion of them. The second half of the year is the major period when the price increases.

Table 5. The floor space and price of houses for sale for 10 leading cities across China in 2016

<table>
<thead>
<tr>
<th>Order</th>
<th>Province</th>
<th>Floor space of houses sold (m²)</th>
<th>Order</th>
<th>Province</th>
<th>Sales (100 million yuan)</th>
<th>Average selling price (yuan/m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Guangdong</td>
<td>14612</td>
<td>1</td>
<td>Guangdong</td>
<td>16215</td>
<td>11097</td>
</tr>
<tr>
<td>2</td>
<td>Chiangsu</td>
<td>13962</td>
<td>2</td>
<td>Chiangsu</td>
<td>12293</td>
<td>8805</td>
</tr>
<tr>
<td>3</td>
<td>Shandong</td>
<td>11789</td>
<td>4</td>
<td>Shandong</td>
<td>6903</td>
<td>8805</td>
</tr>
<tr>
<td>4</td>
<td>Henan</td>
<td>11306</td>
<td>6</td>
<td></td>
<td>5612</td>
<td>4964</td>
</tr>
<tr>
<td>5</td>
<td>Sichuan</td>
<td>9300</td>
<td>7</td>
<td>Sichuan</td>
<td>5359</td>
<td>5762</td>
</tr>
<tr>
<td>6</td>
<td>Zhejiang</td>
<td>8637</td>
<td>3</td>
<td>Zhejiang</td>
<td>9615</td>
<td>11132</td>
</tr>
<tr>
<td>7</td>
<td>Anhui</td>
<td>8500</td>
<td>8</td>
<td>Anhui</td>
<td>5036</td>
<td>5925</td>
</tr>
<tr>
<td>8</td>
<td>Hunan</td>
<td>8085</td>
<td>5</td>
<td>Hunan</td>
<td>3752</td>
<td>4641</td>
</tr>
<tr>
<td>9</td>
<td>Hubei</td>
<td>7427</td>
<td>9</td>
<td>Hubei</td>
<td>4994</td>
<td>6724</td>
</tr>
<tr>
<td>10</td>
<td>Hebei</td>
<td>6682</td>
<td>10</td>
<td>Hebei</td>
<td>4302</td>
<td>6438</td>
</tr>
<tr>
<td></td>
<td>Beijing</td>
<td>1659</td>
<td>10</td>
<td></td>
<td>4562</td>
<td>27498</td>
</tr>
<tr>
<td></td>
<td>Shanghai</td>
<td>2706</td>
<td>5</td>
<td>Shanghai</td>
<td>6696</td>
<td>24745</td>
</tr>
<tr>
<td></td>
<td>Guangzhou</td>
<td>1949</td>
<td></td>
<td>Guangzhou</td>
<td>3193</td>
<td>24745</td>
</tr>
<tr>
<td></td>
<td>Shenzhen</td>
<td>736</td>
<td></td>
<td></td>
<td>3324</td>
<td>45163</td>
</tr>
</tbody>
</table>
Table 6. Investment and sales of houses in Beijing, Shanghai, Guangzhou, Shenzhen, 40 leading cities, and nationwide in 2016

<table>
<thead>
<tr>
<th></th>
<th>Investment</th>
<th>Growth rate</th>
<th>Floor space of houses sold</th>
<th>Growth rate</th>
<th>Sales</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>4000.57</td>
<td>−4.2</td>
<td>1658.93</td>
<td>6.7</td>
<td>4562</td>
<td>29.7</td>
</tr>
<tr>
<td>Shanghai</td>
<td>3709.03</td>
<td>6.9</td>
<td>2705.69</td>
<td>11.3</td>
<td>6696</td>
<td>31.5</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>2540.85</td>
<td>18.9</td>
<td>1949.10</td>
<td>17.9</td>
<td>3193</td>
<td>32.2</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>1756.52</td>
<td>32.0</td>
<td>736.19</td>
<td>−11.5</td>
<td>3324</td>
<td>−3.2</td>
</tr>
<tr>
<td>40 cities</td>
<td>56543.43</td>
<td>8.1</td>
<td>61697.92</td>
<td>23.4</td>
<td>67019.51</td>
<td>37.2</td>
</tr>
<tr>
<td>Nationwide</td>
<td>102580.61</td>
<td>6.9</td>
<td>157348.53</td>
<td>22.5</td>
<td>117627.05</td>
<td>34.8</td>
</tr>
</tbody>
</table>

The business indicator of real estate development fell back

Figure 4. The business indicator of real estate development

The business indicator of real estate development shows continuous increases overall, but during June and August, the bottom price was sought, with the lowest value of 93.70. Subsequently, since houses for sale were continuously released and the range of decline of development investment decreased, the decline of the indicator slowed, and it rose again.

Prediction of the trend in real estate in 2017

It is predicted that the measures for adjusting and controlling real estate would be strictly implemented in 2017. The main characteristics of the measures are considered to be as follows: (1) strict control on the illegal manipulation of false information would be imposed; (2) in cities with excessively rapid increases in real estate prices, the price would be stringently adjusted and controlled, and the responsibility on the mayor and secretary would be strictly examined; (3) with control of the demand in the market, the price would not fall substantially, but also would not increase remarkably; (4) measures for reducing the stock of real estate would be continuously promoted, with the focus placed mainly on commercial real estate or office buildings; (5) the necessity to address the inconsistency in the market would be suppressed and postponed; and (6) the size of investment, construction, and transaction would continuously remain at high levels.
It is requested to relax the restrictions on foreign firms’ investment in the construction of real estate.

Since the license and certification of real estate brokers were withdrawn by the document issued by the State Council (国务院) in 2014, the brokers must apply for approval of the qualification of broker to the department in charge every year. To reduce the burden of companies, the relevant laws and regulations are sought to be made uniform.

There are only a limited number of offices with conventional floor space, making it difficult for companies to register. Meanwhile, company registration with the new types of offices, such as “combined office,” creates difficulties for small companies (e.g., small office/home office [SOHO]) (companies are generally allowed to register only a single office for each single registration certificate of real estate and are not allowed to register when they plan to simultaneously use multiple offices). The government is requested to issue appropriate laws to solve the problem.

The government is requested to prepare detailed rules related to real estate rental and sales.

In the case of renting real estate whose mortgage is included in the registration certificate of the real estate, problems such as payment default by the borrower cannot be avoided by the renter as a risk (such as forfeiting the mortgage). The government agency should protect the right of the borrower through legislation.

When a longer time is required for reconstruction, renovation, and repair in the preparation for fire inspection, establishment of a time schedule for these construction activities is sometimes very difficult. Although fire inspection based on the building code should be strictly implemented, it is requested to make a clearer time schedule, which has previously been unclear, and provide instruction services.

Companies are required to undergo very complicated procedures for changing the location of offices or for performing commerce and industry tax practices. Improvement of the laws is requested, particularly with respect to changing the place for tax payment.

In the case of the relocation of offices, the paperwork and schedule to apply for changing locations is very unclear. Inquiry made to the point of contact administered by the government often results in various answers from the persons in charge. It is sought to simplify and streamline the method of the procedure, as well as improve the level of knowledge and service of the persons in charge.

After the conclusion of a contract renting real estate, relocation of the office was discussed to a ward different from that of the present registration. However, the government agency gave instructions that foreign companies were not allowed to register the property. Since these instructions are not based on evident laws, the government organization is requested to address the issue.

When companies attempt to transfer to another place of tax payment, the local tax bureau sometimes strongly rejects the transfer, and even after transfer to another place, it forces tax payments to the previous bureau. These practices prevent companies from appropriately paying tax, and the local tax bureaus are also considered to have no authority to interfere with the transfer of companies. The tax bureaus are sought to present the legal basis on which they give these instructions.

When the real estate in industrial parks is attempted to be sold, the administrator side of the park would present various conditions of restriction on the sale. However, since the laws on which the restrictions are based are sometimes unclear, it is requested to clearly show the law serving as the basis to allow similar issues to be treated smoothly.
Chapter 4 Manufacturing industry

1. Textiles/Apparel

In 2015 it was announced that the “high-growth” era in China’s macroeconomy had ended, and the country had entered into a “new normal state” in its entirety. In 2016, which was the second year, the Chinese textile industry worked on a structural reform while slowing down growth with various indicators. China Industry and Economic Research Institute of China Textile Industry Federation (Zhongfang United), which supervises the Chinese textile industry, has analyzed that “the burden of cost increase for each company is still heavy, and the industry faces great pressure before development,” but it is “operating peacefully” (Chinese textile economy information network).

According to the National Bureau of Statistics, data for companies with key business income of 20 million yuan/year or more, the total revenue of the 38,480 textile companies producing yarns/cotton, and fabrics, which are positioned in the upstream and downstream of the textile industry, increased by 4.1% from the previous year to 7.33 trillion yuan. However, the total cost was 6.474 trillion yuan, which is an increase of 4.3%, and as a result, the industrial increase in value (close to the gross profit in Japan) grew by 4.9%, and the growth rate fell by 1.4 points from the previous year. Nearly 4,039 companies, equivalent to 10.5% of the total number of companies, were in deficit.

Apparel companies that produce clothing items were numbered at 15,715, and the growth rate of industrial increase in value was 0.6 points lower than 3.8% in the previous year. About 1,668 companies (10.6% of the total) were in deficit.

Textile & Apparel Industry Trends in China

Production trends in 2016
Table 1: Volume of textiles production in 2016 (January–November)

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>January–November</th>
<th>Change from the previous year %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spun yarn</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton yarn</td>
<td>Ten thousand tons</td>
<td>3,861</td>
<td>6.2</td>
</tr>
<tr>
<td>Cotton mixed yarn</td>
<td>Ten thousand tons</td>
<td>2,771</td>
<td>5.7</td>
</tr>
<tr>
<td>Synthetic yarn</td>
<td>Ten thousand tons</td>
<td>532</td>
<td>8.1</td>
</tr>
<tr>
<td>Fabric</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dyed *</td>
<td>Ten thousand meters</td>
<td>6,429,171</td>
<td>2.3</td>
</tr>
<tr>
<td>Made of cotton</td>
<td>Ten thousand meters</td>
<td>241,161</td>
<td>1.1</td>
</tr>
<tr>
<td>Cotton mixed</td>
<td>Ten thousand meters</td>
<td>3,508,005</td>
<td>1.7</td>
</tr>
<tr>
<td>Made of synthetic fiber</td>
<td>Ten thousand meters</td>
<td>1,268,515</td>
<td>5.5</td>
</tr>
<tr>
<td>Dyed fabric</td>
<td>Ten thousand meters</td>
<td>4,836,495</td>
<td>1.9</td>
</tr>
<tr>
<td>Woolen fabric</td>
<td>Ten thousand meters</td>
<td>53,480</td>
<td>0.9</td>
</tr>
<tr>
<td>Nonwoven fabric</td>
<td>Ten thousand meters</td>
<td>2,319,048</td>
<td>-1.4</td>
</tr>
<tr>
<td>Clothing</td>
<td>Ten thousand items</td>
<td>1,305,200</td>
<td>-0.4</td>
</tr>
<tr>
<td>Made in knit</td>
<td>Ten thousand items</td>
<td>1,526,703</td>
<td>-2.2</td>
</tr>
<tr>
<td>Made of fabric</td>
<td>Ten thousand items</td>
<td>5,256,048</td>
<td>6.1</td>
</tr>
<tr>
<td>Chemical fiber</td>
<td>Ten thousand tons</td>
<td>4,515</td>
<td>3.8</td>
</tr>
<tr>
<td>Rayon S</td>
<td>Ten thousand tons</td>
<td>309</td>
<td>10.6</td>
</tr>
<tr>
<td>Rayon F</td>
<td>Ten thousand tons</td>
<td>21</td>
<td>-8.5</td>
</tr>
<tr>
<td>Polyester</td>
<td>Ten thousand tons</td>
<td>3,621</td>
<td>2.9</td>
</tr>
<tr>
<td>Nylon</td>
<td>Ten thousand tons</td>
<td>309</td>
<td>11.2</td>
</tr>
<tr>
<td>Acrylic</td>
<td>Ten thousand tons</td>
<td>65</td>
<td>-1.7</td>
</tr>
<tr>
<td>Vinylon</td>
<td>Ten thousand tons</td>
<td>8</td>
<td>21.5</td>
</tr>
<tr>
<td>Polypropylene</td>
<td>Ten thousand tons</td>
<td>25</td>
<td>11.2</td>
</tr>
<tr>
<td>Spandex</td>
<td>Ten thousand tons</td>
<td>48</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Note: Source: National Bureau of Statistics. For companies with annual sales of 20 million yuan or more
* Including denim.

At the time of writing of this paper, statistics from January to November shown in Table 1 were available for all textile products, but according to the National Bureau of Statistics, the production of main textile products in 2016 was 40,395,000 tons for spun yarn (3.5% increase over the previous year), 71,450,000,000 meters for fabrics (same 2.7% increase), 494,370,000,000 tons for chemical fiber (same 3.8% increase) and materials in the upstream and downstream settled with a single-digit percentage growth for the first half. In apparel production, which is a typically labor-intensive industry, 17,026,000,000 items of woven fabric were produced with a decrease of 2.8% from the previous year, and 14,427,000,000 items of knitted articles were produced with a 0.3% decrease. Considering that the target of this statistics were companies with key business income of 20 million yuan/year or more, it is estimated that the reduced production rate was larger for small and medium-sized companies that were not targeted and that are physically inferior.

However, it should be noted that, while major apparel manufacturers with financial power reduce production in the continental coastal areas where wage increases are significant, it is a fact that new factories are being constructed in Vietnam, Cambodia, and Myanmar, which are relatively inexpensive and abundant in labor, and operations are gradually starting one after another. For example, Shenzhou International, a major manufacturer of knitwear on an OEM basis, plans to increase the number of employees at the Vietnam factory from about 8,000 in the middle of 2016 to 20,000 at the end of 2018. It is reported that this will raise the whole group’s production ratio at the Vietnam facility from 4% to 16%. Thus, “made in China” is reducing, but “made by China” is increasing.

Domestic consumption in 2016

In 2016, total apparel sales of large retailers with a nationwide focus, as summarized by the China National Commercial Information Center, which is a government research institution, decreased by 1.2% from the previous year, and it was negative for two consecutive years. Meanwhile, the apparel category of national
The social consumer goods retail price of the National Statistics Bureau was 1 trillion yuan, or 6.8%. There was no momentum until 2014, which showed double-digit growth, but was about the same level as the GDP growth rate. The difference from the former statistics is whether or not to include electronic commerce (E-commerce). The increase rate of the national social consumer goods retail total is 10.4%, but the E-commerce growth rate is 26.2%, and it is growing to account for 12.6% of the total. Sales at real stores, such as department stores, are sluggish, and the phenomenon of E-commerce sales is not limited to the United States and Japan, but is progressing in China also.

When converting total retail sales of apparel into Japanese yen, it is about 16 trillion yen. Japan is set at around 9 trillion yen, which is close to 1.8 times the amount.

Figure 1: Growth rate of China’s total apparel sales

Note: By year, % of previous year
Source: a) National Bureau of Statistics; b) China National Commercial Information Center

Trade trends in 2016

In 2016, textile goods trade shows that exports were valued at US$ 284 billion (5.9% decrease from the previous year), imports were US$ 23.36 billion dollars (as in the previous year, down 8.8%), and trade surplus was US$ 243.8 billion. The shares of complete cargo trade surplus was 47.8%, earning less than half of the trade surplus, but decreased significantly from 99.0% in the previous year. Exports declined for the second consecutive year since 2014, when it was the highest ever. Exports have been doubly affected by the global economic downturn and declining competitiveness due to rapid growth of costs in China.

Figure 2: China textile exports in transition

Source: China Customs Statistics
Export value by major markets, as shown in Table 2 below, the three markets of the EU, the United States, and Japan have decreased.

**Table 2: China Textile Exports in 2016 (by region)**

<table>
<thead>
<tr>
<th>Partner country area</th>
<th>Export value (Hundred million dollars)</th>
<th>Change from the previous year %</th>
<th>Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>The entire world</td>
<td>2,672.5</td>
<td>-5.9</td>
<td>100.0%</td>
</tr>
<tr>
<td>ASEAN</td>
<td>333.6</td>
<td>-6.9</td>
<td>12.5%</td>
</tr>
<tr>
<td>EU</td>
<td>495.0</td>
<td>-6.8</td>
<td>18.5%</td>
</tr>
<tr>
<td>USA</td>
<td>450.3</td>
<td>-5.7</td>
<td>16.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>203.3</td>
<td>-6.1</td>
<td>7.6%</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>150.2</td>
<td>8.4</td>
<td>5.6%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>121.2</td>
<td>-18.6</td>
<td>4.5%</td>
</tr>
<tr>
<td>England</td>
<td>118.6</td>
<td>-4.4</td>
<td>4.4%</td>
</tr>
<tr>
<td>Korea</td>
<td>86.4</td>
<td>-5.7</td>
<td>3.2%</td>
</tr>
<tr>
<td>Germany</td>
<td>85.4</td>
<td>-11.7</td>
<td>3.2%</td>
</tr>
<tr>
<td>Russia</td>
<td>85.2</td>
<td>-4.2</td>
<td>3.2%</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>62.9</td>
<td>-24.9</td>
<td>2.4%</td>
</tr>
<tr>
<td>Philippines</td>
<td>55.0</td>
<td>35.2</td>
<td>2.1%</td>
</tr>
</tbody>
</table>

Source: China Chamber of Commerce for Import & Export of Textiles

By export commodity, textile products such as spun yarn and textiles declined 3.0% to US$ 106 billion, clothes such as apparel decreased by 7.7% to US$ 161 billion, and similar to the production data, the drop in clothing, which is a labor-intensive industry, stands out.

**Table 3: China textile goods trade in 2016 (by product)**

<table>
<thead>
<tr>
<th>Unit of measure</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity</td>
<td>Amoun t (hundred million dollars)</td>
<td>Change from the previous year %</td>
</tr>
<tr>
<td>Textile raw materials 10,000 tons</td>
<td>151.5</td>
<td>10.4</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>261.0</td>
<td>-21.1</td>
</tr>
<tr>
<td>Cotton 10,000 tons</td>
<td>0.8</td>
<td>-73.2</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>89.6</td>
<td>-39.3</td>
</tr>
<tr>
<td>Cocoon thread 10,000 tons</td>
<td>0.8</td>
<td>4.3</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>0.4</td>
<td>53.3</td>
</tr>
<tr>
<td>Wool 10,000 tons</td>
<td>1.4</td>
<td>-6.8</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>31.9</td>
<td>-9.8</td>
</tr>
<tr>
<td>Wool top 10,000 tons</td>
<td>4.7</td>
<td>0.8</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>0.6</td>
<td>-58.8</td>
</tr>
<tr>
<td>Chemical fiber 10,000 tons</td>
<td>143.3</td>
<td>13.1</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>55.2</td>
<td>-14.7</td>
</tr>
<tr>
<td>Other fiber 10,000 tons</td>
<td>0.4</td>
<td>-17.6</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>83.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Textile products 10,000 tons</td>
<td>1,062.2</td>
<td>-3.0</td>
</tr>
<tr>
<td>Spun yarn 10,000 tons</td>
<td>448.7</td>
<td>11.7</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>257.3</td>
<td>-14.2</td>
</tr>
<tr>
<td>Cotton thread 10,000 tons</td>
<td>35.6</td>
<td>3.5</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>197.2</td>
<td>-15.9</td>
</tr>
<tr>
<td>Silk thread 10,000 tons</td>
<td>4.83</td>
<td>-1.2</td>
</tr>
<tr>
<td>10,000 tons</td>
<td>150.0</td>
<td>-15.8</td>
</tr>
<tr>
<td>Yarn / Beast 10,000 tons</td>
<td>3.0</td>
<td>-7.6</td>
</tr>
<tr>
<td>Yarn</td>
<td>1.2</td>
<td>-27.4</td>
</tr>
<tr>
<td>Product</td>
<td>10,000 tons</td>
<td>10,000 tons</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>-------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Synthetic fiber spun yarn</td>
<td>331.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Other spun yarn</td>
<td>78.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Textiles</td>
<td>528.5</td>
<td>-3.6</td>
</tr>
<tr>
<td>Cotton fabric</td>
<td>88.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Silk fabric</td>
<td>1.2</td>
<td>-9.5</td>
</tr>
<tr>
<td>Hair and animal woolen fabric</td>
<td>0.7</td>
<td>-5.6</td>
</tr>
<tr>
<td>Synthetic fiber fabric</td>
<td>193.7</td>
<td>5.5</td>
</tr>
<tr>
<td>Other Textiles</td>
<td>127.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Product</td>
<td>42.5</td>
<td>-2.8</td>
</tr>
<tr>
<td>Household products</td>
<td>16.8</td>
<td>-4.0</td>
</tr>
<tr>
<td>Carpet</td>
<td>6.9</td>
<td>6.9</td>
</tr>
<tr>
<td>Industrial products</td>
<td>69.7</td>
<td>-2.3</td>
</tr>
<tr>
<td>Nonwoven fabric</td>
<td>14.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Other products</td>
<td>111.7</td>
<td>-3.5</td>
</tr>
<tr>
<td>Clothing</td>
<td>1,6103</td>
<td>-7.7</td>
</tr>
<tr>
<td>Knitted clothes</td>
<td>192.9</td>
<td>-2.0</td>
</tr>
<tr>
<td>Made of cotton</td>
<td>86.5</td>
<td>-0.2</td>
</tr>
<tr>
<td>Made of silk</td>
<td>3,616</td>
<td>-16.0</td>
</tr>
<tr>
<td>Made of hair</td>
<td>12,054</td>
<td>-4.6</td>
</tr>
<tr>
<td>Made of synthetic fiber</td>
<td>87.4</td>
<td>-2.2</td>
</tr>
<tr>
<td>Other products</td>
<td>17.5</td>
<td>-8.3</td>
</tr>
<tr>
<td>Clothing made of cloth</td>
<td>137.8</td>
<td>1.0</td>
</tr>
<tr>
<td>Made of cotton</td>
<td>45.9</td>
<td>9.4</td>
</tr>
<tr>
<td>Made of silk</td>
<td>5,864</td>
<td>12.9</td>
</tr>
<tr>
<td>Made of hair</td>
<td>6,046</td>
<td>5.5</td>
</tr>
<tr>
<td>Made of synthetic fiber</td>
<td>79.1</td>
<td>-2.8</td>
</tr>
<tr>
<td>Other products</td>
<td>11.6</td>
<td>-3.3</td>
</tr>
<tr>
<td>Hair and leather clothes</td>
<td>1,162</td>
<td>-6.2</td>
</tr>
<tr>
<td>Accessories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hats</td>
<td>45.4</td>
<td>-4.9</td>
</tr>
<tr>
<td>Other clothing</td>
<td>7.5</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Source: China Chamber Of Commerce for Import & Export of Textiles

**Consideration from a viewpoint of Japanese imports related to textile trade in China**

As mentioned above, apparel exports from China are on a downtrend. We would like to emphasize this trend and its characteristics by looking at this movement from Japanese import statistics.
The apparel import quantity from China (knitted and fabric outer clothing, underwear) in 2016 was 2.47 billion items, down by 961 million items (28%) from the peak in 2007.

The imported quantity from ASEAN and Bangladesh during 2016 was 1.044 billion items, an increase of 8.63 million items compared to 2007, which is about six times the amount. The amount of increase by country shows Vietnam in the first place with 3.2 million items, followed by Bangladesh with 1.96 million items, Cambodia took the third position with 1.22 million items, and Indonesia stood fourth with 1.02 million items; these countries occupied the top ranking.

In response to the slump in apparel sales in the Japanese domestic market, it shows that adjustment of import quantity (1) and the shift from the country of production China to ASEAN and Bangladesh (2) advanced in parallel because the total import volume decreased by 94 million items from 3.717 billion in 2007 to 3.623 billion in 2016.

Shifting production from China varies as per the items. Women’s outerwear, made of woven fabric, which is particularly fashionable, requires wide variety with small lots and shorter delivery times, and it showed a small decline. In some categories, such as blouses, it is increasing instead. The decline of women and male underwear and men’s outerwear is becoming larger. On the other hand, when compared to the average import price per item between 2007 and 2016, the total increased from 594 yen to 656 yen, or 10.4%, and this is due to higher labor costs.

When examining Vietnam and Bangladesh that were second and third in imported quantity in 2016 and surpassed only by China, Vietnam increased by 5.3 times and Bangladesh increased by 30 times compared to 2007. On the other hand, Vietnam’s unit price had declined from 975 yen to 789 yen, while Bangladesh had dropped from 509 yen to 481 yen. In China, quantity declined and unit price

Table 4: Increase in quantity of clothing imported by country, from 2007 to 2016 (Unit: thousands of items)

<table>
<thead>
<tr>
<th>Country name</th>
<th>Total</th>
<th>Knitted</th>
<th>Made of fabric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>320,499</td>
<td>223,720</td>
<td>96,779</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>195,823</td>
<td>141,893</td>
<td>53,930</td>
</tr>
<tr>
<td>Cambodia</td>
<td>121,985</td>
<td>72,254</td>
<td>49,731</td>
</tr>
<tr>
<td>Indonesia</td>
<td>101,811</td>
<td>65,005</td>
<td>36,806</td>
</tr>
<tr>
<td>Myanmar</td>
<td>72,562</td>
<td>25,646</td>
<td>46,916</td>
</tr>
<tr>
<td>Thailand</td>
<td>71,430</td>
<td>59,762</td>
<td>11,668</td>
</tr>
</tbody>
</table>

When examining Vietnam and Bangladesh that were second and third in imported quantity in 2016 and surpassed only by China, Vietnam increased by 5.3 times and Bangladesh increased by 30 times compared to 2007. On the other hand, Vietnam’s unit price had declined from 975 yen to 789 yen, while Bangladesh had dropped from 509 yen to 481 yen. In China, quantity declined and unit price
increased, while Vietnam and Bangladesh showed a contrasting movement as quantity increased and the unit price declined.

Table 5: Changes in clothing imports from China

<table>
<thead>
<tr>
<th></th>
<th>Quantity (thousands of points)</th>
<th>Unit price (yen/ point)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2007</td>
</tr>
<tr>
<td>Knitted</td>
<td></td>
<td>16/07</td>
</tr>
<tr>
<td></td>
<td>1,677,916</td>
<td>2,351,873</td>
</tr>
<tr>
<td></td>
<td>503</td>
<td>429</td>
</tr>
<tr>
<td></td>
<td>117.2%</td>
<td>117.2%</td>
</tr>
<tr>
<td>Made of fabric</td>
<td>791,584</td>
<td>1,079,026</td>
</tr>
<tr>
<td></td>
<td>981</td>
<td>955</td>
</tr>
<tr>
<td></td>
<td>102.7%</td>
<td>102.7%</td>
</tr>
<tr>
<td>Grand total</td>
<td>2,469,500</td>
<td>3,430,889</td>
</tr>
<tr>
<td></td>
<td>656</td>
<td>594</td>
</tr>
<tr>
<td></td>
<td>110.4%</td>
<td>110.4%</td>
</tr>
</tbody>
</table>

Changes in clothing imports from Vietnam

<table>
<thead>
<tr>
<th></th>
<th>Quantity (thousands of points)</th>
<th>Unit price (yen/ point)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2007</td>
</tr>
<tr>
<td>Knitted</td>
<td></td>
<td>16/07</td>
</tr>
<tr>
<td></td>
<td>263,085</td>
<td>39,367</td>
</tr>
<tr>
<td></td>
<td>668.3%</td>
<td>153.6%</td>
</tr>
<tr>
<td>Made of fabric</td>
<td>132,050</td>
<td>35,270</td>
</tr>
<tr>
<td></td>
<td>374.4%</td>
<td>75.6%</td>
</tr>
<tr>
<td>Grand total</td>
<td>395,135</td>
<td>74,637</td>
</tr>
<tr>
<td></td>
<td>529.4%</td>
<td>80.9%</td>
</tr>
</tbody>
</table>

Changes in clothing imports from Bangladesh

<table>
<thead>
<tr>
<th></th>
<th>Quantity (thousands of points)</th>
<th>Unit price (yen/ point)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2007</td>
</tr>
<tr>
<td>Knitted</td>
<td></td>
<td>16/07</td>
</tr>
<tr>
<td></td>
<td>145,100</td>
<td>3,207</td>
</tr>
<tr>
<td></td>
<td>4,524.5%</td>
<td>132.8%</td>
</tr>
<tr>
<td>Made of fabric</td>
<td>57,470</td>
<td>3,540</td>
</tr>
<tr>
<td></td>
<td>1,623.4%</td>
<td>112.7%</td>
</tr>
<tr>
<td>Grand total</td>
<td>202,570</td>
<td>6,747</td>
</tr>
<tr>
<td></td>
<td>3,002.4%</td>
<td>94.5%</td>
</tr>
</tbody>
</table>

Source: The Japan Textiles Importers Association

Perspective 2017

The year-on-year growth rate for actually completed investments for fixed asset investment in 2016 was at a low level of 10.7% in textiles, 0.3% in synthetic fiber, and 5.6% in clothing. From this perspective, it seems that production of textile goods will remain low in 2017 as in the previous year. Domestic clothing consumption will continue to expand as the economy grows, and the contrast between e-commerce and real stores will continue.

The greatest focus is exports. The United States is the largest market, accounting for 17% of China’s textile exports. If it recognizes China as a currency manipulator and imposes high tariffs, the impact will be enormous.

Specific problems and need for improvement

China is the largest trading partner for the Japanese textile industry for both exports and imports, and direct investments in China made by Japanese companies and apparel production in China are still important. Also, from the perspective of China, Japan is a major export destination. (Japan was ranked first around the year 2000, and currently ranks second, maintaining a scale of 2.5 trillion yen). Under the recognition of mutually being the most important partners, the textile industries of both countries, represented by the Japan Textile Federation and the Inter-industry international conference of Zhongfang United, started the international conference “Japan–China Textile Industry Development and Cooperation” from 2004. The aim of this international conference is to share information for mutually reinforcing the development of the textile industry, expansion of trade, and to mutually develop understanding and cooperation and exchanging of opinion.
Subsequently, with the aim of building a new cooperative relationship between Asian countries advanced in textile industries, South Korea was included; the “Japan–China–Korea Textile Industry Cooperation Conference” was launched in 2010. Cooperative relationships have been further developed, deepening the exchange of ideas by making good use of knowledge and experiences as countries advanced in textiles and finding ways to mutually develop the textile industry.

**Industrial policy and product safety measures incorporating environmental protection and energy conservation**

As represented by air pollution, which is receiving significant attention recently, environmental problems have become an urgent issue for China. The Chinese government is also working on this as a top priority, including enforcing the amended environmental protection law, but the textile industry in Japan has a track record of facing environmental problems, and is ahead of the rest of the world. Fiber technology and special functions used in textile products, which have been cultivated over many years, will greatly contribute to conservation and purification of both air and water environments. Various types of information have already been exchanged with the Chinese textile industry, and the government is being urged to promote the establishment of a legal system that will actively introduce and utilize textile technology and textile products that effectively meet environmental standards.

China is already the world’s largest textile producer, and it is equally important to respond to environmental problems through green production in the textile industry. Systematic efforts and international cooperation are needed for energy conservation and recycling, development of textiles from non-petroleum resources, reduction of harmful chemical emissions, air pollution, and prevention of water pollution. As an example, in April 2016, legal regulations were enforced in Japan regarding azo compounds that generate a specific aromatic amine. In contrast to this, the Japan Textile Federation revised the conventional safety voluntary standard in the guidelines of September 2015, thereby strengthening the efforts toward safety performance in the industry. In this regard, Zhongfang United has been operating a “whitelist management system” that was examined and developed by Japanese and Chinese industries since 2009, and many points that are strengthening a more strict management system based on Japanese laws and regulations are highly valued.

Moreover, with textile production becoming borderless, information sharing related to product safety, as well as industry standards and operations, is being promoted, and conducting discussions on common pending issues has also become an important topic.

**Protection of Intellectual Property Rights**

The issue of protection of intellectual property rights was an important matter for the textile industries in both Japan and China. At the end of 2008, a memorandum of understanding was signed between the Japan Textile Federation and the Inter-Industry International Conference (Zhongfang United). There is a variety of content on intellectual property infringements, but the two most serious issues in the textile industry are 1) infringement of registered trademarks, and 2) a large amount of counterfeit goods on the Internet. Infringement of registration implies that, for example, well-known apparel trademarks in Japan are registered in China by third parties and this hampers sales activities in China. Counterfeit goods are products that use the brands and designs of Japanese apparel without permission, damaging the brand value and corporate image. According to the Japan Apparel-Fashion Industry Council, with the sharp increase in Internet sales, counterfeit brands are increasing even on e-commerce sites.

Today, based on a memorandum of understanding, discussions about solving and preventing these problems are underway, but further educating Chinese domestic companies and citizens is necessary. Cooperation on the protection of intellectual property rights is also important for promoting investment activities of Japanese
companies in China in the future, and as in last year, continuation of strict examination of trademark registrations and the strengthening of supervision on counterfeit goods is expected.

**Growth in Free Trade Agreements (FTA)**

As mentioned above, textile trade between Japan and China is significant, and the effect of trade liberalization would be also very large. Trade liberalization, in particular the impact on domestic industries due to the elimination of tariffs, must be carefully considered. However, rather than the threat of imports from China, the Japanese textile industry expects exports toward the growing Chinese market and investment opportunities to expand. On this basis, the start of negotiations related to the Japan–China–Korea Free Trade Agreement (FTA), agreed in November 2012, has been welcomed, and recognizing its importance, information exchange is being promoted through the Expert Committee of the “Japan–China–Korea Textile Industry Cooperation Conference,” and all the concepts related to market access and rules of origin have been organized and summarized in a report.

On the other hand, in the context of the Japan–Korean FTA that was provisionally signed in February 2015, there are many points related to textiles, such as the exclusion of tariff elimination and long staging, which need attention. If this content also affects the Japan–China–Korea FTA, the construction of commercial flows in the ASEAN will accelerate, especially for China, and there is a risk that direct investment from Japan will be greatly reduced. It would have a negative impact on the construction of an advanced supply chain.

As for the Chinese government, building higher levels of free trade will lead to mutual prosperity of the textile industries in the future and increase investments. Furthermore, it is expected that the recognition of continuing to achieve further development as the world’s advanced textile countries will be renewed. In addition, China also needs to further exchange information and conduct collaborative research on non-tariff barriers, such as intellectual property rights protection and unification of product safety standards. Active support is expected for promoting this.

**Investment, failures related to business operations, correction of various problems**

- Three countries trade with China as a manufacturing area through foreign exchange settlements, improvements are being requested, so that the timing of settlement for suppliers can be done at the stage where payment is not confirmed from the seller. However, there is no change in the present situation. The request for deregulation will continue as an incentive to expand exports from China.

- Regarding valued added tax (VAT) export refund procedures, in the business of fabric trading there are cases of exporting items that are already in stock, but for this case, there are requests for relaxing the current rules that are not eligible for refund. In the import and export of notebooks, requests have been made to consider establishing an permissible quantity to a certain extent in one contract for shortening the time required for establishment (one month at present), and for import and export transactions of fabrics that constantly cause losses.

- In the case of quality indication standards for apparel products, the criteria described in the tags of goods are still unclear, and each ministry is operated based on different rules. Furthermore, the number of companies that can comply with the quality indication is limited because more details than necessary are required about mixing ratio and composition status, as well as classification of product quality description. We would like to request the establishment of uniform standards throughout China, simplification of the quality indication, and operation of rules that can be observed.

- Regarding quality control standards, we request revision of rules that target non-production type companies, not restricting subjects that can register their standards as corporate standards to production-type companies. In addition, the quality inspection of products sold in Japan is required to
be approved and certified by both China National Accreditation Service (CNAS) and China Metrology Accreditation (CMA). As a result, companies must accept audits of almost the same content twice. A request for revision is being made, so that the recognition/certification for the quality inspection agency can be done by either the CNAS or the CMA.

<Proposal>

(1) In the textile industry, industrial policies that take environmental protection, energy conservation, and product safety measures into consideration are desired. As an urgent issue for this fiscal year, we will continue to institutionalize the introduction of textile products and technologies effective for environmental protection (e.g., a green purchasing system as), information exchange concerning product safety, and disclosure of institutional information.

(2) Regarding intellectual property rights protection, we request strengthening of supervision regarding infringement of registered trademarks and counterfeit goods on Internet sites.

(3) In the case of wide-area economic partnership of textile products, especially the efforts toward negotiations related to the Japan–China–Korea FTA, we are aiming at a high level of free trade including immediate elimination of tariffs mutually, and we urge the Chinese government to actively support this promotion.

(4) We request improvements related to more realistic transactions on administrative processing concerning foreign exchange settlement and export value added tax (VAT).

(5) In regard to the quality indication method for apparel products, we request a nationally unified and simplified operation system with rules that can be easily observed.

(6) In the case of quality control standards, we request that self-imposed company standards can be applied not only to production type companies but also to CNAS or CMA for accreditation and certification for the quality inspection agency.
2. Chemical products

The Industrial Information and Communication Department announced the “Petrochemical and Chemical Industry Development Plan (2016–2020)” in October 2016, and with the progress of urbanization and the improvement in national capacity, on the premise of a stable expansion of demand for chemicals, we have decided to aim for improving international competitiveness by promoting a change model to overcome the risks of excess production and structural contradictions.

The oil and chemical industry market in China reported 1.7% increase in total sales in 2016 to 13.29 billion yuan and total profit was 644.4 billion yuan, almost the same level as in 2015. Fixed asset investment decreased by 5.9% from the previous year to 2.15 trillion yuan. In 2017, total sales amount was 13.950 trillion yuan, a 5% increase from the previous year, with the goal of taking profit to 690 billion yuan, an increase of 7% from the previous year.

However, there are many problems in excess production, intensifying international competition, safety management and environmental protection, and as the whole Chinese economy shifts to a “new normal state” and the industrial structure is being adjusted, attention is now being paid on shifting from quantity to quality.

Dependence on crude oil imports will continue to increase

In 2016, China’s oil demand reached 578 million tons, an increase of 6.0% from the previous year. Domestic production dropped by 6.9% from the previous year to 200 million tons, while crude oil net imports reached a record high of 378 million tons, an increase of 13.6% over the previous year, and the import ratio increased by 4 points to 65% from the previous year.

With regard to oil consumption, it is expected to increase until about 2030, and oil import dependence is expected to reach 67% in 2020 and 70% in 2030, while the domestic production volume is not expected to expand.

On the other hand, the percentage of non-fossil energy in China’s total energy consumption is set to rise to 15% in 2020 (12% as of 2015). In addition to the increase in the proportion of natural gas in future, the proportion of renewable energy sources such as wind power, solar energy, and geothermal energy are expected to rise.

<table>
<thead>
<tr>
<th>Table 1: Crude oil (Unit: 100 million tons)</th>
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<tr>
<td>2013 Results</td>
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<tr>
<td>Crude oil production</td>
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<tr>
<td>Net import volume</td>
</tr>
<tr>
<td>Consumption</td>
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<tr>
<td>Import dependency (%)</td>
</tr>
</tbody>
</table>

Source: China National Statistics Bureau, China Customs Statistics

Ethylene production reached an all-time high; propylene production also increased

The production volume of ethylene, which is the basic raw material for chemicals, grew 3.9% from the previous year to 17.8 million tons, exceeding the previous year’s record high.
Ethylene imports in 2016 increased by 9.3% from the previous year to 1.66 million tons. In the case of olefin production (CTO) from coal and methanol (MTO), ethylene capacity is less than that of naphtha cracking, so the situation that the demand for ethylene cannot be covered continues, and although it decreased temporarily in 2014, there were no ethylene projects due to new naphtha cracking, and ethylene shortage became chronic and imports increased.

In the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划), the next integrated ethylene complex—the Gulf region north from Dalian to Huizhou in the south—will be consolidated into seven areas by 2020, and the concept of a new ethylene plant including the diversification of raw materials, environmental problems, and energy circulation type will be launched.

### Table 2: Ethylene (Unit: 100 thousand tons)

<table>
<thead>
<tr>
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<th>2013 Results</th>
<th>2014 Results</th>
<th>2015 Results</th>
<th>2016 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>1,623</td>
<td>1,704</td>
<td>1,715</td>
<td>1,781</td>
</tr>
<tr>
<td>Import</td>
<td>170</td>
<td>150</td>
<td>152</td>
<td>166</td>
</tr>
<tr>
<td>Consumption</td>
<td>1,793</td>
<td>1,854</td>
<td>1,867</td>
<td>1,947</td>
</tr>
<tr>
<td>Consumption vs. previous year (%)</td>
<td>10.1</td>
<td>3.4</td>
<td>0.7</td>
<td>4.3</td>
</tr>
</tbody>
</table>

Source: China National Statistics Bureau, China Customs Statistics

On the other hand, propylene production increased in 2016 by 3.7% from the previous year to 24.89 million tons, and import volume increased by 4.6% from the previous year to 2.9 million tons.

In the propylene system, in addition to CTO and MTO, facilities for the purpose of propylene production, such as propylene from coal (CTP), propylene from methanol (MTP), and propane production from propane to dehydrogenation reaction (PDH), are being enhanced. As a result, internal production has advanced, leading to a decline in imports in 2015. However, PDH and MTP make stable operations difficult due to the significant change in economics, based on the prices of propane and methanol as raw materials, and operations are being carried out for reducing production and substituting for imported propylene as necessary.

### Table 3: Propylene (Unit: 100 thousand tons)

<table>
<thead>
<tr>
<th></th>
<th>2013 Results</th>
<th>2014 Results</th>
<th>2015 Results</th>
<th>2016 Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>1,675</td>
<td>1,913</td>
<td>2,400</td>
<td>2,489</td>
</tr>
<tr>
<td>Import</td>
<td>264</td>
<td>305</td>
<td>277</td>
<td>290</td>
</tr>
<tr>
<td>Consumption</td>
<td>1,939</td>
<td>2,218</td>
<td>2,677</td>
<td>2,779</td>
</tr>
<tr>
<td>Consumption vs. previous year (%)</td>
<td>10.9</td>
<td>14.4</td>
<td>20.7</td>
<td>3.8</td>
</tr>
</tbody>
</table>

Source: China Petroleum & Chemical Industry Federation (CPCIF), China Customs Statistics

**Focusing on eliminating excess production and structural inconsistencies, developing new materials and models, and offering training**

Traditional products such as carbide, caustic soda, and polyvinyl chloride (PVC) are produced in excess in China. However, the domestic self-sufficiency rates of basic materials such as ethylene, para-xylene (PX), and ethylene glycol (EG), and high-end new materials are low, while engineering plastics and high-quality polyolefins, special rubber, and electronic chemical products depend on imports.

In the future, while increasing the production capacity of basic materials and the chemical industry’s new materials, and the production ratio of environmentally friendly agricultural chemicals and new fertilizers, the
plan is to develop new industrial model bases that lead to international competitive companies, world-class chemical plantations, and petrochemical industries.

**Toward further strengthening environmental regulations and safety management**

With environmental problems becoming more serious, the “Amended Environmental Protection Law” came into effect in January 2015, and from January 2018 China is scheduled to enforce the “Environmental Protection Tax” for companies that produce pollutants, and control and regulation of the chemical industry needs to be further strengthened.

In the “Environmental Protection Tax,” a system to reduce or exempt the tax amount according to the amount of emissions has been adopted, and companies’ self-supporting efforts are also required to reduce emissions.

There is a trend to further strengthen the management of dangerous chemicals following the explosion accident in Tianjin City in 2015.

Since December 2016, the State Council (国务院) thoroughly investigated the risks associated with dangerous chemicals and started a three-year program called “Dangerous Chemical Safety Integrated Countermeasures” to comprehensively counteract such threats or dangers.

Furthermore, together with clarifying the responsibility of administration and supervision of government agencies, and by prompting the voluntary efforts of each company, the “Dangerous Chemicals Safety Law” is expected to be promulgated during 2017 at the earliest, with the aim of raising the safety levels of managing hazardous chemicals.

As a company dealing with hazardous chemicals, we will continue to carefully observe future trends, and review and reinforce our own safety management system by developing a plan and notification.

**<Proposal>**

China’s chemical industry has grown rapidly to a size that can compete for the world’s number one or two positions. However, on the other hand, it facing a situation where further development can be restricted due to problems such as increases in environmental burden, occurrence of serious chemical accidents, and excess supply capacity of some products.

In order for China’s chemical industry to continue to grow in the future, it is required be strongly socially responsible and improve the level of products and manufacturing processes through technological innovation to control pollutant emissions, make energy consumption more efficient, and to stick to safe production levels.

For that purpose, based on the correct knowledge of physical properties, safety, and environment, through the entire lifecycle of products such as production, use, recycling, and disposal, it is important to conduct appropriate management in terms of health, safety, environment, and to continuously improve upon them.

In recent years, the activities of Responsible Care are steadily spreading in China, recognizing not only that it contributes to raising safety awareness of employees for safe chemical production, but also because it is a powerful method of promoting mutual understanding between business operators, public administration, and civil society. Transparency in dialogues between the government, business operators, and the local community has been established for legal regulations for a scientific and reasonable management, and unified policy development and personnel education related to matters required in China were carried out. In addition, companies’ compliance with laws and regulations and appropriate disclosure of information are being promoted, and this will be an important foundation for obtaining the trust of local communities and improving
social awareness. We urge the relevant authorities to understand and actively support the chemical industry, so that it can coexist in harmony with society and achieve sustainable development.

From the above point of view, we will make proposals on policies related to chemicals, their regulation, and enforcement as follows.

1. Environmental conservation and efficient use of energy

1) Regulating emissions
Reforms related to the basis of regulation such as full implementation of a pollutant emission permit system and introduction of an environmental protection tax are under way. Regarding institutional design and development of related laws and regulations/standards, upon enforcement of the new system, we request adequate consideration with the relevant departments and local authorities, so that harmonization can be achieved between the sectors and localities, without duplication or inconsistency with the existing mechanisms such as an environmental impact assessment system and pollutant emissions expense collection system.

2) Further enhancement of hazardous waste disposal capacity
Collection of hazardous waste, lack of processing capability, and biased locations are forcing chemical producers to store hazardous waste in the factory and transport them to distant processing plants, and this is one of potential hazards in storage and transportation. After having a centralized and unified understanding about hazardous waste collection, classification of processing companies and processable quantities by region, we request cooperation with local authorities to improve hazardous waste collection and processing capacity. We also request guidance from processing companies and local governments to ensure reliable collection even in small quantities.

3) CO₂ emissions trading system
It is necessary for the CO₂ emissions trading system to ensure fair competition by industry, reflecting the result of the current emissions reduction efforts of companies. It is desirable to establish a legal regulation/standard system based on the standard law as a calculation method for the allocation of emission quota. Also, when transitioning from trials in some cities to a nationwide deployment, fairness must be kept a national issue without falling into local protectionism. Furthermore, we strongly urge the relevant authorities to implement detailed measures that are reasonable and appropriate to the situation.

4) Environmental Protection Comprehensive List
(1) Since the period for collecting feedback on the environmental conservation comprehensive list was very short—approximately one week—it is difficult to sufficiently examine and consolidate opinions in related industries. We request that the opinion collection period be extended to at least one month.

(2) Currently only the name of the product name and the exclusion process are being published in the list of high pollution and high environmental risk products, but we request that the rational basis for judging the high pollution and high environmental risk products is announced at the same time.

(3) The environmentally friendly process, which was the subject of the preferential policy, was eliminated from the 2014 version list. However, in order to further promote the adoption of advanced processes by companies, we request that it is published again on the list and that measures are taken on preferential policies.

2. Chemicals management

1) In relation to the dangerous chemical product registration system
The list of physical risk appraisal by organizations and the list of expert appraisal class exemption chemicals were announced as planned, and we would like to pay respect to the authorities’ efforts so far in matters such
as exchange of information and exchanges with the Japan chemical industry for formulating the Dangerous Chemicals Safety Law.

(1) Reduction of the registration burden of small quantities of production/importing of dangerous chemicals
Due to the smooth commercial action of business operators, we strongly urge the introduction of a system that reduces the registration burden of dangerous chemicals with an annual production or import volume of one ton or less, such as a filing system (making it possible to produce or import immediately after submission).

(2) Smooth operation of registration and appraisal system
Physical hazard assessments of chemicals conducted by designated appraisal organizations was appropriately implemented, and we will continue to request the appraisal organizations to assess properly, so that evaluations are completed within 20 working days, as specified by law. In addition, we document notification in the unified manner of registration operations, and we request that both the authorities and business operators deepen their understanding of this system within one year as the transition period from notification and the period to carry out sufficient preparations so as not to hinder the economic activities of the company.

(3) Continuous examination of hazardous criteria for chemicals (化学品的危害性确定原则)
According to the definition of dangerous chemicals, as stated in the "the hazardous chemical inventory" (2015 edition) and confirmation principle, the GHS warning words “danger” and “warning” will be considered a reasonable hazardous category. If the category of “warning” is included, there will be an enormous numbers of target chemicals due to which we request that only the category of “danger” be confirmed for dangerous chemicals, and keep the other target chemicals within a reasonable range.

(4) Appraisal exemption on polymers
We request the incorporation of polymers and resin compounds without physical hazards into the list of Physical Hazard Identification and Classification of Exempted Substances.

2) Regarding the registration system for environmental management of new chemical substances
Evaluate that many requests have been taken into the “new chemical substance declaration registration directive” (draft for requesting opinions) after sufficient exchange of opinions within the chemical industry.

(1) Adoption of other countries’ test data
Due to the abolition of the chemical testing institution review and public notice system, the Environment Protection Division (环境保护部门) will no longer designate and publish test organizations that conduct eco-toxicity tests for the registration systems for the environmental management of new chemical substances, and the test facility itself needs a compliance statement on the good laboratory practice (GLP) regulations and related laws and regulations in China. In order to ensure the truthfulness and accuracy of the test data of applications for the registration of new chemical substances for environmental management, the test data acquired in accordance with the Organization for Economic Cooperation and Development (OECD) test standards at the testing agencies of countries other than China that conform to the GLP norms should be adopted as registration application data. We also request the implementation of measures to further improve the level of China’s laboratories, so that mutual acceptance of data by the OECD will be possible at an early stage.

(2) Approval of data acquired by companies
Spectral data (UV, IR, NMR) for specifying declarable substances are already measured by the company itself at the time of applying for registration for the environmental management of new chemical substances. However, it is not always clear whether there is acceptance of spectrum data measured by the
company itself. For this reason, it is sometimes necessary to reacquire spectral data frequently at a testing organization in China. This will increase the burden on both the testing organization and the company. Therefore, we request to establish provisions on the effectiveness of sources of physicochemical properties data, and making the in-house acquired data valid.

(3) Notification /exemption of new polymers, polymerized from existing monomers
In the New Chemical Substances Declaration Registration Directive (draft for requesting opinions), it can be greatly appreciated that the declaration category of “polymers of new chemical substances containing monomers with less than 2% low concern polymers” was changed from a simple declaration of special circumstances to a scientific research plan. We request to continue saving administrative resources and implement policies focusing on the management of risky chemical substances.

(4) Reduction of test data requirement necessary for each report classification
In the New Chemical Substance Declaration Registration Directive (draft for requesting feedback), we evaluate that the cost burden of companies has been somewhat reduced due to the slightly reduced demand for new chemical substances registry data requirements.

However, compared with the request for data on the declaration of new chemical substances in Japan, Europe, and the United States, data demand in China is still notable and severe.

In the above declaration, we urge the continued examination for the reduction of data requirements of physicochemical properties, toxicology, and eco-toxicity tests, mainly for the classification of 1st grade (Declaration quantity of 1 to 10 tons) and 2nd grade (Declaration quantity of 10 to 100 tons). For example, according to the 3R philosophy, we request that certain animal experiments be exempted if there is substitutable data.

In the simple declaration, we request that eco-toxicity test data at the time of simple declaration of the basic situation be removed.

3) Guidelines for priority assessment chemical substance screening

In the Priority Assessment Chemical Substance Screening Guidelines (draft for requesting opinions), hazards to be screened include endocrine disruption. Selection of endocrine disruptors is said to utilize a list of substances with or possibly internally recognized endocrine disruptors, and it contains the substance list of the Japanese National Project SPEED ‘98 (1998).

However, in Japan, the national project and the subsequent projects did not identify any endocrine disrupting substances, and the list of SPEED ‘98 has already been discarded. In other words, it shows that no effective result can be obtained by screening research surveys starting from the substance list.

With endocrine disruptors, by scientifically verifying the progress of this national project that Japan implemented, we urge that screening work starting from such a list be avoided.

3. Safety management

Companies handling hazardous chemicals often face difficulties in fulfilling responsibilities in the storage and transportation stages. Hazardous chemicals are under the jurisdiction of many departments, dangerous chemicals regulations and hazardous cargo regulations are in parallel, so that different regulations are applied to the same chemical at different stages from several departments, and this is due to cases where mutual inconsistency or inefficient management is forced.

1) Storage
Dangerous chemicals regulations and hazardous cargo regulations are both, in particular, applied at the storage stage. As a result, dangerous chemicals that do not correspond to dangerous goods are required to be strictly kept and managed in dedicated warehouses, ad this is causing confusion and increasing costs.

At the storage stage, the stored chemicals are basically not used, and exposure to humans or release to the environment is not normally assumed. Therefore, when formulating the Dangerous Chemicals Safety Law and revising the regulations of related laws and regulations, it is more appropriate to apply regulations based on the idea of dangerous goods to the storage stage.

2) Transportation
Legal regulations at the transportation stage are being aligned with international standards based on the concept of dangerous goods, and we appreciate the fact that the concept of exception quantity and finite quantity is being taken into consideration. Regarding dangerous chemicals that do not fall under hazardous cargo, we request appropriate operation of future regulations, so that transportation is done by general vehicles.

3) Import and export
(1) During import and export, the Mass Examination and Quarantine Bureau may conduct product appraisal such as hazard character classification and differentiation report. The appraisal result will be valid only in the jurisdiction of the Mass Examination and Quarantine Bureau that conducted the appraisal. In Japan, the results of appraisals by public institutions are generally effective at all domestic ports. Therefore, we request the improvement of operations, so that common use can be made in all ports in China.

(2) After the Tianjin explosion accident, each port has restricted the handling of International Maritime Dangerous Goods (IMDG) Classes, and only Shanghai port can handle all Classes of IMDG. As a result, importation through Shanghai is forced, causing cost increases. We request improvements, so that all CLASSES can be handled as usual at the other ports also.

(3) In the bonded dangerous goods warehouse of Shanghai, traditional storage and stock keeping work is done. However, there is no permission for warehousing registration from the customs policy, warehousing operations have stopped and it cannot be used as a real bonded dangerous goods warehouse. As a result, it is impossible to store dangerous goods that are handled as bonded goods; therefore, we request a reopening as soon as possible.

4) Unification of hazard criteria for chemicals
Hazard criteria for chemicals are different among administrative departments. Broadly, the Maritime Bureau makes judgments based on the IMDG, and the Mass Examination and Quarantine Bureau and Customs make judgments based on the dangerous chemical inventory (2015 edition). As a result, the customs clearance place and the storage place were divided due to the difference in the judgment result of the Maritime Bureau, and the Mass Examination and Quarantine Bureau and Customs, and there are cases where it is necessary to move hazardous chemicals many times within the country, which in turn leads to an increase in risk. Therefore, in the public administration sector that manages and supervises harbors chemicals, we urge the unified adoption of criteria based on the concept of dangerous goods.

5) Strengthening safety management
Regarding the safety management of chemicals in China, it is essential to take measures to achieve zero accidents such as (1) improvement of laws and regulations, (2) thorough compliance with laws, and (3) improvement of safety awareness.
3. Medicine

Strengthening cooperation between Japan and China in the medical field

At the Third General Meeting of the 18th Central Committee of the Communist Party of China, the “Determination of some important issues concerning the full deepening of the Chinese Communist Party and reforms” was formulated, and the “medical and sanitation system” was included as a priority field. The 13th Five-Year Plan (十三五规划纲要, “十三五规划”) was formulated early 2016, and the plan summary of Health China 2030 was created in October using the plan “cooperation/sharing, health of the whole nation” as its basic policy. In the Government Work Report (政府工作报告) during the 5th meeting of the 12th National People’s Congress (第十二届全国人民代表大会第五次会议) of 2017, policies such as healthcare, medical insurance, deepening of pharmaceutical cooperation reforms, construction of Health China 2030, and increasing the number of medicines covered by basic medical insurance, are presented. In the future, strengthening the cooperation between the public and private sectors in the medical field within the medical administration and social security system is expected to become more important.

The visits made by representatives of the public and private sectors to China, which was mentioned in last year’s proposal, re-started for the first time in three years. As the Japanese Chamber of Commerce and Industry in China and the Pharmaceutical Industry Organization, we will continue to make use of this framework, promote the continuation of dialogue and exchange by authorities concerned in the sanitation sector in Japan and China, as well as deepen exchanges between the authorities and the private sector. We are actively involved and will contribute to these efforts by the Chinese government, and we also believe that similar to the government policies, all the people should enjoy the positive results equally.

Medical policy and status of the pharmaceutical market

The State Council (国务院) announced the plan summary of Health China 2030 on October 25, 2016. This outline is the code of action for China’s healthcare over the next few years, and it is also the first medium- to long-term strategic plan in healthcare that is published at the national level after the establishment of the People’s Republic of China. Future targets and vision were raised for the restoration of medical security in Chapter 11, completion of the pharmaceutical supply security system in Chapter 12, safety of food and medicines in Chapter 15, and the promotion and development of the pharmaceutical industry in Chapter 20.

In addition, the 13th Five-Year Plan (第十三个五年规划纲要, “十三五规划”) (13.5) that was adopted in 2016 is progressing steadily, and the efforts are focusing on continuing to reform the medical and sanitation system, the realization of pharmaceutical cooperation, medical insurance and medicines, the promotion of a medical division of labor, and realization of classification medical treatments. In accordance with the above successive and complex policies, various new related laws and regulations have been promulgated and implemented such as “opinions on the promotion of medical service price reform (development price [2016] 1431),” “2016 priority duties to deepen reforms of the medical sanitation system (General Office of the Communist Party of China [2016] 26),” and “nationwide drug distribution industry development plan (2016 - 2020).” Similarly, in 2017, “opinions on the further reform and improvement of the policies related to manufacturing, distribution, and use of medicines by the General Office of the Communist Party of China (General Office of the Communist Party of China [2017])” and “the 13.5 national drug safety plan” were launched, and institutionalization is progressing steadily.

The size of the drug distribution market showed stable growth in 2015, but at a slow speed. According to the statistics of the Ministry of Commerce (商务部), total sales nationwide of the seven major categories (pharmaceuticals, Chinese medicines, Chinese raw materials, medical equipment, chemical reagents, glass...
equipment, and others) were 1.66 trillion yuan, an increase of 10.2% from the previous year, but the rate of increase was 5% lower than the previous year (China Commerce Department [2014 Report on Pharmaceutical Distribution Industry Operating Statistics]).

In the market statistics of the Southern Economic Research Institute’s medicinal product end (including medical and retail ends), part of the China Food and Drug Administration (CFDA), sales in 2015 were 1.382 trillion yuan, and the rate of increase is 11.0% (Figure).

Medical end refers to the sale of pharmaceuticals in public medical institutions such as prefectural and higher hospitals, government sanitary service centers, service stations, and sanitation centers that are township and village enterprises. Retail end refers to sales at tangible pharmacies in urban and rural areas with the permission of the pharmaceutical sales industry and online pharmacies with permission to sell medicinal products online.

**Figure: Scale and growth rate of China’s medical end market in recent years**

Source: End database of CFDA Southern Economic Research Institute Guangzhou Marking Pharmaceutical Information Co.Ltd.

Note: “The Chinese Pharmaceutical Market End Scale” is calculated by the average retail price of pharmaceutical products. This statistic does not include medical equipment, packaging materials, and daily items. “End” includes all public medical institutions and various pharmacies such as public hospitals of each class, company sanitation service centers, and sanitation centers.

**Problems faced by Japanese companies**

Japanese pharmaceutical companies have provided many innovative and highly useful medicines to Chinese patients; moreover, along with China’s economic reforms and opening up, many Japanese pharmaceutical companies have actively invested in China. The Medical Group of the Japanese Chamber of Commerce and Industry in China, which was established in 2013, became a life science group with the official affiliation of cosmetics company groups in 2014 and, as of December 2016, out of the 61 companies in the same group, there are 24 pharmaceuticals. These manufacturers have established offices, research and development, production and sales or investment companies and are actively contributing toward medical care in China and people’s welfare. The plan is to continue exchange activities positively, so that experience in Japan will be useful for medical reforms in China through activities such as the ones conducted by the Japanese Chamber of Commerce and Industry, Policy Exchange Meetings, visits to China by representatives of the public and private sectors.

By conducting such activities in China, Japanese pharmaceutical companies that contribute daily to China’s medical care also face the following problems and are demanding improvement from the Chinese government.
Establishing and implementing laws and regulations, and promoting dialogue at the time of revision

Chinese authorities are creating and preparing various regulations and guidelines while promoting medical reforms, but in its operation, it is desirable to thoroughly inform about it by sending advance notices and preparing detailed bylaws.

Dialogue at the government and private levels between Japan and China is being implemented including regular and irregular ones. Especially, strengthening of dialogue and exchange by authorities concerned in the sanitation sector and deepening of exchange with authorities and the private sector; Chinese authorities also have a positive attitude about having dialogue with Japan. It is desirable to continue to have dialogue with the Japanese Chamber of Commerce and Industry as the contact point.

Improving the examination and approval system in new drug development

Full reforms in the regulatory administration were developed in 2016. On August 18, 2015, the State Council (国务院) announced the “reform policy on review approval system for pharmaceuticals and medical equipment.” This policy advances a fundamental reform, in response to the many problems that the Chinese government has had so far. The content is not limited to review and the approval system, but is a reform policy for the entire administration of pharmaceutical affairs, and we fully agree with the direction of the industry as a whole. We request continued promotion of this reform.

In addition, “public notice concerning voluntary inspection of drug clinical trial database and collation inspections” was publicly announced by the CFDA on July 22, 2015 to fundamentally guarantee the safety and effectiveness of pharmaceuticals. If a voluntary inspection finds false or incomplete issues in the clinical trial data, the applicant can apply for withdrawal of the registration application to the CFDA, and many companies have voluntarily withdrawn their applications since this announcement was made. This result of greatly improving the examinations accumulated so far should be very welcome. In future, it is desirable to increase dialogue among regulators, hospitals and companies, and furthermore, by preparing “drug clinical trial quality management norms (revised manuscript),” for which a request of opinions was conducted on December 1, 2016, and we hope that an environment in which sound clinical trials can be conducted is prepared. We have submitted our feedback, and would like it to be considered for implementation in the final proposal.

China’s State Council (国务院) promulgated “a trial proposal for the pharmaceutical Marketing Authorization Holder (MAH) system” on June 6, 2016. The pharmaceutical MAH is a system that our industry had requested to be introduced, and it is welcome. Thus, this system has emerged as the most important structure for deepening reforms in the pharmaceutical management system. With this system at the core, we would like a series of legal systems to be established as soon as possible by reflecting on the “Drug Control Law,” currently under revision, and the “Pharmaceutical Registry Control and Control Law (revised draft)” promulgated by CFDA on July 25. Certain parts are insufficient when actually applying the “Pharmaceuticals Registration Classification Reform Operation Proposal” formally implemented prior to March 4. We would like to request promulgation of the bylaws with reference to the opinion and the final proposal that we submitted during the request of opinions period.

During the past two years, the CFDA had conducted many requests for feedback and had promulgated regulations, and also promoted full reform of the review approval system. The direction of supervision and management is generally towards international standards, and it is possible to agree with the industry as a whole. We will continue promoting the reform of pharmaceutical affairs administration in 2017 and request construction of a better pharmaceutical examination approval system. Once the institution is established and the review requirements and period are clarified, it will be possible to make the decision of introducing our new drugs in China faster.
Promoting a new drug price policy

In May 2015, a new drug price policy was announced to eliminate the highest retail prices in seven joint divisions and to establish drug pricing through free competition, and also develop a medical insurance reimbursement system. In order to maintain a stable supply of useful new drugs and high quality original drugs at appropriate prices, we request that the legislation concerning the new drug pricing policy proceeds while seeking the opinion of Japanese pharmaceutical companies and others.

According to the current regulations, evaluation criteria for reflecting the expenses required for research and development, patents, quality, post-marketing surveillance, and collection of safety information when creating new drugs is not established. As a result, the price difference between globally new drugs and generic drugs becomes a problem, and efforts to lower the price of new drugs are emerging. However, excessive reduction of drug prices would hinder corporate efforts to supply new drugs and could lead to the suppression of market expansion; as a result, this may shrink the generic drugs market. The separation of drug pricing calculation method for new drugs and generic drugs is desirable.

In line with the guidance opinion of the General Office of the Communist Party of China in February 2015, the notice of the Sanitation Planning and Development Committee of June 2015 and the notice of the State Council (国务院) in November 2016, centralized purchasing of new drugs is being implemented in various places. Regarding centralized purchasing of drugs, as with the conventional bidding system, if there are various systems, regional differences will arise in the supply of drugs. In order to achieve stable supply of drugs, we would like to request nationwide unification of institutional management and periodic bidding. In addition, the results of negotiations on drug prices by the state were announced for the first time for a limited list of items in May 2016, and drug prices were revised by consultation. In the medical insurance reimbursement list adjustment plan of the Ministry of Human Resources and Social Security of September 2016, it was shown that the range of negotiations on medicines will be expanded in the future. We request clarification on the criteria of targeted drugs such as treatment of imported original drugs and to not only reduce the drug price, but also opening of the investment policy and drug pricing calculation process, so that it will be an opportunity to negotiate the drug pricing calculation method based on the usefulness of the drug and market size. Reducing drug prices through secondary price negotiations after bidding is carried out in some areas. Secondary price negotiations are not only becoming additional work for companies, but they also eliminate the significance of the bid price, I would like to request proper price adjustment at bidding and abolition of secondary price negotiations after bidding.

Regarding the list of medical insurance reimbursement drugs, the 2017 version list was released in February 2017 for the first time in seven years. In the 2017 version list, currently there are 1,297 pharmaceutical products in lists A and B, but it cannot be said that patients are able to select the optimal medicine. After the market approval of new drugs, it takes a very long time to be reimbursed, and patients have limited opportunities to use new drugs. In line with the opinion on the integration of the medical insurance system promulgated by the State Council (国务院) in January 2016, we would like to request a prompt reimbursement list consolidation and renewal, the listing of many items on the reimbursement list, and the update of the reimbursement list from time to time. In addition, we request that reimbursement prices are set with quality in mind as well as early release of reimbursement standards for insurance reimbursement drugs. If the standards of listing and quality are clarified, pharmaceutical companies will strive to meet those standards.

Safe and reliable supply of medicines

For the purpose of improving the quality of pharmaceutical companies and raising the level of quality safety assurance, regarding good manufacturing practices (GMP), the “drug production mass management norms
(No. 79)” were notified by the Sanitary Division in 2010, the “Notice concerning work for ensuring implementation of pharmaceutical production mass management norms (No. 277)” was promulgated by the CFDA on December 30, 2015, and it was fully enforced from January 1, 2016.

Also, regarding good storage practices (GSP), “Pharmaceutical Quality Management Norms (Order No. 13)” was promulgated on July 1, 2015 by the CFDA, “Notice on matters to fully oversee the implementation of the newly revised ‘Pharmaceutical Quality Management Norms’” was announced on December 30, 2015, and it was enforced from January 1, 2016. We hope for the continuation of efforts toward improving the quality and safety of pharmaceuticals in manufacturing and distribution.

Furthermore, regarding the pharmaceutical marketing authorization holder (MAH) system, the State Council (国务院) announced “a proposal plan for pharmaceutical marketing authorization holder system” on June 6, 2016, and “opinion on further improvement of policy reform on production, distribution, and use of drugs by the General Office of the Communist Party of China (No. 13)” was announced on February 9, 2017, and it is stated that it aims at early promotion from the current trial stage nationwide. In order to reduce prices and provide stable supply by the rationalization of production, it would be desirable for the development and establishment of a system, so that overseas manufacturing consignment is possible.

While efforts are being made to improve the above quality and safety, there is also a problem in terms of stable supply of pharmaceutical products. In particular, the tasks in licensing and approval are common issues regardless of the nationality of the company.

First, in order to avoid the risk of drug shortage, it is desirable to enhance the system such as eliminating restrictions on the number of temporary import permits and prolonging the deadline for “license certificates” until receipt of the renewal review conclusion as remedy measures when there is a delay in examination proceedings.

Furthermore, there is concern about the risk of drug shortages in the market at the time of relocation of manufacturing sites or occurrence of manufacturing troubles due to the fact that only one manufacturing place can be registered for one drug approval. In major countries such as Japan, manufacturing is permitted at multiple manufacturing plants for one approval. In order to ensure stable supply of pharmaceuticals, it is desirable that a similar system be adopted in China.

**Simplification of approval review by OTC**

Regarding over-the-counter (OTC) formulations that are approved in many countries overseas and for which there is a long experience in use and high safety, when promoting medical reforms in China, in order to spread self-medication leading to medical cost reduction, it is desirable to increase the number of formulations that patients can select by promoting the same application requirements (reduction of documents and omission of clinical trials) that are the same as new drugs currently required for new OTC formulations.

**<Proposal>**

We request the following improvements at the time of creating or revising regulations.

1. Concerned authorities should continue with dialogue and exchange in the sanitation sector in Japan and China, and also deepen exchanges between the authorities and the private sector.
2. When promulgating or revising regulations, we request strengthening of dialogue with the Japanese Chamber of Commerce and Industry in China as a contact point with the Japanese companies.
3. We ask for consideration regarding transitional measures and retrospective adjustment at the time of enforcing new regulations.
We request the following improvements be implemented for the examination and approval system of new drug development.

(1) Effective utilization of CFDA/CDE pre-application consultation system.
(2) Implementation of import medicine registration drug test at the NDA stage.
(3) Acceptance of supplementary documents at the CDE review pending stage.
(4) Simplification of restrictions on overseas transport of specimens.
(5) Acceptance of CMC/manufacturing location change at import drug development stage.
(6) Clarification of acceptance of additional applications of different adaptations/standards of the same active ingredient in drugs under IND/NDA review.
(7) Exemption from consistency evaluation for original medicines produced locally.
(8) Establishment of detailed rules for on-site inspection of production process.
(9) Further clarification of criteria on clinical trial inspection.
(10) Establishment of CTD format for bio products.
(11) Promotion of eCTD application document format.
(12) Continuous shortening of the period until clinical trial approval.

We request the following items for drug price reforms.

1. Improvement of drug price formation system.
   (1) Reflection of the cost required to cover R & D expenses at the time of creating new drugs, patent, quality, post-marketing surveillance, and collection of safety information into the drug price.
   (2) Disclosure of the operation policy of the price negotiation method.

2. Improvement in the centralized purchasing system (or system) for pharmaceuticals.
   (1) Clarification and unification of plans announced by the region.
   (2) Abolition of secondary price negotiations after a successful bid.

3. Improvement of medical insurance reimbursement system.
   (1) Revising the insurance reimbursement medicine list from time to time.
   (2) Setting up reimbursement criteria considering quality.

We request the following improvements for a safe and reliable supply of drugs.

(1) Continuous efforts to improve the quality of pharmaceuticals and raw materials.
(2) Punctuality of drug license renewal and prompt notification of permission content and enhancement of remedial action for delayed items. Alternatively, we request that authorization number not be changed, like for domestic products, after the permission renewal of imported drugs.
(3) To ensure stable supply, we request that one product can be supplied from multiple plants.
(4) To make it possible to import products manufactured overseas, we request the establishment of an MAH system that allows outsourcing to overseas manufacturing plants.

We request simplification of approval review of OTC drugs.
4. Medical equipment and drugs for \textit{in vitro} diagnosis

\textbf{Status of the pharmaceutical industry for medical equipment and drugs for \textit{in vitro} diagnosis in China}

Based on a population exceeding 1.3 million people, modernization of society, and improvement of national income, many patients have an increasing interest in issues related to aging and health control, and it is a market where huge medical demand can be anticipated. The market for medical equipment and drugs for \textit{in vitro} diagnosis has had a very strong growth rate for more than a decade and the growth rate has not declined. In the future, it is also expected to enhance medical facilities not only in urban areas but also in rural areas.

In recent years, various reforms in the healthcare system including medical insurance, as well as the progress of aging, and rising interest in comprehensive medical examinations and health control in the family have driven the demand for medical-related services. In particular, regarding the increase in the proportion of elderly people, those aged over 60 years had already exceeded 16% of the total population in 2015, and it is said that population aged 60 years and above will reach 30% of the total population in 2040. In addition, there are effects on health due to environmental pollution such as PM$_{2.5}$ concentration, and the market for medical equipment and drugs for \textit{in vitro} diagnosis in China is growing rapidly, increasing by an annual average of 24.4% from 2001 to 2010, and expanding at a pace far exceeding the world average of 8% a year to reach 120 billion yuan in 2010. In recent years, a high growth rate has been maintained, exceeding 300 billion yuan in 2015, and it is expected to exceed 600 billion yuan in 2019. (Source: National Statistics Bureau of the People’s Republic of China, China Health Industry Blue Book, 2015 version)

Furthermore, to eliminate the disparity in medical services between urban and rural areas, the government is promoting investment in fundamental medical infrastructure development. However, on the other hand, establishment of hospitals by private capital has also been encouraged, and in 2015 the number of public hospitals exceeded the number of private hospitals. (Source: 2016 China’s Sanitation and Planning Growth Statistical Yearbook)

The following trends are expected in future.

\textbf{Not only a high-end market but also middle- and low-end markets}

Examining the number of hospital facilities in China—approximately 27,000 nationwide—the proportion of high-end (third grade) hospitals is about 2,000, which is small, but in the majority of cases, clinical trials and number of hospital beds are concentrated in this segment. In other words, demand from the high-end market is expected to continue in the future. However, the central government is focusing on promoting a drastic reform of regional medical care centered on rural areas and strengthening prefectural class public hospitals throughout the country. Also, because of the imbalance in medical resource allocation and strong problem awareness regarding access to medical facilities (the so-called nursing difficulty/nursing care) in rural areas, large financial investments are expected in the middle- and low-end markets in the future. At the same time, with the aim of reducing medical costs and comprehensive development of the domestic medical device industry, efforts such reforming medical equipment distribution, bidding system, central purchasing, and recommendation of domestic medical equipment are expected to become full scale.

\textbf{Expansion needs regarding diagnostic equipment for chronic diseases}

Along with the progress of aging, chronic diseases such as tumors, cerebrovascular disease, heart disease, and diabetes are increasing, and the need for medical services and medical equipment is expected to increase. In China, diabetic patients have the fastest growing rate in the world.
Problems faced by Japanese companies

Substantial revision of the supervisory control law

In June 2014, “Medical Equipment Control and Supervision Ordinance (Medical Equipment Control and Supervision bylaw (State Council Ordinance No. 650))” was revised. Accordingly, a number of medical devices and regulations on supervisory control of in vitro diagnostic drugs were changed. Even after 2015, seminars on various laws, promulgation of administrative notices, review guidelines and ordinances as well as other events were held, and we appreciate the efforts made by regulatory authorities to improve, review, and stabilize operations. In particular, the work done by the reception center of the CFDA seems to have greatly improved from the earlier state of confusion.

However, there are still a few problems such as the fact that the review period is longer than the period stipulated by laws and regulations, and the review situation published on CFDA’s website is not actually reflected. We urge the concerned authorities to address these problems at the earliest.

Simplification of clinical exemption and conformity assessment in China

During the revision of laws promulgated in 2014, the guidance of the Global Harmonization Task Force (GHTF), now operating as the International Medical Device Regulators Forum (IMDRF), has been largely taken into consideration, getting much closer to global standards. This is the outcome of the Chinese public administration participating in the IMDRF, international regulations by the Asian Harmonization Working Party (AHWP), China International Medical Device Regulatory Forum (CIMDR), as well as activities to deepen mutual understanding of the prescribed standards. We would like to appreciate these efforts.

However, a strict conformity assessment accompanied by actual machine testing is required for items that have been approved in the GHTF founding countries (Japan, the United States, Canada, the EU, and Australia), and it was also stipulated that there are cases where clinical trials are required in China. In the case of items not listed on the clinical trial exemption list, judgment is based on whether or not clinical examination is necessary based on the Clinical Evaluation Report, which has made a comparison with the existing items that are distributed in China. Meanwhile, the Clinical Evaluation Report requires many comparison items and detailed information, which may require a huge amount of time and cost; in addition, it seems that the judging side is also making tremendous effort. Items that have been approved in the GHTF founding countries have already undergone conformity assessment and clinical evaluation, and safety evaluations are sufficient. It is a heavy burden for both sides to once again create and review a Clinical Evaluation Report spending a huge amount of time and money. Furthermore, if clinical trials are required in China, you will have to give up the supply of new products to the Chinese market. In such a case, opportunities to supply safe, high-quality new medical equipment and in vitro diagnostic drugs to China will be lost, and this will hamper the development of China’s medical market. We request simplification of procedures such as omission of actual machine testing and exemption from clinical trials in China.

Strengthening the Center for Medical Device Evaluation (CMDE) and improving the system

In order to properly examine medical equipment and in vitro diagnostic drugs that continue to evolve steadily, it is essential to increase the abilities of the Center for Medical Device Evaluation (CMDE) examiners. We would like to express our appreciation for the efforts being made such as increasing the number of CMDE examiners and training of examiners to handle a large number of application cases. Also, we would also like to express our gratitude for the efforts being made to strengthen the system, including incorporating group reviews according to the product risk levels to unify and increase the examination level. However, depending on the CMDE examiner, we estimate that the scrutiny period may be prolonged due to lack of knowledge of
new medical equipment and \textit{in vitro} diagnostic drugs, as well as lack of understanding the medical scene. Japan has an organization similar to China’s CMDE examination center called Pharmaceuticals and Medical Devices Agency, Japan (PMDA). The PMDA established the Asian Pharmaceuticals and Medical Equipment Training Center in April 2016 to share knowledge and experience by offering training for regulators in Asian countries. We hope to improve the ability of the CMDE examiners by utilizing this training, and request further reduction of the review period. Moreover, products with low risk are screened by third party organizations in Japan, and it is not a big problem in terms of safety of medical equipment. We request medical device examination if conducted by a third party organization.

On the other hand, after the revision of the law promulgated in 2014, we believe that “applications for permission change” have increased significantly, and the burden on CMDE examiners is increasing. In the case of China, as most changes require “application for permission change.” However, in Japan, low-risk changes are set as “notification on minor changes” and completed by using notification documents. In order to estimate if medical devices will increase in the future in China, we believe that the burden on both CMDE and the applicant will be greatly reduced by making it possible to complete changes with low risk only with a notification.

Likewise, when applying for a new product, especially when there are no similar items in the Chinese market, there are cases where applications are submitted without knowing the classification, generic name, and China-related standards and evaluation methods, and the examination side also conducts the review without having a clear understanding of product contents, and this prolongs the examination period. Traditionally, every Thursday is the day for consultation with the CMDE examiner and we have had consultations prior to the decision, but because these were personal consultations, a clear answer was not obtained. Currently, consultations with CMDE examiners have been changed to an appointment system. The fact that we are not able to consult freely is an inconvenience, but since we make an appointment and inform the CMDE examiner in advance about the contents of the consultation, it is effective for obtaining precise answers immediately.

Meanwhile, a preliminary consultation system and a special examination procedure were established for innovative medical devices, but the target conditions are limited. By consulting in advance, it is possible for both sides to recognize application data necessary for the target product, eventually reducing the review period, improving the efficiency of the review work, and economizing on manpower. We request that a preliminary consultation system with the CMDE is established for a fee, not only for innovative medical devices but also for all applications.

With these improvements, the volume of work the CMDE screens will be reduced, and we will be able to spare time to review more important new medical devices. In addition, we believe this will contribute toward improving China’s healthcare system.

\textbf{Structural improvements to ensure compliance with laws and regulations and GB/YY standards}

There are many cases where the period until the enforcement is very short after issuance of laws and regulations and the mandatory GB/YY standards. In particular, in order to implement the GB/YY standards, in some cases design changes, manufacturing process changes, quality checks may be required, and this may take considerable time for compliance. Since the new GB/YY standards became available, we request that a grace period of at least two years be established.

In addition, although the GB/YY standards are based on international standards (ISO/IEC), there are cases where changes in China itself are included and cases where the earlier version of the international standard is used as a reference. In such a case, even if it is medical equipment and \textit{in vitro} diagnostic drugs already approved and sold in other countries, it is necessary to conduct additional conformity assessment only for China, the exam that required the earlier version of international standards has to be taken again in China. The GB/YY standard that conforms to international standards requires that the latest international standard is used as a reference.
It is not only the GB/YY standards, but there are also many cases in which the period from promulgation of laws to enforcement is immediate, such as the same day. This may also take time to comply, as described above. Although it depends on the amount of change and the change in content with legal regulations, we request that a grace period (notice period) of about six months to one year be established.

**Unification of laws and procedures**

The import and export of biological ingredients and pure chemical products is complicated and is a long process. Correspondence to the HS code change is short such as difficulty in customs procedures. In particular, it is very difficult to import standard substances and superior substances (China procurement prohibited goods, CFDA unregistered items) used for actual machine testing and internal quality control. Furthermore, the number of customs offices in China is nearly 4,000, and there are problems such as differences in interpretation of the legal system and the HS code at each customs office. We would like to ask for unification of customs clearance procedures by local area and simplification of procedures.

Similarly, the “general naming rules for medical equipment” were enforced in April 2016, but regarding general names of medical equipment and drugs for *in vitro* diagnosis, the generic name at CFDA approval, drug price at hospital and the general name described at the pricing bureau in each region are different, and it may not be subject to remuneration for medical services. We request unification of the generic name at the time of CFDA approval and the generic name described in the drug price and pricing bureau.

**Efforts to implement efficient and effective bidding**

For companies to sell medical equipment, *in vitro* diagnostic drugs, and purchase facilities in China, there are various purchasing methods such as bidding by hospital unit, central purchasing bid of each ministry and city, bidding such as a military hospital, and bidding by a system of private hospitals. Bidding can sustain fairness in a market, and it has the great merit that it is possible to supply products that meet certain national standards safely and at a reasonable price to medical staff and medical recipients. As a specific example of medical supplies as part of the national health policy, the “Medical institutions high-value supplies centralized procurement pilot” that was enforced by China’s Ministry of Health in 2004 was developed in eight cities, and the target products were heart field, pacemakers, and artificial joints. The products were developed nationwide in 2008. In 2012, the target products were also expanded to include vascular interventions, cardiac pacemakers, electrophysiology, nonvascular interventions, osteoporosis, neurosurgery, extracorporeal blood purification, ophthalmic materials and dental materials, and government agencies, medical facilities, and related companies are responsible for this. Regarding the bidding system, there is a big merit as described above. However, there is a tendency for the work volume pursued to increase every year in order to deal with the government sector bid correspondence section, product purchasing personnel in hospitals, and medical equipment and *in vitro* diagnostic pharmaceutical companies.

For example, in order to make a bid, there is a “catalog” showing what the kind of products that are the bidding targets, but the catalogs are different for each province/city, and the description method is not unified. For this reason, it is necessary to analyze whether the product of the company applies or whether it is necessary to make an additional request for an item, and this is one of the complicated tasks. First of all, we believe that unifying the “catalog” as the foundation of bidding is necessary for improving the efficiency of bidding operations. In addition, examination criteria differ depending on the area, and the amount of documents to be prepared for bidding may become voluminous. If the data is standardized across the country, not only it will be possible to reduce the burden on companies, but the operational efficiency of the screening institution deliberating it will increase. Therefore, we request the unification and simplification of the bidding documents. Furthermore, depending on the area, it is necessary to submit paper documents, but it may be possible to make further improvements in efficiency by completing all the procedures electronically. Besides, the timing of bidding is irregular, and sometimes it is a struggle to prepare the bidding documents. Furthermore, in some cases bidding is not carried out for a long time, and it is impossible to provide new medical devices that are beneficial to patients in China’s healthcare institutions. If the bidding time is planned
and presented in advance, companies could also provide high-quality documentation, and this would also lead to an improvement in the efficiency of screening organizations. In the deliberations on bidding, there are cases where points are added if the FDA or MDD approval is obtained, but no points are added for obtaining pharmaceutical approval in Japan. Since the Japanese pharmaceutical jurisprudence has a proven track record of safe and secure medical equipment and drugs for *in vitro* diagnosis, similar to Europe and the United States, we request that points are added for products that have obtained pharmaceutical approval in Japan.

Beginning with the revision of the ordinance on Supervision and Administration of Medical Equipment of 2014, we would like to express our respect for the improvement activities implemented by Chinese authorities such as major revision of regulations on supervisory control of many medical devices and drugs for *in vitro* diagnosis. As a Japanese-affiliated industry, we would like to cooperate with the Chinese authorities to improve the healthcare environment in China.

**<Proposal>**

We appreciate the day-to-day regulatory efforts to improve the screening of medical equipment and drugs for *in vitro* diagnosis such as the participation of China’s public administration in the IMDRF, international regulation by the China International Medical Device Regulatory (CIMDR), activities to deepen mutual understanding of standards, promulgation of various laws, administrative notices and review guidelines, and organization of seminars on laws and regulations. We also request the following improvements anticipating that they will contribute to medical care development in China by supplying safe and high quality new medical equipment and *in vitro* diagnostic drugs to China’s medical institutions as soon as possible. It should be noted that this proposal is based on the circumstances at the time of writing this paper, and there is a possibility that improvements have been promoted by subsequent legislation revisions, and administrative notices. We request the following.

1. **Launch of regulations and stabilization of operations after the revision.**
   - We sincerely appreciate the efforts to stabilize the operation of regulators since the substantial revision of the ordinance Supervision and Control of Medical Equipment in 2014. In particular, we believe the work of the CFDA reception center has been improved dramatically. However, there are problems, for example, the examination period is longer than the period stipulated by laws and regulations, and the reliability of the examination status information published on the CFDA website is poor. We request that these problems are resolved as early as possible.

2. **Simplification of clinical exemption and conformity assessment in China for items that have been approved in the Global Harmonization Task Force (GHTF) founding countries.**
   - In the revised regulations promulgated in FY 2014, internationalization has advanced drastically, including conformity assessment accepted for basic requirements indicated in the GHTF guidance, currently known as IMDRF. Items that have been approved in the GHTF founding countries (Japan, the United States, Canada, the EU, and Australia) are safe medical devices and *in vitro* diagnostic drugs that have already been evaluated for conformity. For this reason, we request measures to simplify application documents, for example, the abolition of actual tests conducted at a test site designated by China, acceptance of test reports from other countries, and simplification of “biocompatibility evaluation documents.”
   - In the Medical Device Registration Control Validation Law (Ordinance No. 4) and the Pharmaceutical Registry Management Valuation Law (Order No. 5) promulgated in 2014, it was stipulated that there are occasions when clinical trials are sometimes required for imported medical devices. In the case of items not listed on the clinical trial exemption list, the need for clinical trials in China is judged using the “Clinical Evaluation Report,” which makes a comparison with existing products that are sold in China. However, there are many required comparison items, and in reality evaluation is not possible unless it is the company’s own product. Since clinical evaluation has already been done for items with approved results in the GHTF founding country, we request measures such as exempting clinical trials in China or reducing the comparison items with the existing products.
Further reduction of the examination period by improving the CFDA/CMDE and strengthening the structure.

- We request that together with increasing the number of CMDE judges, the examination level is unified and training programs are implemented to deepen understanding of the latest scientific knowledge as well as enriching both quantity and quality, and further reducing the examination period. Also, as in Japan, we request the creation of a system where a third party organization conducts the reviews.
- Since the revision of the legislation promulgated in 2014, it is estimated that the number of “applications for permission change” has increased, which is a heavy burden of CMDE examination. As in Japan, we request that an application system for minor changes be completed only with a notification. We also request issuance of notices incorporating cases relating to each change in application.
- When applying for a new product, especially if similar products do not exist in the Chinese market, the application is submitted without knowing the classification and general name, related standards in China and evaluation method, and since the CMDE examination side also reviews the product with unclear product contents, the reviewing period may be prolonged. We request the establishment of a preliminary consultation system with the CMDE because it will reduce the review period, improve the efficiency of the reviewing work, and economize on manpower.
- There are cases where no provisions exist in the GB/YY standards, and notifications are issued using the CFDA/CMDE internal regulations. Also, interpretation of regulations and GB/YY standards differs between the CFDA and regional FDA, and despite having already cleared the criteria during the product registration process, there are cases where the local FDA points out issues. Furthermore, interpretation may be different within the CFDA. Along with disclosure of internal regulations, we request training be conducted for the supervision department at the national level and unification of regulations and standards for interpretation.

Improving the mechanism, so that manufacturers can comply with the regulations and GB/YY standards securely.

- It is often difficult to immediately implement standards to both medical devices and in vitro diagnostic drugs after the GB/YY standard release (design change, manufacturing process change, and quality confirmation are required). Therefore, we request the establishment of at least two years from the date when the new standard is available for the grace period for enforcement of the new standard, so that the company can deal with it.
- There are many cases in which the period from promulgation of laws to enforcement is immediate, such as the same day. Depending on the amount of change from the legislation, we request that a grace period (notice period) of about six months to one year be provided.

Unification of laws and procedures.

- We request to unify and simplify different customs procedures depending on the region.
- Regarding the general name for medical equipment and drugs for in vitro diagnosis, we request unification of the general name in the CFDA approval, drug price at hospitals, and the general name described at the pricing bureau.

Improvement in medical device bidding.

- Currently, when medical equipment companies participate in bidding, screening criteria differs depending on the area and the amount of documents to be prepared for the bidding may be voluminous. In addition, various expenses such as bid service fee and security deposit may be collected, but the basis and collecting standards are unclear. Together with the clarification and unification of examination standards and cost collection standards, we request improvement in efficiency by simplifying the process for preparing documents.
- The timing of bidding is irregular and it is impossible to predict when new medical equipment can be provided. Furthermore, in some cases bidding is not carried out for a long time, and it becomes impossible to sell new medical devices that are beneficial to patients in China’s healthcare institutions.
We request planning and preliminary presentation of bidding times. Furthermore, we request the establishment of a special frame by which items can be sold without going through the bidding process.

- During the deliberation of bidding, there are cases where points are added when FDA and MDD have been obtained, but no points are added for obtaining pharmaceutical approval in Japan. As in Europe and the United States, we request the addition of points for obtaining pharmaceutical approval in Japan.
5. Cosmetics

Overview

The market trend in other countries is either a slight increase or flat growth, but China’s cosmetics market continued its double-digit growth in 2016 and has established itself as the second-largest market in the world. In addition, there is potential to continue this growth trend in the future, at least to some extent. China is considered to be a very important market for cosmetics companies, not only in Japan but also globally.

Retrospective 2016 and Future Trends

As the income of China’s citizens increases, the amount of self-investment related to beauty has increased, consumers’ interest is increasing not only in skincare items but also in hair care and personal care products. As the whole market, generations born in the '80s and '90s have greatly contributed toward market expansion and are leading the market.

Considering the overseas market in 2015 and 2016, there was a shopping splurge in Japan due to Chinese travelers who stormed the Japanese market. However, the behavior of Chinese travelers in Japan changes from purchasing items such as home appliances to everyday items, and the purpose of visiting Japan changes from shopping to experiences, and Chinese customers continue to find cosmetics made in Japan attractive.

In the offline channel, system product brands and companies developing in department store channels continued to be in a situation of struggle. The reason is that the department store type business model gradually becomes incapable of responding to the lifestyle of the current customers, and this is driving the closure and shrinking of stores. On the other hand, large shopping mall complexes are increasing, and variety stores and stores that specialize in cosmetics are expanding in shopping malls and gaining popularity. It is speculated that such businesses will continue to expand in the future and it is presumed that the downward trend of department store channels will continue.

Online channels (EC channels) are on an increasing trend year by year, and the shift toward online sales is accelerating for each brand/company. There are an increasing number of cases where companies earn customers’ trust by launching a flagship online store for each brand, and this is leading to increased sales. In addition, there are also growing trends in cross-border online sales outlets that mainly handle parallel imports, and mechanisms for purchasing Japanese cosmetics that are not sold in China are also being established, and an environment where customers are in contact with Japanese goods is gradually improving.

As mentioned above, cross-border online commerce has increased its daily presence, but as cross-border online commerce expands, a situation has arisen where online commerce based on regular domestic imports will decrease. Problems related to the quality and safety of parallel import goods are also increasing, which is a problem that has to be solved. The Ministry of Commerce (商务部) has announced that the new policy grace period for handling cross-border online commerce will be extended till the end of 2017, and manufacturers who regularly import and expand in China are hoping for an early confirmation of the law.

Regarding the sales composition ratio of categories, all categories are increasing. In particular, the skincare category is increasing, and there is strong demand for products with characteristics such as “sensitive skin,” “whitening,” and “anti-aging.” For Japanese products in particular, we have obtained certain evaluations such as high quality and safe products, and the market is expanding.
Next, we describe the legal management situation for the present Chinese cosmetics market as mentioned above.

The current top legislation in the field of cosmetics is still the “Cosmetics and Sanitation Supervision Ordinance (Sanitary Ordinance No. 3)” promulgated 28 years ago, and the “Cosmetics Regulatory Supervision Ordinance,” which is the revised regulation of this Ordinance that was promulgated in 2016, but not enforced until March 2017. As a result, there were only nine laws and normative documents promulgated in 2016. In response to this situation, the Chinese government has a strong sense of crisis.

We summarize the Chinese government’s view on the supervision and management of cosmetics as can be grasped from information in mass media reports.

If regulations are delayed, as described above in the cosmetics industry, production companies become “scattered, smaller, and messy,” and as a result, this creates room for the development of small- and medium-sized companies. On the other hand, there are also reports that authorities recognize that illegal actions are widespread. As a result, the Chinese government acknowledges that the cosmetics industry needs to head toward “consolidating and expanding” in the future. Specific countermeasures include “strengthening of regulations by the state” and “promulgation of related laws and regulations, and improving standards.”

Based on the above situation, after the Cosmetics Regulatory Supervision Ordinance was promulgated in the second half of 2017, and legislations leading to the following: 1) strengthening the supervision of the whole process, 2) strengthening sampling inspection and risk warning and constructing an authority information disclosure system, and 3) raising the level of cosmetics by strengthening technical support are expected to be promulgated. These regulations will likely ensure that there is no unfairness, so that excessive or specific countries or regions are disadvantaged.

Problems faced by Japanese companies

As mentioned in the previous chapter, it is basically a favorable direction for companies that regulations after 2017 and the operation management system are being vigorously implemented, and we would like to express our deep appreciation here. We Japanese companies, like Chinese companies and other foreign capital companies, are strongly hoping that cosmetics will contribute significantly toward increasing beauty consciousness and enhancement among Chinese citizens as well as the robust development of the Chinese cosmetics industry.

Based on such assumptions, in this chapter, we would like to mention how to solve the problems faced by Japanese companies from the perspective of healthy development of the China cosmetics industry.

First, we recognize that safety management of cosmetics is a very important issue in China presently, and the Chinese government also recognizes this. There seems to be a reason for the situation where the approval of new raw materials to be described in the next section does not proceed slowly and for not being able to build a system to eliminate safety concerns.

Regarding safety management of cosmetics, it is not sufficient if the stage before the products is launched in the market is strictly managed. We believe that for the first time a highly effective safety control system will be possible by performing it in combination with verification of incidents after the products are launched. We urge the Chinese government to focus on building a monitoring system after products are introduced in the market.

The Cosmetic Safety Risk Assessment Guidance (opinion submission: issued on November 10, 2015) is the guide concerning management before market launch. The idea of risk assessment shown by this guide is scientific and rational and can be evaluated. However, the problem is that a high technology level is being mandated, so that only a few companies can carry out all of this as it is. Regarding this point, we strongly urge
to respond to measures such as accepting internationally accepted methods for risk assessment and measuring methods with scientifically equivalent accuracy. Also, since this is a guide, it is not considered to be a legally binding document, but there is no description on this in the main text of the guide, and it is also a problem that the position of this regulation is unclear; we also request improvement on this point.

The fact that approval of new raw materials in China is a very slow process is a big problem for Japanese companies as well. The above, adjustment plan concerning administrative permission application documents of new raw materials for plant cosmetics, which was issued on the same day as the Safety Risk Assessment Opinion Submission (opinion submission: issued on November 10, 2015), is in line with industry demands including introduction of an examination system that considers food experience and usage records outside China, and it has been valued by the fact that application and examination environments are being developed for approval of new materials, but its effectiveness has not been achieved yet. In particular, cosmetics using plant extracts are the strength of Japanese companies, and obtaining this new approval is of greater significance for Japanese companies.

Since 2015, there has been an increase in cases deleting or revising opinion on the original packaging of imported cosmetics. Specifically, feedback on expressions such as “no fragrance,” “uncolored,” “no mineral oil added,” “no surfactant added” in Japanese. Several reasons can be presumed, one of them being the influence of the Cosmetics Label Control Law (draft for requesting opinions) issued in November 2014, and the Cosmetics Regulatory Supervision Ordinance, which is expected to be promulgated soon. However, there are currently no Chinese regulations that regulate display in foreign languages, and the above actions are considered to have no legal basis so far. Moreover, such cases occur only in Japanese products that use Chinese characters, and there are many Japanese companies having difficulty in dealing with this.

**Proposal**

We sincerely thank and acknowledge the fact that since its establishment in 2013, the CFDA has been working energetically on legislation and the operational management system.

We request the following hoping that cosmetics will contribute toward enhancing Chinese citizens’ beauty consciousness as well as contribute to the robust development of the Chinese cosmetics industry. We expect our request will be useful for developing regulatory legislation and operation management of the authorities. We request the following.

1. **Promptly promulgate the Cosmetics Regulatory Supervision Ordinance.**
   Although the revision of the Cosmetics Regulatory Supervision Ordinance is underway, it still remains as a revised draft waiting review, and has not been promulgated (as of March 2017). This draft was appropriately revised based on the opinions submitted by companies during the public comments period, and Technical Barriers to Trade (TBT) were notified to the WTO, so we request its promulgation as soon as possible.

2. **Accelerate approval of new raw material.**
   We appreciate the fact that regulations on cosmetics raw material control are being put into practice in China, in line with the urgent demand of the industry. However, despite the opinion requests from the Japanese Chamber of Commerce and Industry in China and other organizations, the actual examination and raw material control methods still differ greatly from the trends seen in major countries and regions around the world. This has become a major barrier to promptly launching in the market new raw materials that are beneficial to consumers. We urgently request the establishment of an effective system based on the actual situation of international safety management.

3. **A fundamental remedy for problems that arise in renewal review delays.**
   In December 2016 “Notice on Adjusting the Continuation of Cosmetic Administrative Licensing (draft for comments)” was issued in response to the problem that renewal review was delayed. We appreciate
that the CFDA has recognized the importance of this problem and has responded vigorously. However, since is not expected that this problem will be solved in this opinion submission draft, we strongly urge for drastic improvement measures as described in the opinion submitted by the Japanese Chamber of Commerce and Industry in China in November 2016. In addition, even in the case of a new product application, if there are no errors in the application data, we request that the examination be completed within the period stipulated in the “Cosmetics supervision and control regulations implementation details.”

(4) Cessation of guidance related to original packaging displays of import cosmetics.
Examination opinions such as elimination or change have been issued against displays in Japanese language in terms of “no fragrance, no coloring, no preservative added” on the original packaging of Japanese cosmetics; however, these displays are useful information for selecting products based on facts and cannot be deleted from Japanese distribution items. On the other hand, creating special packaging for China will increase costs, and that cost will be eventually passed on to the product price, increasing the burden on consumers. From the viewpoint of fairness with similar displays on imported goods from other countries, we strongly urge that no “elimination” opinion is considered.

(5) Upon enforcement of the new regulations, details of operations should be disseminated beforehand. Despite being promulgated as enforcement on December 1, 2016, operations related to the Cosmetic Safety Technical Norm were started before September, leading to a great disorder in the review of applications. This situation led to delays in product launch plans for companies and greatly affected corporate management. Also, the stress was on scrutiny by experts, who are the examiners, and a great workload was imposed on the committee. In the event that regulations or standards are changed in the future, we request that the starting time and operational procedure of specific operations be clearly informed. In addition, when newly announcing or changing control laws, we strongly request that legalization is created with accurate understanding of the actual situation of product development and the current situation.

(6) Unification of examination standards.
In the application registration for series products, we have experienced cases where corrections have been requested for one product, but similar markings were accepted for other products. If this has occurred due to the assessment ability of the examination experts, we request strengthening of controls for examination experts including periodic training in aspects such as examination criteria, and we also request that the examination standards are more unified.

(7) Improving the situation of “List of cosmetic ingredient names already in use,” “Chinese names of ingredients” and “International Nomenclature of Cosmetic Ingredients.”
The list of ingredient names is an important basis for judging whether it is an item that corresponds to a Chinese ingredient. On the other hand, the names of Chinese ingredients are used for ingredients when submitting a product application to the CFDA. However, it has been found that consistency is not obtained even if they are the same components, and this is confusing companies. We request improving standards that are duplicate or inconsistent with the International Nomenclature of Cosmetic Ingredients, and launch operations for promptly updating information, and periodic renewal of the list of ingredient names that are already in use.

(8) Control cosmetics sales using SNS and providing clarification to consumers
Abuse related to deceptive advertising in personal sales has been confirmed, and inappropriate information is directly connected to dangerous situations for consumers. Valuable information such as “distribution of appropriate cosmetics information” has not reached consumers. In addition to reducing damage to consumers and strengthening transmission control of such information, we request that a question and answer section is set up on the CFDA official website.

(9) Deregulation of registration for declaring new chemical substances.
Substances that are not yet listed in the list of chemical substance names are required to be declared as new chemical substances in China. According to the regulations of chemicals in Europe and Japan, raw materials for cosmetics for which the declared quantity is less than 1 ton/ year and are regulated by other
laws and regulations, are excluded. Since substances evaluated by other regulations can be regarded as already used substances, we request easing of requirements related to substances subject to declaration under the current law.
6. Cement

Overview

Cement production in 2016 was 2.402 billion tons, a slight increase of 2.5% from the previous year. Production volume in 2015 showed negative growth for the first time in 25 years, after which it seemed to be peaking out; however, in 2016, investment in real estate development increased following the fiscal stimulus for coping with the economic recession that led to an increase in cement production.

China’s cement production accounts for about 60% of the world market share, and China has been a leader for 32 consecutive years (approximately eight times the production of India that is ranked 2, and approximately 28 times the production of the United States, which is ranked 3).

On the other hand, production capacity reached 3.5 billion tons. Over capacity has been a problem for several years, and despite the progress made by government-led industry reorganization, there are no substantially noticeable solutions. Painful reforms have been postponed for after 2017.

Table 1: Changes in cement production in China

<table>
<thead>
<tr>
<th>Year</th>
<th>Production volume (million tons)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1,629</td>
<td>17.9</td>
</tr>
<tr>
<td>2010</td>
<td>1,868</td>
<td>15.5</td>
</tr>
<tr>
<td>2011</td>
<td>2,063</td>
<td>16.1</td>
</tr>
<tr>
<td>2012</td>
<td>2,184</td>
<td>7.4</td>
</tr>
<tr>
<td>2013</td>
<td>2,414</td>
<td>9.6</td>
</tr>
<tr>
<td>2014</td>
<td>2,476</td>
<td>1.8</td>
</tr>
<tr>
<td>2015</td>
<td>2,348</td>
<td>△4.9</td>
</tr>
<tr>
<td>2016</td>
<td>2,403</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: “Cement figures” 1st period, 2017

Trends in 2016

At the end of 2015, although it is not official, China Cement Association forecasted a “3% decrease in cement production from the previous year” for 2016. It was expected that by 2030 cement production would decrease by two-thirds, and domestic demand would decline to 800 million or 900 million tons. Government agencies report that there has been no objection from companies involved in the industry to the fact that cement production will gradually decrease in the future.

The reason for the increase in cement production in 2016 is largely due to the stable growth of infrastructure investment and the recovery of the real estate market. Investment in real estate development remained 1.0% higher than the previous year during 2015, but in 2016 it increased 6.9% from the previous year.

In terms of production by area, there was negative growth in the northeastern region for three consecutive years and for two consecutive years in the northwestern region.
**Table 2: Cement production in China by region (2016)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Production volume (1,000 tons)</th>
<th>Growth rate (%)</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>2,402,954</td>
<td>2.49</td>
<td>100.00</td>
</tr>
<tr>
<td>North China (Beijing City, Tianjin City, Hebei Province, Shanxi Province, Inner Mongolia Autonomous Region)</td>
<td>210,523</td>
<td>7.16</td>
<td>8.76</td>
</tr>
<tr>
<td>Northeast (Liaoning Province, Jilin Province, Heilongjiang Province)</td>
<td>106,472</td>
<td>△1.19</td>
<td>4.43</td>
</tr>
<tr>
<td>Northwest (Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Huang Autonomous Region, Xinjiang Uighur Autonomous Region)</td>
<td>199,743</td>
<td>△4.59</td>
<td>8.31</td>
</tr>
<tr>
<td>East China (Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Shandong)</td>
<td>762,802</td>
<td>1.70</td>
<td>31.75</td>
</tr>
<tr>
<td>Central and South (Henan Province, Hubei Province, Hunan Province, Guangdong Province, Guangxi Zone Autonomous Region, Hainan Province)</td>
<td>686,457</td>
<td>1.62</td>
<td>28.57</td>
</tr>
<tr>
<td>Southwest (Chongqing, Sichuan, Guizhou, Yunnan, Nishizo Autonomous Region)</td>
<td>436,957</td>
<td>7.76</td>
<td>18.18</td>
</tr>
</tbody>
</table>

Source: “Cement figures” 1st period, 2017

The price of cement (ordinary silicate 42.5 grade, nationwide average) rose from a minimum of 244 yuan/ton at the beginning of 2016 to 337 yuan/ton at the end of the year (38% increase), Profits before tax in the cement industry as a whole increased significantly by 55% (51.8 billion yuan) in 2016 from the previous year. There was a backlash in 2015 where 43% of the 3,300 companies nationwide were in deficit. Especially, from the second half onwards, there were factors such as transferring the rise in coal prices—which is the main fuel—to the selling price, temporary supply and demand tightness accompanying implementation of the winter production peak shift policy, and suspension of small and medium-sized enterprises due to strengthening of environmental regulations and deterioration of cash flow. However, with the industry in profit growth, conversely, there is concern about the revival of “zombie companies.”

Despite the fact that cement exports decreased by 11% in 2016 from the previous year to 8.15 million tons, while clinker exports (9.63 million tons)—an intermediate product of cement—increased by 47% compared with the previous year, the absolute quantity is not high compared to Japan’s cement and clinker export quantity, which is about 11.5 million tons. On the other hand, the impact of lowering international market conditions is starting to emerge. Chinese companies are more inclined to invest in overseas factories, in line with the “One Belt One Road” initiative, than acquiring new overseas customers via exports.

**Main policies and administrative measures**

**Measures for eliminating excess production capacity**

Two important political notices were issued in 2016. One is the “Guidance Opinion on Promoting Stable Growth, Structural Adjustment and Revenue Increase in the Building Materials Industry (Guidance Opinion...
on Promoting Stable Growth, Structural Adjustment and Revenue Increase in the Building Materials Industry)” by the General Office of the Communist Party of China. The other is “Building Materials Industry Development Plan (Building Materials Industry Development Plan) 2016–2020” by the Ministry of Industrial and Information Technology (工业和信息化部). The main duties in common to both these notices are to prohibit the approval of new extension for projects by 2020 and prohibit production capacity replacement between different companies of real controllers by the end of 2017. As measures for eliminating excessive production capacity: 1) in accordance with laws and regulations, issuing orders to stop production to companies that have not met environmental, energy conservation, safety and quality standards, 2) promoting voluntary withdrawal of companies by implementing a power price differentiation policy and raising environmental/energy conservation costs, 3) with a high-quality company as a platform, supporting merger restructuring, technology remodeling, or voluntary reduction of excessive production capacity by means of marketing, not forced by the country/government, and 4) temporarily reducing production volume by implementing production peak shift measures.

**Assistance fund dedicated to the promotion of structural adjustments**

In May 2016, the Ministry of Finance issued the “Management method for the assistance fund dedicated to the promotion of structural adjustments of industrial enterprises (Management method of the assistance fund dedicated to the promotion of structural adjustments of industrial enterprises)” and a fund of 1 trillion yuan was set up to eliminate excessive production capacity in the steel and coal industry. However, cement was excluded.

In December 2016, the Ministry of Finance clarified that “the assistance fund dedicated to the promotion of structural adjustments of industrial enterprises will be provided by the central finance, and will be used for personnel relocation in the steel and coal industries, and it is not applicable to cement and glass industries.”

As a result, the China Cement Association, which had been requesting the creation of a fund, focused on the establishment of an “Investment Management Company,” and there are initiatives to prepare for its establishment in each region. The role of the company is to unify procurement, logistics, and sales for each member company, and to properly arrange production bases.

Note: In February 2017, eight constituent members established the first cement investment management company in Shandong province and called it Zibo Lianhua Cement Company Management Co. Ltd. During March of the same year, 11 members of the Inner Mongolia Autonomous Region also established the “Inner Mongolia Cement Group Wuhai Company.”

**Environmental countermeasure**

Under the “Environmental Protection Law” enforced in 2015, companies that cause environmental pollution are liable to strict punishment. In addition, the Environmental Protection Tax Law that was approved in December 2016 will come into force in January 2018. In the implementation of the “Cement industry air pollutant discharge standard,” the emission standards of dust and NOx for prevention of pollution, such as PM$_{2.5}$ concentration, became one of the harshest standards in the world.

**Policy with overriding priority and prospects for 2017**

Government-led infrastructure investment is expected to continue to increase in 2017 also, in keeping with the party convention once every five years, toward the need of about 6.5% GDP growth rate. The China Building Material Federation estimates that cement production in 2017 will increase by 1.1% from the previous year to 2.43 billion tons.
“Reduction of excessive production capacity” was mentioned as one of the important missions in the Government Work Report (政府工作报告) of the National People’s Congress held in March 2017. However, it is necessary to pay attention to how to implement it effectively because there is a possibility that it will not proceed smoothly due to issues such as increase in unemployment and downward pressure on the economy.

Problems and improvement requests from the cement industry

Excess production capacity

Cement production capacity is 3.5 billion tons, production volume is 2.4 billion tons (clinker has production capacity of 1.83 billion tons, and production volume of 1.38 billion tons).

For ten days in mid-February 2017, the Ministry of Environmental Protection, the Quality and Technical Supervision Bureau (质量技术监督局), the National Development and Reform Commission (国家发展和改革委员会), the Ministry of Industrial and Information Technology (工业和信息化部), and the Directorate General of Safety and Supervision organized eight pairs of inspection teams, and conducted nationwide inspection of the cement and glass industry. For the purpose of strengthening the crackdown on aging production equipment and seizing illegal production, they confirmed the status of implementing policies on the reduction of overproduction facilities and environmental protection, including dealing with it appropriately and according to the guidelines of the country. In addition, they submitted a list of companies and facilities in each jurisdiction and proceeded to grasp the current situation. Based on the inspection results, numerical targets for gradual reduction/elimination will be set forth.

Government efforts to reduce excessive production capacity mainly focused on coal and steel, but cement and glass are considered to be the next major crackdown candidates in 2017. We expect that it will not be just a slogan but also that effective and fair policies will be enacted.

However, companies that comply with laws and regulations and excel in environmental standards, energy conservation, quality, technology, and safety should be excluded from the target.

Quality problems

Although cement of strength class 32.5 compound silicate cement according to GB standards was eliminated, the situation is that for the most part it was just replaced with 32.5R (early strong type) composite silicate cement. Large companies in the industry are calling for the elimination of the low quality GB standards for the entire 32.5 grade product.

Peak-shifting production in winter, problem of production suspension

According to the Ministry of Industrial and Information Technology (工业和信息化部), the peak-shifting of production in winter will be implemented mainly in the northern area by 2020; however, in many areas other than the northern areas such as Jiangsu Province, Zhejiang Province and Fujian Province, people are demanding the suspension of production during the Spring Festival and the period of intense heat in summer. In some areas, measures for suspending production may be imposed in a unified and compulsory manner according to the value of PM$_{2.5}$, but we hope that normal business activities of companies that are complying with environmental standards will not be disturbed.

<Proposal>
In some provinces, there have been cases where a closing order was sent unilaterally to a production factory that complies with laws and regulations and that does not have environmental, energy saving, quality and safety problems, just as an environmental measure of the city. Since this type of closing pressure lacks scientific perspective and affects the fair investment environment, we request that the concerned authorities provide appropriate supervision and guidance for each municipal government.

Regarding the cement industry, the National Development and Reform Commission (国家发展和改革委员会) has declared “prevention of blind investments” since 2003, and has been working on restraining excessive production capacity. Since then, despite similar notifications issued by the State Council (国务院) and government agencies every year, prohibition of newly established or expanded provisions have not been thoroughly enforced. In 2016, there was an increase of 20 new production lines. Similarly, in 2016, despite the mergers of China National Building Material and China National Materials Group, which are central state-owned companies, and BBMG Corporation and Tangshan Jidong Cement, which are local state-owned companies, the factories of each merged company still exist within the same operational area, and there are cases where production capacity has not been reduced. Moreover, it has not been regarded as problematic because it has an overwhelming share in the region. State-owned enterprises should take the initiative in implementing measures to overcome excessive capacity in the country, and it seems that authorities concerned with the Antimonopoly Law also do not regulate any particular restrictions. We request clear explanations and guidance be provided to authorities related to the Antimonopoly Law, National Development and Reform Commission (国家发展和改革委员会), and the Ministry of Industrial and Information Technology (工业和信息化部), all of which authorize new extensions of existing facilities.

With the enforcement of the Environment Protection Law in 2015, emissions standards for pollutants such as SO\textsubscript{x} and NO\textsubscript{x} have become strict criteria at the international level, but as a Japanese-affiliated company, we deal with it actively, so that it becomes an advanced case sample. In the operational aspect of this law, we request there should be no irrationalities such as not allowing momentary excess of the reference value, engineering variations are considered, and the average value over a certain period be used as an index of control.

On the other hand, in the “Plan for Achieving Energy Conservation and Emission Reduction Targets in the Cement Industry” announced in October 2016 by the China Cement Association, an indicator of achieving a worldwide advanced level by 2020 on energy consumption per unit of cement production, as well as SO\textsubscript{x}, NO\textsubscript{x} and granule emissions was shown. Some values are stricter than in Japan, which is an environmentally advanced country, so we think that management within a scientifically reasonable range should be tightened. At present there are no penalty provisions, and it is positioned as the goal issued by China Cement Association. However, it is also possible to have enforceability in the future, and there is a possibility that local governments may carry out arbitrary operations for this reason. In management and operation, we request that fairness and objectivity be maintained.

From 2014, as a temporary measure to solve the problem of excess capacity and environmental problems, “winter production peak shift” measures were implemented. Even in 2016, the Ministry of Industrial and Information Technology (工业和信息化部), and the Ministry of Environmental Protection issued a joint notification and decided to continue this measure until 2020. Although exceptional measures are taken for companies that handle urban waste and toxic hazardous waste, we believe it is unreasonable to forcibly stop production even for general waste disposal companies and companies that are responsible for supply of exports. We request that companies with old equipment of poor competitiveness, companies that cannot satisfy energy saving/environmental standards, and companies complying with energy conservation and environmental measures by inputting funds are not treated in the same way, and measures are taken according to the circumstances of individual companies.
(6) Regarding emissions trading that is said to be fully implemented in the second half of 2017 and the environmental protection tax that is planned to be collected from 2018, we urge that which one is implemented in accordance with impartial, fair, clear and transparent standards.

(7) Although the low quality 32.5 class compound cement GB standard was eliminated in December 2015, the 32.5R compound cement and other 32.5 grade GB standards still remain. Many of these standard products are mainly produced by small and medium-sized companies that neglect environmental problems or use mixed materials with a specified amount or more. Approximately 60% of total cement production in China is of 32.5 grades. Not only for improving grade product quality but also for measures against excessive production capacity and environmental measures, we request elimination of the GB standards of the entire 32.5 grade, or strengthening compliance inspection for the 32.5 grade products manufacturing plants.
7. Steel

Overview of China Iron and Steel Industry

In 2016, China’s crude steel production increased by 1.2(58,137),(846,842)(1,0),(995,993)% from the previous year to 808 million tons; 2015 was the first time in 34 years that it was less than the previous year and it began to increase again afterwards. China’s share of global crude steel production (1.63 billion tons) in 2016 was about 50% (Figure 1)

Figure 1: China’s crude steel production and world share

China’s steel production expanded rapidly since 2000, but the government recognizes structural problems such as expansion of production capacity due to blind investments, and delay in energy savings and environmental measures. In July 2005, the “steel industry development policy” was announced and, since then, there have been continued efforts to adjust the structure of the steel industry, and disposal of old equipment (steelmaking capacity of approximately 170 million tons in 2006–2015) was continuously and steadily advanced. Meanwhile, capacity expansion continued due to relocation of steelworks and equipment renewal, and surplus production capacity increased from about 70 million tons in 2005 to more than 300 million tons in 2015.

In addition, despite having a permanent tendency to have chronic deficits and continuing operations, improvement is also considered necessary in situations where the supply and demand adjustment function by the market mechanism is not sufficiently exerted such as the existence of “zombie companies” that local governments preserve by providing support.

Domestic consumption in China (apparent crude steel equivalent consumption) peaked at 2013, and was negative between 2014 and 2015 for the second consecutive year compared to the previous year. In 2016, although it started to increase for the first time in three years due to the government’s economic policy, it is forecasted to scale down in the middle and long terms.

As the situation of oversupply in the domestic market has not been improved greatly over the long term, export orientation of steel companies has strengthened and steel export volumes have continued to increase for the sixth consecutive year from 2010 to 2015; 2016 was slightly lower than the previous year for the first time in seven years, but it exceeded 100 million tons for the second consecutive year after 2015. Following the rapid inflow of cheap Chinese materials, in addition to AD and CVD projects targeted at Chinese materials, safeguard surveys have been conducted, and the impact has expanded to countries all over the world.
Steel Supply and Demand - 2016 in Retrospect and Prospects for 2017

Real estate sales further accelerated in 2016 as the recovery trend after the middle of 2015 continued to improve from the beginning of the year. Following the sharp rise in housing prices accompanying strong sales, in order to suppress overheating in the second half of 2016, local governments launched consecutive regulations on home purchases. Although sales growth has somewhat slowed down, following the booming real estate market, the number of new houses has exceeded the previous year’s number for the first time in three years.

Regarding the fixed asset investment amount, although the growth of industrial investment in the secondary industry was significantly lower than the previous year, following economic policies by the central and local governments, in addition to a continued high growth in infrastructure investment centering on irrigation and public facilities, investment in real estate development continued strongly throughout the year, and the growth was much higher than the previous year.

In the manufacturing industry, machinery and construction machinery segments recovered from the slump in the previous year, and production and sales of automobiles grew strongly, mainly for passenger cars, thanks to the sales promotion policies that continued from 2015.

In the shipbuilding industry, along with the substantial decrease in new order volume following the previous year, although the building volume declined from the previous year, both domestic sales and exports exceeded the previous year in general.

Regarding domestic steel consumption in 2016, the China Metallurgy Industry Regulation Institute announced that the architectural field, which accounts for the majority, was at the same level as the previous year, the machinery industry decreased slightly by 0.8% from the previous year, and automobile sales increased by 8.0%; overall, it announced 0.9% increase to 670 million tons. Regarding 2017, we estimate crude steel production to be at 788 million tons (down 2.2% from the previous year) and foresee steel demand at 660 million tons (down 1.5%).

Iron and Steel Trading – Retrospect 2016 and Prospects for 2017

In 2016, steel exports were 108.49 million tons (decreasing 3.5% from the previous year), slightly below the previous year’s record high, it was for the first time in seven years that it was less than the previous year, however, the export volume reached over 100,000,00 tons, which is comparable to the annual crude steel production in Japan for the second consecutive year.

In such circumstances, anti-dumping surveys were started one after another, in developed countries such as the EU and the United States, as well as the ASEAN countries, which are major export destinations for Chinese materials, and also emerging countries including India, Pakistan, and Brazil. In South Africa and elsewhere, trade remedy measures targeting Chinese materials spread throughout the world such as starting a safeguard surveys with the rapid increase in exports from China and other countries.

Regarding such a situation, the China Steel Industry Association said, “The decline in steel exports is due to the rise in steel prices in China and the impact of global protection trade.”

From January 1, 2015, the Chinese government abolished the refund of value-added taxes on the boron steel exports, but from 2015 to the first half of 2016, exports of steel materials added with other alloys such as chromium instead of boron remained at high levels. During the latter half of 2016, these turned into a year-on-year decline during the calendar year, in addition to the largest variety of exported steel bars, exports of shaped steel, and wire rods fell below the previous year.
Steel imports continued to increase from the beginning of the year due to greater domestic demand for machinery and construction machinery, increased investment in housing and infrastructure, and high growth in automobile production. In 2016, it increased by 3.4% from the previous year to 13.21 million tons, an increase for the first time in two years. Japan, South Korea and Taiwan, which account for approximately 90% of imports, were as follows, Japan: 5.33 million tons, up 0.9% from the previous year; South Korea: 4.4 million tons down 10.3%; and Taiwan: 1.57 million tons, down 0.5%. South Korea had double-digit growth.

**Structural reforms in China’s steel industry**

Regarding China’s iron and steel industry, since the announcement of the “steel industry development policy” in 2005, the disposal of old production capacity has been promoted through policies centering on “steel industry, 12th Five-Year Plan” (2011) and “Guidance Opinions on the Elimination of Serious Overproduction Capacity” (2013). Despite efforts to eliminate excess production capacity, crude steel production capacity at the end of 2015 reached 1.13 billion tons (National Bureau of Statistics), and the surplus production capacity is expected to be over 300 million tons.

In addition to the surplus production capacity, oversupply became more serious due to domestic steel demand beginning to decline at its peak in of 2013. Furthermore, in 2015, many iron and steel companies were operating at a loss due to the drastic decline in steel product prices. In addition, the need for structural adjustment rapidly increased due to the rapid increase in trade friction deals with export destination countries following large increases in exports.

In response to this situation, at the Central Economic Council Meeting held in December 2015 (which decides on the economic management policy of the following year), solving the “problem of excessive production capacity” was mentioned among the tasks to be addressed in the future, and this expressed the magnitude of the central government’s determination on this issue. In February 2016, the State Council (国务院) promulgated “Opinions on the Development towards the Realization of Difficult Remedies in the Steel Industry” (National publication [2016] No. 6), and it was decided to cut crude steel production capacity by 100 million to 150 million tons over the next five years from 2016.

As a policy to promote capacity reduction, the related laws, regulations, and industrial policies are strictly applied, and in addition to establishing standards for eliminating production facilities that do not satisfy these requirements based on the law, specific support measures such as establishing a dedicated fund of 100 billion yuan for employment measures, which is regarded as the biggest challenge in advancing capacity reduction, have also been presented. In February 2017, the Ministry of Industrial and Information Technology (工业和信息化部) announced that the production capacity of 65 million tons was reduced in 2016, and as a result, the steel market recovered, and the profits of steel companies rose 2.02 times compared to the previous year.

Led by the central government, structural adjustments are underway and certain results can be observed; however, on the other hand, the majority of equipment that was reduced in 2016 were dormant facilities and the impact on the market has been, as pointed out, is limited. Now, focus has shifted to achieving substantial progress from 2017 onward. Moreover, it is not included in the statistics of production capacity by the National Bureau of Statistics, and the aim is to crack down on “low-quality steel*” that does not meet environmental quality standards by June 2017. There are many issues that the Chinese steel industry must resolve to reduce capacity.

* Low-quality steel: there is no clear definition, but it refers to steel used for construction and is mainly produced by melting iron scrap using intermediate frequency furnace and pouring it into a groove made on the ground. It does not meet steel material standards and is inferior in terms of quality.

**Iron ore**
In 2016, iron ore import volume was 1.024 billion tons, an increase of 7.5% from the previous year, and it reached a record high for the fifth consecutive year. On the other hand, production volume of domestic iron ore decreased by 3.0% to 1.28 billion tons, which was the second consecutive year-on-year decline.

According to the China Steel Industry Association, pig iron production volume (701,000,000 tons) in 2016 was just 5,160,000 tons higher than the previous year; in contrast, imported iron ore increased by 71.64 million tons, and it is said to exceed the amount necessary for increased pig iron production greatly. In addition, the average imported iron ore price for the full year of 2016 rose by 5.55% to US$ 57.76 from the previous year, but a drop was reported for domestic ore (510.1 yuan, 5.42% lower than the previous year), and domestic mining companies are struggling.

Regarding iron ore demand in 2017, China Metallurgical Industry Research Institute forecasts that it will be 1.057 billion tons (62% conversion), down 3.2% from the previous year.

**Movement concerning energy conservation and environmental protection**

As significant interest is gathering around the problem of serious air pollution, from January 1st 2015, the Chinese government enforced the new “Environmental Protection Law” raising new environmental standards. Since January 1, 2016, the new “Air Pollution Control Law” (promulgated on August 29, 2015) has been enforced, and conservation management of the atmospheric environment at a higher level is required for industries with high environmental loads, including steel.

According to the “opinions on the elimination of overcapacity in the iron and steel industry and development towards overcoming difficulties” (National Publication [2016] No. 6), promulgated by the State Council (国务院) in February 2016, if a facility cannot meet the environmental protection (sewage discharge standard, sintering and pellet air pollution disposal standard, rolling industry air pollution standards) and energy saving (compulsory requirements such as energy consumption limit per unit of crude steel production) standards in the capacity reduction targets it will be closed and withdrawn from the market based on the law. Iron and steel companies are under pressure for stringent response.

In addition, in April 2016, the Ministry of Environmental Protection presented the “Guidance opinion on promoting “supply-side structural reforms” to actively demonstrate the effect of environmental protection,” and clarified the policy to strictly prevent relocation across regions of excessive production capacity and old production capacity.

In January 2017, the Ministry made public information about 225 (times) steelmakers that violated related laws between January to November 2016, and they were penalized; penalties included production restrictions, shutdowns, and discontinuance of business. The impact on China’s steel industry due to the strengthening of environmental regulations will be noted in the future.

**<Proposal>**

(1) Regarding the policies on “excess production capacity” in China’s steel industry, after the government announced the “steel industry development policy” in 2005, the reduction of excess production capacity is being promoted in order to change from quantity of steel industry to quality, improve resource utilization efficiency, and increase profitability. During the 12th Five-Year Plan Period (2011–2015 years), about 94.86 million tons (the Ministry of Industrial and Information Technology 工业和信息化部) of old equipment were eliminated; meanwhile, since new facilities exceeding the growth of actual demand were built, crude steel production capacity at the end of 2015 was expanded to 1.13 billion tons (National...
Bureau of Statistics), and in comparison with the same year, crude steel production of nearly 800 million tons, overproduction capacity seems to have exceeded 300 million tons.

On the other hand, although domestic steel demand (apparent steel consumption) in China in 2016 turned into an increase after an interval of three years due to economic policies such as government infrastructure investment, it is predicted to scale down in the middle and long terms.

In 2016, steel exports from China are expected exceed 100 million tons for two consecutive years, following 2015, and it has caused numerous trade frictions among countries around the world. Eliminating excessive steel production capacity worldwide was also discussed at the G7 Summit (Ise city, Japan) and the G20 Summit (Hangzhou city, China) held in 2016, and common recognition was gained as an urgent task for the global iron and steel industry.

Under such circumstances, the Chinese government promulgated the “Opinions on the elimination of overcapacity in the iron and steel industry and development towards overcoming difficulties” (National Publication [2016] No. 6) in February 2016, and the “Iron and Steel Industry Coordination and Advancement Plan (2016–2020)” in November of the same year, and in addition to reducing the steelmaking capacity by 100 million to 150 million tons aiming for 1 billion tons or less in the five years until 2020, industrial intensity will be improved, and the share of the nationwide total of top 10 crude steel producers will be increased to 60%. In addition, the goals of nurturing world leading companies by strengthening innovation and promoting openness to the outside world were set.

Regarding the achievements of 2016, during the first year of the plan, in the National People’s Congress held in March 2017, it was assumed that the actual reduction in steel production capacity has exceeded 65 million tons, exceeding the annual target (45 million tons), and at the same time, it was reported that re-employment of employees was properly addressed.

The Japan Iron and Steel Industry appreciates these aggressive efforts by the Chinese government and industry. In addition, we request that the structural adjustments will be promptly and reliably promoted in a manner that will continue to be effective. In addition, we will be closely observing the progress of excessive production reduction in the future as one of the greatest concerns.

Similarly, in order to realize structural adjustments early in the steel industry, as the Japanese steel industry, we will offer maximum cooperation, including sharing experiences related to past structural adjustments with the steel industry in China.

(2) Steel production

The GDP growth rate in 2016 was only 6.7%, slowing down by 0.2 points from the previous year despite the government exceeding the bottom line of economic growth in the 13th Five-Year Plan (第十三个五年规划纲要, "十三五规划"), which was 6.5%. The government showed that the Chinese economy has shifted from a period of “high growth” into a period of “new normal” representing stable growth.

According to the China Steel Industry Association, domestic steel demand (in terms of crude steel) increased by 2.03% in 2016 over the previous year, turning to positive after an interval of three years. However, this is largely the outcome of policy effects such as infrastructure investment by the Chinese government, and steel demand is expected to continue to decelerate in the medium and long term. Regarding domestic steel consumption in 2017, the China Metallurgical Industry Research Institute forecasted a 0.65% decrease to 658 million tons from the previous year.

As the Japanese steel industry, we request steel companies in China to advance integration and reorganization, improve over-competitive conditions and build a sound steel market as soon as possible. For this purpose, we would like take various opportunities such as the Japan–China Iron and Steel
Dialogue organized by both governments to further promote mutual exchange with the Chinese steel industry, and contribute to the further development of the Chinese steel industry.

(3) Steel trade
Steel exports in 2016 declined by 3.5% from the previous year to 108 million tons, which was the first year-on-year decline in seven years since 2009, it exceeded 100 million tons for two consecutive years following 2015.

As a result of the high level of export of steel materials, caution against steel products made in China is increasing in various countries globally. In these circumstances, the recognition that “this is a problem of excessive production capacity and cooperation from the world is necessary from this viewpoint” was shown during the regular briefing of the Chinese government (Ministry of Commerce) on November 10, 2016, regarding the problem of trade friction for steel products. In addition, the China Steel Industry Association analyzes that “in the international market, AD/CVD measures for Chinese materials are increasing, and steel exports are becoming increasingly difficult.”

The Japanese steel industry recognizes that maintaining a free and fair trade system is indispensable for global economic development, and regarding the Chinese government and the Chinese steel industry, we request to consider a sound and sustainable development of the world steel market including Southeast Asia and also an appropriate trade policy, including review of tax refund system for steel exports.

In addition, in the Japan-China steel trade, based on the long-standing relationship of trust, we would like to deepen mutual understanding on steel trade through the Japan-China Iron and Steel Dialogue sponsored by both governments.

(4) Energy conservation and emission reduction
In the Chinese steel industry, energy conservation and reduction of CO₂ emissions have been strengthened due to the reinforcement of environmental regulations by the government in recent years, the aggressive introduction of related facilities for steel companies, and dramatic progress has been made.

The Japan Iron and Steel Industry has recognized that it contributed to energy conservation and emission reduction in the Chinese steel industry through discussions at the Japan-China Steel Industry Advanced Energy Conservation and Advanced Technology Experts Exchange Meeting, which was launched in July 2005. After an interruption for four years from 2012, exchange meetings were held for the two consecutive years in 2015 (Beijing) and 2016 (Tokyo). From the perspective of global warming countermeasures and environmental measures on the global scale, the Japanese steel industry has shared the targets between Japan and China through periodic exchange of ideas, including exchange meetings, and we urge the achievement of cooperation through technical development.

(5) Statistics
In order to maintain and secure an appropriate production level autonomously and to smoothly promote structural adjustment of the industry as a whole, it is essential to construct steel related statistical system covering a wide range.

The steel industry in China has already established considerable steel related statistics, but in 16 years, many varieties such as section steel, thick/medium board, part of hot-rolled steel strip, cold-rolled steel strip, and surface treated steel plate are excluded from the target variety of steel product type statistics published on a monthly basis, and we request to return to the former publication format as soon as possible. We also request the establishment of a statistical system that will contribute to further improvement of the steel industry as a whole, in order for the steel industry to maintain sustainable development in the future, including improvement of duplication of steel materials in production statistics.
8. Consumer electronics

In 2016, the home electronics industry remained unchanged from the previous year (2015) as a whole due to the economic slowdown, and sales of large household appliances such as televisions and refrigerators were sluggish, but small appliances related to health and beauty such as air purifiers, hair dryers, and shavers were robust. Also, by selling route, the slump in the offline market did not stop, and the online market continued to record high growth. (* Graph of industry trend, the source of figures data is Gfk)

Overview of major products

Flat-screen Televisions

Regarding televisions in 2016, net sales reached 43 million units on a global scale, maintaining the same level as in the previous year. Trends in 2016 include: 1) continuation of further upsizing, 2) continued shift to 4K televisions, and 3) increased online sales. New entries into the industry have subdued, but competition among existing manufacturers has further intensified and prices are continuing to decline. Following last year, Internet TV brands represented by LeTV are aiming at differentiation by combining video distribution services and hardware; on the other hand, there is a trend among existing television brands of increasing the number of high-priced products.

Figure 1: TV unit sales (Unit: 1,000 units)

Digital cameras

Digital cameras are on the order of 4 million units, and their downward trend continues, but the declining speed tends to decelerate. Due to the evolution of camera functions in smartphones, digital cameras that cannot be distinguished from smartphones are expected to continue to decrease, but for high-end lens interchangeable cameras, the trend of sensor upsizing continues. With regard to compact digital cameras, high-performance cameras have only experienced a small decrease.
Air conditioners

The sales volume of air conditioners in 2016 was about 38 million units, which was slightly higher than the previous year. Air conditioner sales increased during the period of high temperatures in the summer of 2016. Especially, the growth rate in the third and fourth grade cities and rural areas was remarkable.

China’s first smart air conditioning standard (Air Conditioner Smart Index Certification) was announced by the Chinese Home Electronics Research Institute as the trend of energy efficiency improvement and manufacturing devices smart continued. Air conditioners are evaluated in three categories: smart functions (24 items such as user movement detection), smart characteristics (seven items such as automatic learning), and smart utility (five items such as safety).

Refrigerators

In 2016, the number of refrigerators sold was about 32 million, which was lower than the previous year, but the proportion of Internet sales has increased further (18% → 28%).

In the merchandise category, although the proportion of the three-door type in the market decreased from the previous year, it still remains mainstream accounting for about one-fourth of the market. Meanwhile, the cross-shaped four-door type has nearly doubled in sales volume since 2015 and is at the center of the high-volume and high-end market.
From October 2016, the new Refrigerator Electricity Consumption Efficiency Standard (household refrigerator power consumption limit and energy efficiency rating) is being implemented.

**Figure 4: Refrigerator unit sales (Unit: 1,000 units)**

![Bar chart showing refrigerator sales from 2013 to 2016.]

**Washing machines**

Although sales of washing machines declined in over-the-counter sales in 2016, online sales grew significantly, totaling about 36 million units, which was an increase from the previous year.

In the merchandise category, sales of drum type are growing centering on the washing and drying integrated type. The share of low-end products tends to increase, but the retail price is declining. On the other hand, campaigns for high-end products such as Wi-Fi function and products having multiple washing tubs have been expanded.

Demand for the drying function has expanded, and sales of independent dryers are growing. Currently, high-end foreign brands are mainstream products.

**Figure 5: Number of washing machines sold (Unit: 1,000 units)**

![Bar chart showing washing machine sales from 2013 to 2016.]

**Global expansion of China’s home electronics companies**

In 2016, the global advancement of Chinese home electronics companies progressed further, for example, a Chinese home electronics company (Midea Group) was included in the Fortune 500 ranking for the first time. Regarding the year-on-year sales for each company in the first half of 2016 in the overseas market, Haier increased by 62%, Midea Group increased by 13%, and Gree Electric increased by 60%.
In 2016, Midea Group acquired Toshiba’s home electronics division, Toshiba lifestyle, the Italian large air-conditioning company Clivet, and the Swedish vacuum cleaner maker Eureka. In addition, it acquired KUKA, a German major robot manufacturer, and Servotronix, an Israel automation solution company, accelerating overseas expansion and sophistication of business.

Currently, Haier is developing brands globally such as GE, Fisher & Paykel, Aqua, Casarte, and Leader, besides the Haier brand. According to the large-scale home electronics global sales survey conducted by the research firm Euromonitor, its world market share in 2016 was 10.3% and was the world’s largest for eight consecutive years. In particular, refrigerators (16.8% market share) and washing machines (14.4%) are leading in the second place.

In the television industry, according to research firm Sigmaintell Consulting, the shipment volume of Chinese brand televisions in 2016 was about 51.2 million units, and the world market share is expected to be 34% (4% increase from the previous year). Meanwhile, Korean forces are expected to be 31%, and for the first time Chinese forces will be the largest in the world, surpassing Korea.

More recently, emerging manufacturers such as LeTV and Xiaomi have entered the industry with Internet TVs, and the composition of the television industry is changing; especially, LeTV is expanding its overseas sales volume rapidly by acquiring Vizio in the US.

<Proposal>

Ordinance related to recovery process management for disposal of electric appliances and electronic products

(1) The ordinance related to recovery process management of disposal electric appliances and electronic products (Chinese version of WEEE) was promulgated on February 25, 2009 and enforced on January 1, 2011. Similarly, a “law on usage and collection management of processing fund for the disposal of electric appliances and electronic products” was promulgated on May 21, 2012, and came into effect on July 1, 2012. From the standpoint of manufacturers and the perspective of securing fairness and transparency, we request release of details on the collection and use of processing fund by product, by Chinese product/imported items, and periodic review of payment for processing funds by producers/importers.

(2) From March 1, 2016, the processing fund was collected according to the second record of Chinese WEEE subject product, but by the beginning of January 2017, the collection unit price of the 2nd record product had not yet been promulgated. In future, we request to establish a long preparation period for companies when developing new related laws and policies.

(3) Payment for the Disposal Electric Appliances Dismantlement Subsidy is slow, so we request the acceleration of payment in order to minimize the impact on management of recycling companies.

(4) In order to secure comprehensive management of the disposal of electric appliances recycling companies, we request the strengthening of the collection system and processing facilities for dismantling waste.

Energy conservation (Energy Efficiency Labeling System)

When a product becomes the target of the energy efficiency labeling system, efficiency limits, as well as efficiency grade certification, and testing, attaching marks are complicated for manufacturers, and cause cost increases. We request the arrangement and efficient operation of related laws and regulations.
Furthermore, at the time of establishing national standards, we request improving openness including involvement of foreign-affiliated companies and manufacturer groups and ensuring equality among companies in terms of operations such as inspection.

**Response after the discontinuation of product identification labeling provision**

In the official document No. 70 of 2014 of the Quality and Technical Supervision Bureau (质量技术监督局), the abolition of “product identification labeling provision” was made public. Regarding the content previously displayed based on this provision, the basis of display and accuracy of the display contents is ambiguous for the future. We request clarification of display items on the following three points.

1. Indication of name of producer of imported goods and outsourced production (ODM/OEM) products. Presence or absence of a problem when displayed based on the previous “product identification labeling provision.”

2. Display of quality certificate of the imported products. As in the past, is it possible to display the quality certificate?

3. Necessity to display the number of conformity standards for imported goods. Company standards cannot be registered in China for imported goods, and in the present state, it not possible to display them.

**Logistics**

1. **Documentation of operational rules**
   Legal notices and orders become the basis for content and rules to be observed, but when examining the operations of authorities across the country, the rules are not necessarily documented, and there are cases where it can be inconvenient for multinational companies that operate countrywide. For example, immediately after the explosion accident that occurred in the Tianjin Port in August 2015, we saw that several airports and harbors in each region stopped handling the transportation of dangerous chemicals, and during the period when handling was banned, the criteria were not the same for each region with regard to target cargo, and it was a situation in which notified statements could not be confirmed. Under such circumstances, manufacturers had no choice but to believe in media information or forwarded information, and there was confusion about its authenticity. We request a thorough system for disseminating standards and opinions promptly and clearly conducting operations.

2. **Regarding bonded-processing trade (manuals, bonded parts) and unification of rules across the country related to bonded-processing trade (manuals, bonded parts), there are variations in operation rules across the country at multiple points, and we request to unify the difference in operations over the long term.**
   - Differences in the concept of tax payment for surplus and loss when dealing with manuals (in some cases it is required to pay taxes for both discrepancies and in cases where it is required to pay taxes only on losses)
   - Differences in correction declaration of customs BOM information before the record after verification (clearing) when using an electronic manual (in some cases, the correction declaration is accepted, while in other cases it is not).
   - VAT deduction for domestically procured parts when selling finished goods by deep processing change (many cases it is not accepted, but we have heard about some cases that were accepted).

3. **Unification of judgment regarding HS codes**
   There are cases where judgment on HS codes differs in each region even when it is a part material/finished product of the same part number. There are certain cases where judgment is difficult so certainly it is challenging to have perfect unification; however, we request the construction of a
mechanism to overcome this operational problem because it is difficult for companies to deal with a situation where a HS code once accepted in the past cannot be used.

<Proposal for improvement>

- Expanding the validity period and effective area of the pre-class proposals issued by the attribution center.
- Implementing full-scale operations of the pre-class decisions that can be used throughout the country.
- Establishing an authority organization that companies can go to for requesting arbitration, in case of disputes with other officials or an authority in another area regarding HS codes that an authority has authorized to use in the past.

Request relaxation of Chinese Yuan fund lending restrictions outside China

In November 2016, the People’s Bank of China published the “Notice concerning further clarification of Chinese Yuan regional lending operations of regional companies (Bank issue [2016] 306)” and it was officially effective from December 2016. In addition, several verbal instructions were given to each bank in January 2017.

As a result, fund lending operations outside China are largely restricted, and foreign lending has become very difficult in practice. Although we understand the intention of authorities who want to stop the outflow of funds from China to foreign countries and the reduction of foreign exchange reserves, we request a flexible response towards deregulation.

Security for foreigners, worker dispatching, and visas

(1) Negotiations on the Japan-China Social Security Agreement (中日社会保障协定) were recently restarted, and the sixth Japan-China Social Security Negotiations were carried out in November 2015. By concluding this agreement, we could solve problems such as double payment of social insurance premiums, and for this reason, we urge that negotiations be accelerated by increasing the frequency of consultation about the Japan-China Social Security Agreement (中日社会保障协定) so as to reduce the burden on Japanese companies and Japanese employees.

(2) About worker dispatching, the transition period of worker dispatch provisional enforcement expired in March 2016, and nearly one year has passed. We request immediate promulgation of bylaws for worker dispatch provisional enforcement provision, and regarding worker dispatch, we request abolishing the restriction that the number of temporary staff must not exceed 10% of the total number of employees, or considering the extension of the application period of transitional measures.

(3) Due to reforms in the foreigner employment permission system that was attempted in November 2015, it is expected that acquiring visas will be difficult in the future for technical personnel with college education or less, even under the age of 60, in addition to technical personnel aged over 60 years. We request flexible operations, and instead of making a one-sided judgment based solely on a score, to make judgments by comprehensively considering the technological expertise possessed by the person.

Others

(1) Production bases of foreign-affiliated consumer electronics manufacturers that have advanced to China at an early stage are dispersed for each product, but since the consolidated tax payment system is not
approved, active investments cannot be made. We request approval of the consolidated tax system for strengthening competitiveness through integrated management of groups and further development.

(2) Currently, for bonded transactions, only those transactions conducted by dealers or manufacturing companies in bonded areas are permitted. On the other hand, depending on the needs of customers, such as customers purchasing imported goods under the duty-free importing frame, the need for bonded transactions has also emerged for foreign-investment companies, and we request that permission for bonded transactions is given to foreign-investment companies.
9. Office equipment

Overview of the office equipment market in China

The office equipment (OA equipment) market in China experienced a temporary decline during the Lehman shock in 2008. However, since then, due to aggressive investments by the Chinese government focusing on the inland region, it is recovering steadily and showing growth, but it is also trending downward due to the influence of the Chinese economic slowdown after 2012. However, structural reform of the economy was carried out by the new government’s “new normal” policy, which is advocating for a route conversion from investment-led to consumption-led. In the office equipment (OA equipment) market in China, although growth has slowed down, it is a huge market that can expect moderate growth in the medium term, and in the future, office equipment manufacturers will continue to focus as important markets.

As a characteristic of the office equipment (OA equipment) market in China, monochrome machines of low price segments are mainstream for the product segments. In recent years, price reduction of color machines is progressing, and sales of color low-speed machines are growing at the ratio of two digits. On the other hand, due to the economic downturn in China and the decline in government purchasing, overall growth is slowing down. Moreover, the aftermarket (toners, ink, and parts) is facing the situation that is unlike other countries, as genuine expendable item sales do not grow in conjunction with the market due to the influence of counterfeit goods, and each OA equipment manufacturer is struggling to adopt various measures.

Sales routes

Regarding sales routes of office automation equipment, there are direct sales by manufacturers and sales through distributors. China has a large land area and direct sales are mainly seen in coastal cities, and inland areas tend to sell through distributors. Even distributors can be divided into those selling directly to end-users and secondary wholesale stores that sell through distributors. In addition, OA equipment is sold through various routes such as over-the-counter sales at the Electric City, visit sales by directly visiting end-users with sales personnel and service personnel, and so on. However, representative electric cities of large cities such as Sea Dragon Electronic City in Beijing in July 2016 and Metro City in Shanghai in August 2016 are losing their function as electric cities due to the rise in rents and the spread of e-commerce, and store sales are on a downward trend.

Expansion of PP printing

Each OA equipment manufacturer is also actively entering the field of high-speed, high-quality and mass printing called Product Printing or Professional Printing (PP). This field, which was once responsible for offset printing, is expanding due to digitization by the electro photographic method that OA equipment manufacturers are good at. Companies are aggressively entering the market and expanding their business in the field of PP printing, especially inside printing and graphic arts, and this is becoming a trend in the OA equipment industry.

Diversification of customer needs

With the development of the Chinese economy, the needs of end-users in relation to the office equipment field have also diversified. For example, end-users who are looking for office environments similar to Japan and Western countries, such as TCO reduction by analysis of printing environment and proper placement of devices, security management by IC card authentication, comprehensive IT environment including PCs,
servers, and one-stop services are on the rise. There is also a background that each company’s OA equipment functions are undergoing commoditization, and manufacturers are struggling to escape from sales of conventional OA equipment (so-called box selling) to create added value.

Among government customers and major medium-sized companies, the number of companies that adopt nationwide purchasing has gradually increased. The number of bidding projects requiring relatively complicated system construction in purchasing specifications has also increased, and each manufacturer is required to deal with advanced projects and create an after-support system.

**Characteristics and problems of the office equipment market in China**

**Second hand equipment market: Impact on main unit sales**

A distinctive point in China’s OA equipment market is the used equipment sales business. The second-hand equipment selling route includes sales of imported second-hand equipment from overseas, and resale by collection of domestic equipment. Especially, for the latter, domestic equipment collection, a wide variety of commercial flows and a solid sales network is being established for many years, such as resale of products collected by the distributor and sales through specialized second-hand equipment suppliers. There are no accurate data on the second-hand equipment market as statistics, but it is said that there is a market equal to or higher than that of the new OA equipment market. Also, in recent years, there are modified machines that consist of speeding up the main components of OA equipment, and this is affecting the sales of genuine OA equipment. Since the impact on the sales of the main unit also affects the after-market business as a result, each OA equipment manufacturer is closely watching the trend in the used machine market.

As an environmental measure, the Chinese government seeks companies to respond to product cycles including production, sales and collection, and the Ordinance on Management of Collection Process of Disposal Electric Appliances and Electronic Products (so-called Chinese version WEEE) is expected to be applied to the OA equipment main body and expendable supplies. With the enforcement of the ordinance, at the same time as the social responsibility of each OA equipment manufacturer is increasing, it is expected that examination will become necessary in the future such as establishing legislation among second-hand equipment suppliers already established, disposers, and collectors.

**Presence of counterfeit products: Impact on after-market business**

The OA equipment market is centered on the sale of equipment and the business of after-sales service accompanying it, but the impact on consumables such as toners, inks, and parts is significant in China. Therefore, it is very difficult to increase sales and earnings in the aftermarket compared with Japan and Western countries. Through strengthening censure activities by law enforcement agencies and establishment of a legal system, publicly trading companies that manufacture and sell counterfeit products are decreasing, but the counterfeit products continue to exist in the market. Recently, in addition to the division and sophistication of imitators, the expansion of the e-commerce market is increasing the difficulty level of uncovering activity compared with the past. In addition, meter charge maintenance contracts of OA equipment commonly adopted in Japan, Europe, and the United States are difficult to acquire, especially, by Chinese-affiliated companies, and have greatly influenced the stable after-sales service business of each OA equipment manufacturer.

Although the ratio of genuine expendable supplies to products seems to differ somewhat depending on each company and product segments, there is no doubt that improving the proportion will be the key to achieving corporate earnings and stable business foundation in the medium to long term. Especially, in the Chinese market, low-priced models account for more than half of the demand, and with the tight price competition, which tends to make raising profits on OA equipment main bodies difficult, the importance of stable revenue from after-sales service is increasing.
China’s office equipment market

Future growth and development

Demand for OA equipment has been slowing down recently due to the economic slowdown in China and the decline in government purchasing. However, in the medium to long term it is seen as a huge market compared with advanced markets. Currently, low-priced monochrome low-speed machines are the mainstream market, but similar to the past of developed countries, it is expected that the ratio of monochrome medium-speed machines and color machines will gradually increase as the economy develops. In fact, recently, China is experiencing unprecedented market changes, and each OA equipment manufacturer is focusing on offering value added negotiations combining monochrome medium speed machines, color machines, and software and other solutions. In addition, with the rapid popularization of SNS and e-commerce, including WeChat in China, flexibility in marketing is required for the different methods of sales and marketing adopted by manufacturers. China has the largest number of users in the world in mobile payment such as WeChat Payment (WeChat Payment), using the above-mentioned WeChat application, and AliPay (AliPay). With the basic functions of OA equipment becoming commoditized and price competition intensifying, the overall profitability of the after-market business has inevitably declined due to soaring labor costs. Differentiation by offering added value such as the possibility of using mobile payment to pay printing fees will likely emerge as a future trend in the OA equipment industry.

Japanese companies are engaged in business on a day-to-day basis under the recognition of industries and markets as described above, but we would like to request the Chinese government to improve the following content and consider them as problems being faced and as a proposal.

<Proposal>

(1) Product identification labeling provision
   • With the abolition of this provision, it is necessary to display “company standard number” for foreign products as well as domestically produced products, but since there is no registrar of corporate standards for foreign products, it is impossible to comply. We request the introduction of alternative measures related to the abolition of this provision.

(2) Corporate products in the Ordinance on Management of Collection Process of Disposal Electric Appliances and Electronic Products (Chinese version of WEEE)
   • Unlike products intended for general consumers, office equipment products are already available in the large-scale second-hand market, and they are difficult to collect by main body manufacturers and sales companies. There are also overseas products flowing into illegal trade, and it is difficult to grasp the actual condition. Recycling traders, distributors, and processing companies of second-hand office equipment products deal with products and parts with high utility value, and since they are making profits without receiving a subsidy, excessive subsidy payment is unnecessary. Regarding the setting method and use of a fund amount, we request transparent explanations leading to improvement of the system and legalization of information disclosure.

(3) Restrictions on counterfeit products (expendables)
   • Many counterfeit products (expendable supplies) still exist in the Chinese market. However, in recent years, organization and division of manufacturers of counterfeit products is advancing. Counterfeit products are assembled and completed using multiple parts, but there are cases where there is a factory specializing in plastic molding of toners and ink bottles and another factory that only fills the bottle with toner and ink. Since plastic bottles are low priced, there is no impact on the management even if they are confiscated, and production can be re-started immediately, the punitive effect is low and repeat offenses are likely to occur. On the other hand, molds for plastic molding are...
expensive and it takes time to manufacture the mold itself. In order to raise the punitive effect and to prevent repeat offenses, we also request to seize the molds for plastic molding of toner bottles and ink bottles. Furthermore, exports of counterfeit products produced in China may be traded overseas; therefore there is a possibility of encouraging circulation of counterfeit goods in these markets, so we will continue to request customs authorities to strengthen criminal export control.

(4) **Crackdown on modified machines**
- Modified office equipment ranges from false display by changing name of appearance, speedup by modifying the controller of office machine body, addition of functions. Modification methods have become sophisticated year-by-year, and there are organizations specializing in making modifications systematically, and consumers may not be able to judge whether they are genuine or fake. For the protection of consumers, we continue to request strengthening of efforts to crackdown on modification companies.

(5) **Energy conservation, energy efficiency, and environment-related labeling system**
- It is appreciated that the burden on the enterprise is also declining due to developing new standards that conform to the international Energy Star standards, but some regulations may have insufficient preparation period. For example, in the case of the Energy Labeling Control Law and the revision of the implementation rules, there were only about three months from promulgation to enforcement, and manufacturers could not have an adequate response period. We request to set up a sufficient preparation period for not only for this system but also when implementing new systems.
- Tests of the same contents are required for different authentications. For example, when both CCC certification and NAL approval are acquired, both the EMC test and the surge test are required, so the same test is conducted twice. Since the examination cost is doubled and unnecessary load is imposed on the company, we request improvements such as permitting the shared use of test results.

(6) **Information security**
- Information security related standards and systems were introduced, and further introduction is also being considered in the future. Regarding the introduction of these standards and systems, the idea that the use of Chinese domestic technology and proprietary standards leads to securing information safety has been demonstrated; however, since information networks are connected worldwide, we believe that recognizing equipment and technologies widely used in the world and confirmed safety in China’s standards and systems will contribute toward improving information security in China. Similarly, when looking at the clauses of the “Network Security Law” that was approved, expressions such as “network operator” and “network product” are used, but there is no clear definition. In order to provide continuous service to customers, we request that target products and target people are clearly specified.
10. Electronic parts and devices

Regarding the current state of the world economy, despite concerns of deceleration in the euro area and slowing growth in emerging countries, there are expectations for employment and investment improvement in the US, and it is expected that a steady growth will be maintained due to infrastructure development and consumption expansion in India and Southeast Asia.

There is no indication of a wave of industrial structural change centered on the Internet-of-things (IoT), also called the Fourth Industrial Revolution; however, major factors that will influence its success or failure are the trends in the Chinese market and the growth of the Japanese electronics information industry and electronic components/devices business.

Even in the production of smartphones, which is one of the markets of interest, Chinese companies are frustrated by the United States and Korean companies that have been sweeping the world market so far, and the domestic shipping value by three major Chinese manufacturers is expected to exceed 500 million units in 2017. What are considered indispensable for supporting the growth of leading Chinese companies are electronic components and devices with high functionality, and there are many Japanese companies that are responsible for their production. We appreciate the long-awaited support and guidance from the Chinese government, and we hope that the content of this white paper will be seriously considered for the realization of the new innovation that the Chinese government is aiming for.

Industry status of electronic components and devices

Trends in 2016

The total world production of electronic components in 2016 was valued at 22.199 trillion yen, which is estimated to be 7% lower than the previous year. For communications equipment, growth in the number of smartphones has slowed, but as the number of parts used per unit increases, the demand quantity will be more than the number of units. Even for automobiles, demand is increasing due to popularization of safety technologies such as automatic braking and improvement of the electronics installation rate. Thus, it is not due to the market environment but the influence of foreign exchange. Especially for Japanese companies, demand for Advanced Driver Assistance Systems (ADAS) has increased in the automobile market and the smartphone market, and the demand for high performance terminals is increasing due to the expansion of high-speed communication services (LTE) in emerging countries.

The total global production of display devices is valued at 13.061 trillion yen, and a decline of 18% is expected compared to the previous year. The saturation of the LCD TV market and the slowing growth of the smartphone market have had an impact. Japanese companies that have advanced high-definition/high-image quality technologies have also been struggling in competition with overseas companies.

The global production of semiconductors is estimated at 36.442 trillion yen, which is projected to be 10% lower than the previous year. In the second half of 2016, despite the positive impact mainly on memories due to increased demand for high value-added smartphones equipped with high pixel camera function and LTE communication function in China and temporary reactionary increase in personal computers, the declining growth of smartphones and the trend of decrease in personal computer demand remained negative.

The trend witnessed in the Chinese market was a year marked by the rapid growth of Chinese manufacturers in the smartphone market. Domestic manufacturers in China such as Vivo and OPPO have grown fast and the growth accounts for nearly 70% (about 400 million units) of domestic smartphone shipment number (approximately 560 million units, 8.0% increase from the previous year) in 2016 has resulted in new demand for electronic components and devices
Perspectives for 2017

In 2017, the global production of electronic components is expected to be 22,820 trillion yen, which is an increase of 3% from the previous year. The expansion of data centers, diffusion of broadband, installation of communication function in automobiles are expected, but among them, it is forecasted that the demand for high function/high reliability parts of Japanese companies will further increase.

Despite the fact that display devices are still in a severe situation due to the expansion of the scale of overseas companies, global production is expected to grow by 5% to 13,65 trillion yen in 2017.

Global production of semiconductors is estimated at 37,665 trillion yen, which is an increase of 3% from the previous year, but as the momentum in energy saving increases, replacement with energy-efficient equipment will proceed, so it is expected that the demand for power semiconductors will be high and also increase due to an escalation in the electronics installation rate of automobiles.

What is particularly noteworthy in the Chinese market is the expansion of fixed asset investment by local governments.

Emphasis is being put on each field of “infrastructure,” “industry,” “environment,” and “improvement of living conditions,” but among these, in Jiangsu Province, which is expected to expand by 7.5% over the previous year, investment is expanding to 5.3 trillion yuan, and attention is being paid to the promotion of the semiconductor industry, which is the core (e.g., construction of new factories).

Trends in fields that will attract attention in the future

Looking at not only short-term market trends but also fields that will attract attention in the medium to long term, markets related to robots and artificial intelligence (AI), in which progress of sensor and actuator technologies have greatly contributed to the development of other electronic parts and devices are attracting attention.

Robots are expected to be employed in a wide range of fields such as “communications,” “business support,” “nursing,” “housekeeping,” in addition to “industrial robots” that will operate at production sites. Furthermore, regarding “mobile robots,” it is expected that self-driving vehicles and drones will greatly change society and the lives of people in areas such as transportation and shipping.

In 2025, the global demand for the abovementioned five types of robots, excluding mobile robots, is expected to be 38,45 trillion yen (a yearly average increase of 36.6% from 2015). The demand for communication robots, which conduct conversations, monitoring, and customer service is estimated to be 20.2 trillion yen (an average increase of 76.9% over the same year) and it is expected to account for 53% of all the five types of robots. In addition, global demand for the two types of mobile robots in 2025 is expected to be 93.62 yen, with self-driving cars predicted to account for 87.09 trillion yen.
Meanwhile, artificial intelligence (AI) has the possibility to reconstruct various existing products into new high value-added products by installing “AI,” and is expected to be utilized in a wide range of fields.

The global demand for the artificial intelligence (AI) market in 2025 is expected to be 317.85 trillion yen (a yearly average increase of 41.0% from 2015), and with the AI equipped robot as the core, further expansion of the market can be expected by spreading AI technology beyond industrial fields and reforming data utilization. In the demand category of artificial intelligence (AI), the maximum composition of 2020 is expected to be 52.21 trillion yen due to the expansion of self-driving vehicles supporting safe and secure driving in the automobile and transportation field. Furthermore, in 2025, it is estimated that public business will be 132.44 trillion yen, which is the largest constitution, exceeding 107.33 trillion yen for automobiles and transportation.

Specific problems and requests for improvement

As mentioned above, electronic parts and devices are expanding their applications to many industrial fields. We present the current problems and improvement items for further growth and development as follows.

Items that were proposed in the past, and improvements seen

Among the items proposed so far, examples of cases where an improvement was observed are as follows.

(1) Trade
Post-settlement customs clearance has made it possible to carry out smooth import operations, without being affected by computer problems of the maritime system or system failure.

(2) Tax and accounting
A tax reduction effect occurred for companies due to the start of operations of the revised tax system (full implementation of examinations that collect value added tax (VAT) instead of a business tax).

(3) Energy conservation and environment
Information exchange (exchange meeting) with related industries and companies, including foreign-affiliated companies, began the process of developing policies, laws, and plans related to energy conservation and the environment.

Points that require further improvement

(1) Modernization of market economic rules
In business fields such as trade and customs clearance, taxation and accounting, and international logistics, the fact that the method of calculating the relevant tax amount is unique to China and different from what is considered to be general in many countries, and the fact that differences exist in operations and judgment by regional officials or officials in China is a problem. We will continue to request improvement on these issues.
Regarding the requirement for preparing the consolidated financial statements under the New Enterprise Accounting Standards, we would like that consideration is also given to special circumstances in the Beijing region where there are many investment property companies with functions of the controlling company.

(2) Relaxation of regulations concerning foreign workers
It goes without saying that the utilization of human resources for China’s industrial development is important, enrichment of labor policies such as rejection of illegal workers, enhancement of the social insurance system, and expansion of employment for people with disabilities are urgent issues. However, in the case of foreign workers, if there is no relationship adjustment with the home country system, there is a possibility that it may not be a reasonable situation for the person.
Therefore, when applying the local Chinese system to foreign workers, instead of carrying out a uniform operation, a flexible system should be applied taking into consideration the circumstances of individual companies and the person.

(3) Globalization of policy issues
One of the problems commonly recognized by many foreign companies investing capital as a risk to China’s industrial development is environmental destruction caused by growth. We urgently request to educate companies about having adequate processing capacity for hazardous waste and to implement drastic countermeasures against explosion accidents that have been occurring consequentially in various places. In addition, we request transparency and fairness in various procedures, clarification of the development and interpretation of implementation regulations, public dissemination of regulatory enquiries.

<Proposal>

Fully equipped modern market system

(1) Improvement in import duties and other customs duties for second hand machinery
The tax calculation method when importing second hand machinery designated by the “law on the management of imports of important old machinery and electric appliances” differs depending on local customs. There are several calculation formulas depending on the region and cases where the tax rate changes based on the concerned officer’s judgment have also occurred. Taxation on the remaining book value is common in other countries, but the calculation formula in China is a relatively large amount of taxation, which is also a factor lowering industrial competitiveness. Therefore, we request unification and review of taxation rules. At the same time, we also request strengthening of training for officers in general import/declaration work, as well as the nationwide unified operation of rules and regulations interpretation.

(2) Review of management rules, accounting rules, and stable operation of customs system
The new corporate accounting rules stipulate the requirements for preparing consolidated financial statements. In the Beijing area, where there are many investment property companies functioning as the controlling company, major problems in operations such as new system development and cost increase arise in response to new standards in future. We request to revise such restricting companies subject to consolidated financial statements to listed companies. In addition, unnecessary verification work has occurred due to the temporal difference in data to be handled because the transfer of export customs clearance information sent from customs to the tax system is inconsistent. We request consistent operation of the system, which can share related information in a timely manner.

(3) Abolition of special taxation on international logistics
Originally tax deduction was issued in Dalian city for cash on delivery fares and port expenses when importing from overseas, which is not taxable on both incremental tax and income tax. It takes a lot of time to prepare the data (agent agreement, copy of debit note, bank payment certificate, and tax exemption processing commission flow chart) required to prove tax exemption, and we request the elimination of application of special cases in such individual areas.

Relaxation of regulations concerning foreign workers

(1) Clarification and improvement of operations related to work permits for foreigners
According to the new standard, foreigners are classified into three categories of A, B, and C and the permit application procedures have to be carried out according to this. However, there are still many uncertainties about the criteria of classification, as some parts are still unclear. Based on requests from enterprises in the trial area, we urgently request the presentation of uniform guidelines on application methods, classification criteria, and discretionary scope of officers. When applying the new standard we request a flexible operation considering the inherent skills of the company, past record of business in China, and job history of the concerned person, instead of placing excessive restrictions on the size of the company and the academic background and age of the individual.

(2) Unified operation of the social insurance system at the national level and early conclusion of the Japan-China Social Security Agreement (中日社会保障协定)
Regional differences in the social insurance system are one of the factors hampering the utilization of a wide range of human resources in China. There are also differences at the implementation level (affiliation status) of the system among the regions, and sudden changes in policy have also affected companies’ management plans. We request clarification in long-term policies and gradual unification. Moreover, by concluding the Japan-China Social Security Agreement (中日社会保障协定), problems such as double payment of social insurance premiums will be solved. Thus, we urge acceleration in negotiations by increasing the frequency of consultations between Japan-China Social Security Agreements (中日社会保障协定), as this can reduce the burden on both Japanese companies and employees.

(3) Correction of compensation payment criteria for employing people with disabilities
Calculation criteria have been changed by amendments to a law last year, and in some areas there is a situation where the payment amount greatly increases. A uniform revision without considering the type of business of individual companies, business conditions, or differences in price levels among regions, has some aspects that are not rational. Incorporating foreign workers’ wages, which have many fluid elements, into the base calculation may make the system foundation unstable. We request an early revision based on the actual situation of the region and individual companies.

Globalization at policy level

(1) Improving the level of dangerous goods management
Although hazardous waste is required to be consigned to a specialized contractor, there are situations in which the processing capacity of the contractor is insufficient and this affects the business activities. We urge strengthening of guidance for improving the processing capacity of specialized contractors.

Meanwhile, in view of the situation that explosion accidents are still occurring in some areas, we request strengthening of the regulatory management necessary for ensuring the environmental impact and safety of the local residents and handling of the situation.

(2) Sophistication of environmental administration

We request that information is sufficiently exchanged between related industries, including companies investing foreign capital, during the process of formulating policies, laws, and plans related to the environment and energy conservation. We request transparency and fairness in various procedures, clarification of development and interpretation of implemented regulations, and information about helpdesks related to regulations is made public. In addition, from the viewpoint of efficiently implementing compliance with environmental regulations, we will continue to request that producers themselves, as well as developed countries, introduce a mechanism (self-conformity declaration) that can verify compliance.

(3) Strengthening the protection of intellectual property rights

In the case of protection of intellectual property rights (trademarks and patents), we urge strict examination of trademark registration and strengthen the crackdown on counterfeit products. We expect proper implementation of laws to impose severe penalties for subsequent offenses, and these initiatives should be implemented nationwide. In disputes concerning infringement of rights, we request judgments that satisfy the expectations of the rights holder without allowing the infringer to escape.
11. Automobiles

Economic operations of the automobile industry in 2016

According to an announcement made by the Equipment Industry Division of the Ministry of Industrial and Information Technology (工业和信息化部) on January 17, 2017, China's automobile production and sales in 2016 showed comparatively rapid growth, and the total production/sales volume has been updated again. The annual automobile production and sales volume was 28.119 million units, reaching 28.028 million units, year-on-year rates increased by 14.5% and 13.7%, respectively, which are 11.2 points and 9.0 points higher than the previous year.

Passenger car sales increased by 14.9% in relation to the same period

According to the statistics of China Automobile Manufacturers Association (CAAM), passenger car production and sales volume in 2016 amounted to 24.441 million units, 24.377 million units, respectively; the same-period rates increased by 15.5% and 14.9%, respectively, and the growth rate exceeded the entire automobile category by 1.0 point and 1.2 points. In its rapid growth, the contribution to the increase in automobile production and sales volume was 92.3% and 94.1%, respectively. Among these, sales of ordinary passenger cars (sedans) reached 12,150,000 units, increasing 3.4% from the same period; unit sales of SUVs reached 9.047 million units, increasing by 44.6% from the same period; the sales volume of MPVs reached 2.497 million units with an increase of 18.4% from the same period; and the sales of cross-passenger cars reached 684,000 units, decreasing by 37.8% from the same period.

Passenger cars with displacement of 1.6 L or less maintain rapid growth

Affected by the purchase tax privilege policy, sales of passenger cars with a displacement of 1.6 L or less in 2016 amounted to 17.607 million units, an increase of 21.4% from the same period, accounting for 72.2% of passenger car sales, and going up 3.6 points from the same period.

Independent brand passenger cars sales exceeded 10,000,000 for the first time

In 2016, the sales volume of independent brand passenger cars increased by 20.5% to 10.529 million units, accounting for 43.2% of total passenger car sales, and the market share rose 2 points from the same period. Among these, the number of independent passenger cars (sedans) sold was 2.34 million, a 3.7% decrease compared with the previous year, and the market share was 19.3%, a decrease of 1.4 points from the same period. SUV sales reached 5.268 million units, a 57.6% increase over the previous year, with a market share of 58.2%, an increase of 4.8 points compared to the same period. The sales volume of MPVs reached 2.238 million units, a 19.9% increase over the previous year, and the market share was 89.6%, a 1.2 point increase compared with the same period.

Sales volume of commercial vehicles increased by 5.8% compared to the same period

In 2016, production and sales of commercial vehicles amounted to 3.698 million units and 3.651 million units respectively, the same-period ratio increased by 8.0% and 5.8%, respectively, and the growth rate further expanded. Regarding each type of vehicle, the production and sales of buses were 547,000 and 543,000 units, respectively, and the same-period ratio decreased by 7.4% and 8.7%, respectively. Truck production and sales volume were 3.151 million units and 3.108 million units, respectively, and the same-period ratio increased by 11.2% and 8.8%, respectively.
New energy vehicles (NEV) sales increased by 53.0% compared to the same period

In 2016, the number of new energy production vehicles reached 517,000 units, and the number of units sold reached 507,000 units, increasing by 51.7% and 53.0%, respectively, compared to the same period. Among these, electric cars produced and sold reached 417,000 units and 409,000 units, increasing by 63.9% and 65.1%, respectively. The number of plug-in hybrid cars produced and sold reached 99,000, and 98,000, respectively, increasing by 15.7% and 17.1%, respectively.

Economic interests of key companies (groups) from January to November were good

According to statistics of the China Automobile Manufacturers Association, key companies (groups) within the industry maintained growth in operating revenues, and the rate of increase was higher. From January to November 2016, the operating revenues of key companies (groups) in the automobile industry cumulatively reached 3.259 trillion yuan, increasing by 16.2% compared to the same period. Total profits reached a cumulative total of 530.95 billion yuan, increasing by 7.4% compared to the same period.

Automobile exports increased by 4.7% between January and November, compared to the same period

Based on customs statistics, the number of imported units of finished cars from January to November 2016 was 958,000 units, decreasing by 3.4% compared to the same period. The export volume reached 732,000 units, increasing 4.7% over the same period.

Source: Equipment Industry Division of the Ministry of Industrial and Information Technology (工业和信息化部)

Market forecast for 2017

Automobile industry

At the CAAM press conference held on January 12, 2017, analysis of the market forecast for 2017 was conducted.

Impact of solid demand

In 2015, the number of car owners per 1,000 people was 119, the average growth rate of car owners per 1,000 people between 2006 and 2015 was 16.7% per year, and it is expected that a significant increase in trend will be maintained over the next fixed period.

With the promotion of urbanization in China, development at a regional economic level and improved income levels, we anticipate future automobile consumption needs will continue to expand to a relatively large extent.

Macroeconomic impact

- GDP growth rate will continue to be moderate.
Fixed asset investment growth rate will decline remarkably, and private investment will show declines faster.
M1 maintains rapid growth.
Growth rate of total retail sales of social consumer goods will recover and it is expected to be a major driving force for the economy to a certain extent.
Consumption behavior becomes unstable, and purchase predictions become unstable.

Impact of changes in market structure
- Consumption structure: the main population size has shrunk, and SUVs will be the key demand in future.
- Structure of end market: three-line or less market leads future market growth.
- Vehicle structure: SUV will continue to be a success model.

Impact of policies
A relative growth was seen in 2016, led by the purchase tax privilege policy; however, due to the fact that the privilege range of the purchase tax has shrunk and there are many bases, and also because of the unity of incentive measures, it is predicted that in 2017 the market will experience a relatively large drop.

Market forecast for 2017
Based on the analysis of the factors influencing sales in 2017, we anticipate the market sales situation in 2017 will be as follows.

The growth rate of passenger cars in 2017 will be about 5%, and we anticipate sales of 25.7 million units.

Among these, the growth of sedans and passenger crossover cars will be negative, and the SUV and MPV models will continue to increase rapidly.

The growth rate of commercial vehicles in 2017 will be about 2%, and we forecast a sales volume of 3.7 million units.

Among these, buses may have negative growth, and tracks will continue to grow positively.

The annual sales volume of the automobile market is approximately 2.94 million units, reaching about 5% compared to the same period.

Forecasting imports and exports in 2017

Exports
Based on the data of CAAM member companies, the annual export volume in 2016 reached 708,000 units, and there is a desire to maintain growth for five months on a continuing basis and recover from the bottom hit in 2017. Exports in 2017 are estimated at 750,000 units, a 5% increase over the same period.

Imports
According to customs statistics, the number of cars imported by November 2016 was 950,000 units, the same-period ratio was a 4% decrease, and the declining trend did not change during the year. The imported car market faces the problem of “inventory reduction” as a result of factors such as the shift in China’s economic growth system, change in market demand, and domestic production of imported vehicles types. Since the space for growth is relatively small, imported cars in 2017 are expected to decrease to about 1 million units.

**China car market demand in 2017**

According to forecasts, wholesale car sales in China will reach 29.4 million units in 2017, with exports at 750,000 units and imports seen at 1 million units. The annual total need of the automobile market is about 29,650,000 units. (Annual automobile market demand = wholesale total number - exported units + imported units)

**Proposal**

1. China’s foreign currency control regulations have been strengthened, and traders are unable to make overseas remittances from banks other than foreign currency procurement banks. As a result, if one uses D/P settlement through a specific bank, one can procure foreign currency only from that bank, so it is not possible to procure foreign currency under more favorable conditions. Therefore, in actual transactions, people switch to T/T settlement from a bank that procures foreign currency, but even during operation of T/T settlement, it is necessary to divide the invoice within the range of procured foreign currency. Thus, in order to avoid abrupt interference with the daily trading operations that have been smooth between traders and banks until now, we request relaxation of relevant provisions while considering future law enforcement.

2. We request elimination or relaxation of retail restrictions on automobiles made by foreign manufacturers. Although there are no legal restrictions, it is practically impossible to create subsidiaries that can act as direct retailers or dealers, and the authorities are instructing this. While the economy shifts to the “new normal” in order to quickly organize or rebuild dealers who experienced management difficulties and prevent service degradation to customers; besides, there is increasing number of cases where active involvement of manufacturers is required.

3. We request improvement of the situation where traffic rules are not being followed satisfactorily by taking measures such as low-speed electric vehicles (EVs), electric bicycles, and reviewing traffic rules for pedestrians and educating them on safety measures, regulations for strengthening penalties, and reinforcing government-led activities.

4. In order to cope with stricter emissions regulations, it is necessary to introduce new exhaust technologies. To introduce these technologies, clean fuels are required at the same time. In China, gasoline and diesel have improved greatly with respect to the fuel properties of the markets surrounding big cities. However, there are many bad fuels in local markets. We request matching of emissions regulation levels with fuel properties in the market.

Similarly, there is a negative impact on automobile sales plans due to the implementation of five national emissions regulations (e.g., Guangdong Province in March 2015) without prior notice, and execution of the license plate issuance restriction without prior information. We request advance notice, so that we can predict the timing of implementation of regulations.

5. The notice on strengthening management of manufacturers who have not yet complied with fuel consumption regulations and CCC certification implementation rules were issued, and we value the fact that penalties for non-compliance were clarified. However, the WTO report on fuel efficiency regulation
management provisional law was conducted and it was submitted by the Ministry of Industrial and Information Technology (工业和信息化部). We request that results of the efforts to promote consensus formation of related government agencies are presented, so that situations such as not knowing whether or not the China Quality Certification Center (CQC) follows can be avoided.

It is difficult to introduce sports type cars with a low production volume; therefore, we request that the total of imported cars and locally produced cars under the same brand will be accepted. For Chinese consumers, opportunities to purchase products similar to other markets will be missed, so we would like this to be considered.

In the credit trading system, we request that freedom of setting the trial period, trading partner, transaction price, internal carry forward (including red letters), credit expiration date are provided.

(6) For introducing the new energy vehicle (NEV) regulation, we request the following remedial measures.
- Consider the development lead time and also avoid forcible implementation of the regulation from 2018, instead, prepare for the period from 2018 to 2019.
- If it is difficult to postpone the compulsory implementation year, instead, consider setting an appropriate compulsory ratio, such as based on the industry average value.
- Consider introducing a credit purchase (fines) system from the government.

(7) From the perspective of environmental protection, the demand of marking exhaust parts, catalyst measurement, and VIN (vehicle identification number) registration request for exhaust catalog have been done in a consecutive way. We request that discussions are sufficiently conducted with each country manufacturer prior to issuing such requirements and introducing after securing an appropriate lead time.

(8) Originally, there were many cases where QC/ T, GB/ T, which are industry recommended standards, are quoted in the GB and imposed as mandatory regulations at the time of authentication. Standards are not merely mandatory but are recognized internationally as indicating the direction of technology. Voluntary standards (QC/ T, GB/ T) based on the technical standards of the West (ISO, SAE) are still quoted in the authentication rule. We request that compulsory regulations are made only as the national standard “GB.” “The fundamental reform of standardization operations” related to this proposal is being promoted at the State Council (国务院), and we have expectations about the result.

(9) After obtaining confirmation about the dates that can be registered for stock vehicles from China Quality Certification center (CQC), when the CCC registration of the production end vehicle was canceled, a situation occurred in which the registration of the vehicle was not permitted at some regional vehicle outlets, even though it was before the possible vehicle registration date. We request that measures are taken to prevent such situations.

Procedures for issuing formal orders from the CQC to the local Vehicle Administration are cumbersome and time-consuming, and since it also takes time for the local Vehicle Administration to handle it, we had to solve this issue by explaining separately to the Vehicle Administration where the problem occurred on the manufacturer’s side. It is a heavy burden to explain separately to the Vehicle Administration in each area every time a problem occurs on the manufacturer’s side; therefore, we request that a process is created, so that the decisions of the COCA will be thoroughly disseminated to various places promptly.

(10) We request the following in intellectual property rights.
- Adoption criteria of evidence in intellectual property lawsuits, internal standard documents, documents issued by the parties, and documents published overseas are very difficult to be adopted, which is a standard stricter than in other countries. We request improvements, so that opportunities for exercise of rights and defense are adequately provided.
- Measures to prevent the export of goods infringing on intellectual property rights from China by sharing information on detection with other countries.
To avoid unnecessary conflict with employees, we request that the reward targets of the incentive compensation system are only those that are clearly entitled, such as those based on the patent law.

Registration of trademarks that are already prominent overseas should be prevented, and at the same time, for those that have already been registered, consider the notoriety of the trademark overseas and invalidate the rights. Furthermore, we request that malicious applicants who filed a large number of patent applications are blocked.

Provisions of laws related to technology licensing are organized. We also request the elimination of contradictions such as the remaining provisions on other laws that presuppose the already abolished legislation as in the following specific example. Article 43 of the “Implementation of the China–Foreign Joint Ventures company law” (duration of the technology transfer agreement is generally limited to within 10 years), which presupposes the abolished “Ordinance on technology import contract management” still exists.

(11) There are strict restrictions on the number of finished car logistics trailers and the length and width of the trailers, and there are aspects where inefficient operations are forced. In addition, there is also a problem in fairness as there are regional and periodic variations in crackdowns by this regulation, and violation vehicles having more units than the number allowed by the regulation are also running on many public roads. We request revision to ensure that the regulation content is reasonable and crackdowns are fair.

Automobile production companies cannot invest more than 50%. Even with an investment ratio of 50% or less, it is necessary to obtain permission from related government agencies such as the National Development and Reform Commission (国家发展和改革委员会), the Ministry of Industrial and Information Technology (工业和信息化部), and Ministry of Commerce (商务部) for changes in the contribution ratio. As a result, it is impossible to gain substantial control of the joint venture company. Regarding the change of the investment ratio within 50%, the relevant authorities can often add conditions (that do not conform to laws and regulations), and the state can exert influence in the direction of the business of specific companies. China published the Automobile Medium- to Long-term Development Plan 《汽车产业中长期发展规划》 to indicate the direction to gradually eliminate restrictions on joint venture ownership. We request that concrete measures will be clarified.

(13) Regarding the rules of the State Administration of Taxation (国家税务总局), Local Taxation Bureau, General Administration of Customs (海关), Regional Customs Duties, we request:

- On March 24, 2016, “Norms to fill in the import and export cargo entry declaration form of the People’s Republic of China” (General Administration of Customs, 2016, No. 20) was promulgated and implementation started on March 30 of the same year. The presence of a special relationship among importers, the presence or absence of royalty payment, the presence or absence of price influence was requested, and the notation of origin was further strengthened. It was promulgated and immediately implemented within a week, so there was no time to understand and prepare the request content, causing great disorder in handling. In future, we request that the time required for traders to prepare is taken into consideration at the time of revising the regulation.

- Transfer pricing document prescribed by the Special Tax Adjustment Law (Trial) by the State Administration of Taxation (国家税务总局). Since the requirements of the “local document” described by the local corporation are not clear, we request clarification.

- Handling the transfer pricing document. Ordinance No. 42 was promulgated in June 2016 and compliance was obligatory by the declaration of 2016. Regarding local documents, it is supposed to add analysis of the value chain and analysis on services among related companies, but since the contents and level of detail have not been clarified, we request clarification on these. Furthermore, regarding the master file, requirements specific to China are included in the definition of OECD and special correspondence is required, so we request reconsideration.
There are cases where customs clearance rules differ from region to region, and troubles have occurred at the time of temporary customs clearance of certified vehicles. In some ports, despite being a certified vehicle, there are cases where it is handled as a used car because it is traveling a certain distance and customs clearance cannot be done. We request customs authorities to understand that certified vehicles are for temporary customs clearance, not for resale purpose, and to correspond with common recognition across the country.

On declaration of export entry to customs, we manage the declared units by HS codes. However, while the authorities use weight as a unit for declaration of export customs of automobile parts, as well as on tax return, in actuality of companies, they are managed in terms of the number as a unit, and inefficient work is required such as that the number of units must be converted to the weight unit by manual operation each time. We request the setting of several declaration unit options according to HS codes by considering the actual business situation. For example, we request a system that allows informant to be chosen freely based on the actual situation of the business, such as weight unit or number unit.

Before import clearance, it is necessary for the exporter to access the imported car VIN management system of the China Inspection and Quarantine Bureau and input data for each vehicle. However, after customs clearance, it is necessary to re-enter similar data in the automobile exhaust gas targets management application system of the Ministry of the Environment. In addition, both systems are supported only in Chinese. We request a one-stop that eliminates the need to re-enter the input data. In addition, since input to this system is expected to be done by manufacturers outside China, usually the exporter, we request that at least English correspondence be allowed.

Regulation of two-wheeled vehicles entering cities. There are restrictions to motorcycle registration and entry for reasons cited such as traffic safety or environmental protection in many cities, but it should be understood that motorcycles are a great commuting method suitable for cities that are aiming for energy conservation and space saving. Since this is an irrational regulation, we request it is abolished or at least relaxed.

Handling of large motorcycles. We believe that the demand for large motorcycles will increase in the future as China’s economic development progresses, but there are obstacles to the spread of these motorcycles compared to other countries, including tariffs exceeding 30% and traffic tolls on expressways. We urge improvement in irrational tariff structures and unfair treatment of such large motorcycles.
Chapter 5 Telecommunications Industry

1. Telecommunications

A general view of the Chinese telecommunications market in 2016 shows that there were 1.53 billion telephone service users, including 1.32 billion cellphone users and 207 million landline phone users. Moreover, the number of Internet users reached 731 million. Although China’s Internet penetration rate ranks 104th in the world, at 53.2% (source: ITU, 2015 data), China can be considered the world’s biggest telecommunications country in terms of scale, including the number of Internet users. It is against the background of this scale that China is increasingly making its presence known in the field of global telecommunications, starting with the international standardization of fifth-generation mobile communication systems (5G).

The Chinese Telecommunications Market in 2016

Telephone Services and Broadband Access Services

There were 1.321 million Chinese cellphone users by the end of December 2016, showing an increase by 50.54 million users in one year. China ranks first in the world in number of users, followed by India and the United States (China had 1,305,740,000 users, India 1,011,050,000 users, and the United States 382,310,000 users according to a report based on 2015 ITU data). Moreover, the Chinese 4G service launched in 2013 had 769,950,000 users, showing an annual increase of 339,570,000, while the spread of broadband can be seen in the 58.2% 4G migration rate for all cellphones (there were 170,810,000 3G service users, adding up to a component ratio of 12.9%; the rest consists of 381,180,000 2G and 2.5G users, comprising a ratio of 28.8%). At the same time, China’s number of landline phone users decreased by 24,370,000 to 206,620,000 users.

Regarding broadband access services (cable), in contrast to the 19,660,000 xDSL users (showing an annual decrease of 32,610,000), the number of FTTH users has increased by 79,400,000 to 227,660,000 users, demonstrating the spread of broadband for cable services.

Table 1. Numbers of phone service and broadband access service users

<table>
<thead>
<tr>
<th>Service Type</th>
<th>China</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile phones</td>
<td>No. of users</td>
<td>1,321,930,000 users</td>
</tr>
<tr>
<td></td>
<td>Penetration rate</td>
<td>96.2%</td>
</tr>
<tr>
<td>Landline phones</td>
<td>No. of users</td>
<td>206,620,000 users</td>
</tr>
<tr>
<td></td>
<td>Penetration rate</td>
<td>15.0%</td>
</tr>
<tr>
<td>Broadband access</td>
<td>No. of users</td>
<td>297,210,000 users</td>
</tr>
<tr>
<td></td>
<td>of xDSL users</td>
<td>19,770,000 users</td>
</tr>
<tr>
<td></td>
<td>of FTTH users</td>
<td>227,660,000 users</td>
</tr>
</tbody>
</table>

Sources: “December 2016 Main Indicators Performance for Telecommunications,” the Ministry of Industrial and Information Technology (工业和信息化部) (for China); Public information from the Ministry of Internal Affairs and Communications, late-September 2016 figures (for Japan)

*Penetration rates were calculated based on the “Population Estimate for September 1, 2016 (Final Figures)” from the Statistics Bureau, Ministry of Internal Affairs and Communications.

*The number of broadband access users is the sum of xDSL, FTTH, and CATV users.
China’s Three Telecom Carriers

The transition to 4G services (cellphones) is a priority for Chinese telecom carriers responsible for the telecommunications infrastructure, and it is generally progressing well. When viewed individually, however, while the number of 4G users with China Unicom is increasing, they are seeing a net decrease in the total number of cellphone users, facing being “the only one losing out.” In addition, if we look at the figures for broadband access service (cable) users that China Mobile began releasing in February 2016, their users exceeded those of China Unicom in October of that year, showing China Unicom’s plight in this regard.

As a result, the performance of China’s three telecom carriers in fiscal 2016 lead to increased turnover and profit for China Mobile, increased turnover but decreased profit for China Telecom, and decreased turnover and profit for China Unicom, whose net profit was affected especially harshly, decreasing by a significant 94.1% from the previous year. China Unicom was dominant in the 3G service era, thanks to their early introduction of the iPhone and their communications system, but the major changes to the competitive environment after the introduction of 4G services helped lead to their decline.

A trend common to all three carriers, not only China Unicom, appears to be increasing pressure for cost increases owing to the increased tax rate on basic telecom services that has accompanied the tax reform from a business tax to a value-added tax, in addition to rising sales-related expenses from the intensified competition for 4G services. Moreover, there are reports that the usage fees for facility and others paid to the lattice tower management company China Tower, jointly financed by the three carriers, are higher than they were when each carrier managed their own facilities.

Table 2. Number of users and financial situation for China’s three telecom carriers (figures in square brackets are year-on-year comparisons)

<table>
<thead>
<tr>
<th>Number of users</th>
<th>Cellphones</th>
<th>China Mobile</th>
<th>China Telecom</th>
<th>China Unicom</th>
</tr>
</thead>
<tbody>
<tr>
<td>4G</td>
<td>535,000,000</td>
<td>63,400,000</td>
<td>104,600,000</td>
<td></td>
</tr>
<tr>
<td>(+71.3%)</td>
<td></td>
<td>(+23.4%)</td>
<td>(+136.8%)</td>
<td></td>
</tr>
<tr>
<td>Landline phones</td>
<td></td>
<td>129,900,000</td>
<td>66,600,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(+2.7%)</td>
<td>(+8.6%)</td>
<td>(+8.0%)</td>
</tr>
</tbody>
</table>
Broadband access (cable) 77,600,000 [-] 123,100,000 [▲5.6%] 75,200,000 [+9.8%]

FY2016 financial results Operating revenue 708,421,000,000 yuan [+6.0%] 352,285,000,000 yuan [+6.4%] 274,197,000,000 yuan [+1.0%]
Net profit 108,741,000,000 yuan [+0.2%] 18,004,000,000 yuan [+10.2%] 625,000,000 yuan [+94.1%]

Source: Hong Kong Stock Exchange public information on China Mobile, China Telecom, and China Unicom
Numbers of users are late-December 2016 figures, and turnover and net profit are December 2016 figures.

**Other Facility Expansions**

To support the infrastructure of Internet+, a Chinese government commitment, each of the telecom carriers continues to expand their facilities. In FY2016, nationwide optical fiber cables reached a total length of 30,410,000 km, an increase of 22.3% over the previous year and an extension of 5,540,000 km. There was also an increase of 23.1% over the previous year in terms of international connection bandwidth, which had grown to 6,640,000 Mbps.

**Figure 2. Changes in total optical fiber length**

Internet Users

Chinese Internet users numbered 731,250,000 in late December 2016, after an annual increase of 42,990,000. The rate of increase has slackened to 6.2%. However, as the Internet increasingly pervades daily life through the spread of broadband and the growing supply of Internet services, it is continuing to spread across regions and generations.

Use of Internet Services

One thing that changed in 2016 regarding the use of Internet services was that the use of both PC and mobile Internet for meal deliveries (field sales) increased over the previous year. This may be considered an advance in Chinese “eat-at-home meals.”

Moreover, mobile payment has become increasingly widespread. The use of e-government has become an entry for the first time, a result of the Chinese government’s commitment to Internet+.
Major Topics in 2016

1. China Telecom and China Unicom concluded a strategic alliance agreement to “jointly advance the improvement of user service quality through resource sharing.” They announced that they will...
collaborate in five areas: collaborative construction and collaborative use of networks, devices, mutual
network connections, service innovation, and international roaming.

2. China’s Ministry of Industrial and Information Technology (工业和信息化部) issued Basic
Telecommunications Management Permits for China International Broadcasting Network and China
Transport Telecommunications and Information Center, which will become the fourth communications
carrier. In connection with this, China International Mobile, an affiliate of China International
Broadcasting Network, acquired the platinum frequency band of 700MHz.

3. China helped formulate the international standard for 5G. Various trials were conducted domestically.

4. In response to the government’s Internet+ initiative, telecom carriers saw a business opportunity in the IoT
(Internet of Things) field, prompting them to advance IoT strategies, including basic technological
research with NB-IoT.

5. As some Chinese MVNOs (mobile virtual network operators) have not completely enforced the real-name
registration laws, they have not been allowed to commence commercial service even one year after the
trial period ended. Will they start in full force in 2017?

2017 Prospects
The keywords in the “10 Big Predictions for China’s Telecommunications Industry in 2017” presentation by
the China Academy of Information and Communications Technology (CAIT) at the end of 2016 indicated that
advances had been made in 1) high-speed, full-coverage, and smart basic information equipment; 2) 4G and
5G; 3) IoT networks; 4) industry networks; 5) connected car networks; 6) VR/AR; 7) block chains; 8) AI
(artificial intelligence); 9) the sharing economy; and 10) network security. These items more or less coincide
with global ICT areas of interest.

While it is thought that China possesses the ability to quickly realize and develop these technologies and
businesses, it is important that advances be made cooperatively and openly both domestically and
internationally—given that ICT should progress as a global space without borders; this should also be a major
business opportunity for China.

<Proposal>
(1) Legal and environmental improvements that would suit the advancement of ICT

1) The understanding in China is that the next generation of communications services (5G) is set to
commence in 2020, but we request that you start looking into 5G-service frequencies in a timely way and
promote global harmonization to gain the advantage of scale.

2) Advances in ICT, including 5G services, are likely to expand opportunities for the use of
communications in daily life and in industry. Furthermore, various solutions utilizing technologies such as
IoT and sensing are expected to bear fruit commercially. Amid such developments, we request that you
proceed with revising related laws, starting with the Telecommunications Act, in order to adapt to this
change in environment and proceed with appropriate policy decisions and environmental improvements, so
that both private and foreign-invested enterprises can use resources such as communications infrastructure
impartially and swiftly at business sites.

(2) Relaxing the conditions for business license acquisition and improving exclusive clauses for foreign
investment

1) We continue to request the improvement and relaxation of foreign-investment regulations relating to
added-value communications services.

2) In particular, cloud computing and data centers will continue to be at the core of the ICT business, and
foreign-investment businesses can increase their originality and autonomy in those areas. We also request a
relaxation of regulations with regard to cloud services to enable foreign-invested enterprises to provide this
service as well.

3) Regarding basic communications, the trial service of the “Notice Relating to the Trial Plan for Mobile
Communications Resale Businesses” (Documents of the Ministry of Industrial and Information Technology

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(工业和信息化部) [2013], no. 191) announced on 17 May, 2013, came to a close at the end of 2015. However, we understand that it had not yet transitioned to official commercial service as of late 2016 due to the need to deal with several issues that came up during the trial. It is necessary to create measures to counter issues that may disadvantage users, but we strongly request that this be done in combination with a relaxation over foreign investments. One benefit of MVNOs (mobile virtual network operators) is that they can cover markets with relatively small-scale needs that are not covered by telecom carriers (operators). Thus, if foreign-invested and other enterprises with a variety of features participate and contribute their expertise, this should become a means of enhancing services in a global environment, which can also lead to benefits for Chinese consumers. By contrast, we consider that the restriction that “participating enterprises listed abroad must have a foreign-investment ratio lower than 10%” will be difficult for foreign-invested enterprises that want to provide added-value services and know-how for partner MVNOs. We thus request relaxations for foreign investments, so that concerned enterprises can provide Chinese users with various options (e.g., quality, price, service) that suit individuals and businesses as part of official commercial services.
2. Software

China’s software industry grew as an offshore development base for Japan and other countries, but it has now entered a period of extensive strategic change and a shift toward business-model sophistication as it faces global economic change and the “new normal” of the Chinese economy. Concomitant with China’s economic development in recent years, businesses are increasingly expanding into what is seen as an important market, rather than a cheap production base. This tendency is also becoming apparent in the software industry with businesses increasingly viewing China as a market for software business and reorienting themselves for the Chinese market.

An especially promising market for the software business is the provision of solutions to China’s social problems. Software-utilizing ICT are expected to play an important role in solving issues such as environmental pollution, traffic congestion, medical problems, China’s ageing population, and its shrinking working population.

It goes without saying that training local human resources is key to the software industry. In addition, however, it is important to create business models that are compatible with China. Recent trends such as clouds, IoT, big data, mobility, AI, information security, and Internet+, which add the value of the Internet to existing industries, are expected to become profitable for companies in China, including local-capital enterprises.

Changes in China’s Software Industry

Japanese companies have long perceived China’s software industry as a base for cheaply developing software for the Japanese market. This matches Chinese authorities’ basic policies for attracting foreign capital, acquiring foreign currency, and increasing employment, which manifest as policies for attracting and assisting the software industry as well as building software parks and other forms of infrastructure, not only in coastal regions but also inland.

At the same time, Japanese companies are developing less new software, partially because they are encouraged to apply global solutions for already developed business applications and also because the investment cycle for software development has run a full course. In addition to this trend of less development, the sharp drop in the yen until 2015 and the subsequent cheap yen trend have undermined the superiority of China as an offshore development base. Moreover, increasing labor costs in China have resulted in the emergence of Thailand, Indonesia, Vietnam, and other ASEAN countries as viable offshore bases.

Even so, we expect China to remain a core resource base for software development because it is difficult to replace China with other countries or regions that meet the following requirements:

- The ability to work with Japanese mixed with Chinese characters and with Japanese-style development systems
- Sufficient onsite personnel on the Japanese side
- The ability to mobilize a large number of development personnel for large-scale orders

This massive change in the environment has placed companies whose only function is to act as an offshore in a predicament, but, as the Chinese domestic software business is expanding, companies that are able to adapt to this market are growing rapidly. Many software companies are planning to switch from being offshore-centered to business-targeting enterprises and organizations in China.

Trends in the Chinese Software Market
The size of the enterprise-oriented ICT market is predicted to reach 90.9 billion dollars in 2017\textsuperscript{1}. Of this, 31 billion dollars will be comprised of the software and IT service market. The growth of software (product and application development) and IT services greatly exceeds that of hardware products and is expected to continue to expand. These market conditions suggest the following striking tendencies.

**Changes in the Investment Sector**

Japanese and other foreign-invested enterprises have changed from seeing China as the world’s factory to seeing it as the world’s market, with increasing IT investments in sales (e.g., arrangements bringing together production and sales or securing sales channels) replacing production-centered IT investments. Moreover, rising personnel expenses are creating a shift toward investments into new areas such as information security and environment measures.

**Chinese Government’s Policy of Supporting Domestic Products**

As the Chinese government hopes to shift China from being an industrial power to being an industrial superpower, it is pursuing policies intended to release infrastructure from its reliance on overseas technology and prioritizing Chinese domestic products.

**Progress in New ICT Areas and the Use of Open Source**

Like big data, cloud computing, the mobile Internet, and IoT, ICT is developing and bringing new changes to the software industry. At the same time, the licensing fees for commercial software are rising, increasing the use of open source.

**Direction of the Chinese Software Industry**

Japanese software development companies and system integrators aiming for business growth in China’s market need to understand the following characteristics of their clients and respond accordingly.

**Providing Solutions with a Proven Record**

Enterprises in China, both foreign- and domestic-invested, hope to advance ICT quickly and securely. With some exceptions, they want to use solutions with a proven record. There is a strong demand for package software that clients can actually “see with their eyes” and “control”, so that they can imagine the user experience after installation.

**Advancing Localization of the Software Business**

Although the costs of software human resources in China are continuing to rise, they still maintain a cost advantage compared to development and implementation by Japanese local or dispatched employees. Japan has an advantage when it comes to the planning and development of new solutions, but customers also demand a broader use of Chinese technicians to keep maintenance and upgrade costs down after installation as well as to ensure swift response.

**ICT Initiatives against Social Problems**

China’s central and local governments are formulating policies for solving issues such as environmental pollution, traffic congestion, medical problems, and an ageing population. In Japan, sensor, image analysis, big data, and other advanced technologies are being used to solve social problems. We expect that this business can expand in China through accumulated know-how.
SaaS and Other Service Business Initiatives

Instead of purchasing ICT-related hardware and software in advance and capitalizing it, Chinese demand is rising for software-based service business initiatives, such as providing SaaS and other cloud services that can be treated as expenses. The size of China’s cloud industry is growing rapidly thanks to government support.

Concrete Issues and Improvement Requests

Training Software Human Resources

Japanese offshore development enterprises have provided sophisticated IT specialist expertise and curricula in Japanese for the large number of new university graduates they hire while also providing OJT in real projects. On the basis of these two efforts, they have sought to train highly skilled technicians for offshore development. Furthermore, several businesses have actively sought to attract prospective employees by accepting many students as interns and creating interest for the IT industry. Aside from Japanese-language education, software enterprises whose market consists of businesses and organizations in China seem to use basically the same training methods.

Regardless of the businesses’ intentions, human resource investments should result in improved capabilities for the Chinese technicians who received the education and contribute to the development of China’s IT industry. A subsidy system or other continuous support measure should be in place to facilitate educational investments for training software human resources in businesses.

Taxation Issues for Chinese Employees Transferring to or Training in Japan

Chinese technicians come to Japan to receive training or due to transfers on a daily basis with the aim of raising the technical level of software human resources or having them cooperate with Japanese technicians in a joint project. Their stays often become long, especially for collaborative projects. However, double taxation between Japan and China creates high costs for businesses that dispatch employees to Japan, creating an obstacle for human resource exchanges between technicians from both countries.

A Foundation for Protecting Intellectual Property Rights and License Payments

According to a survey by Gartner\(^2\), sales revenue for middleware and application software is about half that of Japan, despite the fact that the sales revenue of hardware (especially PCs) greatly exceeds that of Japan. Even taking into account the increasing use of open source, this survey result suggests the condition of Chinese domestic software use from the perspective of sales revenue, hinting at the easy availability of illegal software. This supply of imitation and unlicensed copies in violation of intellectual property rights is a life-and-death issue for software businesses and is one factor in the widespread hesitation to invest in the Chinese software industry. These circumstances mean that Chinese users cannot enjoy the latest software services, hinting at the easy availability of illegal software. We expect policies that will urge businesses and individuals using inappropriate copies to rectify their practices and will lead to the protection of intellectual property rights at a level on par with advanced countries.

Shifts in Development Bases Accompanying Changes in the Software Industry’s Environment

Due to the recent increases in personnel costs, office rental fees, and other expenses in urban areas, the business environment of the software industry has become more severe each year. As a result, businesses are transferring their development bases from urban areas to the inland region, where lower costs are possible. To achieve this, the following structural reforms are necessary; we expect support measures and incentives regarding labor contracts, taxation, and subsidy systems to promote the smooth realization of this shift:

- Reducing staff in urban areas and increasing staff in the provinces.
- Setting up development bases in the provinces.
- Absorption of and mergers between companies (especially the absorption of urban companies by rural companies).
- Transfers of human resources, skills, and know-how from urban areas to the provinces in response to the abovementioned measures.

Promoting Problem Solving Participation in Chinese Society

Challenges in Chinese society such as environmental pollution, traffic congestion, medical problems, an ageing society, educational problems, and energy conservation require immediate action. Japan has also faced these challenges and has overcome them, so Japan has plenty of accumulated administrative and business know-how. These issues affect a plethora of technological and product areas and so cannot be resolved by one enterprise alone. The quickest solution is collaboration between multiple related enterprises and each of their strengths. However, although Chinese enterprises collaborate with local governments and university research organizations on an individual level, no implementation structure exits for coordination as a whole. China should have administrative offices that lead the creation of solution schemes for each area and involve Japanese enterprises with the latest technology.

Moreover, most of the solutions to social problems are promoted as grand projects involving the central government, local governments, and state-owned enterprises auctioned off to the highest bidder, with Chinese domestic products often receiving preferential treatment. Foreign-invested enterprises should be given a fair chance.

Separation of the Software and Telecommunications Industries in Cloud Services

Cloud services providing applications as software services and used in combination with hardware resources (called “SaaS”) have become trendy in ICT usage, as they increase user convenience and can reduce TCO. Using services that do not require operation, maintenance, or preservation with ICTs nor infrastructure self-capitalization, such as for applications, other software, and server storage, has great cost-saving effects for China’s many small and medium-sized enterprises. The economic effect of reducing TCO and concentrating resources within the core business is expected to be massive. However, some parties in China consider these kinds of services to fall under the heading of “added-value telecom business (PRC Telecommunications Ordinance: Added-Value Telecommunications Business),” which hampers the participation of foreign-invested enterprises. Another risk to such participation is the possible effects on service providers of the national network security law promulgated in November 2016. Anything obstructing the participation of more experienced foreign-invested enterprises in the cloud service business reduces opportunities for effective service usage for the operations of enterprises and organizations in China. Regarding the contributions of cloud services to the business use of ICT, we believe that such services, including the participation of foreign-invest enterprises, should be encouraged, particularly from the perspective of the economic effect.

Proposal

(1) Training human resources for software development
In the software development business, training human resources has become an extremely important task, and businesses are investing heavily in this area. We request the promotion of the following measures:

- We believe that the acceptance of students for internships benefits both enterprises and students by facilitating the selection of new employees from recent graduates as well as training and early competitiveness. We thus request the implementation of policies to support students by accelerating the enhancement and diffusion of internship arrangements.
- As measures to support human resources training in businesses, we request increased subsidies for employee training costs, the relaxation of regulations on guest lecturers from abroad, and the implementation of support measures.

(2) Issues relating to taxation when Chinese employees are transferred to or receive training in Japan

Chinese employees have often been transferred to the main office or elsewhere in Japan for at least one year as a way to raise human resource levels for software development. The following issues and challenges pose obstacles to dispatching human resources to Japan. We request that they are resolved:

- Double taxation of individual income tax. The individual income tax that is supposed to be refunded to Chinese employees dispatched to Japan is sometimes not refunded, meaning that they are subjected to double taxation. We request the implementation of a tax treaty between Japan and China.
- We request that the Japan–China social security agreement, which has been discussed since 2011, be concluded as soon as possible.

(3) The protection of intellectual property rights

Protecting intellectual property rights in the software industry will make businesses willing to move R&D for innovative technologies to China. From China’s perspective, this would produce an accumulation of know-how and foster human resource training in cutting-edge technologies. We thus request the necessary measures, particularly the improvement and strengthening of policies aimed at suppressing the copying of software products.

(4) Incentives that accompany changes in the environment of the software industry

The business environment of the Japanese software industry in China is worsening by the year due to rising personnel costs and office rental fees, the drastic fall of the yen, and other factors. The business environment of offshore development companies that make software for the Japanese market has become particularly severe. As a result, companies are reorganizing, making acquisitions, and merging in order to transfer their operations from urban areas to the inland region, and there is a need to pursue business reforms and shift toward Chinese domestic business. We thus request support for business reforms in the form of optimizing labor contracts and tax incentives. Moreover, to promote the transfer of technology and know-how inland, which follows from the transfer of operations and is a means of expansion, we request that you consider incentives for supporting the acceptance of high-grade, veteran technicians from urban areas.

Furthermore, we request the preservation and strengthening of existing support policies for offshore enterprises making software for the Japanese market (e.g., privileges for corporate taxes and service/product value-added taxes, simpler procedures for tax returns, subsidies).

(5) Expansion of opportunities to participate in government-led projects such as social infrastructure investments

Both the central and local governments are investing heavily in policies to address environmental pollution, traffic congestion, medical problems, an ageing population, educational problems, and energy conservation. Japanese ICT-related companies offer many solutions for these areas utilizing the latest technologies. We
request that information be made public and opportunities for participation be expanded through the formulation of policies relating to these areas. We do not think these areas touch on national security, national secrets, or disaster relief; thus, the privileging of domestic products is inapplicable as regulated by government procurement and bid invitation laws, which is why we request that opportunities for participations be opened up impartially. We also request that you consider incentives for enterprises that can provide advanced products.

(6) Treatment of cloud and other software service enterprises

Cloud services such as IaaS, PaaS, and SaaS are interpreted as falling under the “added-value telecom business” heading. Foreign investments are covered by regulations that are becoming stricter every year. This interferes with foreign-invested enterprises as they attempt to run service businesses, leads to lost opportunities for effective service use by businesses in China that are supplied with SaaS or similar services, and presents an obstacle to the development of software service use in China. For example, B2B’s SaaS provides a business process to a closed group of corporate clients in response to their specific needs, and its effect on the telecom market is thought to be extremely small. As regards cloud services, we request that regulations be relaxed, so that such services can be provided by foreign-invested enterprises as well.
3. Content

China has strong market demand for Japanese content, but its spread is limited due to regulations and entry barriers, leading to the prevalence of pirated copies and illegal distribution. Rather than protecting the domestic industry, a more effective way to develop the Chinese content industry would be to create a healthy competitive market and a suitable system for copyright protection, necessitating a relaxation of regulations and a removal of entry barriers for foreign-invested enterprises and overseas content.

The Continuously Growing Chinese Content Market

The Chinese content market is expanding by the year, and one of the biggest in the world. The following describes the general situation of the market in recent years.

Movies

Annual box-office revenue for movies in China in 2016 was 45.712 billion yuan, an increase of 3.7% on the previous year. Box-office revenue from imported movies totaled 19.049 billion yuan. The number of moviegoers in 2016 was 1.372 billion, an increase of 8.9% from the previous years. Moreover, 9,552 new screens were installed; the total number of screens in China reached 41,179, the highest in the world. China’s movie industry is the second biggest in the world and continues to grow. Furthermore, Japan’s box-office revenue for the same year was 235.5 billion yen, an increase of 8.5% over the previous year.

Publications

Sales in the publishing, printing, and issuing industry totaled 2.165 trillion yuan, an increase of 8.5% on the previous year. In 2015, the number of books published totaled 8.66 billion, an increase of 5.8% on the previous year, and the number of published periodicals totaled 2.88 billion, a decrease of 7.0% from the previous year. Sales of digital publications totaled 440.3 billion yuan, an increase of 30.0% over the previous year.

Music

In 2015, the Chinese music industry totaled 66.532 billion yuan, an increase of 2.3% on the previous year. If we break down the numbers, the CD/DVD package market totaled 559 million yuan, the digital music market 49.818 billion yuan, the musical performance industry 15 billion yuan, the music book publication industry 830 million yuan, and the music copyright industry 325 million yuan. There were as many as 501 million digital music users in 2015. Licensed products are now circulating in a market that has been marked by illegal distribution.

Games

The 2016 sales revenue for the Chinese game market totaled 165.57 billion yuan, an increase of 17.7% on the previous year, and the number of users totaled 566 million, an increase of 5.9% on the previous year. If we break down the sales revenue figures, PC online games totaled 58.25 billion yuan (a decrease of 4.8% from the previous year), browser games 18.71 billion yuan (a decrease of 14.8% from the previous year), and mobile games 81.920 billion yuan (an increase of 59.2% on the previous year).
Excessive Regulations on Foreign Enterprises and Content

The following regulations and entry barriers continue to lead to lost investment opportunities for Japanese businesses.

Movies

Regulations on Foreign Investments for Setting up Cinemas
Due to the “Provisional Regulations on Foreign Investments in Cinemas” enforced since 2004, China forbids cinemas or cinema chain management organizations set up solely with foreign capital. Moreover, for limited partnerships and joint ventures, the Chinese side’s investment share of the registered capital must total at least 51% and the duration must be at least 30 years.

Regulations on Imports and Broadcasting
The State Administration of Radio, Film, and Television allows the screening of a maximum 64 foreign movies per year, and no Japanese movies were shown between July 2012 and April 2015. Two Japanese movies were shown in 2015, and 11 were shown in 2016.

Strict Contractual Practices
For many American movies, a “fractional” contract (revenue-sharing) is concluded between the distributor and the foreign movies’ import company (only the China Film Group Corporation and the Huaxia Film Distribution Company are licensed), so that the movie is treated as jointly distributed. By contrast, “flat” contracts (purchasing the rights) usually apply to other foreign movies, including Japanese ones, while a uniform 700,000 yuan is charged for the production of Chinese subtitles.

Distributing TV Programs and Online Videos (Including Animated Films)

Prohibition on Foreign-invested Enterprises from Participating in TV Production Companies
Thanks to the “Provisionary Regulations on the Production, Administration, and Business Management of Radio and Television Programs for Chinese–Foreign Limited Partnerships and Joint Productions” promulgated in 2004, it has become possible for limited partnerships with foreign capital to set up TV production companies. However, due to the “Decision to Repeal Some Regulations and Normative Documents Regarding Radio and Television” promulgated in 2009, starting a TV production company with foreign capital was prohibited once again.

Regulations on Time Slots for Broadcasting Foreign Movies and Drama Series
It is forbidden to show foreign movies and drama series at prime time (7–10 p.m.). The foreign-productions slot after 10 p.m. is mainly filled with American blockbusters, making the broadcasting of Japanese content very limited. Moreover, imported drama series shown during any given day must not exceed 25% of the total time devoted to showing drama series on that day, making it difficult for the showing of foreign drama series to expand.

In recent years, many Chinese businesses have bought the format of a foreign show (drama series, variety show) and produced a Chinese version. However, according to “關於做好2014年電視上星綜合頻道節目編排和備案工作的通知（強化版限娛令）” (Guang Fa 2013, pp. 68), such foreign-format shows cannot be broadcast in prime time, and only one new show can be broadcast each year. The full text of this notice has not been made available on the official website.
Regulations on the Distribution of Foreign Movies and Drama Series Online

Recently, measures for preventing the online circulation of unlicensed content—namely, the online availability of foreign content in China either at the same time or shortly after their official release abroad—have had some effect, but advance inspections and other new regulations based on the “Regulations on Renewed Inspections and Trials for the Management of Online Foreign Movies and Drama Series” promulgated in September 2014 are hindering the swift release of licensed content, making us concerned that the circulation of unlicensed content will increase once more. Moreover, these regulations on content circulation are hampering the distribution channels Chinese domestic businesses have built with foreign businesses in recent years.

Regulations on the Import of Foreign Animated Films and the Excessive Protection of the Domestic Animation Industry

It is also forbidden to show foreign animated films on TV between 7–10 p.m. China’s system favors domestic industries, including through regulations for ensuring that time slots for domestic animated films always make up at least 70% of the slots for animated broadcasts (“Notice on Strengthening the Management of Television Animation Broadcasting,” 2008) and a rule by which a company that has produced domestic animations may import only an equal amount of foreign animations (“A Few Comments on the Development of China’s Animation Industry,” 2004). Not only is it becoming increasingly difficult to get permission to show imported animated films, but it continues to be difficult to obtain approval for an application for new imports. In fact, no TV broadcasting of Japanese animated films has been allowed since 2007, and films imported before that point are just shown on rerun. At the same time, since the demand for Japanese animations is high, CCTV broadcasts animated feature films not in the animation slot, but in the movie slot, and broadcasts content under its independent right of inspection, but similar measures are difficult to enact for other TV stations. Moreover, control is becoming stricter for animations distributed online on the basis of a formal contract with the rightsholder, as some content is perceived as being harmful to social morality; it is difficult for the rightsholders to respond, as the standard for this control is not clearly prescribed.

Publications

Foreign investments are prohibited in publishing. Moreover, only licensed state-owned enterprises can import foreign books. The China National Publications Import & Export (Group) Corporation handles at least 60% of the imported-books market. The publication of Chinese versions of foreign books and comics requires the acquisition of publication codes, but examination and ratification for permission to publish foreign comics have become stricter in recent years. The publication of magazines requires the acquisition of magazine codes, but no permits are issued for new publications with only foreign magazine content. Thus, the only way to enter the Chinese market is to collaborate with Chinese domestic magazines that have already acquired a magazine code and provide content through them.

Music

In the 2015 revised edition of the Catalogue for the Guidance of Foreign Investment Industries, “The Circulation of Audiovisual Products (Excluding Movies)” was removed from the list of industries for which foreign investment is restricted, demonstrating progress in the liberalization of foreign investment regulations. Even so, “The Publication and Production of Audiovisual Products and Electronic Publications” and “Internet Publication Services” remain listed as prohibiting foreign investment. As regards “Internet Publication Services,” the entry of foreign capital was clearly prohibited under the “Regulations on Internet Publication Services,” which came into effect on March 10, 2016. The importation of foreign music software requires examination and ratification by the General Administration of Press and Publications. Furthermore, the circulation of imported audiovisual products online requires examination and ratification by the Ministry of Culture, as well as content examination and ratification by the General Administration of Press and Publications.
Games
Importing online games must be done through an importer that qualifies as an Internet- and culture-related operating company, and has acquired a Network and Culture Business License from the Ministry of Culture. It is practically impossible for a foreign-invested enterprise to handle distribution and billing on its own. Moreover, game content must be examined and ratified by the Imported Game Contents Examination Committee of the Ministry of Culture, while the publication (issuing) of the game must be examined and ratified by the State Administration of Press, Publication, Radio, Film, and Television.

Organizing Mixed-media and Other Events
Owing to regulations and entry barriers on all sides of foreign-invested enterprises and foreign content, there are major restrictions on mixed-media campaigns, merchandizing, events, and promotions centering on potent content (e.g., comics, TV broadcasting). Such policies need to work together to boost development in the content business, but current regulations do not look beyond development in their particular area, making it difficult to create major success stories in the content business. Examples of foreign content that were successful in these areas should be able to contribute to the development of the domestic content industry.

Matters of Concern Regarding Copyright Protection and Administrative Procedures
The revision proposal for the Copyright Law promulgated by the Legislative Affairs Office in June 2014 included regulations for organizing the rights system, promoting creativity, establishing rules of transaction, and protecting rights. Especially with regard to rights protection, we can appreciate the attempts to offer judicial remedy by improving indemnities and evidence-gathering, as well administrative remedy, by partially improving procedures. Even so, the following concerns remain about the revision proposal for the Copyright Law and administrative procedures.

Concerns about Legislating Worker Incentives
Copyright differs from ownership and other rights in that it is a right claimed by many workers who work creatively on a daily basis without the need for any registration, risking the generation of a massive amount of applicable instances. If it becomes accepted that related incentives and worker rights need to be expanded, this will increase businesses’ burdens to unreasonable levels and may interfere with the normal operation of many businesses.

Concerns about the Scope of Statutory License
Many provisions allow unapproved use (statutory license) for radio and TV broadcasting or the reprinting of newspaper and periodical articles as long as certain conditions are fulfilled. This can lead to the use of copyright materials without the approval of the rightsholder. The use of copyright materials is premised on a discussion with the rightsholder, so unapproved use should be rejected in principle. We also consider it necessary to look into whether it complies with Article 9 of the Berne Convention.

Concerns about the Copyright Registration System
The revision proposal strengthens the copyright registration system and frames registration as “basic evidence.” However, copyright is valid even without registration, so we need to be wary of whether an emphasis on registration might violate the original rightsholder. Given that there is no procedure for canceling registered rights, rights may not be protected in case of a usurped copyright registration. This risk is especially salient for foreign content that is not easily registered in China, and many Japanese copyrights have become subject to usurped registrations under the current system.
Concerns about Copyright Collecting Organizations

As regards copyright-collecting organizations, it is unclear what organizations exist, what their status is, and what authority they have. We believe that the copyright-collecting organization system will be solidified, but there is a need to make information publicly available for more rightsholders. Moreover, it is necessary to make sure that rightsholders’ rights are sufficiently protected, so that rightsholders who do not belong to any copyright collecting organization are not disadvantaged.

Other Concerns

- We are concerned that allowing replication analyses of program compatibility may promote unfair use.
- We are concerned that legislating on conditions that make possible the circumvention of technical protection measures may promote piracy. Anti-circumvention regulations should prohibit active circumvention and modification.

Simplifying and Speeding up Administrative Procedures

- Movies, animated films, drama series, and publications are subject to advance content examinations and censorship, but the control standards are unclear.
- China has regulations for all processes from content software production to distribution, and the paperwork takes a lot of time as the regulations involve various government offices on different levels.

Eliminating Unlicensed Content from the Market

China has unlicensed versions of all media. Movies, animated films, and other videos are distributed online without approval and illegally; comics and other books are sold as pirate or online pirate copies; music comes in the forms of pirate CDs and via unapproved, illegal distribution; games are pirated and distributed online without approval and illegally; and character goods exist as imitations or are sold through unlicensed channels.

Unapproved and Illegal Video Distribution Online

In 2016, there were 731 million Internet users in China, an increase of 42.99 million from the previous year. Of these, 95.1% use the Internet on mobile devices. To the copyright holder, unapproved and illegal video distribution online is a major risk on the Chinese market. In recent years, leading video sites have been actively distributing licensed versions of popular Japanese works, which shows a heightened awareness of copyright in some quarters and is extremely positive for the healthy development of the market. At the same time, many works are still distributed without approval and are used for illegal business, while the government’s recent efforts to reinforce regulations on foreign video content make us concerned that the healthy development of the market will be hampered.

Impediments to the Development of the Industry and the Fostering of Human Resource Creativity

Due to the prevalence of imitations and pirate copies, copyright holders are not receiving the profit they have a right to. The fostering of creativity among creators and the development of the industry needs to be backed up by the protection of creator profits and healthy market competition. Moreover, measures and countermeasures against unlicensed contents is not only a burden on creators, but is a social expense for the administration and society. We appreciate that the proposed revision of the Copyright Law, which introduces regulations relating to harsher punishments for second offenders and better rights protection. We expect further reinforcements in this area.
(1) Relaxing regulations and removing entry barriers for foreign-invested enterprises and foreign content

The key to the development of the Chinese content industry is not the protection of domestic enterprises, but the fostering of domestic enterprises and human resources through healthy competition. Moreover, restricting the market entry of licensed foreign versions despite market needs has the effect of flooding the market with imitations and pirate versions that have not passed through the government’s advance examinations and censorship. We thus request the following:

- The removal of regulations and entry barriers for the importation, production, distribution, and sales of foreign-invested enterprises and foreign content.

(2) The preparation and promotion of a copyright protection system and simplifying and speeding up of administrative procedures

The development of the Chinese content industry requires the relaxation of regulations, as well as a strengthening of creator rights. We thus request the following with regard to copyright law and administrative procedures:

- “Legal approval” allowing use without the rightholder’s approval should be limited to exceptional cases.
- There should be a procedure for canceling a registration in case the copyright was usurped.
- Information should be released about the status and authority of copyright collection organizations. Care should also be taken to ensure that the copyright collection organization system sufficiently protects the rights of copyright holders.
- The regulation standards for advance content examinations and censorship should be made clear.
- Administrative procedures relating to content should be made simpler and quicker.
- It is important to offer incentives for workers who write or perform professionally, but the format and monetary amounts of such incentives or rewards should be for individual companies to decide and should not be legislated.

(3) Eliminating unlicensed contents from the market

We request the following to protect the profits of licensed creators and develop the Chinese content industry:

- Active administrative control should be continued and punishments should be reinforced for second offenders in copyright violations.
- The control and supervision of the online distribution of pirate copies and unapproved content as well as download sites should be reinforced.
- An information campaign on copyright protection should be organized to address the many conflicts over copyright, which impose burdens on the involved parties, governments, courts, and society.
4. Advertising

Outline of China’s Advertising Market

According to CTR Market Research, a major survey company, advertising expenses for the four traditional media (TV, radio, newspapers, magazines) totaled 680.248 billion yuan (about 11.2 trillion yen) in 2016, a decrease of 4.9% from the previous year. The decrease in advertising expenses for paper media like newspapers and magazines is striking. As advertising expenses for the four media in Japan total about 2.9 trillion yen (according to the Dentsu Communication Institute; 99.6% of the previous year), Chinese expenses are about 3.9 times greater than those of Japan.

At the same time, digital advertising expenses are predicted to total 280.8 billion yuan (approximately 4.6 trillion yen) and will have increased by 34.1% over the previous year. That is about 3.5 times the Japanese figures, as Internet advertising in Japan amounts to about 1.3 trillion yen (a 13% increase over the previous year).

As the total amount has not been publicized, it is unclear what the growth rate of the market size is (according to CTR, the 2015 advertising market totaled about 920 billion yuan, which is about 15.2 trillion yen and roughly 2.5 times that of Japan), but it is clearly a massive advertising market that is rapidly becoming digitized.

Breakdown of the Chinese Advertising Market

Breakdown by Industry

The top five advertising volumes by industry were for 1) beverages, 2) cosmetics/convenience goods, 3) food, 4) pharmaceuticals, and 5) services. The top five in 2015 were for 1) cosmetics/convenience goods, 2) beverages, 3) services, 4) food, and 5) pharmaceuticals, so little change has occurred. What stands out is that some industries have seen large reductions in advertising volumes, such as real estate (decreased by 18.3% from the previous year), services (decreased by 17.2%), and cosmetics/convenience goods (decreased by 15.6%). This is the same trend as in 2015, and likely reflects uncertainty about the future of the Chinese economy and the government’s anti-corruption campaign ongoing since 2013.

At the same time, the volumes for pharmaceuticals and alcoholic beverages have increased greatly by 15.4% and 8.8%, respectively.
Table 1. Advertising volumes by industry (unit: million yuan)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2015</th>
<th>2016</th>
<th>From the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverages</td>
<td>95,953</td>
<td>82,611</td>
<td>-13.90%</td>
</tr>
<tr>
<td>Cosmetics/convenience goods</td>
<td>85,275</td>
<td>71,952</td>
<td>-15.62%</td>
</tr>
<tr>
<td>Food</td>
<td>77,360</td>
<td>75,786</td>
<td>-2.03%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>722,09</td>
<td>83,346</td>
<td>15.42%</td>
</tr>
<tr>
<td>Services</td>
<td>69,436</td>
<td>57,480</td>
<td>-17.22%</td>
</tr>
<tr>
<td>Entertainment/travel</td>
<td>45,093</td>
<td>40,357</td>
<td>-10.50%</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>36,902</td>
<td>40,139</td>
<td>8.77%</td>
</tr>
<tr>
<td>Transport</td>
<td>36,839</td>
<td>31,697</td>
<td>-13.96%</td>
</tr>
<tr>
<td>Real estate</td>
<td>31,520</td>
<td>25,763</td>
<td>-18.26%</td>
</tr>
<tr>
<td>Communications</td>
<td>31,438</td>
<td>30,779</td>
<td>-2.10%</td>
</tr>
</tbody>
</table>

Source: CTR, AdexPower

Breakdown by Medium

TV and Radio

TV advertising continues to be the most common medium, amounting to as much as 561.1 billion yuan (about 9.3 trillion yen, and 4.7 times that of Japan), although the volume decreased by 3.7% from the previous year. By contrast, thanks to the spread of cars and to lower-tier cities, the volume for radio increased by 5.4% on the previous year to 40.5 billion yuan (about 670 billion yen, and 5.2 times that of Japan), surpassing newspapers and assuming a position right behind TV and digital media.

Newspapers and Magazines

The volumes for newspapers and magazines have seen a decreasing trend in the last few years. This has accelerated, so that newspapers are at 36.4 billion yuan (about 600 billion yen, and 1.1 times that of Japan), a decrease of 35.5% from the previous year, and magazines are at 9.7 billion yuan (160 billion yen, and 0.7 times that of Japan), a decrease of 30.2% from the previous year, and both representing major decreases. With the development of the Internet and mobile services, companies have been developing mobile apps and operating official accounts on WeChat, but 2016 has nonetheless been filled with news about discontinued publications and mergers.

Outdoor

Conventional outdoor advertising decreased by 3.1% from the previous year, but office building advertising increased by 22.4%, while cinema advertising by 44.8%, showing the same rapid growth as that seen in 2015. Movie box-office revenue in 2016 totaled 45.712 billion yuan (754 million yen, against 235.5 million yen in Japan; figures taken from the Motion Picture Producers Association of Japan), an increase of 3.7% on the previous year. The number of moviegoers totaled 1.372 billion (180 million in Japan), an increase of 8.9% over the previous year. We can see the changes brought about by urbanization, with an increased number of office buildings and the development of movies and other entertainment media through these statistics.

Digital media
The digital share of the advertising market has expanded every year and totaled 29.6% in 2016. Changes in devices and in other areas are leading to incessant change within the sphere of digital advertising. We believe a major trend will be mobile and video advertising.

According to iResearch, the size of the mobile advertising market in 2016 reached 156.56 billion yuan (2.6 trillion yen), an increase of 73.7% on the previous year. The market size is predicted to exceed 300 billion yuan in 2018. The high growth rate of the mobile advertising market is thought to be driven by the development of the online environment and the spread of smartphones.

Furthermore, the development of video sites has led to an expansion of online viewers. Video advertising is estimated to have made up around 9.1% of all Internet advertising in 2016 (iResearch), and predicted to continue to show rapid growth. Concomitant with this trend, iQiYi, Alibaba, Xiaomi, and other major businesses are releasing smart TVs into the market at low prices, thus fostering the expansion of video site use.

Table 2. Advertising expenses by medium (unit: million yuan)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>Over the previous year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>582,790</td>
<td>561,121</td>
<td>-3.72%</td>
<td>59.10%</td>
</tr>
<tr>
<td>Radio</td>
<td>38,465</td>
<td>40,521</td>
<td>5.35%</td>
<td>4.27%</td>
</tr>
<tr>
<td>Newspapers</td>
<td>56,453</td>
<td>36,401</td>
<td>-35.52%</td>
<td>3.83%</td>
</tr>
<tr>
<td>Magazines</td>
<td>13,888</td>
<td>9,688</td>
<td>-30.24%</td>
<td>1.02%</td>
</tr>
<tr>
<td>Outdoor</td>
<td>21,944</td>
<td>20,867</td>
<td>-4.91%</td>
<td>2.20%</td>
</tr>
<tr>
<td>Digital</td>
<td>209,370</td>
<td>280,800 (expected)</td>
<td>34.11%</td>
<td>29.58%</td>
</tr>
<tr>
<td>Total</td>
<td>922,910</td>
<td>949,398</td>
<td>2.87%</td>
<td></td>
</tr>
</tbody>
</table>

Source: CTR, AdexPower, iResearch

Changes in Consumer Behavior

Advertising is like a mirror that reflects its age and shows changes in consumer behavior. The Chinese market changes so rapidly that it is said that “a brand only lasts three years.” What determines a business’s success is its ability to anticipate change and act on it in advance. Looking at changes in the figures by medium reveals trends like digitization (the decline of paper media and the rise of smartphone and video sites), the spread of cars, urbanization, uncertainty due to slowing economic growth, and the development of the entertainment industry.

We want to conjecture, in a simplified way, about what is happening with consumer behavior by looking at the rankings published by major search engine Baidu in January every year.

Lifestyle “Upgrades” Supported by the Internet

A hot topic in China right now is “lifestyle upgrades,” the raising of one’s quality of life. This trend can be seen in Baidu’s “10 Words that Reveal Society” and “Most Searched Words.” For example, we see “uterine cancer vaccine for sale” (“宮頚癌疫苗上市”) in seventh place and “spring holiday extended to 9 days” (“兩會提議春節假延至9天”) in eighth place in “10 Words that Reveal Society” as well as “what to eat?” (“吃啥”) in 2nd place in “Most Searched Words.”

Uterine cancer vaccine is used for “prevention,” “spring holiday” is about travel, and the expression “what to eat?” emphasizes the word “what,” meaning that “what” is more important than the meaning of “to eat.” We
anticipate that this shift in awareness toward thinking about health, vacations, and eating habits could focus attention on products and services that contribute to raising QOL (quality of life).

The Internet supports this conclusion. The word that ranked first in “Most Searched Words” was “buy-buy-buy” (“買買買”), which is a buzzword for purchasing behavior online whereby “one buys things as soon as one comes to think of it.” As indicated by the “foreign proxy purchasing service usage rates” shown in Table 3, things that cannot be bought in China are acquired from abroad through cross-border EC or by proxy. Moreover, according to the “EC usage rates by city tier,” EC transaction values are greater for lower-tier cities than for first and second tier cities, showing that things that cannot be bought in provincial cities are acquired via EC.

Thus, the desire to raise quality of life is supported by EC. We are also witnessing new purchasing behavior whereby consumers look at actual objects in stores but buy them online. We expect brand creation and EC use to become even more important in the future.

### Table 3. Foreign proxy purchasing service usage rates

<table>
<thead>
<tr>
<th></th>
<th>National average 19%</th>
<th>1st-tier cities</th>
<th>2nd-tier cities</th>
<th>3rd-tier cities</th>
<th>4th-tier cities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of consumed money through foreign proxy purchasing (%)</td>
<td></td>
<td>24</td>
<td>23</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Supplements (%)</td>
<td>40</td>
<td>25</td>
<td>21</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Luxury items (%)</td>
<td>36</td>
<td>50</td>
<td>10</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Clothes (%)</td>
<td>29</td>
<td>38</td>
<td>39</td>
<td>39</td>
<td>38</td>
</tr>
</tbody>
</table>

Source: 2016 Chinese Consumer Survey

### Table 4. EC usage rates by city tier

<table>
<thead>
<tr>
<th></th>
<th>First and second tier cities</th>
<th>Third tier cities and lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of national EC transaction value (%)</td>
<td>49.9%</td>
<td>50.1%</td>
</tr>
<tr>
<td>EC penetration rate</td>
<td>89%</td>
<td>62%</td>
</tr>
<tr>
<td>Number of EC users</td>
<td>183 million</td>
<td>257 million</td>
</tr>
<tr>
<td>Increase rate of EC users</td>
<td>43%</td>
<td>61%</td>
</tr>
</tbody>
</table>

Notes: 1) The ratio of the total national EC merchandise transaction value; 2) Limited to users 13 years or older, n = 2,616

Source: 2016 Chinese Consumer Survey

A “Sense of Helplessness” When Caught between an “Upgrade” Orientation and a Decelerating Economy

Meanwhile, economic growth has lost momentum, and wages do not increase enough to support lifestyle upgrades. Of the “10 major keywords” in Table 5, “real estate price rise” is in second place, showing that it is not easy to live in the cities. As the prohibition on “2 children for all” (10th place) has been lifted, children also cost more money. People caught between a desire to upgrade and growth stagnation are feeling pressure and hopeless as they experience fatigue.

Words that express this feeling can be found among the “10 major buzzwords” in Table 6. The top words are “blue and thin mushroom,” which became popular online and mean “sad, cannot be helped.” Ninth place is “empty body,” which expresses exhaustion (it is often used with an image of someone sloppily lying on a sofa); in tenth place is “lean against the chair,” which also expresses exhaustion.

This sense of “being a bit tired” is hanging in the air in society, so we believe that content or services that provide “soothing” can catch the attention of consumers.
Table 5. Ten major keywords

<table>
<thead>
<tr>
<th>Place</th>
<th>Keywords</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>里約奧運會</td>
</tr>
<tr>
<td>2</td>
<td>房價飆漲</td>
</tr>
<tr>
<td>3</td>
<td>車牌搖號</td>
</tr>
<tr>
<td>4</td>
<td>営改增</td>
</tr>
<tr>
<td>5</td>
<td>疫苗安全</td>
</tr>
<tr>
<td>6</td>
<td>全面開放落戶限制</td>
</tr>
<tr>
<td>7</td>
<td>人工智能</td>
</tr>
<tr>
<td>8</td>
<td>互聯網金融</td>
</tr>
<tr>
<td>9</td>
<td>反腐</td>
</tr>
<tr>
<td>10</td>
<td>全面二孩</td>
</tr>
</tbody>
</table>

Source: Baidu

Table 6. Ten major buzzwords

<table>
<thead>
<tr>
<th>Place</th>
<th>Buzzwords</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>藍瘦香菇</td>
</tr>
<tr>
<td>2</td>
<td>洪荒之力</td>
</tr>
<tr>
<td>3</td>
<td>猴賽雷</td>
</tr>
<tr>
<td>4</td>
<td>老司機</td>
</tr>
<tr>
<td>5</td>
<td>狗帶</td>
</tr>
<tr>
<td>6</td>
<td>友誼的小船說翻就翻</td>
</tr>
<tr>
<td>7</td>
<td>撩妹</td>
</tr>
<tr>
<td>8</td>
<td>套路</td>
</tr>
<tr>
<td>9</td>
<td>感覺身體被掏空</td>
</tr>
<tr>
<td>10</td>
<td>葛優躺</td>
</tr>
</tbody>
</table>

Source: Baidu

Consumers with New Values

We often talk about those born in the 1980s and the 1990s. That generation is exerting a strong influence on society, as it includes young adults aged 27–36 and working adults aged 17–26. Those born in the 2000s are now entering junior and senior high school. Table 7 lists their top 10 matters of interest. First, what distinguishes the ‘80s generation is “lived-in feel.” The “163” entry in fourth place refers to services like Yahoo! Japan that combines a news site with email boxes. The “58 dongcheng” entry refers to lifestyle information exchange sites for people around the same age. With the introduction of the “one-child policy” in
1980, the “little emperors with six pockets,” who enjoy the blessings of economic growth, came to take center stage in society and are using the Internet to enhance their lives.

The ‘90s generation is said to be an “individualistic” and “diverse” generation. This shows in the fact that five different video sites made it into the top 10. All generations have “iQiyi” in the top, but “Douyu TV,” in third place, has functions similar to YouTube, allowing users to communicate interactively and talk about their hobbies and know-how, as well as pay money (in the form of “gifts to the creator”). “Youku,” in sixth place, is a video-sharing service similar to YouTube. The results show considerable variety, with “Dianying tiantang” (movies) in seventh place and “Panda TV” (movies) in tenth place. In recent years, the stricter management of copyright has led to video sites showing different content, so that the diverse ‘90s generation is watching different sites that host videos they are interested in.

Finally, the ‘00s generation is the “2D generation.” “bilibili,” in first place, is a comprehensive site for animated films, comics, and games, whose services derived from comics are popular, and which is even on its way to becoming a social phenomenon. Both “4399,” in sixth place, and “LOL,” in ninth place, are games (websites) in which you can marry other 2D characters. The young generation’s preoccupation with the 2D world has caused commotion in society, with high-school girls creating virtual boyfriends and uploading information about what they are doing together online; one boy committed murder, saying that “He’ll respawn anyway,” hinting that he cannot tell games from reality.

Table 7. Ten major matters of interest for each generation

<table>
<thead>
<tr>
<th>Place</th>
<th>What interests the ‘80s generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>微信网页版</td>
</tr>
<tr>
<td>2</td>
<td>愛奇芸</td>
</tr>
<tr>
<td>3</td>
<td>淘宝</td>
</tr>
<tr>
<td>4</td>
<td>163</td>
</tr>
<tr>
<td>5</td>
<td>電影天堂</td>
</tr>
<tr>
<td>6</td>
<td>京東</td>
</tr>
<tr>
<td>7</td>
<td>順豐</td>
</tr>
<tr>
<td>8</td>
<td>在線翻译</td>
</tr>
<tr>
<td>9</td>
<td>NBA</td>
</tr>
<tr>
<td>10</td>
<td>58同城</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Place</th>
<th>What interests the ‘90s generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>愛奇芸</td>
</tr>
<tr>
<td>2</td>
<td>淘宝</td>
</tr>
<tr>
<td>3</td>
<td>斗鱼TV</td>
</tr>
<tr>
<td>4</td>
<td>NBA</td>
</tr>
<tr>
<td>5</td>
<td>微信网页版</td>
</tr>
<tr>
<td>6</td>
<td>優酷</td>
</tr>
<tr>
<td>7</td>
<td>電影天堂</td>
</tr>
</tbody>
</table>

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As shown above, consumers in 2016 sought to raise QOL and the EC supporting it in order to relieve their exhaustion due to pressure, and pursue lifestyle information, diversity, and 2D. To create a brand that can effectively reach Chinese consumers and incite them to buy it, it is becoming increasingly important to use a combination of digital solutions and content on the basis of a clear understanding of consumers’ needs and moods.

**<Proposal>**

(1) More balance in the regulations on foreign content

In 2016, the Japanese movie *Your Name* was shown in China, grossing as much as 530 million yuan (about 8.8 billion yen) in 16 days, setting a new box-office record for Japanese movies in China. Box-office revenue in China for the coming 10 years is predicted to grow about 15% annually and reach 200 billion yuan (3.3 trillion yen) by 2026. Box-office revenue in Japan was 217.1 billion yen in 2015, indicating the Chinese market’s large scale. As stated in documents (WT/DS363/19) from when China joined the WTO in 2012, the annual quota for the importation of movies that represent foreign content is 34 movies, consisting of 20 regular movies and 14 3D and IMAX movies, all of which should be imported by the China Film Group Corporation and other major state-owned enterprises. Even so, considering that many Chinese citizens travel abroad and can access the Internet, they can come into contact with a variety of content, even domestically. This means that information is circulating across borders and that the benefits that would normally go to the Chinese involved with the distribution and associated products are not being allocated correctly, which likely impedes the development of the Chinese content industry. Content reflects the cultural background of its creator, and coming into contact with a variety of contents could promote mutual understanding of cultural differences and contribute to the fostering of human resources in the content industry. It is understandable that a certain amount of regulations will be enacted, but we request that the
regulations be better balanced, so that high-quality content can contribute to the economic and cultural development of users as well as the people working in the industry.

(2) Request for a clarification of the regulations in advertising laws
A major overhaul of the Advertising Law was done in September 2015 for the sake of consumer protection. There is some ambiguity about two points that were part of the revision and that are causing confusion in the industry:

(1) Children under 10 years must not be used as “advertising personalities” (Advertising Law, Section 3, Article 38)
This article was enacted in September 2015, but its scope is not clearly defined. It is unclear whether it applies only to the main personality appearing in an advertisement or if it also includes children in support roles, with the result that children cannot appear in advertisements for family products.

(2) All Internet advertisements has to clearly state that they are “advertising” (Internet Advertising Management Law “Provisional Law on Internet Advertising Management”) Article 7
This article was enacted on September 1, 2016, and experts at the State Administration for Industry & Commerce are of the opinion that “advertisements” should be interpreted as “Internet advertisements, or anything that relates to the promotion of product sales on the web.” This can be interpreted as meaning that it includes not only explicit advertisements but also everything on a company’s website, meaning that all pages on that site have to be labeled as “advertising” for them to be legal. At present, no sites have had all their pages thus labeled, and it is not known whether anybody has reported this as an offence, but labeling your own sites as “advertising” is a “gray zone” and is causing confusion in the industry.

The ambiguity shown in the above sample articles is causing “creative atrophy” and promoting dry and tasteless advertising, which may hamper consumer stimulation and slow economic activities. It goes without saying that consumers should be protected, but we request that the operational guidelines are made clear in order to promote healthy consumer stimulation through healthy creative development.
Chapter 6 Transportation Industry

1. Marine Transportation

China’s trade value in 2016 totaled US$ 3.684 trillion, a decrease of 6.9% from the previous year, and thus, marking the second consecutive year of decreasing imports and exports. Stagnant trade in China, the driver of the world economy, is also significantly affecting the performance of international marine transportation, which supports freight traffic. Overtonnage caused by sluggish demand increased, making 2016 a year marked by worsening market conditions.

Below are the outlines of trends in bulk transportation and container ship transportation.

Trends in Bulk Transportation

Looking back at 2016
Some argued that the government’s tightening of excessive production capacity in the manufacturing industry would affect market conditions, but many were also skeptical about the immediate realization of such tightening. Iron ore imports exceeded the 1 billion ton mark for the first time, while the effect on crude steel production was limited and stopped at a minor increase to 800 million tons. Market conditions for capesize ships, which were at a record low at the beginning of the year, were supported by China’s stable iron ore imports. While the average of the five major routes was close to US$ 20,000 for a time in early fall, prices stopped rising again thanks to the Christmas holidays and other factors. The increase in scrappings in the first half of 2016 calmed down in the second half, so no overall improvement in the supply–demand gap occurred.
Market conditions for mid- and small-sized ships below Panamax showed a slow recovery trend in early fall against a background of growing Chinese coal imports, but prices stopped rising again. In November, market conditions massively improved when the harvest time of American cereals added to the benefits of the abovementioned stable Chinese coal imports. As for the capesize ships, however, an adjustment period commenced with the Christmas holidays. Overall, despite some fluctuations, a minor recovery trend was maintained.

Prospects for 2017
Continuing on from 2016, the plan is to tighten excessive production capacity for iron, steel, and coal using numerical goals. Moreover, a survey is to be conducted in February to investigate whether similar numerical goals should be used for glass and cement. These factors may have a negative effect on the market conditions for dry-bulk carriers. At the same time, the government is aiming to stabilize the economy ahead of the 2017 National Congress and so is likely to continue investing in and supporting public infrastructure projects. Thus, many believe the slowing down of the Chinese economy will be gentle, as it was in 2016. There is also a feeling that the bottom has been reached for world resource prices (including oil), and a certain level of resource transportation is expected to be maintained globally. Seen from a long-term perspective, the expansion of Brazilian iron ore shipping is welcome.

Furthermore, the stock on order of Chinese shipyards at the end of 2016 had fallen to half of the peak level (95,950,000 DWT at the end of 2016, of which 33% were dry bulk). The completion of new ships peaked in 2015, so it can be said that we are slowly progressing toward a closing of the supply–demand gap. Bearing these factors in mind, many predict that the market conditions for dry-bulk carriers will maintain a gentle recovery trend in 2017, similar to 2016.
Trends in Container Ship Transportation

In 2016, there was a movement toward more integration in the form of acquisitions and mergers between major container ship companies as well as the bankruptcy of other companies, with four out of the top 20 container ship companies in the world declining. In 2018, three Japanese ship companies are also planning to integrate their container ship businesses.

Looking back on 2016

According to figures from China’s Ministry of Transport, the container handling volume for all Chinese ports in 2016 totaled 220,000,000 TEA, an increase of 3.6%. According to a summary by the Shanghai International Port Group, Shanghai Port’s total container handling volume in 2016 totaled 37,133,000 TEU, an increase of 1.6% over the previous year, making them the world’s number one for the seventh year in a row.

Below, we look back and compare 2016 with 2015 for all major routes (all statistics come from data gathered by the Japan Maritime Center).

North America Freight Volume
The cumulative total for January to December on the eastward route (departing from Asia) was 15,610,000 TEU, an increase of 3.7% over the previous year. Of this, Chinese cargo (including Hong Kong) made up 10,410,000 TEU, an increase of 2.9% over the previous year. On the westward route (arriving in Asia), the total was 6,810,000 TEU, an increase of 6.7% over the previous year, of which 3,140,000 TEU was Chinese cargo (including Hong Kong), an increase of 3.0% over the previous year.

Europe Freight Volume
On the westward route (departing from Asia), the total was 15,080,000 TEU, an increase of 1.2% over the previous year. On the eastward route (arriving in Asia), the total was 6,990,000 TEU, an increase of 0.9% over the previous year.

Asia Freight Volume
Freight volume within Asia was 13,530,000 TEU, a decrease of 1.9% from the previous year.

Japan–China Freight Volume
Freight volume departing from Japan in 2016 was 11,240 tons, similar to the previous year. Freight volume departing from China was 21,380 tons, a decrease of 0.2% from the previous year.

Prospects for 2017
Similar to 2016, when freight demand was not growing and the industry suffered from overtonnage, it is predicted that the situation will remain severe in 2017, so that the industry will have to work even harder to cut costs, consolidate services, and rationalize/optimize route management.

<Proposal>

Sufficient preparation time is needed in order to smoothly respond to new regulations relating to marine transportation promulgated by the relevant divisions in the central and local governments. We thus request that concrete provisions and outlines be specified six months before implementation.
2. Air Transportation

The Chinese economy is said to be transitioning from high growth to stable growth but continues to grow consistently, together with rising incomes and demand for travel, particularly international travel.

As this growth in demand is predicted to continue, the International Air Transport Association (IATA) predicts that China will grow into the largest aviation market in the world by 2024, surpassing that of the United States.

At the same time, to support this growth in flying demand, many issues need to be resolved—for example by completing the planned expansions of airport facilities at congested airports around China and implementing measures to reduce congestion in flight routes. We will need to pay attention to the progress made.

Outline of 2016 and Predictions for 2017

Air Travelers

In 2016, China’s air traveler transportation performance (domestic and international routes combined) was 487.75 million persons, an increase of 11.8%, or 51.5 million from the previous year. Of those, 436.15 million were domestic travelers (10.7% increase) and 51.6 million international travelers (22.7% increase). Although air travel demand grew less than in the previous year, especially for international routes, it did grow significantly compared to domestic routes (the source of all information is the Civil Aviation Administration of China unless specified otherwise).

Compared to the previous year, the 2016 exchange rate shifted toward a trend of yen appreciation, contributing to a more stagnant growth rate, but the number of Chinese visitors to Japan reached 6.37 million thanks to stimulated demand caused by an increase in international travelers against a background of vigorous personal consumption, a relaxation of visa requirements, and a new system for consumption tax exemptions. This meant an increase of 28% compared to 4.99 million travelers in the previous year (Japan National Tourism Organization [JNTO]). By contrast, the number of Japanese visitors to China peaked at 2.5 million in 2015, and it has not been possible to curb further decline (China National Tourism Administration).

In this way, demand for Chinese travel to Japan has increased greatly. The main constituent, Japanese sightseeing, shows a shift from group travel to a growing ratio of solo travel, a diversification of travel goals and destinations, and a striking tendency toward more repeat tourists to Japan. This situation suggests continued strong demand for Japanese sightseeing in China.

At the same time, Japanese tourism via cruisers continues to grow, so that flying demand is in fierce competition over shares with this cruise demand. Moreover, the opening of regional routes, which is increasing the number of flights, and charter flights by Chinese airline companies centering on LCCs (low-cost carriers) are intensifying competition between airline companies. Competition with other means of transportation (cruisers) and between airline companies will likely increase in 2017.

Air Freight

In 2016, China’s freight performance was 6.65 million tons, an increase by 6.0% over the previous year. This consisted of 4.75 million tons of domestic freight (including Hong Kong, Macao, and Taipei routes), an increase of 7.0% on the previous year, and 1.95 million tons of international freight, and increase of 3.4% on the previous year.

Exports to Japan were rather slack in the first half of 2016 as the Chinese economy slowed and Japan saw sluggish individual consumption, but it stabilized in the second half of the year amid a gentle economic
recovery in Japan, rising demand thanks to e-commerce, and a transportation mode shift after the bankruptcy of a major Korean marine transportation company. Exports to North America showed stable growth throughout the year, and exports to Asia showed remarkable growth, centering on emerging countries like India.

In 2017, despite anxiety due to the new United States administration’s effect on the automotive industry, declining foreign investments in China, and factory relocation to Southeast Asia (where labor costs are cheaper than in China), the “triangular trade” is predicted to increase. This would center on exports to North and Central America, where automotive demand is expected to last, as well as exports to Asia, where demand for electronic parts and products appears reliable in light of their new semiconductor and electronics factories.

At the same time, supply is expected to remain intact as new international lines and routes continue to be created from China’s provincial cities. New routes to Australia and Oceania were recently opened in addition to direct lines between China and North America/ Europe. As the supply volumes are expected to increase to a greater degree than freight volumes, competition over air freight from China will probably be intense in 2017.

**Future Prospects and Challenges**

Against the background of the sustainable growth of the Chinese economy and vigorous personal spending, we believe that the demand for air travel to Japan will continue to show an expanding trend.

There are plans to construct and expand airports all over China. Considering the prospect of expanding demand centering on metropolitan areas with the construction of the Second Beijing Capital Airport and other projects, this is a necessary response. At the same time, to make full use of the new airport infrastructure, it is absolutely necessary to alleviate flight route congestion by utilizing air space effectively and setting up new routes. In connection with the expansion of airport facilities, we also ask for a response to these challenges at an early stage.

In addition, regarding the allotment of slots at congested airports, making operating standards more transparent and releasing information on airport construction projects to enhance user convenience are extremely important for the operations of new airline companies, and we would like to see immediate improvements concerning them.

**<Proposal>**

(1) On the allotment and management of slots at congested airports

All major airports in China are congested, and although improvements to slot allotment are steadily being made, we request the correct application of IATA rules with regard to notices about slot use performance in the previous year, slot replacements, and response deadlines. Moreover, we request transparent operations through the fair publicizing of regulatory values for slots and traffic conditions for different times at all major airports as well as operating conditions, including local rules.

(2) Reviewing airport charges

The new system for airport charges introduced in 2008 should be reviewed on the basis of international standards, but this has yet to happen. We request the following revisions:

- The burden of the PSC (passenger service charge) should be moved from airline companies to air travelers.
- The TNC (terminal navigation charge) should be billed once per departure or arrival.
• Surcharges (maximum 10% of the landing charge) added to landing charges should be removed.

(3) Changes to the employment status of Chinese employees
Foreign airline companies cannot become local corporations and are registered as “local staff offices,” which means that they cannot hire Chinese employees directly and must rely on state-approved temporary employment agencies. Under such circumstances, all substantial employment responsibilities are shouldered by the business, while it is difficult to secure employee loyalty, and business operations cannot make full use of human resources. As a result, the training and managerial appointment of Chinese employees is impeded, so that not only the business, but also the employees and even Chinese society suffer in the mid-to-long term. We request a change, so that foreign airline companies can hire employees directly.

(4) Improving the delays caused by control reasons for departures and arrivals in China
Since August 2013, it has been announced that control operations for departures and arrivals at China’s eight major airports will not be affected by flow control. The effects can be seen at some of the airports, but delayed flights due to control reasons are also becoming normal at many airports, reducing user convenience. We thus request that efforts be made to reduce delays by using air space effectively, and creating new flight routes, as well as by implementing drastic measures as soon as possible to improve the accuracy of ATM (air traffic management) and A-CDM (airport-collaborative decision-making) in case of delays. For example, when the weather is bad and controls are uniformly restricting departures in one direction, A-CDM can clarify the cause of the delay and issue departure permits to the operators (airline companies) they deem are ready to go. Such a mechanism that can reflect the policies of individual companies can reduce delayed flights and congestion.

(5) Providing information on airport construction projects
Foreign airline companies have received some news regarding new airports like the Second Beijing Capital Airport and the new Xiamen airport, renovations and extensions of terminal buildings, and new runways at the existing Beijing airport, but no proper release of information has occurred, so that details on construction plans and operational methods remain unknown. Moreover, considering user opinion is an effective way to enhance convenience. We request that the necessary information be released as soon as possible and that hearings be held.

(6) Improving the procedures for approving irregular domestic flights in China
Irregular flights are occasionally needed due to limitations on flight seats and flight demands. However, applications for irregular flights are currently not approved until right before operations start, meaning that there is a big risk of greatly inconveniencing passengers if the application is rejected. We request that the result of the application be sent out at least one month before operations are scheduled to start.

(7) Reducing the duration of airport safety inspections
Although they depend on the airport and time, passenger safety inspections are currently taking a lot of time. We request the appropriate installation of more inspection booths to alleviate passenger stress and help flights leave on time.

(8) Speeding up procedures for issuing certificates for entering airports’ restricted zones
Some major airports like Beijing require up to about one month after application for the issuance of certificates for entering their restricted zones. We request that this procedure be sped up, so that new and transferred employees can start working as soon as they take up their positions.

(9) Reducing the approval time for foreign commercial air transportation operations
Through the introduction of FSOP (Flight Standards Oversight Program), it has become possible to apply for CCAR-129 (China OPESPEC) online, making the procedure simpler and more effective, but we request that it be optimized by enabling electronic approval on the operator side. Moreover, the changed
CCAR-129 applications are supposed to take 20 business days for approval, but we request that this approval time be reduced by simplifying the approval procedure.

(10) Treatment of customs bonds for parts stored at Chinese airports by foreign airline companies
Customs are paid for airplane parts and tools owned by foreign airline companies that are stored at Chinese airports to make them into domestic goods, but we request that they all be treated as bonded goods, considering that their use is limited to being equipped on airplanes registered abroad and will be stored and used only on airport premises.

(11) Emergency clearance of airplanes parked due to malfunction
Several days are required to receive clearance for parts and tools sent from the original country for the emergency maintenance of malfunctioning aircraft. Even though the maintenance itself can be performed quickly, a lot of time is expended until the work is completed. We request that emergency clearance be allowed for parts sent to fix aircraft malfunction, as is done in other countries, and that this practice be standardized across all Chinese airports.
Chapter 7 Distribution and Retail Industry

1. Wholesale Industry

China’s GDP in 2016 was around 74.4 trillion yuan, an increase of 6.7% on the previous year. This is the highest growth rate of any major economy or economic area in the world, and can be said to demonstrate China’s presence and influence in the world. Furthermore, consumer product gross sales in 2016 exceeded 33 trillion yuan (see Table 1). The consumption contribution share of GDP was 64.6% in 2016, surpassing the combined total of investments and exports, and the economy’s development is likely to continue centering on domestic demand and consumption under the 13th Five-year Plan (第十三个五年规划纲要, “十三五”规划).

Table 1. Changes in GDP and consumer product gross sales over the past 5 years (unit: billion yuan, growth rate on the previous year in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP</td>
<td>53,412.3</td>
<td>58,801.8</td>
<td>63,613.8</td>
<td>67,670.8</td>
<td>74,412.7</td>
</tr>
<tr>
<td>Growth rate over the previous year</td>
<td>7.8</td>
<td>7.7</td>
<td>7.4</td>
<td>6.9</td>
<td>6.7</td>
</tr>
<tr>
<td>Consumer product gross sales</td>
<td>21,030.7</td>
<td>24,284.3</td>
<td>27,189.6</td>
<td>30,093.1</td>
<td>33,231.6</td>
</tr>
<tr>
<td>Growth rate over the previous year</td>
<td>14.3</td>
<td>13.2</td>
<td>12.0</td>
<td>10.7</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Throughout its post-WWII history, China’s wholesale industry could be divided into three levels: first grade wholesales (central bureaus and specialized state administrations), second grade wholesales (province-level state administrations), and third grade wholesales (municipal- and county-level specialized state administrations), making up a state-managed distribution system by region and product. Following the economic reforms since 1978, the three levels of state-owned wholesales enterprises were consolidated, and private enterprises made their appearance. In the late 1990s, the “Foreign-Invested Enterprise Test Law” allowed the conditional entry of foreign investments. After China joined the WTO, the “Foreign-Invested Enterprise Area Management Law” (Ministry of Commerce (商务部) decree, 2004, no. 8) was enforced in June 2004, making the entry of foreign investments free in principle, causing additional significant changes to the industry environment.

The representative functions of China’s wholesale industry include 1) a procurement function, 2) a financial function (vis-à-vis upstream and downstream traders), 3) an informative function (relating to market analysis and prediction and market development), and 4) a logistical (storage and shipping) function. Most wholesalers have acquired sales agency rights and create sales networks with regional specializations, but a change of business model is needed in order to respond to changes in business size and product ranges and to address globalization, optimal business administration, the emergence of chain retail stores, the tremendous spread of EC, and other challenges.

Prospects for the Wholesale Industry
The “Report on the Work of the Government” was presented at the National People’s Congress in March 2016. One of the eight priority tasks was to tap the potential of domestic demand and increase the space for development. The goal is to expand total demand moderately, while promoting development that is balanced with supply and foster domestic demand that supports stable and lasting economic development.

For the distribution industry, the goals mentioned in the report were to make the distribution and delivery network more complete, thereby provisioning the last one mile, which has been a bottleneck; promote the healthy development of the home delivery industry; foster a consumption environment that includes measures adapted to the trend toward high-end consumption; support the growth of consumption in elderly care, health services, educational and training services, and cultural and sports services; and stimulate and develop new forms of consumption with EC and diversification (individualization). All of these goals frame consumption as an engine that can drive economic growth. We believe that this will change the business environment of the wholesale industry as it distributes consumer products and provide more opportunities for development.

**Challenges and Suggested Improvements for the Wholesale Industry**

Japanese enterprises are facing the following challenges.

**Industry Management**

The healthy development of the whole distribution industry requires that makers, wholesalers, distributors, and retailers work together, build a suitable supply chain, and expand it. However, there are many cases of lost trust due to criminal activities, compliance violations, and unfair terms and conditions. It is crucial that an impartial, fair, and open market be formed while order is maintained in the industry, so that transactions can be carried out safely, securely, and continuously.

**Policy Support**

The diversification of consumer preferences, a higher awareness of safety and security, and other changes in consumer needs are factors that the distribution industry must respond to painstakingly. There is a lack of “soft” support, such as statistical indicators for accurately grasping market conditions and a system for releasing such information. It is also necessary to have continuous support in the form of policy measures for the creation and spread of low-temperature distribution systems, the elimination of resource waste, the provision of unified distribution norms, and guidance concerning environmental protection.

**Permits and Licenses**

Regarding permits and licenses for business scope and travel, slow procedures and differences in responses depending on region or points of contact remain problems, so we continue to request simpler procedures and other reductions, as well as fairness and transparency in permit and license issuance.

**Proposal**

(1) Improving the procedures for expanding business scope

For a wholesaler to increase business volume, it is necessary to expand areas and products. The industry as a whole—including retailers and makers—contributes to increasing variation, which is why we continue to request that application procedures for business scope expansion be improved, as they require more time and effort than one would imagine, and responses vary depending on the province.

(2) Reinforcing control over criminal practices

A minority of wholesalers have low compliance awareness, lowering the competitiveness of compliant enterprises. For example, there are cases of 1) loss of trust in online shopping websites because of traders who sell fakes or dump prices unfairly, 2) traders who suggest charges that necessitate overloaded transportation, and 3) traders who suggest charges that do not include taxes because they do not intend to
issue an invoice. We request stricter control over criminal practices to safeguard the healthy development of the industry.

(3) More support for fair and healthy transactions with retailers
There are continuous reports of problems with retailers who use their stronger position to bill suspicious fees, make late payments, and return products arbitrarily. Regarding the billing of suspicious fees, the “Management Law on Fair Transactions between Retailers and Suppliers” was enforced in November 2006, legislating the prohibition on retailers using their stronger position to impose unfair transactions. The “Corrective Measure against Illegal Collections of Fees from Suppliers by Major Retailers” was also announced in December 2011, signed by the five divisions of the Ministry of Commerce (商务部). This clarified what fees retailers may and may not collect from wholesalers and has been enforced. However, it caught only the tip of the iceberg, and unfair business practices continue.

As regards returns, not only are there cases of undamaged products being arbitrarily returned, but retailers sometimes issue the returns slip late, so that any return of value-added tax is also delayed, or the wholesaler becomes unable to get value-added tax back because no returns slip was issued.

We request the following improvements from the relevant authorities and associations to foster fairer and healthier transactions and the sound development of the industry.

- Similar to how departments regulate fair transactions in other countries, a government agency that can manage these issues comprehensively should be established, with points of contact for everyday queries.
- A law is required that regulates dishonest transactions, such as late payments by retailers to wholesalers and arbitrary returns.

(4) Fair and transparent standards are needed for travel permits and supporting joint delivery
The increase in retail stores in urban areas has increased the demand for smooth deliveries, but applications for travel permits can be denied if the person in charge takes issue with the company’s size, traffic congestion, or environmental issues. We request that a fair and transparent standard for travel permit issuance be created and applied.

(5) Human support for the development of low-temperature logistics
With the expansion of the market for chilled products, more low-temperature storage, low-temperature delivery vehicles, and other hardware provisions relating to low-temperature logistics are being put in place, but challenges remain, as the low-temperature chain is sometimes broken along the distribution path between production and sales, and management levels can be low. We thus request a system for human support that can provide training and certification for human resources with specialized knowledge and skills to ensure safety and higher-grade service in the distribution of chilled products.
2. Retail Industry

EC Drives the Growth of Retail as a Whole and Business-type Shifts for Physical Stores

China’s total retail sales (total social consumer product retail sales) surpassed those of Japan in 2007 and grew to 33 trillion yuan in 2016. It maintained the 10.4% growth rate of the previous year, and consumption has become a factor that promotes China’s economic growth. At the same time, the retail industry has seen stagnant growth among large-scale business types like department stores and GMS in recent years; this has been replaced by a growing trend for small-scale business types like EC markets and convenience stores. The growth rate of the previous year finally turned negative for department stores in 2015. Retail companies are reorganizing, centering on EC contractors, leading to the emergence of new small-scale business types in response to intricate consumer needs.

The Consumer Market that Maintained Double-Digit Growth

China’s real GDP growth rate was 6.7% in 2016, thus reaching the government’s growth goal. That growth is driven by China’s consumer market (total social consumer product retail sales), which was 33.231 trillion yuan at a 2016 base, an increase of 10.4% on the previous year, thus maintaining nearly the same level as the 2015 growth rate (10.7%). After the reduction of the “3 public expenses” (eating and drinking with public money, private use of public cars, business trips and travel with public money) following the economization and anti-corruption decrees after 2013, the shift to “mass consumption” driven by China’s continuously expanding middle-income group appears to be going according to plan. We predict that this trend will continue due to the promotion of urbanization and other factors.

Stagnant Growth Continues for Retailers Centering on Large-scale Business Types

The EC Market is Turning B2C and Mobile EC

In contrast to the growth of the Chinese consumer market, the retail industry is stuck with stagnant growth. The sales growth rate for the 5,000 priority retail enterprises (e.g., department stores, supermarkets, specialty stores,) watched by China’s Ministry of Commerce (商务部) fell from 6.3% in 2014 to 4.5% in 2015 and went down to 3.7% at a January–September base in 2016. The stagnation of large-scale business types has become even more pronounced. According to a report from the China Chain Store & Franchise Association, the growth rates for major business types in 2015 was a sustained positive 4.1% for general merchandise stores, but department stores turned to a negative 0.7%, due mostly to rising costs in the form of personnel costs and rental fees but because of the increasingly competitive environment due to the continuous development of large-scale commercial facilities of more than 100,000 square meters and the rapidly growing EC market. By contrast, the growth rate of convenience stores, representative of small-scale business types, was 15.2%, a slowdown compared to 17.8% in 2014, but it maintains double-digit growth. E-commerce (EC) has grown rapidly in recent years, and had a growth rate of 36.2%, which represents lost speed compared to 2014 (46.8%), as in the case of convenience stores, but is nonetheless high growth (iResearch figures). The contents of EC market growth are also changing. C2C transactions centering on Taobao have accounted for much of the EC market, but B2C transactions centering on Tmall and JD have been growing, and B2C surpassed C2C in 2015. The growth of the mobile EC market is also accelerating thanks to smartphone penetration. In the second quarter of 2015, EC transactions via mobile surpassed those via PC. Various services are spreading, such as the taxi-allocating app Didi Chuxing and the food-delivery app Ele.me, and are becoming daily necessities.

EC Traders Have an Increasing Influence on the Retail Industry

According to the China Distribution Industry Ranking published by the China General Chamber of Commerce, three EC traders ranked in the top 20 for 2015, and EC traders Tmall and JD even ranked first and second, respectively, bettering their 2014 third place position. The highest-ranking physical store retailer was the
Suning Group, who achieved a sales increase of about 25%, but this was driven by EC channels, while physical-store growth has stopped and the number of stores has declined. At the same time, EC traders continue to invest and ally with traditional retailers. The Alibaba Group became the biggest stockholder in major department store group Intime Retail in 2015, and is in a mutual-investment capital alliance with the Suning Group. In February 2017, they will enter a strategic alliance with the Shanghai-based Bailian Group. JD also invested in fresh-food giant Yonghui Superstores in 2015, contributing to the strong influence that EC traders now have. Most of these investments and alliances aim to combine the online with the offline, trialing a new shopping experience through the development of O2O (online-to-offline) stores.

Table 1. China retail industry rankings (unit: billion yuan)

<table>
<thead>
<tr>
<th>Company name</th>
<th>2015 sales</th>
<th>2014 sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Tmall</td>
<td>1,141</td>
<td>760</td>
</tr>
<tr>
<td>2 JD</td>
<td>462.7</td>
<td>260.2</td>
</tr>
<tr>
<td>3 Suning Group</td>
<td>343</td>
<td>273.5</td>
</tr>
<tr>
<td>4 Dashang Group</td>
<td>200.4</td>
<td>170.2</td>
</tr>
<tr>
<td>5 GOME Electrical Appliances</td>
<td>153.7</td>
<td>143.4</td>
</tr>
<tr>
<td>6 China Resources Vanguard</td>
<td>109.4</td>
<td>104</td>
</tr>
<tr>
<td>7 Kangcheng Investment (China) (RT-Mart)</td>
<td>107.9</td>
<td>85.6</td>
</tr>
<tr>
<td>8 Walmart (China)</td>
<td>73.5</td>
<td>72.3</td>
</tr>
<tr>
<td>9 Shangdong Commercial Group (Ginza)</td>
<td>65.4</td>
<td>67</td>
</tr>
<tr>
<td>10 Lianhua Supermarket</td>
<td>60.5</td>
<td>61.7</td>
</tr>
<tr>
<td>11 Chongqing General Trading Group</td>
<td>59.4</td>
<td>61.4</td>
</tr>
<tr>
<td>12 Yonghui Superstores</td>
<td>49.3</td>
<td>43</td>
</tr>
<tr>
<td>13 Vipshop</td>
<td>40.2</td>
<td>23.5</td>
</tr>
<tr>
<td>14 Carrefour (China)</td>
<td>40.1</td>
<td>45.7</td>
</tr>
<tr>
<td>15 Hefei Department Store</td>
<td>39.2</td>
<td>37.8</td>
</tr>
<tr>
<td>16 Chang Chun Eurasia Group</td>
<td>36.2</td>
<td>32.3</td>
</tr>
<tr>
<td>17 Wuhan Zhongbai Group</td>
<td>35</td>
<td>32.2</td>
</tr>
<tr>
<td>18 Wuhan Department Store</td>
<td>34.6</td>
<td>34</td>
</tr>
<tr>
<td>19 Shijia Zhuang Beihu Renbai Group</td>
<td>32.8</td>
<td>32.1</td>
</tr>
<tr>
<td>20 HISAP</td>
<td>32</td>
<td>30.3</td>
</tr>
</tbody>
</table>

Source: China General Chamber of Commerce

The Emergence of New Small-scale Business Types

Traditional retailers centered on physical stores are exploring a variety of new business types to innovate their physical store management. New small-scale business types have been in the spotlight the last few years. One reason for this is that, although convenience stores are expanding, excessive competition and homogenization are keeping their business from translating into revenue. A model case is the small-scale fresh-food supermarket, Hefei city (Anhui province), which realizes a market-like sales space centering on vegetables and fruits without taking up more than 200–300 square meters of sales area, achieving about 30,000 yuan a day in sales. Since the beginning of 2016, several powerful retailers, such as retail giants Jingkelong in Beijing and the Zhongbai Group in Wuhan, have set up small-scale supermarkets.

Challenges for China’s Retail Industry

Improving Area Productivity

As store competition becomes fierce, more and more businesses are striving to improve sales in existing stores, but there have been no signs of a fundamental improvement of area productivity. Rental fees and personnel costs continue to rise, but retail companies have not been able to make up for those costs with better sales. As retailers made money by “lending space” to makers, they have not conducted any product planning or sales floor building from the consumer’s perspective. It is an urgent task to foster organizations and human
resources that can attract customers using the Internet and construct new business models, as well as conduct product planning and sales floor building from the consumer’s point of view.

**Responding to New Business Types and New Services**

All business types are trying to break free from homogenization, so that not only the aforementioned new business types like the small-scale fresh food supermarket, but even ready-made meals such as lunch boxes, side dishes, and cut vegetables and services like receipt of goods at a store and cleaning agencies are being reinforced. We expect that there will be more new business types, new service reinforcements, and competition for differentiation in the future, but there is also a need for the provision of an environment that promotes innovation in the retail industry, from the freshness control that is the core of safety/security, through the qualitative improvements of distribution and in-store operations needed to realize that control, to legal provisions for license and permit acquisition.

**Problem-solving in the Rapidly Growing Internet Market**

The penetration of the Internet market has invited the successive entry and reinforcement of not only retailers, but their partner makers and commercial agents as well. At the same time, problems that were already apparent remain unsolved. For example, customer complaints about problems with product quality and fakes in EC are only increasing. Moreover, when it comes to large-scale campaigns organized by EC traders, there have been issues with high product-return rates and mandatory participation for partners. Moreover, as a result of successive entries and fierce competition for customers, only a few EC traders have figures in the black, which should prove a hindrance to sustained development.

**<Proposal>**

(1) Ensuring equality among domestic- and foreign-invested enterprises

The Chinese economy maintains mid- to high-speed growth, shifting the emphasis of its industry structural adjustment policies from quantitative expansion to qualitative enhancement. The retail industry is gradually moving away from competition over quantity and price to stressing quality and safety, as well as stimulating demand through technological innovation. We would like to see the establishment of a transparent, unified, and rule-based market in response to these structural changes in the industry. At the same time, we note that various administrative regulations targeting the retail industry as a whole are sometimes in fact enforced against foreign-invested enterprises first. As it is necessary to establish a market environment where domestic- and foreign-invested firms can compete on equal terms, we request that the protection of foreign-invested enterprises’ legal rights and of intellectual property rights be emphasized to a high degree, thus treating domestic-invested and foreign-invested enterprises equally.

(2) Reviewing the classification for food production permits

According to the Law on Food Protection Permit Management (decrees of the China Food and Drug Administration, no. 16), permits necessary for food production are to be applied for and approved in accordance with item classifications, but these classifications presuppose industrial products with long expiration dates. Following on from the examination standards for salad and cut fruit production permits promulgated at the end of 2014, Beijing formulated the “Approval Standards for Chilled Food Production Permits” in July 2015, thus creating clear examination standards for chilled fast food, which had not existed as a QS-certification category (e.g., “lunch boxes” and “salads”) and making the certification process smoother for businesses. However, these examination standards for chilled fast foods were those of Beijing and Tianjin, and other districts had their own interpretations without any unified approach, so we request a unified approach that applies all over China. Moreover, although the understanding is that one company may engage in the production of multiple foods thanks to enforcement of the Law on Food Production Permit Management, the production of multiple foods has not been allowed when permits have been applied for. We request that the law be applied consistently in these cases.
(3) On food-classification inconsistencies between food production permits and the Food Additive Usage Standards (GB2760)

The 32-item classification for production permits is prescribed by the China Food and Drug Administration, while the food classification for the Food Additive Usage Standards (GB2760) is prescribed by the National Health and Family Planning Commission, so the two are not entirely consistent. We request that the two provisions be made consistent, so that the regulations can be observed.

(4) Relaxing barcode regulations

The process from production to sales for original products in the modern convenience store system consists of a scheme involving linked-up factories, delivery centers, and stores. Each barcode requires information about delivery timing, so in-store barcodes are needed within the scheme. As such, we request a relaxation of the management of in-store barcodes 20–29.

(5) Restrictions on the handling of tobacco, drugs, and books

We request that the restrictions on handling tobacco, drugs, and books be relaxed and treated in the same way as are domestic-invested enterprises to increase user convenience.

(6) Permitting the selling of heated food in convenience stores

With urban modernization, traditional Chinese fast food stores are decreasing for hygiene and safety reasons, whereas convenience stores provide items such as fast food, oden, and steamed buns safely and securely, contributing to the enhancement of people’s lives as part of modern social infrastructure. These processed foods are provided after being heated-up, but in order for convenience stores to be able to sell heated foods, they should not be regulated as a restaurant service but need to be approved as a food distribution service. The “Law for Food Business Permit Management” was enforced on October 1, 2015, but approaches are not unified across China, so that, for example, approaches in Beijing differ by district, meaning that the list of disallowed products differs from district to district. We request the formulation of detailed provisions, so that there is a unified approach to permitting fast foods, oden, and steamed buns across China.

(7) Ownership certificates in case of store development

When setting up a convenience store, its use stated on the property ownership certificate is limited to commercial or office use, leading to cases where acquiring a business permit was difficult. The decision of whether or not to approve a business license should be based on the substance and not on the use stated on the ownership certificate. At the same time, some domestic-invested convenience stores have been set up in properties to be used as schools, and some restaurants are operating in temporary properties without either ownership certificate or business license. We require fair management.

(8) On business licenses

In China (Beijing), inspections are carried out by the district administration, the Ministry of Environmental Protection, and the China Food and Drug Administration after a store has been built. However, the dates and contents of the inspections may differ depending on who is in charge. As it takes about one month and a half before a business permit can be acquired, the rental fees for unopened stores impose a significant burden. We request that people be able to complete the procedure in one location. Moreover, although some domestic-invested convenience stores cook and sell fast food in-store regardless of the contents of their business permits and business scope, there have been cases where no administrative action was taken, meaning that competition is unfair. We request that the administration treat domestic-invested and foreign-invested enterprises with fairness.

(9) On fire inspections and fire safety permits

To pass a fire inspection in a rental area, one needs fire inspection documentation for the whole building, making it difficult to pass for leaseholders. Furthermore, the documents and inspection dates differ depending on the administrative district as well as the regional fire department supervisor and commanding officer, making for an intricate process. We request that the procedure be rationalized.
(10) **Legal provisions relating to lease agreements**

Laws and legal provisions corresponding to land and house lease laws have not been made, and the position of the leaseholder is extremely weak. For example, revenue has to be estimated in the short term because the duration of the lease is short, and if no understanding can be reached on new conditions at the time of agreement renewal, the leaseholder has to move out immediately, meaning that mid- to long-term revenue is difficult to estimate for leaseholders. We request that legal provisions be made immediately to preserve the rights of commercial property leaseholders and to promote the development of the tertiary industry.

(11) **Approval process for business permits**

A lot of paperwork is needed to open just one store, and costs become high because it takes a long time before an approval is obtained. Just building a store requires the approval of applications relating to billboards, fire safety, hygiene, and the environment, such as the “Billboard Installation Application,” the “Fire Safety Plan Application,” the “Fire Safety Construction Final Inspection,” the “On-site Review for Environmental Protection,” the “Environmental Protection Ratification,” and the “Environmental Protection Inspection.” For some properties, these procedures alone take up to one to three months. We request that these procedures be simplified and relaxed for chain stores no bigger than 100–200 square meters that employ unified building materials, equipment, and store layout.

(12) **Importation procedures**

Since the accident at the Fukushima Daiichi Nuclear Power Station, acquiring customs clearance and health permits for imports from Japan takes one and a half to two months. This is almost double the time it previously took, so we request that it be sped up.

(13) **Fairness**

Based on the principles of fairness and equality, we request that the government manage businesses from a single standard, rather than using different standards depending on whether an enterprise’s capital is domestic or foreign or based on the size of the enterprise (be it large-scale or private).

(14) **Collective payments of value-added tax**

Currently, there is no policy measure that allows a main office to collectively pay the value-added tax of member stores. We request that the law be improved, so that main offices can collectively pay the value-added tax of member stores, which is an effective system that benefits both enterprises and tax authorities.

(15) **Work permit procedures**

Personnel transfers of employees (Japanese nationals) within a group generally require new work permit applications to be made at the site of the new workplace. A criminal record certificate is needed for the application, but some provinces require certificates issued in Japan, creating the need to go back to Japan and spend time applying for a certificate there. We request that regulations be rationalized and improved, as the process is inefficient at present.

(16) **Internet sales**

The market size of Internet sales is growing rapidly, yet a large portion of sales is of unlicensed products. We want to see more resolute action against persons who perpetrate illegal trademark infringement and produce imitations, as well as those who sell such items knowing they are illegal. We also request that the appropriate taxes be levied on these persons, so that a fair competitive environment can be established.

(17) **Lifting restrictions on alcohol importation from the 10 prefectures**

Due to the accident at the Fukushima Daiichi Nuclear Power Plant, the importation of most items from the 10 prefectures has been practically prohibited. More than five years have passed since the accident, and it has been scientifically shown that there is very little risk of radiation remaining in alcohol while it is being circulated and consumed within Japan, so we request that the importation restrictions be lifted.

(18) **Employment system**
The employment system accepts both a comprehensive working-hour system and an irregular work system, but a permit is required. As the industry is undergoing major structural changes, a greater variety of options should be made available in terms of work styles for retail employees. We request that the need for permits be removed and that the employment system become report-based or rely on company discretion.
1. Banks

The Chinese authorities are aiming for stability in the economy, finance, marketing, and politics in anticipation of the fall 2016 election of delegates for the National Congress, which happens every five years. At the Central Economic Work Conference in December 2016, it was stated that 2017 would continue the “moderate monetary policies” of the previous year, but the wording changed from “We will maintain a reasonably sufficient liquidity supply” to “moderate neutral” and “We will maintain the basic stability of liquidity.” As a whole, the policy of monetary easing has not changed, but the monetary policy is tighter than in the previous year as the goals of M2 money supply and total social financing are less important. By keeping the money supply at an appropriate level, they have shown an intention to support structural reforms while counteracting asset bubbles and other issues.

Financial Situation of the Banking Industry

The net profit for China’s commercial banks in 2016 totaled 1.649 trillion yuan, an increase of 3.5% compared to 2015 and a slight recovery from the 2.4% growth rate in 2015. Total assets reached 232 trillion yuan, an increase of 15.8% on the previous year, while total debt was 215 trillion yuan, an increase of 16.0% on the previous year. Looking at major indicators, ROA was 0.98%, ROE 13.4%, the bad debt coverage ratio 176%, and the capital adequacy ratio 13.3%. The China Banking Regulatory Commission points out that the Chinese banking industry is at a high level compared to those of other countries.

The 2016 growth rate of the M2 money supply went down from 13.3% in the previous year to 12.8%, which was less than the initial 13.0% goal set by the government as part of their monetary policy, but thanks to the market recovery, a new renminbi-denominated credit expansion reached 12.65 trillion yuan, exceeding the 11.71 trillion yuan of the previous year (see Figure 1).

Financial institutions’ yuan and foreign-currency deposit balance at the end of 2016 was 155.5 trillion yuan, an increase of 11.3% on the previous year. Of this, the foreign-currency deposit balance was US$ 711.9 billion, which was a major increase of 13.5% on the previous year (it was 3.2% in the previous year at the end of 2015), thanks to a depreciated yuan. Outstanding loans in yuan and foreign currencies totaled 112.1 trillion yuan, an increase of 12.8% on the previous year, of which yuan loans totaled 106.6 trillion yuan, an increase of 13.5% on the previous year (see Table 1).
At the same time, according to statistics from the China Banking Regulatory Commission, commercial banks’ share of bad debt coverage was 1.74% at the end of 2016, compared to 1.67% at the end of 2015. The balance increased by 18.7% from 1.274 trillion yuan to 1.512 trillion yuan (see Table 2).

### Table 2. Commercial banks’ bad debt balance

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</thead>
<tbody>
<tr>
<td>Bal nce</td>
<td>Bad debt</td>
<td>R atio</td>
<td>Balance</td>
<td>Bad debt</td>
<td>Balance</td>
<td>Bad debt</td>
<td>Balance</td>
</tr>
<tr>
<td>(billi on yuan)</td>
<td>ratio</td>
<td>of total</td>
<td>(billi on yuan)</td>
<td>ratio</td>
<td>(billi on yuan)</td>
<td>ratio</td>
<td>(billi on yuan)</td>
</tr>
<tr>
<td>Next grade (bankruptcy risk)</td>
<td>592.3</td>
<td>1.40%</td>
<td>46.5%</td>
<td>651.0</td>
<td>0.82%</td>
<td>636.4</td>
<td>0.77%</td>
</tr>
<tr>
<td>Doubtful (practical bankruptcy)</td>
<td>528.3</td>
<td>2.48%</td>
<td>41.5%</td>
<td>579.2</td>
<td>0.73%</td>
<td>628.9</td>
<td>0.76%</td>
</tr>
<tr>
<td>Loss (bankruptcy)</td>
<td>153.9</td>
<td>1.15%</td>
<td>12.1%</td>
<td>162.0</td>
<td>0.20%</td>
<td>172.0</td>
<td>0.21%</td>
</tr>
<tr>
<td>Financial institutions by</td>
<td>1,274.4</td>
<td>1.67%</td>
<td>100.0%</td>
<td>1,392.1</td>
<td>1.75%</td>
<td>1,437.3</td>
<td>1.75%</td>
</tr>
</tbody>
</table>
Developments that Concern the Banking Industry

Renminbi Reform Progress

On October 1, 2016, the renminbi was officially added to the SDR (special drawing rights) basket. The new currency composition is calculated based on the weighted averages of each country’s trade volume and currencies kept as foreign exchange reserves. The renminbi has the highest component ratio after USD and the euro (dollar: 41.73%, euro: 30.93%, renminbi: 10.92%, Japanese yen: 8.33%, British pound: 8.09%). The renminbi’s addition to the SDR seems to have increased the number of non-residents, such as foreign central banks and international organizations, purchasing renminbi-denominated bonds after 2016.

Bad Bond Disposal

In recent years, the Chinese government has paid attention to the higher levels of debts among non-financial enterprises, primarily in capital-intensive industries such as the coal, steel, and chemical sectors, making the elimination of leverage ratios an urgent task. Although the capital adequacy ratios and bad debt coverage ratios of commercial banks are said to be high, bad debt balances keep increasing.

In 2016, the Chinese authorities formulated guidelines for the disposal of bad debt, such as debt equity swaps (DES) and bad debt securitization, in response to this growth in bad debts among commercial banks. Specifically, the State Council (国务院) presented “Views on Active and Moderate Proposals for Enterprise Leverage Ratios” and “Instructive Views on Debt Equity Swaps” in December 2016, and financial institutions in the banking industry conducted more than 10 DES for more than 140 billion yuan between October and December.

Overseas Expansion of Chinese-Invested Banks

By the end of 2015, 22 Chinese-invested banks had set up 1,298 branch offices in 59 countries and territories, totaling 1.69 trillion dollars in assets. The expansion of Chinese-invested banks is happening primarily in Europe and Southeast Asia.

Trends in Foreign-invested Banks

By the end of 2015, foreign-invested banks from 14 countries and territories had set up 37 local subsidiaries that are 100% financed and 245 branch offices. There are also two joint-venture banks, as well as 77 foreign banks, from 26 countries and territories without local subsidiaries that have 94 branch offices and 182 staffed offices. While the foreign banks’ total assets amount to 2.6 trillion yuan, a decrease of 3.9% over the previous
year, their bad debt ratio is 1.15% and their capital adequacy ratio is 18.48%, which is better than average for the Chinese banking industry.

**Prospects for the Banking Industry in 2017**

At the Central Economic Work Conference in December 2016, it was announced that the monetary policy was to change from “moderate” to “moderate neutral,” and an asset bubble would be suppressed by keeping the money supply at a suitable level. An “M2 money supply growth rate and total social financing growth at about 12% increase on the previous year” was set as the concrete numeric goal, which was 1% lower than the 13% of 2016. Moreover, the governor of the People’s Bank of China explained the following at a press conference during the National People’s Congress in March 2017: “Keeping liquidity at a suitable level will contribute to the structural reforms of the Chinese economy. Excessive financing will promote an asset bubble and is harmful to the real economy.” In order to resolve the contradiction of financing difficulties in the real economy and abundant liquidity, the policy is to reinforce the role of finance in supporting the real economy and promote reform of the financial system, such as expanding financial services for three rural areas (farmers, agriculture, rural areas) and small- and medium-sized enterprises, thus preventing having funds flow to real estate and equity.

More immediately, as the Chinese authorities are aiming for a soft landing of the economy, they have identified excessive debt, bad debt, and other risks in the financial market as the most noteworthy risk factors, and policy efforts for resolving these were presented at the National Congress. As before, uncertainties in the economy at home and abroad make it difficult to predict significant growth for the top line in terms of interest and commission revenues. Even so, thanks to the stable trend in the real economy, it is predicted that bank performance will be relatively stable as well.

**Proposal**

1. **Roadmap for liberalizing finance**
   - The policy for financial liberalization worked out at the Third Plenary Session of the Central Committee in 2016 indicates that, while various reforms relating to the liberalization of the interest rates and the cultivation of a multilayered capital market are progressing rapidly, we can expect an acceleration of the marketization of interest rates and the liberalization of renminbi-denominated capital transactions.
   - These reforms relating to financial liberalization are expected to greatly affect not only China’s real economy, business activities, and financial industry environment, but neighboring countries and the world economy as well. Thus, we request that the schedule and roadmap for these upcoming liberalizing reforms be made more concrete and clear.

2. **Opening up the RMB Qualified Foreign Institutional Investor (RQFII) Scheme for Japan and encouraging foreign investments by domestic investors**
   - Regulations were relaxed for the RQFII Scheme in September 2016, the investor scheme was transferred to a registration system, and capital remittance abroad was made more flexible. Before this, investments into the domestic bank bond market were opened up in February 2016 for foreign investors wanting to make long-term investments. This kind of opening up of the domestic bond market to the outside world and relaxation of regulations is profitable for foreign investors.
   - RQFII has been put in place for countries and territories across the world, but still not for Japan. We think that cultivating a renminbi market in Japan would contribute greatly to the internationalization of the currency. Moreover, in order to expand renminbi trade, investments, and financial transactions between Japan and China, it is absolutely necessary that secure and efficient payments can be ensured, which is why we request that Japan be included in RQFII.
Furthermore, as regards foreign investments by domestic investors, our understanding is that it is difficult to set up new Qualified Domestic Institutional Investors (QDII) at present. As this is something that contributes to investment diversification and risk dispersion for Chinese investors, we request the drafting and implementation of measures for promoting foreign investments by domestic investors, including more flexibility when it comes to setting up new QDII.

(3) Opening up the qualification to underwrite bonds to foreign financial institutions
- While the cultivation of a multilayered capital market, which includes the bond market, is seen as something that can be accomplished through government policy, such as promoting financial liberalization or raising the financial ratio directly, it is our impression that the opening up of the qualification to underwrite bonds to foreign financial institutions has not progressed because of issues such as entry standards.
- The entry of foreign financial institutions with abundant experience from the bond business abroad could lead to a more efficient bond market, a livelier market, and a broadening of the investor base, which is why we request flexible action toward opening up this qualification.

(4) On the issuance of renminbi-denominated bonds (Panda bonds) for Japanese onshore enterprises
- If we bear in mind the coming growth of the Chinese market and Chinese business, we think it likely that expanding the foundation for stable renminbi supply will become a future task in the financial affairs of Japanese enterprises.
- At the same time, we think the demand for Panda bonds will increase among Japanese enterprises, but only the IFRS and China GAAP accounting standards are approved for the issuance of Panda bonds, and it is necessary to have an audit report from a Chinese domestic accounting firm. These two requirements are significant hurdles. We request a relaxation of these standards, as this would contribute to financial liberalization and the development of the bond market.

(5) Flexible handling of cross-border transactions using the China (Shanghai) Pilot Free Trade Zone
- We request the unification of regulations that differ between China (Shanghai) Pilot Free Trade Zone and the national version and the clarification of operational rules in order to make the various policies for the China (Shanghai) Pilot Free Trade Zone applicable to other regions.
- As regards recent transactions using free-trade accounts, we request the relaxation of regulations and the unification of parts where renminbi and foreign currencies are treated differently. Moreover, with regard to the management and supervision of the relevant transaction data, there is a sense that a considerable burden is imposed due to the existence of multiple agencies that collect reports, such as reports based on the regulations of the People’s Bank of China Shanghai Head Office, declarations relating to balance of payments, and reports to the foreign-currency management information system. Thus, we request that the collection of reports and declarations be unified and simplified.

(6) On the low-risk and stable supply of renminbi to investors abroad
- It is necessary to have a low-risk and stable supply of renminbi for investors abroad to invest in Chinese domestic bonds, but general investors abroad are only allowed to conduct spot transactions on the Chinese domestic exchange market, and so cannot conduct forward swap transactions like foreign central banks and sovereign wealth funds. In order to encourage investors abroad to invest in domestic bonds, we think it would be effective to diversify methods of renminbi supply. From the perspective of facilitating the supply of hedged renminbi through QFII investors, we request that the ban on forward swap transactions on the domestic exchange market be lifted for general investors abroad.
- Moreover, for major currencies besides the renminbi, central banks have liquidity supply facilities to provide sufficient funds in emergencies. We request that a similar institution or system be put in place for the renminbi and that the possibility of a currency swap agreement with Japan be considered. Therefore, we request a relaxation of this control system.

(7) On deposit divergence control
• While the loan-to-deposit ratio was repealed in October 2015, deposit divergence control for the divergence between average monthly balance and end-of-month balance is still in effect.

• Although we understand the intent of this control system, a variety of transactions take place at the end of the month and a lot of funds are transferred because of it. Among these transactions, some are not anticipated by the bank, making it difficult for banks to completely know how customers’ funds are moving. The current situation is that thorough control would require management conducted with a high degree of leeway. This situation goes beyond the original intent of the system and its estimated standard, making it a cause for restrictions on fund control and management based on actual customer demand.

(8) On foreign-currency restrictions

• We perceive that there are regulations on foreign-currency conversion and exchange, foreign remittances, and other actions, and that directives and control are being reinforced.

• If this situation becomes permanent, there is a risk of negative effects such as impediments to fund control based on actual customer demand. There is also a great risk that this will make foreign-invested enterprises think twice about expanding in China. Additionally, the liberalization and increased transparency of exchange and cross-border transactions are necessary in order to further internationalize the renminbi. It is on this basis that we request a relaxation and adjustment of regulations, directives, and control relating to this issue.

(9) On coordination between administrative bodies

• The details of regulations on relaxing restrictions and new procedures, as well as their interpretations, frequently differ between regions and between divisions within one authority. As a result, much time is expended from the announcement of restriction relaxations and the start of new procedures to their implementation because of the need to confirm what office is in charge and what are the requirements, often hindering the merits of these reforms from being actualized. Moreover, to increase the effectiveness of financial liberalization, we request that the interpretations of regulations be unified across regions and administrative bodies, the details of regulations be made clear, and information coordination be improved.

• Furthermore, although value-added tax began being applied to the financial service industry in May 2016, local tax offices frequently differ in their decisions about how deductible items are classified for value-added tax, which is why we request that the regulations and interpretations of local governments be unified.

(10) On bank ATM measures against counterfeit bills

• As it happens that counterfeit bills come out when withdrawing cash from bank ATMs, we request that banks become thorough in their control of counterfeit bills.
2. Life Insurance

China’s life insurance market in 2016 had 74 life insurance companies with premium revenue of 2.169 trillion yuan, an increase of 36.8% on the previous year, showing firm growth with the highest growth rate since 2008. All three of the major areas of life, health, and accident insurance show high growth and are driving performance in the industry. Especially with the proposed return to risk security and the promotion of long-term savings product sales, the premium revenue of the life insurance sector was 1.744 trillion yuan, an increase of 31.7% on the previous year. The traditional life insurance sector stood out by contributing with a 55.4% increase, while the premium revenue of the health insurance sector has developed rapidly with a 67.7% increase owing to the promotion of personal income tax incentives for those with commercial health insurance. As regards foreign-invested life insurance companies, there have been no new such companies, their number staying at 28. The foreign-investment market share was 6.4%, a slight increase of 0.1% on the previous year. Personal agents and bank tellers remain the primary sales channels for these companies, but while sales through personal agents are on the rise for major life insurance companies, small to medium-sized, and new life insurance companies are expanding their market shares through bank sales.

Market Outline

The premium revenue for the whole life insurance industry in 2016 was 2.169 trillion yuan, an increase of 36.8% on the previous year and the highest growth rate in recent years.

Table 1. Changes in premium revenue growth rate for the whole life insurance industry (2012–2016)

<table>
<thead>
<tr>
<th>Year-on-year (%)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.1</td>
<td>7.9</td>
<td>18.1</td>
<td>24.9</td>
<td>36.8</td>
</tr>
</tbody>
</table>

Source: China Insurance Regulatory Commission website

The size of premium revenue is rapidly increasing, but we should note that the insurance penetration rate in China as a whole remains low. The penetration rate was 4.17% in 2016, which was lower than the 5.43% penetration rate in Asia and the 6.24% rate for the world in 2015. In 2015, the insurance rate per person in China was about US$ 281, which was lower than Asia’s average of US$ 312 and the world average of US$ 621 dollars. From this, we can see that the Chinese insurance market still has plenty of development potential.

As of the end of 2016, there were 74 life insurance companies, of which 46 were domestic-invested and 28 foreign-invested. Their premium revenues were 2.03 trillion yuan and 138.8 billion yuan, respectively, and their market shares were 93.6% versus 6.4%, with the foreign-invested company market share growing slightly.

Table 2. Changes in domestic-invested and foreign-invested company market shares and number of companies

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>95.2</td>
<td>39</td>
<td>94.4</td>
<td>40</td>
<td>94.2</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td>39</td>
<td>40</td>
<td>40</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Foreign</td>
<td>4.8%</td>
<td>26</td>
<td>5.6%</td>
<td>28</td>
<td>5.8%</td>
</tr>
<tr>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td>26</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: China Insurance Regulatory Commission website
Trends Surrounding the Life Insurance Industry: Centering on the Return to the “Security” of the Insurance Industry

Outline of the “13th Five-Year Plan” (第十三个五年规划纲要, “十三五”规划) for the Development of China’s Insurance Industry

The China Insurance Regulatory Commission has presented their third interim report on the five-year plan for the development of the insurance industry in 2016–2020, the two previous ones were presented in 2006 and 2011. The major features of this five-year plan include 1) that the pivot is slightly moving away from efforts for insurance market growth and establishing social trust in the insurance industry amid challenges relating to slower economic growth and an immature and unstable financial market; 2) an appeal to improve contributions to society and the economy by acting as an institutional investor, and complementing social security, while maintaining the continuous and stable growth of the insurance market; and 3) an increasing awareness of future global growth, including responses to global financial standards, as well as the training and expansion of high-grade specialized human resources that can go abroad. The contents include overall goals for the next five years, as well as concrete numeric goals for five years in the future. By the end of 2020, the goal is for premium revenue to be 4.5 trillion yuan, total assets 25 trillion yuan, insurance density (insurance expenses per capita) 3,500 yuan, and insurance depth (insurance penetration rate compared to GDP) 5%.

Norms for Mid- and Short-term Life Insurance Products

In March 2016, the China Insurance Regulatory Commission promulgated and enforced “Notice Regulating Items Relating to Mid- to Short-Term Life Insurance Products” to replace “Notice Regulating Items Relating to High Cash Value Products.” The background for this was an attempt to minimize the risk of insufficient solvency margins of small to medium-sized and new insurance companies as they shifted their sales to selling mid- and short-term life insurance products with guaranteed high yield at banks and online as a way to expand their premium revenues. To life insurance companies that had sold large amounts of mid- to short-term life insurance products, this notice clarified the responsibilities of board chairmen and chief actuaries for product approval and reporting as well as the imposition of sales stops, capital stock increases, and other enforcement measures in case of the solvency margins not being reached.

Reinforcing the Regulation of Life Insurance Products

In the past few years, the China Insurance Regulatory Commission has requested life insurance companies to develop and reinforce sales for security products and long-term savings products and promulgated the “Notice Regarding Reinforcing the Regulation of Life Insurance Products” in September 2016 to promote reform on the product supply side and fulfill diverse consumer needs. According to this notice, the process for reports and notifications about products that do not require advance screening or permits should be simplified, so that they can be done within 10 days after sale. The notice also clarified the responsibilities of CEOs and chief actuaries, established an independent audit system for universal insurance products, requested life insurance companies to manage independent accounting, and aimed to reduce the time until life insurance products reach the market and to enhance product development and control levels.

Reinforcing the Regulation of Universal Insurance Products

Seeing that universal insurance premium revenues were excessive for Qian Hai Life Insurance, Evergrande Life, and several other life insurance companies, the China Insurance Regulatory Commission had them improve their operations and issued two written opinions on December 9 and 28, 2016: “Continuous Reinforcement of the Regulation of Universal Insurance and Resolute Suppression of Irregular Activities” and “Further Reinforcement of the Regulation of Universal Insurance and Promotion of the Normative and
Healthy Development of Universal Insurance.” Furthermore, they promulgated “Notice Regarding Further Reinforcing the Regulation of Life Insurance Affairs” on 30 December. The background was that the China Insurance Regulatory Commission took issue with a portion of small to medium-sized life insurance companies that excessively sold high-yield short-term universal insurances for the purpose of fund procurement, as they possessed large quantities of stocks from particular listed companies and speculated to achieve stock price rises in the short term, which the commission targeted as a way to suppress risk in the financial system. Under this notice, if more than 50% of premium revenue in any quarter was made up of mid- and short-term products or if the original premium revenue per quarter is less than 30% of the premium revenue for that quarter, that life insurance company will face a strict control measure that prevents the opening of any new branches for a year. By contrast, for life insurance companies that actively sell risk security and long-term savings insurance products, the China Insurance Regulatory Commission may allow that company to open new branches, as well as support and encourage its normative and healthy development.

The Announcement of the China Life Insurance Mortality Table (2010–2013)

At the end of 2016, the China Insurance Regulatory Commission announced the “China Life Insurance Mortality Table (2010–2013)” created by the China Association of Actuaries in 2014 in order to promote the life insurance industry’s return to its primary business: security. Massive sample data (340 million insurance contracts, 180 million insured individuals, and 1.85 million payments) were collected, and an independently developed program was used to analyze the data to complete this mortality table.

Prospects and Challenges for 2017

The Chinese life insurance industry is seeing the birth of diverse consumer needs with regard to life insurance with the growth of the intermediate-income group population and operational reforms on the supply side. Thanks to the promotion of personal income tax incentives for people with private health insurance and personal income tax extension measures for people with private pension insurance, the demand for health and pension insurance has expanded, and we believe there is plenty of room for growth and development in this area.

In 2017, the core of the China Insurance Regulatory Commission’s regulatory work comprised provisions for insurance companies’ investment structure, the improvement of life insurance product structure (further regulation of the sale of mid- and short-term life insurance products), reinforcing regulations on asset management, and achieving solvency margins. We expect that the sales of personal security life insurance products will expand greatly in such a regulatory environment thanks to the reinforcement of quarterly payment personal life insurance product sales by staff at major life insurance companies, as well as changes in management policy oriented toward emphasizing the profitability of life insurance companies.

However, low profits from investments in an investment environment marked by low interest rates continue to be an issue in 2017. Despite increases in premium revenue, the share of investment life insurance products is still considerable, and the ratio of fixed-profit investment assets is decreasing, indicating the continued importance of reinforced risk management.

Proposal

(1) On the upper limit for investments when entering the Chinese life insurance industry

When foreign-invested life insurance companies enter the Chinese market, they are required to set up joint ventures. In addition, the upper limit for the foreign-investment ratio is 50%. We request that this restriction be relaxed.
(2) On the opening of branch offices after setting up a joint venture life insurance company and expanding across China

Foreign-invested joint venture life insurance companies have been notified by the China Insurance Regulatory Commission that they may not submit multiple applications for opening new branches at the same time. Even if multiple applications are submitted, they will not be examined and approved at the same time. We request that foreign-invested joint venture life insurance companies be given the same treatment as Chinese enterprises with regard to the application process for permission to open new branches.

(3) On asset management

We request that the foreign-invested life insurance companies receive expanded permission to invest within reasonable bounds.

(4) On the setting up of foreign-invested life insurance companies and insurance agencies

Foreign-invested life insurance companies are not allowed to invest more than 25% in an insurance agency. Although not explicitly stated, we request that the real restrictions on foreign investment in insurance agencies be removed and that foreign-invested life insurance companies be allowed to invest 100% in insurance agencies, as a means to disseminate advanced insurance consulting know-how.

(5) On the integrity of the China Insurance Yearbook

There is no continuity in the statistical data, and it is doubtful whether they are accurate. The China Insurance Yearbook suffers because calculation methods often differ between provinces, and there is a lack of uniformity, making it difficult to gather data. We request measures to unify the statistical methods.
3. Property Insurance

Current Chinese Property Insurance Market

Growing Market Size
The Chinese property insurance market has seen rapid development thanks to the economic reforms after 1979 and the concomitant high economic growth rate and improvement in people’s lives. For FY2016, the original premium revenue reached 872.45 million yuan, almost doubling in five years.

Although the Chinese economy slowed down in FY2016, the property insurance market continues to exhibit growth that exceeds the GDP growth rate, increasing by 9.12% on the previous year. We predict that its growth will continue to exceed the GDP growth rate in 2017.

Table. Changes in premium revenue and revenue increase for Chinese property insurance (unit: billion yuan, %)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Original premium revenue (billion yuan)</td>
<td>299.3</td>
<td>402.7</td>
<td>477.9</td>
<td>552.9</td>
<td>648.1</td>
<td>754.4</td>
<td>842.3</td>
<td>872.4</td>
</tr>
<tr>
<td>Year-on-year (%)</td>
<td>22.40</td>
<td>34.50</td>
<td>18.70</td>
<td>15.70</td>
<td>17.20</td>
<td>16.41</td>
<td>11.65</td>
<td>9.12</td>
</tr>
</tbody>
</table>

Figure 1. Changes in premium revenue and revenue increase for Chinese property insurance

Source: China Insurance Regulatory Commission (CIRC) website

Prospects for the Chinese Property Insurance Market as Seen from Policy Trends
On September 1, 2016, the China Insurance Regulatory Commission (CIRC) announced the “Outline for the Development Plan for the Chinese Insurance Industry in the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划).” This outline set the qualitative goals of building a modern insurance service industry and realizing medium- to high-speed growth as well as the quantitative goals of achieving 4.5 trillion yuan (3,500 yuan per person) in insurance premiums and 25 trillion yuan in total insurance assets by 2020. Moreover, the
outline contains the objectives of upgrading the insurance industry as a whole through the promotion of liberalizing reforms and reinforcing regulation of the insurance industry over the next five years.

The “Outline for the Development Plan for the Chinese Insurance Industry in the 13th Five-Year Plan (第十三个五年规划纲要， “十三五规划”)” aims to accelerate the development of the insurance industry in the following areas.

(1) It will improve the insurance industry’s ability to contribute to social and economic development through innovation.

(2) It will promote the establishment of systems for disasters, accident prevention, and relief, as well as the improvement of the insurance industry’s social control capacity through the use of private insurance.

(3) It will facilitate the development of agricultural insurance through the promotion of the development of new agricultural insurance products.

(4) It will promote the encouragement of innovative insurance product development and the liberalization of insurance premium rates and agreements on all fronts.

(5) It will promote the opening up and reform of the insurance industry, and raise the development level of the industry on all fronts. It will also develop the reinsurance and insurance broker markets in the same way.

(6) It will enhance the insurance industry’s international competitiveness and support the expansion of insurance companies abroad. China will also be actively involved in the creation of international rules.

(7) It will fully demonstrate the superiority of insurance assets that facilitate long-term fund management and supply the funds necessary for economic growth.

(8) It will strive for the improvement and reinforcement of insurance regulation and the prevention/elimination of risk.

(9) It will promote the creation of credit systems and infrastructure for the insurance industry, as well as increase the awareness of the insurance industry in society as a whole.

(10) It will form a multilayered social security system through the building of a social safety net that follows from the development of private insurance. It will promote product development and service improvement in innovative old-age insurances and diverse forms of health insurance.

We predict that the abovementioned reforms will allow the insurance industry to undergo further reform and allow the Chinese property insurance market to continue to maintain its high growth rate.

Table 2. 2015 global comparison of property insurance market sizes

<table>
<thead>
<tr>
<th>Country/territory</th>
<th>Total premium revenue (million dollars)</th>
<th>Placement</th>
<th>World share</th>
<th>Insurance density (dollars)</th>
<th>Insurance depth</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>763,766</td>
<td>1</td>
<td>37.81%</td>
<td>2,377</td>
<td>4.22%</td>
</tr>
<tr>
<td>China</td>
<td>175,737</td>
<td>2</td>
<td>8.70%</td>
<td>128</td>
<td>1.63%</td>
</tr>
<tr>
<td>Germany</td>
<td>116,538</td>
<td>3</td>
<td>5.77%</td>
<td>1,381</td>
<td>3.36%</td>
</tr>
<tr>
<td>Japan</td>
<td>105,891</td>
<td>4</td>
<td>5.24%</td>
<td>837</td>
<td>2.55%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>105,685</td>
<td>5</td>
<td>5.23%</td>
<td>1,067</td>
<td>2.44%</td>
</tr>
<tr>
<td>France</td>
<td>80,402</td>
<td>6</td>
<td>3.98%</td>
<td>1,129</td>
<td>3.09%</td>
</tr>
<tr>
<td>Canada</td>
<td>65,637</td>
<td>7</td>
<td>3.25%</td>
<td>1,832</td>
<td>4.23%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>62,810</td>
<td>8</td>
<td>3.11%</td>
<td>3,712</td>
<td>8.35%</td>
</tr>
<tr>
<td>South Korea</td>
<td>55,402</td>
<td>9</td>
<td>2.74%</td>
<td>1,094</td>
<td>4.12%</td>
</tr>
<tr>
<td>Italy</td>
<td>40,189</td>
<td>10</td>
<td>1.99%</td>
<td>612</td>
<td>2.06%</td>
</tr>
<tr>
<td>World total</td>
<td>2,019,967</td>
<td>-</td>
<td>100%</td>
<td>276</td>
<td>2.77%</td>
</tr>
</tbody>
</table>

Source: Sigma World Insurance in 2015
Concrete Issues in the Property Insurance Industry

The Situation for Foreign-Invested Property Insurance Companies

As of the end of 2016, there were 81 Chinese property insurance companies, out of which 59 were Chinese-invested and 22 foreign-invested. If we compare the total original premium revenues, Chinese-invested companies had 907.7 million yuan while foreign-invested companies had 18.92 million yuan.

Restrictions on foreign-invested property insurance companies were gradually removed after China joined the WTO at the end of 2001, demonstrating the authorities’ willingness to open up the market. At the same time, since business scope as a principle is limited to where bases are located, the market share of foreign-invested property insurance companies with few bases remains at a low 2.04% on an original premium revenue base.

As 15 years have passed since China joined the WTO, we hope that foreign-invested property insurance companies will be able to compete with domestic-invested companies in a fair environment and provide consumers with good service. We also hope that administrative procedures will be simplified and that approvals for foreign-invested companies can be issued quicker.

At present, large-scale commercial properties with at least 150 million yuan in total investments and more than 400,000 yuan in total insurance premium can be underwritten at a location outside of its license area, but we hope that the criteria can be relaxed for the sake of improved customer service and operational efficiency.

Table 4. 2016 premium revenues and market shares for domestic-invested property insurance companies (unit: million yuan)

<table>
<thead>
<tr>
<th>Company name</th>
<th>Number of bases (main/branch offices)</th>
<th>FY2016 original premium revenue</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>People’s Insurance</td>
<td>38</td>
<td>310,453.48</td>
<td>33.50%</td>
</tr>
<tr>
<td>Company name</td>
<td>Country/territory</td>
<td>Number of bases (main/branch offices)</td>
<td>FY2016 original premium revenue (unit: million yuan)</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------------</td>
<td>---------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>AXA</td>
<td>France</td>
<td>63</td>
<td>7,971.32</td>
</tr>
<tr>
<td>Groupama</td>
<td>France</td>
<td>6</td>
<td>1,834.52</td>
</tr>
</tbody>
</table>

Table 5. 2016 premium revenues and market shares for foreign-invested property insurance companies, including joint ventures (unit: million yuan)
<table>
<thead>
<tr>
<th>Insurance Company</th>
<th>Country</th>
<th>Rank</th>
<th>Premium</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chartis (AIU)</td>
<td>United States</td>
<td>7</td>
<td>1,373.31</td>
<td>0.15%</td>
</tr>
<tr>
<td>Liberty</td>
<td>United States</td>
<td>6</td>
<td>1,229.63</td>
<td>0.13%</td>
</tr>
<tr>
<td>Fubon Insurance</td>
<td>Taiwan</td>
<td>6</td>
<td>966.22</td>
<td>0.10%</td>
</tr>
<tr>
<td>Allianz</td>
<td>Germany</td>
<td>7</td>
<td>828.95</td>
<td>0.09%</td>
</tr>
<tr>
<td>Samsung Fire &amp; Marine</td>
<td>South Korea</td>
<td>7</td>
<td>817.65</td>
<td>0.09%</td>
</tr>
<tr>
<td>Cathay Insurance</td>
<td>Taiwan</td>
<td>11</td>
<td>651.20</td>
<td>0.07%</td>
</tr>
<tr>
<td>Tokio Marine &amp; Nichido</td>
<td>Japan</td>
<td>6</td>
<td>509.39</td>
<td>0.05%</td>
</tr>
<tr>
<td>Zurich Insurance</td>
<td>Switzerland</td>
<td>2</td>
<td>479.78</td>
<td>0.05%</td>
</tr>
<tr>
<td>Generali</td>
<td>Italy</td>
<td>6</td>
<td>462.84</td>
<td>0.05%</td>
</tr>
<tr>
<td>Mitsui Sumitomo Insurance</td>
<td>Japan</td>
<td>4</td>
<td>448.58</td>
<td>0.05%</td>
</tr>
<tr>
<td>Sompo Japan Insurance</td>
<td>Japan</td>
<td>5</td>
<td>364.30</td>
<td>0.04%</td>
</tr>
<tr>
<td>Chubb</td>
<td>United States</td>
<td>3</td>
<td>291.38</td>
<td>0.03%</td>
</tr>
<tr>
<td>Starr Property &amp; Casualty</td>
<td>United States</td>
<td>12</td>
<td>182.84</td>
<td>0.02%</td>
</tr>
<tr>
<td>Swiss Re</td>
<td>Switzerland</td>
<td>3</td>
<td>128.97</td>
<td>0.01%</td>
</tr>
<tr>
<td>LIG</td>
<td>South Korea</td>
<td>2</td>
<td>111.92</td>
<td>0.01%</td>
</tr>
<tr>
<td>Hyundai Marine &amp; Fire</td>
<td>South Korea</td>
<td>2</td>
<td>110.80</td>
<td>0.01%</td>
</tr>
<tr>
<td>Sompo Nipponkoa Insurance</td>
<td>Japan</td>
<td>2</td>
<td>57.01</td>
<td>0.01%</td>
</tr>
<tr>
<td>Aioi Nissei Dowa Insurance</td>
<td>Japan</td>
<td>2</td>
<td>55.46</td>
<td>0.01%</td>
</tr>
<tr>
<td>XL Insurance</td>
<td>United States</td>
<td>1</td>
<td>32.22</td>
<td>0.01%</td>
</tr>
<tr>
<td>Lloyd's</td>
<td>United Kingdom</td>
<td>2</td>
<td>12.14</td>
<td>0.01%</td>
</tr>
<tr>
<td>Foreign-invested property insurance companies (subtotal)</td>
<td>18,920.40</td>
<td>2.04%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All property insurance companies (total)</td>
<td>926,616.83</td>
<td>100.00%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Situation for Voluntary Vehicle Insurance

As in Japan, Chinese vehicle insurance is divided into a two-layer structure of “compulsory insurance (liability)” and “voluntary insurance.” In the past, only domestic-invested property insurance companies with permission from the authorities could provide liability, but the State Council (国务院) opened up liability insurance for foreign-invested companies in May 2012. It took some time before this permit was made available to Japanese companies, with the necessary change to business scope finally being approved in April 2014. Three Japanese companies have acquired the permit.

Since July 1, 2016, the liberalization of voluntary vehicle insurance (hereafter “vehicle insurance”) contracts and premium rates has been implemented across China, featuring the liberalization of premium rates and the expansion of the compensation range. The new insurance takes the form of a special contract added to each company’s independent contracts and each company applying for independent premium rates in their areas. During this reform, the authorities started trials in six areas (Heilonjiang, Shandong, Guangxi Zhuang Autonomous Region, Shaanxi, Chongqing, and Qingdao) in April 2015. This was expanded to 16 regions in January 2016. It appears that they scrutinized the contents, fixed issues, and gradually moved forward. Through this vehicle insurance reform, the authorities are facilitating innovation, establishing market transparency, and striving to prevent unfair competition. Moreover, the liberalization of vehicle insurance was also trialed in the first half of the 2000s, but the result was intensified competition and unfair competition in the form of excessive commission, thus proving a setback. This reform has been evaluated by consumers as “not only lowering premiums, but expanding the compensation range and developing products and services in response to customer demands.”

For FY2017, the authorities are declaring their intention to reinforce their supervision over the profitability of vehicle insurance, and control and harshly punish unfair competition (e.g., excessive commissions) and illegal activities (e.g., defaulting on or holding back on claim settlements).

At present, the vehicle insurance and liability insurance system differs across regions in China. We request that any revisions of the vehicle insurance and liability insurance system be carried out so as to unify the system inside China to reduce system development and maintenance costs.

Table 6. Changes in premium revenue for vehicle insurance (liability + voluntary) 2011–2015 (all company base)

<table>
<thead>
<tr>
<th>FY</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amoun</td>
<td>350.5</td>
<td>16.66%</td>
<td>400.5</td>
<td>14.28%</td>
<td>472.1</td>
</tr>
<tr>
<td>Premium</td>
<td>revenue (billion yuan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims</td>
<td>175.1</td>
<td>27.26%</td>
<td>224.8</td>
<td>28.36%</td>
<td>272.0</td>
</tr>
<tr>
<td>paid (billion yuan)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: China Insurance Regulatory Commission (CIRC) website
For the first time in seven years, China’s Insurance Law was revised in February 2009 and enforced on 1 October of the same year, with the principal aims of “insured person protection,” “reinforcing control and risk prevention,” and the “further expansion of the insurance service fields.” Article 95 (3) of the Insurance Law acknowledges that “other operations relating to insurance that have been ratified by the China Insurance Regulatory Commission, State Council” are within the business scope of insurance companies, thus expanding the field of operation for insurance companies and enabling a broadening of the range of customer services. Even so, foreign-invested insurance companies are subject not only to the Insurance Law, but also to the restrictions of the “ordinance on the management of foreign-invested companies.” Section 3 of the management ordinance does not stipulate “other operations” as being within the business scope, meaning that they cannot conduct insurance-related operations, unlike domestic-invested insurance companies. Today, the social role expected of insurance-related operations, unlike domestic-invested insurance companies. Today, the social role expected of insurance companies in China is expanding, so we request that the business-scope restrictions on foreign-invested insurance companies be relaxed, so that they can provide risk management services and adjust business services.

<Proposal>

(1) After 15 years of WTO membership, we are hoping for further opening of the insurance market and the relaxation of regulations for foreign-invested insurance companies. We request that administrative procedures be simplified, so that various applications can be approved faster.

(2) Making it possible for a corporation to provide insurance services and insurance programs to other corporations in the same group regardless of location in China would encourage more investments in China by major global business groups. Thus, we request that the scope of the floating policy regulations be broadened to include operations between corporations in the same group. Moreover, to facilitate comprehensive risk control services for large corporate clients, we request that the items necessary for underwriting large-scale commercial properties be expanded to include all items necessary for business properties.

(3) The registration of new sideline agencies was temporarily suspended in April 2012, with the exceptions of financial institutions and the postal system. We request that this measure be lifted after stipulating the need for a strict recruitment system and the prohibition of certain activities in the interest of enhancing consumer convenience and insurance services as well as spreading insurance.

(4) At present, the vehicle insurance and liability insurance system differs across regions in China. We request that any revisions of the vehicle insurance and liability insurance system be carried out so as to unify the system inside China for the sake of reducing system development and maintenance costs.

(5) Regarding the collaborative development in Beijing, Tianjin, and Hebe, “CIRC Bulletin No. 201557 (Collaborative Development of Insurance Services in Beijing, Tianjin, and Hebe, Actively Promoted by the CIRC)” was sent out in December 2015. We request that the points in this notice that are supposed to be implemented are done so as soon as possible.

(6) Regarding the calculation of the required minimum funds for the solvency margin ration in C-ROSS (China Risk-Oriented Solvency System), the credit risk coefficients for persons with reinsurance outside China are high compared to those in China, putting it at odds with the intentions of CIRC, which aims for non-discriminatory treatment. We request that these coefficients be reviewed to reflect the reliability of reinsured persons regardless of nationality, thus enabling reinsured persons outside China to access the Chinese domestic reinsurance market.
(7) In order for foreign-invested property insurance companies to conduct their services comprehensively and enhance consumer convenience and satisfaction, we request that their business scope be set to include “other insurance-related operations,” so that they can provide corporate risk management services or adjusting (assessment) services in case a Japanese person with insurance has an accident in China.
4. Securities

As of the end of 2016, the Japan Exchange ranked third in the world (same as the previous year) in total market capitalization, at US$ 5.061 trillion, the Shanghai Stock Exchange ranked fourth (same as the previous year) at US$ 4.104 trillion, and the Shenzhen Stock Exchange ranked seventh (it was fifth the year before) at US$ 3.216 trillion. China’s total was US$ 7.320 trillion (US$ 8.188 trillion at the end of 2015).

Looking at Japan and China in terms of world stock purchase prices for 2016, the Shenzhen Stock Exchange ranked third in the world (it was second the previous year) at US$ 11.605 trillion, the Shanghai Stock Exchange ranked fifth (it was first the previous year) at US$ 7.492 trillion, and the Japan Exchange (Tokyo) ranked sixth (same as the previous year) at US$ 5.618 trillion. China’s total was US$ 19.098 trillion (US$ 40.954 trillion in 2015).

The Chinese Securities Industry

Domestic and Foreign Bond Investments

Under the QFII (short for Qualified Foreign Institutional Investors, introduced in November 2002) scheme, which allows foreign investors to invest into the domestic securities market, the management of US$ 89.209 billion by 278 companies has been approved as of the end of February 2017 (it was US$ 80.795 billion by 279 companies at the end of February 2016). Of these, 19 companies were Japanese, managing US$ 2.679 billion dollars. In addition, under the RQFII (Renminbi Qualified Foreign Institutional Investors, introduced in December 2011) scheme, which allows the management of offshore renminbi in mainland China, the management of 541.129 billion yuan by 181 companies has been approved as of the end of February 2017 (it was 471.425 billion yuan by 158 companies at the end of February 2016).

Moreover, under the QDII (Qualified Domestic Institutional Investors, introduced in April 2006), which allows Chinese financial institutions to invest in foreign securities, the management of US$ 89.993 billion by 132 companies has been approved as of the end of February 2017 (same as the previous year, with US$ 89.993 billion by 132 companies, as not a single new participants was approved during this year).

Founding and Reorganization of Joint Securities Ventures and Joint Management Ventures

In 2016, two joint ventures (Shengang Securities, Huajing Securities) were established within the framework of Supplementary Agreement 10 to the Comprehensive Economic Partnership Agreement (CEPA), making use of incentives for Hong Kong capital. There were no new joint ventures in the asset management industry.

Concrete Issues and Their Improvements

Relaxing Entry Restrictions for Foreign Investments in the Chinese Securities Industry and Asset Management Industry

The entry of foreign investments into the securities industry was sometimes approved by a separate process before China joined the WTO in 2001, but it was formally approved only afterwards. Foreign investments enter primarily in the form of joint ventures, with 33% being the upper limit for foreign investments at the time of WTO entry. Moreover, joint securities ventures have not been allowed to conduct the brokerage or trading of listed stocks (A stocks) for domestic investors, which is a principal business for domestic-invested
securities companies, and no date has been given for when this might be changed. There were 129 registered securities companies at the end of January 2017 (China Securities Regulatory Commission [CSRC]), of which 14 were joint securities companies that were approved around the time of WTO membership (three of these have been dissolved). China International Capital and Bank of China International Securities, which were approved before WTO membership, are exceptions, as they are permitted to conduct brokerage and trading of A stocks. In October 2012, new regulation details were promulgated that 1) raised the foreign-investment upper limit for joint securities ventures to 49%, and 2) allowed applications for license expansion after two years of business.

There were 109 foundation management companies configuring and managing securities investment trusts in China as of the end of January 2017 (CSRC), of which 44 were foreign-invested (three were Japanese). As with the securities industry, it became possible to establish foundation management companies as joint ventures with 33% foreign investments after WTO membership began, and this ratio limit was subsequently raised to 49%.

As for the restrictions on foreign-investment entry, the National Work Conference on Securities and Futures Supervision held by the CSRC in January 2014 confirmed the following:

We will gradually open up restrictions on foreign-investment entries to securities and futures, repeal the regulations on investment ratios in foreign-invested financial institutions, allow the establishment of independent subsidiaries and branch offices by foreign-invested securities and futures management institutions, and repeal the license limits for joint securities ventures.

In May of the same year, the State Council (国务院) presented “Some Views from the State Council (国务院) for Further Promoting the Healthy Development of the Capital Market” (New 9-Article Views), confirming that “We will expand the business scope of domestic securities and futures management institutions that have foreign-invested participation or control at the right time.”

Furthermore, the “China (Shanghai) Pilot Free Trade Zone” (Shanghai FTZ) started in October 2013 is an experiment in opening up service industries to the world using a negative list approach. The FTZ was expanded to Tianjin, Fujian, and Guangdong in March 2015. The securities area is also part of the experiments at the FTZ, but it cannot be said that any effective experiments are being conducted, as foreign-investment entry to the securities and asset management industries is restricted in the 2016 negative list that applies to the four abovementioned areas to the same degree as in the existing central-level restrictions. Subsequently, on December 7, 2016, the National Development and Reform Commission (国家发展和改革委员会) and the Ministry of Commerce (商务部) presented the “Guidelines for Foreign-Investment Industries” for public comments, working out for the first time the introduction of a negative list approach for foreign investments across China, but also discussing the continued use of existing restrictions for securities and foundation management companies.

At the same time, Supplementary Agreement 10 to CEPA between mainland China and Hong Kong stipulates preferential conditions with regard to the establishment of joint securities ventures with Hong Kong funds that, while limiting the areas of activity, give full license, allow an investment ratio of more than 51%, and allow joint ventures with Chinese partners that are not securities companies (the same goes for securities companies with Macao funds). This goes against non-discriminatory treatment between internal and external.

Securities investment advisory companies are allowed to enter the Chinese market under Supplementary Agreement 6 to CEPA, although it only applies to Hong Kong securities companies and only if they meet the following requirements: 1) it should take the form of a joint venture with a mainland China securities company (treated as a subsidiary to the mainland China company), 2) the foreign-investment upper limit is 33%, 3) the license is for investment advisory work, and 4) it must be established in Guangdong. At the same
time, in response to the aforementioned New 9-Article Views, the Securities Association of China added the following to the scope of the securities investment advisory company on January 19, 2015: 1) registered sponsor and market maker work in the National Equities Exchange and Quotations system (also, the New 3rd Board) and 2) private placements. Considering the restrictions on the entry of foreign investments, with the exception of Hong Kong, the broadening of the licenses for securities investment advisory companies is a problematic issue with regards to opening up the service industries to the world and eliminating the discrimination between internal and external.

In China, the proposal for the 13th Five-year Plan (第十三个五年规划纲要, “十三五”规划) that was passed at the 5th Plenary Session of the 18th Central Committee in October 2015, as well as that same plan that was passed by the National Congress in March 2016 include the policy to “expand market entry for foreign investments in banks, insurance, securities, pensions, etc.” Subsequently, on January 17, 2017, the State Council (国务院) announced the “Notice Relating to a Few Measures for Opening up More to the World and Actively Utilize Foreign Investments” (New Foreign-Investment Policy Measures). Of these new foreign-investment policy measures, the relaxing of restrictions over foreign investments entering the service industries shows the intention to make the financial industry a priority area. The details of the regulations are to be considered by the relevant authorities and announced in the future. By contrast, Japan does not legally discriminate against the expansion of financial institutions from abroad. We hope that a variety of regulations will be relaxed and that the timeframe for this will be announced, as it will contribute to the development of “mutually beneficial relationship based on common strategic interests” in the securities field, as well as to the development of China’s securities and asset management industries and to the fund procurement of Chinese businesses.

Relaxation of Investment Regulations at Home and Abroad

The QFII quota was raised significantly from US$ 50 billion to US$ 150 billion in July 2013. In February 2016, the lock-up period after QFII investments was reduced (from one year to three months), and the QFII/RQFII bond investment upper limit quota for the inter-bank bond market was repealed. At the end of September in the same year, the CSRC announced that they would repeal window guidance for QFII/RQFII asset distribution. Until now, the aim was for the QFII stock investment ratio to exceed 50% and for the QFII/RQFII cash holding ratio to not exceed 20%. However, both the QFII and QDII remain limited by licenses and quotas. Moreover, we have seen movements to prepare laws for PE (personal equity) investments and real estate investments in the non-open market, but the application processes and approval criteria for foreign investors are not clear.

The participation of foreign investors and other institutional investors thanks to relaxed domestic investment regulations is expected to have the following effects: 1) increased market liquidity supply, 2) the introduction of new investment and evaluation techniques, and 3) business governance improvements. It will lead to the qualitative enhancement of the market. Nonetheless, the stock holding share of foreign investors in the Chinese stock market is no more than 1.28% (end of December 2016); by contrast, the Japanese market has private investors at 17.5% and foreign investors at 29.8% (end of March 2016). The relaxation of foreign investment regulations provides Chinese investors with opportunities for diversified investment and suppresses the overheating of the domestic market. Shanghai–Hong Kong Stock Connect started in November 2014, making it possible for private investors to trade actual stocks between Shanghai and Hong Kong in both directions. Since December 2015, the mainland–Hong Kong mutual sales of funds scheme has allowed the sale of openly recruited investment trusts registered in advance between the mainland and Hong Kong in both directions. The Shenzhen–Hong Kong Stock Connect also started in November 2016. We hope to see products other than actual stocks (e.g., bonds) and similar schemes for overseas cities other than Hong Kong. Moreover, although the start of each scheme was preceded by the announcement of capital-gain tax exemptions for private investors, Chinese authorities retroactively taxed the capital gains acquired by existing QFII and RQFII before the start of the Shanghai–Hong Kong Stock Connect. This made foreign investors perceive Chinese securities investment as having an institutional risk.
Financial Relaxation for Foreign-invested Enterprises in China

When foreign-invested enterprises use the capital market in China to procure funds, it can only be done in a limited fashion; there might not even be a related institution. First, laws relating to the domestic listing of joint ventures on the stock market are prepared, and while Japanese enterprises (business corporations) have been listed in the past, non-residents must await the opening of the international board at the Shanghai Stock Exchange. Next, among the bonds issued to foreign-invested enterprises inside China are the Panda bonds for non-residents. In November 2015, around the time the renminbi was added as a component currency to the IMF’s (International Monetary Fund) SDR (Special Drawing Right), these Panda bonds were issued to foreign governments, foreign financial institutions, and business firms on the inter-bank bond market one after the other, but no related laws have been announced, so it never went past individual approvals. Furthermore, residents are approved on the condition that they qualify as members of self-regulatory organizations (National Association of Financial Market Institutional Investors; in the past, Japanese firms have issued CP, and Japanese car finance companies have issued financial bonds and asset securitization products).

Although China has become one of the biggest issue markets in the world, foreign-invested enterprises have not been able to effectively utilize this huge market for either stock issuance or bond issuance within China. The aforementioned New Foreign-Investment Policy Measures include an orientation toward having foreign investment enterprises be listed in China and issue bonds. The financial relaxation for foreign-invested enterprises in China will promote the development of the Chinese capital market through a diversification of issuers and will help improve the investment environment.

Revising and Relaxing Chinese Businesses’ Regulations for Stock Listing Abroad

With the globalization of Chinese businesses, it is becoming increasingly important to secure flexible financial strategies. Previously, when Chinese businesses became listed abroad, they could set up a tax haven SPV (special purpose vehicle) overseas and create a scheme for listing that SPV.

By contrast, with the “Regulations Relating to Mergers and Acquisitions of Domestic Businesses by Foreign Investors” (Order No. 10) enacted and enforced in 2006, screening and approval for setting up SPV or becoming listed abroad have become stricter. Moreover, with Order No. 75 issued by the State Administration of Foreign Exchange in October 2005, methods for bringing funds procured from SPV listed abroad have been limited. As a result, it has become difficult to set up new SPV and have a Chinese business listed abroad. In December 2012, requirements for Chinese businesses to become listed abroad were relaxed (the following were repealed: net assets of at least 400 million yuan, at least 60 million yuan profit after tax in the previous year, and at least US$ 5,000 in fund procurement), but permissions must still be acquired from divisions other than the CSRC depending on the type of industry. Subsequently, in December 2014, the CSCR implemented relaxations by removing the financial screening required before listing a Chinese business abroad, while the State Administration of Foreign Exchange relaxed regulations by removing the exchange screening of procurement funds before listing abroad. We hope to see further comprehensive revisions and relaxations of regulations for stock listing Chinese businesses abroad.

Early Opening of the Foreign Index ETF Market

The domestic listing of foreign index ETF (exchange trade funds) in China provides Chinese investors with opportunities for diversified investment and suppresses the overheating of the domestic market. Moreover, with the lifting of the ban on foreign investments by Chinese investors, an individual brand will cause problems due to the provision of issuer and securities information, but if it is an investment via stock price index ETF, there will be no problems accessing information, and risk will be disbursed. In addition, the key to the reliability of ETF is their linkage with the original index, so Japanese stocks transacted in a time zone similar to China’s and that let the investors feel the linkage with the index are an ideal entryway to investment using ETF.
In addition to the above background, the Chinese domestic listing of foreign index ETF will help establish the internationalization of the Chinese securities exchange and foreign investments by Chinese investors. Following on from the already listed Hong Kong, American, and German ETF, we hope that the application process for the listing of foreign index ETF will be simplified, paving the way for the early approval of Japanese ETF.

**Relaxing the Regulations of Cross-border Renminbi Transactions**

RQFII is a renminbi-denominated domestic securities investment system, and the countries and territories allotted quotas have grown from 10 at the end of 2014 to 19 at the end of 2016.

Moreover, renminbi-denominated domestic direct investments totaled 1.398 trillion yuan in 2016 (1.587 trillion yuan in 2015). Rules promulgated and enforced in October 2011 stated that the Central Ministry of Commerce would review any investment of at least 300 million yuan, but this review was removed in the new rules from December 2013. Even so, foreign businesses remain interested in improving the stable application of the rules and predictability.

Be it domestic securities investments or domestic direct investments, the provision and expansion of return routes for offshore renminbi to mainland China will contribute to the internationalization of the renminbi. We thus hope to see a further expansion of the RQFII quota to include the Tokyo market, the granting of licenses to foreign financial institutions, the relaxation of approval regulations for renminbi-denominated domestic direct investments, and the stable application of rules.

**Japanese Financial Institutions to Support the Acquisition of Lead Managers with Regard to New Openings or Stock Sales of Chinese State-owned Businesses**

With new, large-scale openings of Chinese state-owned businesses, lead managers are chosen mainly from financial institutions in Europe and the United States. At the same time, individual financial assets amount to approximately 1,800 trillion yuan in China’s neighbor, Japan, making it possible for Chinese state-owned businesses to procure large amounts of capital under favorable conditions. At the same time, Japan can become a stockholder that understands the management of Chinese state-owned businesses and can provide a foundation of business administration that gives peace of mind in the long term. Japanese financial institutions well-versed in Japanese–Chinese affairs can play an important role in procuring capital for Chinese state-owned businesses, both yen- and renminbi-denominated. At the end of February 2016, the Industrial and Commercial Bank of China was approved for a program listing at the Tokyo Pro-Bond Market limited to four billion dollars, and, in October of the same year, the CITIC Group issued Samurai bonds (100 billion yen) for the first time in 16 years as an issuer and the first time in 20 years as that company. We hope to see more Chinese issuers active on the Tokyo market.

**Proposal**

(1) We request the following with regard to the relaxation or removal of regulations for foreign-investment entry to the Chinese securities and asset management industries.

- Relaxation or removal of entry regulations and a broadening of business scope
- Expansion of whole sales (e.g., brokerage aimed at institutional investors, research, investment advice) related to the investment bank business and support for the development of cross-border M&A business
- Relaxation of the regulations of foreign-investment ratios, complete liberalization of the industry of the China-side joint venture partner, or repealing the rules prohibiting competition between parent and subsidiary securities companies in their current form
• Relaxation of regulations on foreign-investment participation in securities investment advisory companies and an expansion of their business scope (New 3rd Board, private placement)
• Deletion of the securities and asset management industries from the negative lists of Shanghai and other pilot free trade zones
• Announcement of relaxation schedule

(2) We request the following with regard to relaxing regulations on domestic and foreign investments.
• Relaxation of regulations on QFII, PE, real estate investment
• Simplification of application processes and report methods
• Clarification of investment-related taxation
• Relaxation of regulations on QDII and other foreign investment
• Expansion of the Shanghai–Hong Kong and Shenzhen–Hong Kong Stock Connect schemes to other areas (other than Hong Kong) as well as of products that are not actual stocks (e.g., bonds)

(3) We request the following in relation to the financial relaxation of foreign-invested enterprises (including full ownership) inside China.
• Stock listing on the Chinese domestic market—specifically stock listing on the New 3rd Board—the opening of the international board at the Shanghai Stock Exchange, and the announcement of these dates
• Bond issuance inside China

(4) We request a comprehensive revision and relaxation of regulations on Chinese businesses’ stock listing abroad.

(5) We request an early approval of ETF for Japanese stocks.
• Simplification of the listing application process for foreign index ETF

(6) We request the following in relation to the relaxation of regulations on cross-border renminbi transactions.
• Relaxation of RQFII regulations
• Relaxation of regulations on renminbi-denominated direct investments from offshore

(7) We request that Japanese financial institutions contribute to and support lead manager acquisition in relation to the fund procurement taking place through the new openings and stock sales of Chinese state-owned businesses and financial institutions.
Chapter 9 Tourism and Leisure

1. Travel

Visitors to China from Japan in 2016 totaled 2.58 million, an increase of 3.6% on the previous year. This is a positive sign that the downward trend of the past five years has turned. However, to achieve a full-fledged recovery trend for Japanese travel to China, we need to communicate more effectively about the improvement of the environment in China. At the same time, Chinese visitors to Japan reached an all-time high of 6.37 million (27.6% over the previous year), reaching 6 million for the first time on any market and continuing to be the biggest Japan-travel market. It is necessary to open up the international travel business for the Chinese public to the Wholly Foreign-investment Travel Agencies (外商独资旅行社) in order to strive for higher-grade international travel for the Chinese public and promote mutual understanding between Japan and China.

2016 Market Trends for the Japanese Tourism Market to China

According to the Ministry of Justice’s statistics on inbound and outbound travel in 2016 (January–December), the number of Japanese departing the country was 17.116 million, an increase of 5.6% on the previous year (an increase of 902,631 persons), which is the first increase in four years (even though international travel demand fell significantly in 2015 due to concerns about public safety, mainly in Europe, which makes a comparison with 2014 more valid for understanding the actual market trend). There was an increase of 1.3% (213,302 persons) over 2014, meaning a return to 2014 levels more or less. Looking by generation, youths and active workers aged 25–44 and senior citizens aged at least 60 saw a decrease from 2014 for both men and women. Looking at administrative divisions, only 11 areas—including Hokkaido, Tokyo, Kyoto, Osaka, Hyogo, Fukuoka, and Okinawa—showed an increase in 2014. If we remove the urban regions, it becomes difficult to say that the demand for international travel has really recovered.

In the Basic Plan on Tourism Promotion, the Japan Tourism Agency set the goal of 3 million outbound youths (20–29 years) in 2016. They totaled 2.819 million, for an increase of 11.2% over 2015 and 4.6% over 2014. Although the goal was not reached, the trend is positive. At the same time, demand recovery is slower among senior citizens, who are more sensitive to public safety issues, so that the core age group of Japanese sightseers to China, aged 60–64, decreased by 10.9% from 2014 for women and by 5.9% for men. For those aged 70 and over, there was a decrease of 7.1% from 2014 for women and 1.9% for men. The 2014 levels were not reached. The recovery is slower for women than for men, so that the theme for 2017 will be the recovery of demand among senior women.

According to statistics from the China National Tourism Administration, the number of foreign visitors to China in the first half of 2016 (January–June) totaled 13.47 million (an increase of 9.0% on the previous year, not including Hong Kong, Macao, and Taiwan). It is also predicted that a growth rate of about 4% will be maintained in the second half. The number of Japanese visitors to China in 2016 (January–December) has not been released by the China National Tourism Administration, but a conversation with the Chinese Embassy in Japan revealed that the number of Japanese travelers to China in 2016 was 2.58 million, an increase of 3.6%. It is positive that the downward trend for the past five years has turned, but there is too little evidence to determine whether Japanese travel to China is in a full-fledged recovery trend.

Declining Image of China

In Japan in recent years, negative information about Chinese issues such as air pollution, food safety, and Chinese manners has gained publicity, lowering the image of China as a travel destination. According to the
Opinion Poll on the Diplomacy of the Cabinet Office (conducted in November 2016), 16.8% of respondents felt “close” to China (3.4% felt “close,” and 13.4% felt “more close than not”), while 80.5% felt “distant” from China (34.6% felt “more distant than close,” and 46% felt “distant”), placing China low among the countries and territories discussed in the survey.

Figure 1. Japanese people’ closeness to countries and territories

Source: Opinion Poll on the Diplomacy of the Cabinet Office (conducted November 2016)

Japanese travel agencies are facing a declining trend for Japanese travel to China and the general view that China is a volatile region with geopolitical risks, forcing them to reduce the contents of pamphlets aimed at Japanese solo travelers (fewer set courses) and China’s priority as a suggested destination in group travel sales. The decrease in solo and group travelers will cause Japanese travel agency workers to have less knowledge about China and less motivation to sell travel there, creating a vicious cycle of fewer travelers to China.

Moreover, the worsening image of China has sharply reduced sister-city exchange projects and youth exchanges centering on school trips, all of which were vital during the 1990s and 2000s. There are now fewer opportunities for creating mutual understanding between Japanese and Chinese people. The benefits of promoting youth travel to China go far beyond the travel business but also promote mutual understanding between Japan and China in the mid and long term. The number of youths aged 15–24 who traveled abroad in 2016 increased by 16.7% over 2015 and by 13.2% over 2014, showing that destinations abroad are starting to become popular for school, work, and solo trips. The revision proposal for the Basic Plan on Tourism Promotion, which concerns the four-year-period of FY2017–2020, adds the goal of 20 million outbound travelers and gives the number of young (aged 20–29) outbound travelers (3.5 million in 2020) as a reference index. There is a need to work on initiatives that can encourage youths and young people to pick China as their destination.

Rising Prices

The vigorous Chinese demand for travel to Japan is leading to an increase in seats provided on flights between Japan and China, but prices are rising. At the same time, the growing Chinese demand for domestic travel is causing hotels to deprioritize marketing to Japanese, which is why getting hotel rooms and achieving room price stability is extremely difficult throughout the year. Thus, it is inevitable that those in charge of planning solo trips or selling group travel at Japanese travel agencies are becoming passive when it comes to promoting travel to China.
At the same time, the Japan Association of Travel Agents (JATA) wants to commemorate the 45th anniversary of the normalization of Japan–China relations and aims to attract about 3.5 million Japanese travelers to China in 2017, taking the initiative to stimulate and expand demand throughout the year by mobilizing the whole travel industry under the theme “New Discoveries in China.” Centering on sightseeing elements like serviced cities, world heritage sites, and 5A, they attempt to create and sell tour products that showcase China’s allure in new ways. Major cities are working together with provincial tourism administrations to organize 45th anniversary events (e.g., tourism, culture, sports, festivals, and youth exchanges).

2016 Market Trends for Chinese Tourists to Japan

According to estimates from the Japan National Tourism Organization (JNTO), the number of visitors to Japan hit a record 24.03 million (an increase of 21.8% from the previous year). Of these, Chinese visitors to Japan totaled 6.37 million, an increase of 27.6% from the previous year, reaching 6 million for the first time in any market, and continuing to be the biggest Japan-travel market, as it was in 2015. More cruise ships and flights in service, the continuous promotion of travel to Japan, relaxations of visa requirements, the provision of a consumer tax exemption system, and more free independent travelers (FIT) are thought to be the principal causes.

Of these, one measure thought to have had an immense effect on increasing the number of ships is the introduction of the “Ship Tourist Disembarkation Permit System,” which aims to make the entry process smoother. According to the Ministry of Justice’s statistics on inbound and outbound travel, the number of ship tourist disembarkation permits in 2016 totaled 1.936 million, an increase of 80.7% (864,745 persons) from the previous year. Looking at the permits by nationality and area, Chinese were the biggest group at 1.605 million persons, an increase of 87.3% and making up 82.9% of the total. A breakdown of ports used shows that most arrived in Hakata, which received 763,768 visitors (an increase of 56.2%). Hakata is followed by Nagasaki, which received 405,598 visitors (an increase of 23.9%); Naha, which received 144,951 visitors (an increase of 80.4%); Kagoshima, which received 94,684 visitors (an increase of 156.9%); and Ishigaki, which received 15,885 visitors (an increase of 6,203.6%). New flight routes have also been added along with more flights and charter flights during the summer holidays. In this way, the vigorous demand has been boosted by increasing supply volumes.

Challenges for Foreign-invested Travel Agencies and Requests about Environmental Policy Measures

Effective Communication about Environmental Problems

At the “Second China Tour Planning Contest Award Ceremony” held at the PRC’s Embassy in Japan on February 23, 2017, the Chinese ambassador set 10 million people as a provisional goal for Japanese–Chinese exchange, saying that “The tourism resources of China and Japan are abundant. Tourism demand still possess great potential for growth.” He said that “We can hope for an improvement of Chinese–Japanese relations and better understanding between our peoples” by promoting private exchange. Moreover, while demand for travel to Japan has grown by a considerable 30%, the same cannot be said for China-travel demand. The ambassador said that “I hope you can contribute, so that even more Japanese friends can visit China,” asking for the cooperation of those in the tourism and aviation sectors.

It goes without saying that China is one of the top countries in the world in terms of tourism resources, including world heritage sites, food, culture, and history. In recent years, the development of a high-speed rail
network and the existence of a rich array of LCC and other travel routes to 40 Japanese cities have rapidly been creating an environment that makes it easy to visit not only Chinese cities, but also the provinces. We believe that a necessary requirement for initiating full-fledged recovery for Japanese travel to China must be improving Japanese people’s image of China. Japanese people have a strong preference for health and safety. A major reason why elderly and family travelers, as well as students as part of school trips, hesitate to travel to China, despite a sufficient awareness of its appeal, appears to be environmental concerns, starting with air pollution. China is putting a lot of effort into environmental policies, such as measures against air pollution. The Minister of Environmental Protection made it clear at a press conference on March 9, 2017, that the average concentration of “PM\textsubscript{2.5}” particles, measured at fixed locations in the 74 major cities, had gone down by approximately 30% between 2013 and 2016, saying that “We are definitely working toward improving the air pollution problem.” Sadly, this was not widely reported in Japan. With the exception of some rare cases, all travel behavior, especially tourist travel behavior, is a kind of consumption behavior that occurs when the attractiveness of a destination outweighs worries about its safety. This year is the 45\textsuperscript{th} anniversary of the normalization of Japan–China relations, and the next year is the 40\textsuperscript{th} anniversary of the Treaty of Peace and Friendship between Japan and China. Thus, Japan–China relations will be highlighted more than in other years. It is necessary that potential consumers thinking about traveling to China are exposed not only to the promotion of China’s attractive qualities, but to effective communication about environmental improvements there.

**Wholly Foreign-investment Travel Agencies (外商独资旅行社)**

In 2011, three foreign-invested joint-stock travel agencies (of which one is Japanese) were given trial permission to deal with Chinese outbound travel, but no new permits have been issued for Wholly Foreign-investment Travel Agencies (外商独资旅行社) since. In October 2015, Beijing relaxed regulations on outbound travel operations for foreign-invested joint-stock travel agencies, but there are almost no Japanese travel agencies with joint stock in Beijing, and it is not realistic to make new investments in that format. In June 2016, the State Council (国务院) announced that Article 23 of the Travel Agency Regulations (旅行社条例), which prohibits Wholly Foreign-investment Travel Agencies (外商独资旅行社) from managing Chinese outbound travel, as well as travel to Hong Kong, Macao, and Taiwan, would be stopped provisionally in the pilot free trade zones. Thus, Wholly Foreign-investment Travel Agencies (外商独资旅行社) that fulfill the requirements may manage Chinese outbound travel (excluding Taiwan), although only in the pilot free trade zones.

Wholly Japanese-owned travel agencies have long collaborated with Chinese domestic travel agencies and accommodation organizations, contributing greatly to the service-level enhancement and economic development of China’s tourism-related industries, as well as to the development of Japan–China tourism, cultural, and economic exchange. However, most of the work carried out by wholly Japanese-owned travel agencies has been limited to inbound travel and travel within China, meaning that they have been greatly affected by the decrease in Japanese visitors to China in recent years and that there are many enterprises whose business foundation has weakened.

Japanese travel agencies pride themselves on their know-how and systems for providing high travel service quality—this is a strength possessed only by Japanese agencies, as they have continually made efforts to respond to Japanese consumer demands for the highest travel service quality in the world. Japanese travel agencies possess a wide variety of know-how about travel product creation and reservation systems, which they have accumulated in Japan over many years. They also possess arrangement networks across not only Japan but the world, and several major agencies have expanded to China.
In recent years, the focus has been entirely on the increase of Chinese visitors to Japan, but some have voiced misgivings about Chinese travel agencies’ travel service quality, security, and safety. If wholly Japanese-owned travel agencies were to utilize their global networks and know-how about high travel service quality for outbound operations, this would likely contribute substantially to stimulating Chinese domestic travel agencies, accelerate the industry’s speed of development, expand investments, create jobs, and most importantly, improve the quality of Chinese people’s foreign travel. In addition, if wholly Japanese-owned travel agencies with a sales base in Japan came to manage both inbound and outbound travel, this would likely contribute to the recovery of Japanese travel to China. We thus strongly request that the management of Chinese outbound travel be opened up to Wholly Foreign-investment Travel Agencies (外商独资旅行社).

### Figure 2. Changes in mutual visitors between Japan and China

![Graph showing changes in mutual visitors between Japan and China](source.png)

Source: Created from Ministry of Justice materials on inbound and outbound travel, UN World Tourism Organization (UNWTO), Japan National Tourism Organization (JNTO), China National Tourism Administration, etc.

### Proposal

1. **Opening up the management of Chinese outbound travel**

Since the normalization of Japan–China relations in 1972, Japanese travel agencies have supported many Japanese travelers during their visits to China, thereby contributing to the development of Japan–China tourist, cultural, and economic exchange. Wholly Japanese-owned travel agencies, with their proud maintenance of high travel service quality know-how, have greatly contributed to the service enhancement of tourism-related industries in China, as well as the economic development of those industries. However, as the number of Japanese visitors to China has decreased significantly from the 3.97 million peak in 2007, and continues to fall, partially due to worries about an increasingly serious air pollution problem and food safety, the business foundation of Japanese travel agencies is shaking. In 2011, three foreign-invested joint-stock travel agencies (of which one is Japanese) were given trial permission to deal with Chinese outbound travel, but no new permits have been issued for Wholly Foreign-investment Travel Agencies (外商独资旅行社) since. In 2015, the number of Chinese outbound travelers exceeded 100 million, and the focus has been entirely on increasing Chinese visitors to Japan. At the same time, some have voiced misgivings about Chinese travel agencies’ travel service quality, security, and safety.
The growth and development of Wholly Foreign-investment Travel Agencies (外商独资旅行社) is part and parcel of the upgrading and development of China’s tourism-related industries. We believe that the networks and know-how possessed by Wholly Foreign-investment Travel Agencies (外商独资旅行社) will contribute greatly to the upgrade of Chinese outbound travel and the development of China’s tourism-related industries, as we are predicting a considerable increase in specialized outbound solo travel. We thus strongly request that the management of Chinese outbound travel be opened up to Wholly Foreign-investment Travel Agencies (外商独资旅行社) as soon as possible.
2. Hotels

**Chinese Visitors to Japan and Japanese Visitors to China**

Business success in the hotel industry is largely influenced by changes in inbound travelers from abroad. In the increase of Chinese visitors to Japan and the decrease in Japanese visitors to China, we can see a clear contrast between the states of the hotel business in the two countries.

**Chinese Visitors to Japan Keep Increasing While Japanese Visitors to China Show a Downward Trend**

According to the Japan National Tourism Organization, the number of Chinese travelers visiting Japan between January and June 2016 reached 3.807 million, an increase of 38.2% over the same period in the previous year. The number of Chinese visitors to Japan continues to grow at a high pace that exceeds even that of 2015, which was a record year.

By contrast, according to the China National Tourism Administration, the number of Japanese people visiting China throughout 2015 did not exceed 2.497 million, a decrease of 8.1% from the previous year; this decrease is happening both for business and leisure travelers. Japanese tourists to China have declined sharply, reaching no more than 516,200, a decrease of 35.0% from the previous year.

There is an obvious contrast between the number of Chinese visitors to Japan and the number of Japanese visitors to China. The *People’s Daily Online*, a Chinese media outlet, pointed out that increasing the number of Japanese travelers to China is an urgent task for the Chinese travel market in an article asking “How Can We Increase the Number of Japanese Visitors to China?”

In thinking about why fewer Japanese travel to China, the article lists “a worsening image of China in Japan” and “fewer Japanese going on graduation trips” and discusses why the number of Japanese visitors keeps dropping despite an abundance of Chinese tourism resources, such as Chinese food and scenic beauty. The article identifies China’s air pollution problem as a big reason, pointing out that “China’s air pollution is an object of disgust for people who care about their health”; it also argues that other reasons include China’s lack of active promotion and changes in Japanese needs.

If we take the above into consideration, it would seem that the worsening image of China in Japan, including the air pollution problem, is a major cause for the decrease in Japanese travelers to China. This is not something that can be solved in a day, and it will take time before Japanese travelers start going to China again.

**Table 1. Changes in Chinese visitors to Japan and Japanese visitors to China, 2011–2015 (unit: million people)**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Comparison between 2011 and 2015 Increase of 3.950,000 or 479.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chinese visitors to Japan</td>
<td>1.04</td>
<td>1.43</td>
<td>1.31</td>
<td>2.41</td>
<td>4.99</td>
<td></td>
</tr>
</tbody>
</table>

260
Japanese visitors to China decreased by 1,160,000 or 68.3%.

Source: Japan National Tourism Organization (JNTO)
Reference: Chinese visitors to Japan in 2016 hit an all-time high of 6,370,000.

**Situation for Hotels in China**

**Present and Future for Luxury Hotel Groups**

Four- and five-star luxury hotels have expanded in China since the late 1980s and continue to do so today. However, although domestic travelers are on the rise, the number of visitors to China remains low due to sluggish economic conditions in developed countries, with the effect that the room occupancy is also low. As price increases for rooms have been small, the sales growth rate for luxury hotels has been stagnant in recent years (foreign visitors to China totaled 27.110 million in 2011 → 25.99 million in 2015).

Among luxury hotel groups, the share of foreign-invested hotel chains is far greater than the shares of local hotels and Chinese-invested hotel chains. Foreign-invested hotels have high familiarity and high cost competitiveness thanks to management know-how accumulated over many years and scale merit, and they maintain a high standard in terms of indicators such as room prices and operating profit, allowing them to sustain a more robust performance overall than Chinese-invested hotels do.

As for the prospects of luxury hotel groups, some increase in room numbers is predicted, although we cannot expect a massive increase in travelers. Thus, room occupancy is likely to remain as it is, and room prices will probably not increase. Additionally, the banquet and restaurant division, which generates half of the sales for normal hotels, is declining as a result of the central government’s policy of “suppressing the three public expenses,” while personnel costs continue to rise, meaning that worries about profitability will continue.

Table 2 below shows the changes in the number of star-rated hotels and the total number of rooms across China after 2011. Four- and five-star hotel luxury groups are increasing while one- to three-star hotels are decreasing.

**Table 2. Changes in the number of star-rated hotels and rooms, 2011–2015**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rooms (1,000)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-star hotels</td>
<td>615</td>
<td>640</td>
<td>722</td>
<td>745</td>
<td>789</td>
<td>174 increase</td>
</tr>
<tr>
<td>Rooms (1,000)</td>
<td>218</td>
<td>252</td>
<td>269</td>
<td>261</td>
<td>269</td>
<td>51,000 increase</td>
</tr>
<tr>
<td>4-star hotels</td>
<td>2,148</td>
<td>2,186</td>
<td>2,370</td>
<td>2,373</td>
<td>2,375</td>
<td>227 increase</td>
</tr>
<tr>
<td>Rooms (1,000)</td>
<td>425</td>
<td>437</td>
<td>469</td>
<td>470</td>
<td>471</td>
<td>46,000 increase</td>
</tr>
<tr>
<td>3-star hotels</td>
<td>5,473</td>
<td>5,379</td>
<td>5,735</td>
<td>5,406</td>
<td>5,098</td>
<td>375 decrease</td>
</tr>
<tr>
<td>Rooms (1,000)</td>
<td>611</td>
<td>603</td>
<td>635</td>
<td>592</td>
<td>572</td>
<td>39,000 decrease</td>
</tr>
<tr>
<td>2-star hotels</td>
<td>3,276</td>
<td>3,020</td>
<td>2,922</td>
<td>2,557</td>
<td>2,197</td>
<td>1,079 decrease</td>
</tr>
<tr>
<td>Rooms (1,000)</td>
<td>214</td>
<td>198</td>
<td>13</td>
<td>170</td>
<td>147</td>
<td>67,000 decrease</td>
</tr>
<tr>
<td>1-star hotels</td>
<td>164</td>
<td>142</td>
<td>146</td>
<td>99</td>
<td>91</td>
<td>73 decrease</td>
</tr>
<tr>
<td>Rooms (1,000)</td>
<td>8</td>
<td>7</td>
<td>7</td>
<td>5</td>
<td>4</td>
<td>4,000 decrease</td>
</tr>
<tr>
<td>Star-rated hotel total</td>
<td>11,676</td>
<td>11,367</td>
<td>11,895</td>
<td>11,180</td>
<td>10,550</td>
<td>1,126 decrease</td>
</tr>
</tbody>
</table>
Star-rated Hotels’ Competitiveness by Area

In 2015, there were 10,550 star-rated hotels, ranging from one to five stars. Table 3 below shows the trends in room business performance by city and region. The strength of the business city Shanghai stands out, but Hainan is also exhibiting high competitiveness thanks to the investments made in the leisure market there. Government-ordinance and designated cities, as well as coastal Huadong and Huanan, are concentrated in the top 10, but Hunan and Hubei are close to the top 10 in terms of room occupancy. We can also expect spectacular development in Chengdu; Sichuan along with Changsha, Hunan and Wuhan; and Hubei.

Table 3. Room occupancy and average price for star-rated hotels by principal geographical area in 2015

<table>
<thead>
<tr>
<th></th>
<th>Room occupancy</th>
<th>Room average price (yuan)</th>
<th>Competitiveness RevPAR *business performance ranking in ()</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>61.4%</td>
<td>513.1</td>
<td>315.2 (2)</td>
</tr>
<tr>
<td>Shanghai</td>
<td>65.8%</td>
<td>684.8</td>
<td>450.6 (1)</td>
</tr>
<tr>
<td>Tianjin</td>
<td>51.1%</td>
<td>398.4</td>
<td>203.5 (6)</td>
</tr>
<tr>
<td>Chongqing</td>
<td>56.0%</td>
<td>332.0</td>
<td>185.8 (9)</td>
</tr>
<tr>
<td>Hainan</td>
<td>56.2%</td>
<td>494.8</td>
<td>280.4 (3)</td>
</tr>
<tr>
<td>Guangdong</td>
<td>54.7%</td>
<td>396.7</td>
<td>216.8 (4)</td>
</tr>
<tr>
<td>Fujian</td>
<td>57.9%</td>
<td>351.9</td>
<td>203.6 (5)</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>55.0%</td>
<td>366.6</td>
<td>201.5 (7)</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>58.1%</td>
<td>338.8</td>
<td>196.8 (8)</td>
</tr>
<tr>
<td>Sichuan</td>
<td>56.8%</td>
<td>325.9</td>
<td>185.0 (10)</td>
</tr>
</tbody>
</table>

Figures are taken from public statistics of the China National Tourism Administration

On the Transition from Business Taxes to Value-added Taxes

Due to a tax reform measure of May 1, 2016, the Chinese hotel industry has transitioned from “business taxes” to “value-added taxes.” It was expected that the value-added taxes would reduce taxes for hotels, but some Western-invested hotels used the transition to valued-added taxes as an excuse to increase fees and were reprimanded by the authorities. “Business taxes” were a system whereby the hotels paid 5% of their gross revenue to the provincial tax office, while “value-added taxes” is a system whereby the hotels take what corresponds to 6% of charges as value-added tax from the customers and pay it to the State Administration of Taxation (国家税务总局). This 6% cannot be included in the hotels’ revenue, leading to decreased revenue. At the same time, as they are now exempt from paying business taxes, expenses have steadily gone down, and business revenue is at about the same level as before the tax reform. Moreover, as the value-added taxes allow for the deduction of input tax credits, we can expect the system to lead to further tax reduction measures. Normally, the result of this would be lower revenue and higher profits, but some hotels make up the lost revenue by raising prices and increasing their profit margin, which the authorities consider an unfair mark-up.

Hotel managers and financial officers should be cautioned, so that they understand the meaning of “value-added taxes” and do not increase the burden on customers.
<Proposal>

(1) China is home to some of the world’s finest tourism resources, but the number of foreign visitors has not yet recovered. We request that the National Tourism Administration take the initiative to attract tourists from Japan and other parts of the world.

(2) A significant reason why the number of foreign visitors is not recovering is the air pollution problem, for example with PM$_{2.5}$. We request that information about how the public and private sectors are working together to improve the situation, and how that is starting to bear fruit be conveyed to the world and not just within China.

(3) During international broadcasts by CNN and NHK, which are approved by the Chinese authorities, the screen can suddenly go black when there are reports about China. Hotel guests do not understand the situation and think that the TV is broken, which results in complaints to the hotel. We request that some onscreen text be shown while the screen is black, such as “The broadcast has been temporarily put on hold.”

(4) Work permits and residence certificates have to be renewed annually but take up to 10 business days. It is inconvenient when one’s passport disappears during the renewal application, so that one cannot travel internationally. We request that action on the matter be taken, for example by reducing the days required for renewal or making the renewal period every two years.

(5) People in China often ride motorbikes and bicycles at night without any headlights, which is dangerous for foreigners who are not used to the traffic situation in China. This can lead to dangerous situations, especially with electric bicycles, which can approach you suddenly without making any sound. We request that the government take the lead in thoroughly enforcing traffic regulations.
Part 4: Present Conditions and Proposals for Various Regions
Chapter 1 Northern China (Beijing, Tianjin, and Shandong Province)

Beijing

The gross regional product (GRP) for Beijing in 2016 was 2.490 trillion yuan. The real growth rate was 6.7%, exactly the same as China’s national growth rate. The per capita GRP was 115,000 yuan. The municipal government had a GRP (growth rate) of 6.7–6.9% for each quarter in 2016, while the unemployment rate for each month remained low at 1.5%. With the consumer price index (CPI) rising at a rate of less than 1.5% per month, the economy for 2016 remained stable, with an assumed target growth rate of around 6.5%.

Economic Conditions in 2016

The GRP growth rate in 2016 slowed by 0.2 percentage points from 6.9% in 2015. The Beijing Municipal Bureau of Statistics has indicated that the economy developed steadily and soundly in 2016, realizing a good start to fulfill the 13th Five-Year Plan (第十三个五年规划纲要, “十三五”规划). Looking at GRP by industry, primary industries saw an 8.8% decrease from the previous year to 12.96 billion yuan, secondary industries saw an increase of 5.6% to 477.4 billion yuan, and tertiary industries saw an increase of 7.1% to 1.999 trillion yuan.

The consumer price inflation rate was 1.4% with prices remaining steady. Investments in all fixed public assets increased by 5.9% in 2016 (5.7% increase in 2015), industrial production above a prescribed scale increased by 5.1% (1.0% increase), and the total retail sales of consumer goods increased by 6.5% (7.3%), as stable growth was maintained despite a slowdown in consumption.

The permanent population at the end of 2016 exceeded that at the end of 2015 by 24,000, a year-on-year increase of 0.1% to reach 21.73 million. The increase in the permanent population was 165,000, which was less than that at the end of 2015 (189,000), with a rate of increase of 0.8 points less than that for 2015. The rate of increase in the permanent population was lower for the sixth consecutive year since 2011. Commercial real estate property sales increased by 1.1 points, from 6.6% to 7.7%.

Inward direct investment saw contract amounts decrease by 31.8% from the previous year to US$ 22.07 billion, while the execution amount increased by 0.3% to US$ 13.03 billion. The decrease in contract amount swelled by 22.5 percentage points, while the increase in execution amount slowed by 43.5 percentage points. The amount of investment by Japanese firms had decreased for four consecutive years up through 2015, but in 2016, it increased by 2.1% to US$ 124.49 million from the previous year. (The contract base decreased by 85.8% to US$ 55.06 million.)

Features of Beijing

Beijing is the capital of China and has evolved as China’s political, economic, and cultural center to become one of the world’s leading international cities. Looking at GRP market share by industry (2015) based on the China Statistical Yearbook for 2016, Beijing’s tertiary industries had the highest share of GRP at 79.7%, enjoying an overwhelming lead over second-place Shanghai, whose share of the same market came in at 67.8%.
Based on the Beijing Municipal Statistical Yearbook for 2016, if we look at industry-specific shares in the tertiary industry (2015), financials make up 21.6% of the total, followed by wholesale/retail (12.9%), telecommunications and software (13.1%), scientific research/industrial technology services (10%), and leasing/business services (9.7%; leasing/business services include the management base). The latter three are services offered to businesses and are often referred to as the advanced service industry—they are tasked with improving corporate development and technical capabilities and play an important role in the industrial upgrading process. Looking for even more innovative development and improvements in productivity in Beijing, there will be even more demand for these industrial clusters in the future.

As Beijing is home to many Chinese corporate bases and also serves as the overseas base for many foreign companies, including Japanese companies, its advanced service industry is thought to deploy services not only to the city but also throughout China. The clustering of these industries in Beijing can be considered important for China’s entire industrial upgrading.

We feel that promoting these industrial clusters is beneficial for continuing to further attract leading companies together with bases for overseas companies, including Japanese companies, and the advanced services industry.

**Toward the Promotion of Superior Human Resources, Corporate Clustering, and Promotion of the Services Industry**

Based on the above, Japanese companies have been increasingly expanding in Beijing. In order to contribute to the economic development of Beijing, we bring up the following four points with regard to the task at hand.

First, in contrast with other Chinese cities, in an effort to promote the clustering of human resources appropriate for regional headquarters and locations of leading companies, we call for the development of advanced personnel policies. Having attained truly fantastic growth, we feel that one key factor for the future development of Beijing is human resources. Further utilization of foreign talent is thus beneficial and, to make it possible to flexibly and agreeably deploy the Japanese and other non-Chinese who possess valuable experience, we would like to see an abatement of excessive costs (costs related to social insurance and residential permit procedures as well as procedural costs) related to expatriates.

In particular, regarding the method for calculating the annual payment amounts for persons receiving disability pensions, some Japanese companies have seen their payments increase sharply many times over because the average wage of all employees, including foreign employees, was used as a base. When employing disabled individuals, it seems appropriate to pay salaries in keeping with the salary level of the region in question. As such, we feel that this should be used as the base for calculating average salary in the local area.

Moreover, with the establishment of labor markets for people with disabilities and launch of referral centers specializing in the disabled, we hope that an environment that allows for bidirectional selection between the disabled and employees will be realized.

In addition, it is also beneficial to provide an environment wherein Chinese professionals can further demonstrate their abilities. To make it possible to flexibly and agreeably deploy superior Chinese professionals, we would like to see incentives strengthened for qualified individuals from provincial areas of China.
Second, in contrast with other Chinese cities, to encourage the clustering of regional headquarters and companies in the science and technology fields, we feel that Beijing should implement highly transparent policy management, strengthen preferential treatment of high-tech enterprises and the cutting-edge service industry, and simplify administrative procedures.

Securing transparency is indispensable for domestic and foreign companies in China in their efforts to actively develop their businesses, and it can also be considered a premise for the attainment of the modern market system as advanced by the Chinese government. Even though regional offices are established and certified as “regional headquarters,” there are cases wherein subsidies are withheld due to low contributions from tax revenues, and so improvements are definitely in order.

Moreover, to promote the clustering of advanced technology in Beijing, we would like to see an expansion of the system of favorable treatment for high-tech enterprises, including integrated circuit producers and software companies. For example, it is conceivable to expand the period of reduction and exemption of corporate income taxes for these companies, as well as extend similar favorable treatment to other high-tech fields.

Furthermore, to realize an industrial structure that is appropriate for its status as the capital city, along with high-tech enterprises, we feel it is important to promote the location of the aforementioned advanced service industry. In Japan, these advanced service industries are regarded as the “brains” of the industry. Thus, clustering of these industries—referred to as the “brain location law”—is promoted. Some success has been achieved through tax benefits and low-interest loans from public financial institutions.

Third, pursuant to expanding its services and promoting open comprehensive testing, we encourage Beijing to hear out Japanese companies that have entered the market and request aggressive development in individual areas. For example, because we cannot see any developments when it comes to liberalization of the treatment of overseas travel by Chinese citizens at travel agency monopolies, we feel that border licenses for travel agency monopolies should be approved by Beijing for future development of the travel industry. Moreover, according to the “Administrative Provisions for Overseas Telecommunications Companies (State Council decree no. 534),” which regulates foreign capital with regard to Internet transactions (added-value telecommunications companies), joint venture travel companies cannot sell products (such as package tours) other than their own. They also cannot conduct online advertising, and so we believe that Beijing should take a progressive approach in deregulating these.

Fourth, to create a living environment appropriate for headquarters offices, we feel that in contrast with other Chinese cities, Beijing should undertake initiatives from a comprehensive perspective when it comes to areas closely related to people’s daily existence. In recent years, municipal governments have strengthened initiatives aimed at reducing air pollution and traffic while aiming to further strengthen cooperation with other ministries; we would like to see governments continue to emphasize these issues as they work with a comprehensive perspective.

**Continuing the Dialogue**

In 2016, a roundtable discussion was held in cooperation with several foreign businesses or associations and the Beijing Municipal Investment Promotion Bureau. We were very grateful for the lively and meaningful exchange of opinions that took place.

However, even more mutual understanding is needed in some areas, and we would like to see this dialogue continued with the Japanese Chamber of Commerce and Industry in China. To secure the time needed for an adequate exchange of opinions, it is desirable to hold such dialogue between Beijing and the Japanese Chamber of Commerce and Industry in China. Since 2014, the Japanese Chamber of Commerce and Industry in China has served as a forum for the exchange of opinions between the Beijing Municipal Investment Bureau and JETRO (The Japan External Trade Organization). We hope to continue to have the opportunity to
interact with government agencies in Beijing in order to continue our mutual understanding through an even wider variety of channels.

**<Proposal>**

(1) **As compared with other Chinese cities, in an effort to promote the concentration of human resources appropriate for regional headquarters and locations of leading companies, we call for the development of advanced personnel policies in Beijing.**

(1) To make it possible to flexibly and carefully deploy Japanese professionals with extensive experience, we suggest reducing excess costs (expenses and procedural costs) related to staff.

- **Social Insurance**

There are still situations wherein expatriate employees working in China must pay social insurance premiums in duplicate in both China and Japan. The payment of overlapping social insurance premiums in Japan and China by representatives, including temporary employees, constitutes a considerable burden for Japanese companies looking to locate to Beijing. We urgently request an increase in the frequency of consultations on the Japan–China social insurance agreements, and that negotiations to conclude such an agreement be accelerated in order to solve problems, such as double payment of social insurance fees, in order to reduce the burden on Japanese companies and expatriates.

- **Resident Permit Procedures**

As a result of an amendment to the Immigration Control Law in July 2013, the examination period for residence permit procedure has been changed from “five business days” to “within fifteen business days.” In Beijing, we welcome the shortened time frame of “within ten business days” that began in August 2015. However, since there are situations wherein foreigners need to go abroad at a moment’s notice, such as in the case of a parent’s misfortune or for urgent business-related business trips, we urge the return to the previous five business days. Moreover, in principal, renewal procedures are necessary for residence permits each year, but we would like to see the renewal period expanded.

- **Working Conditions of Foreign National Workers**

In June 2014, the “Notice on Further Strengthening of Employment Functions of Foreign Nationals in Beijing” was promulgated. One condition of this notice was “to have at least a bachelor's degree and two or more years of related work experience.”

Afterwards, on September 27, 2016, the “Notice of Printed Publication of a Permanent Work Visa System for Foreigners and Proposal for Enforcement of Exams” was issued by the National Foreign Specialists’ Bureau. This was highly acclaimed for simplifying the administrative system by which foreign workers acquire work permits, resulting in improved efficiency of administrative procedures.

Meanwhile, since there has been no notification from the Beijing Municipal Human Resource Social Security Bureau that “Notice of Further Enhancement of Employment Tasks of Foreign Nationals in Beijing” has been abolished, we suggest that operations be consolidated, so that inconsistencies do not arise when applying the laws.
In addition, the technological skills and organizational capabilities of Japanese companies are not necessarily dependent on the educational background of its personnel. We feel that restrictions on acquiring visas and work permits should be eased for personnel—even those aged 60 or older—who have considerable technical abilities and expertise and can contribute to the development of China by promoting innovation and providing technical guidance.

- **Treatment of Personal Income Taxes for those who Pay into Japanese Social Insurance**

With regard to the company burden of social insurance in Japan for Japanese employees assigned overseas temporarily, efforts to introduce a personal income tax are proceeding at full tilt. As this represents an excessive burden on taxpayers in terms of procedural aspects and costs, we encourage the central government to promote measures to reduce such corporate burdens as tax exemptions.

- **Standards for Collecting Disability Assistance**

With the current method of calculating the annual payment amount of persons with disabilities, the total number of employees in the office, number of employees with disabilities, and average annual wage of employees in the office are regarded as the basis for the annual payment amount. However, because the average wage for all employees, including foreign employees, was included in the base number, some Japanese companies have suddenly increased their payment amounts many times over. When it comes to employing the disabled, we feel it is appropriate to pay salaries at the level appropriate for the area, and so we recommend that the average annual income of the area be used as the basis for making calculations. Moreover, with the establishment of labor markets for people with disabilities and launch of referral centers specializing in the disabled, we feel that an environment that allows for interactive selection between the disabled and employees will be realized.

(2) To make it possible to flexibly and agreeably deploy top-flight Chinese professionals, we would like to see incentives strengthened for provincial areas of China.

- **The Household Register in Beijing**

Not possessing a household register in Beijing impacts education and other facets of daily life. Therefore, to secure talented individuals from rural areas, we request an increase in the quota of Beijing household registers for companies that meet certain criteria.

2. Second, in contrast with other Chinese cities, to encourage the concentration of regional headquarters and companies in the science and technology fields, we feel that Beijing should implement highly transparent policy management, strengthen preferential treatment of high-tech enterprises and the cutting-edge service industry, and simplify administrative procedures.

- **Uncertain Policy Management of Subsidies**

Starting in January 2009, we established a consolidated base in Beijing with capital of over 100 million yuan. Recognized as a “Regional Headquarters,” it will receive subsidies for three years. However, there are cases wherein subsidies are withheld due to low contributions from tax revenues. Generally, consolidated bases do not do business on their own; rather, their income is limited to dividends, administrative costs, and so on. Given that it takes a relatively long time to obtain dividend income through capital restructuring and investment, we request that subsidies be provided regardless of contributions to tax revenue for the purpose of providing support during the period.

- **System of Favorable Treatment for High-Tech Companies**
To introduce the advanced technology of foreign enterprises, we would like to see an expansion of the preferential treatment system for high-tech enterprises (including integrated circuit manufacturers and software companies).

- **System of Preferential Treatment for the Cutting-Edge Service Industry**

To realize an industrial structure suitable for the capital city of Beijing, we feel the siting of the cutting-edge services industry is critical. We are very much in favor of implementing favorable treatment systems for “scientific research/industrial technology services,” “information communications/software,” “leasing/business services,” and the like. By attempting to gain a concentration of advanced service industries, an efficient business environment is realized as a result of mutual stimulation and mutual complementation, and this is tied to site promotion for high-tech companies, including integrated circuit and software-related companies.

3 As the Beijing municipal government promotes service expansion and open comprehensive tests, we would like to see the following areas of active development in individual fields.

- **Approving Border Licenses for Wholly Foreign-investment Travel Agency (外商独资旅行社) Monopolies**

In 2011, only three foreign-affiliated joint-venture travel companies in Beijing were authorized to handle overseas travel by Chinese citizens, and there was no indication that there would be any liberalization of these travel agency monopolies. As a progressive approach, we also feel border licenses for travel agency monopolies should be approved by Beijing for future development of the travel industry.

Moreover, licensing regulations are imposed on foreign travel agencies for travel-related business, such as trips for studying in Japan for Chinese students and hosting of events such as travel expos in China. We would also like to see these businesses that contribute to the development of the travel services industry opened up to foreign travel agents.

- **Deregulating Internet Transactions**

We would like to see the central government revise the “Administrative Provisions for Overseas Telecommunications Companies),” which regulates foreign capital with regard to internet transactions (added-value telecommunications companies). In the travel industry, a joint venture of a foreign-owned corporation and a majority-owned foreign capital travel agency cannot sell products other than their own (such as packaged travel) or carry out online advertising.

In an effort to develop the Chinese travel industry, we would like to see Beijing undertake deregulation as a progressive initiative.

- **Bidding for Consumer Goods in Public Medical Institutions**

Bidding for high-value consumer goods such as pacemakers has not been carried out in Beijing since 2007. There is the widely held opinion that many new public medical institutions cannot offer new products. We request periodic bidding and centralized purchasing, so that patients can receive the latest medical care.

- **Relaxing Restrictions on Medical-Related Investment Businesses**

With regard to medical-related investment projects, simplification of the declaration process was realized, but there are restrictions on the investment ratio, joint venture period, and total investment amount. By accelerating the investment of foreign capital in the same field, we anticipate that this will contribute to the growth and development of the medical industry. Hence, as a progressive initiative, we would like to see Beijing relax real barriers to entry.
4. To create a living environment appropriate for headquarters offices, we feel that in contrast with other Chinese cities, Beijing should undertake initiatives from a comprehensive perspective when it comes to areas closely related to people’s daily existence.

- **Accelerated Business Licensing of Retail Stores**

After retailers and the like are built, inspections are carried out by the administrative district, environmental protection authority, and supervisory bureau of the Food and Drug Administration. However, the schedule and content of the field inspection vary depending on the person in charge, and since it takes about a month and a half to complete a store before a business license is acquired, the burden of paying rent on an unopened shop looms large. It would be preferable if the procedure could be sped up through a one-stop process. Moreover, at domestically subsidized convenience stores, there are cases wherein no punishments are administered even though cooking is done inside the store and fast food is sold without any regard to licensing or management scope. This constitutes unfair competition. We would like to see the administration treat domestic and foreign companies the same.

- **Air Pollution**

We are adamant in our desires to see air quality improved. We have heard that such efforts are being unveiled in the Beijing–Tianjin–Hebei area, but we strongly urge the implementation of more effective measures over a wide area by strengthening cooperation with other ministries.

- **Traffic Congestion**

Traffic in Beijing is steadily deteriorating.

We hope to see improvements such as further improvement and expansion of public transport, strengthening of traffic control, establishment of parking lots, control of illegal parking, and efforts to raise citizens’ awareness with regard to compliance with traffic rules.

**Tianjin**

GRP for Tianjin in 2016 was 1.788 trillion yuan. The real growth rate was 9.0%, 2.3% higher than China’s national growth rate (6.7%), as high economic growth was maintained. The per capita GRP was 115,613 yuan, making it six consecutive years since 2011 that Tianjin has had the highest GRP in China. To maintain sound economic development and social stability, the municipal government set a target growth rate of 8.0% for 2017.

**Economic Conditions in 2016**

The real GRP growth rate in 2016 slowed by 0.3 percentage points from 9.3% in 2015, falling to its target value (around 9%) at the beginning of 2016 as high economic growth continued. Looking at GRP by industry, primary industries saw a 3.0% increase from the previous year to 22.022 billion yuan, secondary industries saw an increase of 8.0% to 800.387 billion yuan, and tertiary industries saw an increase of 10.0% to 96.613 billion yuan. Tertiary industries made up 54.0% of the city’s GRP.

The consumer price inflation rate was 2.1% with prices remaining steady. Investments in all fixed public assets increased by 12.0% in 2016 (12.1% increase in 2015), industrial production above a prescribed scale increased by 8.4% (9.3% increase), and total retail sales of consumer goods increased by 7.2% (10.7%), as growth slowed after the first half of the year.

Total trade decreased by 10.2% from the previous year to US$ 102.651 billion as a double-digit decrease was achieved for two consecutive years. Exports declined by 13.4% to US$ 44.286 billion, and imports declined by 7.6% to US$ 58.365 billion. There was a trade deficit of US$ 14.079 billion.
Inward direct investment saw contract amounts of US$ 30.83 billion, while the execution amount increased by 12.2% to US$ 10.1 billion. Of this, 24.8% was accounted for by investment in the China (Tianjin) Free Trade Area (自由贸易试验区). Japanese companies accounted for US$ 1 billion of these investments, making Tianjin second in all of China in this regard, trailing only Shanghai.

**Features of Tianjin**

Tianjin is one of the four direct-controlled municipalities in China. Located in the center of the Bohai Sea Economic Zone, it enjoys a special geographical position as the largest open coastal city in northern China. In April 2015, trade liberalization was aimed for in the China (Tianjin) Free Trade Zone after economic reforms were pursued for three to five years. The goals were a highly convenient investment environment, clusters of high-end industries, creation of financial services, normalization of a legal environment, highly efficient and nimble management and supervision system, and construction of the world’s leading international free trade zone.

When it comes to world cargo volume rankings, Tianjin is the world’s third largest port, trailing only Shanghai and Singapore. The Port of Tianjin is responsible for the trade window of Keiichin (Beijing, Tianjin, and Hebei Province) and a total of some 14 provinces/autonomous districts/municipalities in central and western China. Its utilization range extends beyond China and serves as a window of maritime trade for inland countries, such as Mongolia and Kazakhstan. Some 70% of the cargo handled at the Port of Tianjin is destined for somewhere besides Tianjin. Moreover, it is said that more than 90% of the total trade in the capital city of Beijing has come through the Port of Tianjin. The Port of Tianjin has played a major role in the development of the Beijing–Tianjin–Hebei area, including Tianjin and the Midwest part of China.

In addition, Tianjin City, which is one of the Three Northeastern Provinces, is positioned as an advanced manufacturing research base nationally.

Foreign manufacturers, including companies from China and Japan, form the bedrock of the manufacturing industry in Tianjin. We can make use of this industrial base as we aim for an advanced research and development (R&D) base for the manufacturing industry.

**Aiming for Development as an International Port and Distinctive Cutting-Edge City**

We feel that, in promoting the Port of Tianjin and its development as a R&D base for the advanced manufacturing industry, it is beneficial to attract more foreign companies, including Japanese companies, thus creating an environment where already advanced companies can continue to develop in Tianjin. With regard to Tianjin, to achieve further development and contribute to economic growth, Japanese companies have three requests that cover major issues and other matters.

First, to further develop the advantages that go with being a global port, we feel that Tianjin should, with regard to trade and customs, adopt economically reasonable and highly transparent policy management and simplify administrative procedures. Securing transparency is indispensable for both Chinese and foreign companies to proactively develop their businesses; it can be thought of as based on “the completion of a modern market system” as advanced by the Chinese government. We would like to see, through a positive exchange of opinions with companies, a simplification of customs clearance, quarantine, and settlement procedures pertaining to foreign trade. As the handling of dangerous cargo has resumed and because Tianjin serves as the gateway for the luggage of Japanese who are moving to live and work in Beijing and Tianjin, there is a desire for customs clearance procedures to be simplified.

Second, to promote the accumulation of talented people and corporations to ensure an advanced manufacturing R&D base in Tianjin City, we would like to see a progressive human resource policy developed and support for facilitation of business activities strengthened. In aiming to create an advanced R&D base for the manufacturing industry, it would be beneficial to further utilize foreign talent. We would
like to see a reduction in costs associated with expatriates in order to make it possible to deploy Japanese and other experienced foreign nationals in a flexible and cordial fashion. Moreover, amongst Japanese companies operating in Tianjin, there are small- and medium-sized companies that, even as they seek to maintain their high level of global competitiveness, are facing a cost-cutting crisis due to changes in the business environment. We would like to request that Tianjin consider measures to enable companies to continuously develop in Tianjin even in terms of preserving the employment and technology development that is the driving force behind Tianjin's innovation.

Third, we feel that initiatives that take on a comprehensive outlook are needed to develop Tianjin as a leading city with an excellent living environment and distinctive features. While the municipal government has been strengthening its efforts with regard to air pollution in recent years, we would like to see it further strengthen cooperation with neighboring regions in carrying out these efforts. Moreover, experimental deregulation efforts in the China (Tianjin) Free Trade Zone are anticipated. We would like to see implementation of advanced deregulation measures unique to the China (Tianjin) Free Trade Zone, so that Tianjin can bring the advanced management system and management philosophy of Japanese companies to Tianjin and work hand in hand with Japanese companies to further enhance Tianjin’s various strengths, such as national strategy, industrial base, geographical advantage, and human resources, to realize its goals.

Interactions with Local Governments

Handing Over of the White Paper to the Tianjin Municipal Committee Secretary
December 20, 2016

At the request of the Japanese Association in Tianjin, a white paper was presented at an interview with the chairman of JETRO and the Tianjin Community Committee secretary, and the outline was explained.

Roundtable Discussion between Tianjin and Japanese-Affiliated Companies
December 27, 2016

Tianjin participants: The Deputy Mayor, the Commerce Committee, and other related departments

Japanese participants: Ten Japan-affiliated companies, Japanese Association in Tianjin chair, Embassy of Japan in China, and JETRO Beijing Office

Subject matter covered: The departments in charge explained the actual situation and the municipal government’s way of thinking.

<Proposals>

1. To exercise appropriate functions as a global port and further develop its superiority as the largest open coastal city in northern China, we feel that Tianjin should, with regard to trade and customs, adopt economically reasonable and highly transparent policy management and simplify administrative procedures in contrast with other Chinese cities.

1 Handling of Dangerous Goods

Ever since a warehouse exploded in the Binhai New District in August 2015, no dangerous chemicals are handled in the Port of Tianjin. Keeping the development of the Port of Tianjin in mind, we hope that the handling of dangerous chemicals can be resumed soon. Moreover, because there was a notification that no more than three days’ worth of such chemicals could be stored at plants, companies procuring small quantities of dangerous goods saw their procurement numbers increase, making an increase in costs unavoidable. With the standardization of the handling of dangerous goods, we urge that economically rational policies in line with the actual situation at hand be implemented by actively exchanging opinions with companies.
2 Customs Clearance and Quarantine Systems

With reforms undertaken in 2014 designed to unify customs clearance in Beijing, Tianjin, and Hebei, it has become increasingly easy to clear customs. However, cases have been reported of domestic vessels transshipped en route to the port being denied by the customs clearance system and losing their duty-free status. We would thus like to see the establishment of a customs clearance system to deal with the acceleration of customs clearance unification in Beijing, Tianjin, and Hebei in all types of situations.

In the Port of Tianjin, shipping service consolidators will not take charge of movement of foreign less than container loads (LCL), forcing small quantities of goods to be shipped in a single container. After introduction of the new customs system, it was no longer possible to only accept the export declaration containing a manifest of cargo as submitted by the shipping company after forwarding the consolidator’s cargo record (list of all freight). We would like to see a modification to the customs system, so that moving of LCL cargo can be handled.

3 Allowed Imports of Separate Articles/Luggage When Moving

After September 2016, one had to have a certificate of residence permit to clear customs after entering the country at Tianjin Airport when bringing in separate articles (luggage when moving). As a result, separate articles that once could be delivered about a week after the individual entered the country now take more than a month to be delivered, rendering airmail less valuable. Moreover, when a returnee declares the export of a separate article, the content of the declaration must be exactly the same as that of the import declaration of separate articles at the time of appointment. We request simplification of the import/export procedures for separate articles, such as introduction of a mechanism for simple declaration using only a passport.

4 Cargo Handling Quality

Inspections carried out by Customs and Quarantine have resulted in issues such as contamination, lost products, post-inspection packaging problems with products that have been sorted, and inspected products that cannot be sold. We would like to see improvements in sampling inspection methods.

5 Import of Used Machinery

The import of used machinery is based on the “Imported Second-Hand Machinery Product Inspection Supervisory Control Law.” Even though preliminary examinations are carried out with imports, importation procedures are complicated, as at the time of customs clearance, the individual must once again submit documents proving durability, and there are differences amongst customs officials. At the Tianjin Customs Office, three types of calculation methods are used for tariffs/value added taxes when used machinery is imported, and the rates charged differ depending on the inspector. We would like to see simplification of the procedures and unification of transparent operation standards.

6 Import Royalty Tariffs

At times, Chinese subsidiaries add the royalty of manufacturing technology licenses paid to the parent company to the price of the material imported from the Japanese parent company. We request that an explanation be provided with regard to the judgment criteria that patent rights be related to customs, as well as tax calculation methods.

The “Standards for Filling Out the People’s Republic of China Cargo Import/Export Customs Clearance Declaration” (Customs Office 2016, #20) took effect on March 30, 2016, one week after being promulgated on 24 March. Not enough time has been provided to understand the content of the request or prepare materials for submission. We request that when revising such provisions, economically rational policies that are in line with the reality of practice be implemented through active exchange of opinions with companies.

7 Capital Transactions
Trading freedoms are restricted by having to match the payment currency with the receiving currency when making intermediary trades. When remittances are made via intermediary trades, submission is required for checking the original bill of lading (B/L) by bank review. We would like to see a relaxation and simplification of remittance procedures.

8 Free Trade Agreements (FTA)

The Port of Tianjin has few options when it comes to direct shipping with Southeast Asia, so when using the Port of Tianjin for trade with ASEAN countries, transshipments are often utilized. Transshipment LCLs require a raw certificate at the port where the transshipment takes place. Acquisition of raw certificates is a barrier to using the China–ASEAN FTA.

With the recognition that the utilization of FTAs will contribute to the expansion of China’s trade and investment as economic globalization progresses, we would like to see an advanced approach to simplification of trade procedures to promote the utilization of FTAs, making full use of the environment in which pilot efforts can be made by the China (Tianjin) Free Trade Zone.

2. To promote the accumulation of professional talent and companies becoming an advanced manufacturing and R&D base, we feel that, in contrast with other Chinese cities, Tianjin should develop an advanced human resources policy and strengthen support for facilitation of business activities.

1 Social Insurance

Expatriate employees working in China must pay social insurance premiums in duplicate in both Japan and China, and this is a big burden for Japanese companies with offices in Tianjin. We would like to see the early inclusion of a social insurance agreement between Japan and China, which would solve the problem of the double payment of social insurance premiums, as well as provide a more aggressive approach to the central government whereby there are more frequent consultations with regard to the social insurance agreement between Japan and China and negotiations are accelerated to help lessen the burden on Japanese companies and expatriate employees.

2 Supply of Talent

Tianjin has a higher social insurance base than other cities, inviting a decline in labor cost competitiveness. Moreover, workers are highly fluid, making it difficult to assemble a corps of talented workers. We desire government leadership in establishing a supply route for overseas professional talent as well as for the establishment of staffing agencies.

3 Small- and Medium-Sized Companies

Among Japanese companies operating in Tianjin with over 10 to 20 years of operation, many small- and medium-sized enterprises are facing a crisis of pricing below cost due to changes in the business environment. Some of these companies are highly competitive globally in specific fields, and in the future, these companies could be a driving force for innovation in Tianjin. With the idea of preserving employment and technology development in Tianjin, we would like to see a study on measures that small- and medium-sized enterprises can continuously develop in Tianjin.

4 Environmental Policies

We would like to see comprehensive policies that take a broader outlook in response to energy saving or pollutant emission reduction targets. For example, we encourage you to consider an examination of the adequacy of emission reduction target values; to look at a company’s ability to make capital investments to save energy or reduce pollution emissions; to provide financial and other incentives to companies undergoing remodeling, and facility updates to save energy and help the environment; and to impartially crack down on
violating companies. Moreover, we would also like to see an examination of measures for ISO-certified and other companies.

5 Traffic Regulations

Provisional traffic control measures resulting from government events, air pollution countermeasures, and the like are carried out without warning, causing deterioration in the productivity of factory operations and physical distribution businesses. We feel that traffic regulations should be kept to a bare minimum, sufficient notice should be given, and these measures should be implemented in a systematic fashion. This is especially true of traffic regulations to be implemented during the national athletic competition to be held in Tianjin in September 2017, which we hope will be limited to the bare minimum in consideration of the effects on corporate activities.

We also hope that a plan to deal with traffic restrictions will be announced in advance and would like to see a relaxation of regulations on travel in the city for freight forwarding vehicles.

6 Security Administration

Tianjin, Tianjin Binhai New Area, and the Tianjin Economic and Technological Development Zone (TEDA) Safety Production Administrative Division sometimes come to audit or provide guidance separately, causing confusion. We would like to see administrative centralization of these functions.

Pursuant to acquiring a business license to handle dangerous chemicals, responsible persons at corporations must attend a safety education lecture and pass an examination. However, these lectures and exams are provided in Chinese; if the responsible person is a foreigner, then taking the required course and sitting for the exam are very difficult. We request relaxation of this requirement or else that these safety education lectures and exams be provided in Japanese, as is done in Shanghai.

7 Value-Added Tax (VAT)

Determination of what can be deducted from the VAT sometimes varies by tax authority. We would like to see a consistent standard applied. There is insufficient usage of dedicated VAT forms. We would like to see a system wherein non-dedicated forms are no longer used and there is timely transition to digital VAT forms and implementation of a concrete schedule.

3. To develop as a distinctive progressive city with an excellent living environment, we feel that, in contrast with other Chinese cities, Tianjin should engage in efforts based on a comprehensive perspective.

1 Air Pollution

Although, compared with years past, efforts have been taken to improve air quality such as through vehicle regulation, when compared with other regions, there are still many things that Tianjin needs to work on. We continue to be committed to our belief that stronger efforts need to be made to improve air quality and would like to see information regarding pollution index numbers provided to foreigners. We urge broader and more effective countermeasures be implemented in the Beijing–Tianjin–Hebei area to strengthen further cooperation with neighboring areas.

2 Free Trade Zones

A pilot free trade zone was established in Tianjin after such a zone was created in Shanghai, but the merits of the pilot free trade zone remain difficult to discern. Even though such zones have not been established in other regions, we request the implementation of advanced deregulation measures that can be achieved only in the China (Tianjin) Free Trade Zone.
3 Roundtable Discussions

I would like to express my gratitude to the Tianjin Municipal Government Foreign Commercial Investment Promotion Office for sponsoring a roundtable discussion involving the Tianjin Municipal Government and Japanese-affiliated companies in Tianjin on December 27, 2016. There are parts wherein further mutual understanding is necessary for companies to achieve smooth business development, and we continue to desire the implementation of dialogues and exchanges between affiliated authorities in Tianjin and Japanese-affiliated companies in Tianjin.

Shandong Province

Overview

With a population of 99.47 million (2016 permanent population), Shandong province is the second-most populous province in China and has the third largest GRP at 6.7 trillion (2016). It leads all of China in agricultural production. It makes up an area about 40% the size of Japan and consists of 17 cities; the capital of Shandong province is Jinan. Japan, South Korea, and Thailand all have consulates in Qingdao. There are 2,400 Japanese expatriates in Shandong province, 1,600 of whom reside in Qingdao (February 2017, Consulate General of Japan in Qingdao).

There are 26,898 foreign-affiliated companies in Shandong province (October 2015, Shandong Provincial Industry and Commerce Bureau HP). There are 1,904 Japan-affiliated companies in Shandong province (October 2016, Consulate General of Japan in Qingdao). The largest Japanese association in the province is the Qingdao Japanese Association; as of February 2017, 340 companies were members. Each committee of the Chamber of Commerce is made up of, respectively, 94 textile groups; 96 food groups; 122 machinery, electric, and chemical groups; and 126 distribution and service groups (there is some duplicate membership in groups).

The major goals of the Shandong Provincial Government for 2017 included a GRP increase of 7.5%, an increase of local fiscal revenue of 8.0%, an increase in workers in cities by 1.1 million, and maintenance of an unemployment rate of less than 4% in the cities.

Economic Growth Rate, Imports/Exports, and Investment

The GRP of Shandong Province in 2016 was 6.7 trillion yuan, an increase of 7.6% over the previous year (8.0% growth in 2015).

Total trade came to 1,547 trillion yuan, a 3.5% increase over the previous year (down 12.7% in 2015). Exports amounted to 905.2 billion yuan (1.2% increase; 0.4% decrease in 2015) of this total, while imports were 641.4 billion yuan (6.8% increase; 26.1% decrease in 2015). Exports to Europe decreased by 3.0%, exports to the United States increased by 3.9%, exports to Japan increased by 0.4%, exports to South Korea increased by 4.3%, and exports to ASEAN countries increased by 5.9%.

There were 1,477 cases of direct investment by foreign capital (1,509 in 2015) worth some 111 billion yuan (US$ 16.3 billion in 2015), a 9.8% decrease over the previous year (up 7.3% in 2015). The manufacturing industry came in at 58.9 billion yuan, while the service industry attracted some 42.8 billion yuan in investments.

Consumption/Wages

The total retail sales of consumer goods in Shandong Province in 2016 were 3.065 trillion yuan (10.4% increase over the previous year; 10.6% increase in 2015). Broken down by product (in monetary terms), food products and cooking oils rose by 9.2% (10.8% increase in 2015) to 167.3 billion yuan, clothing items increased by 6.7% (8.5% increase in 2015) to 112.5 billion yuan, and construction/interior design rose by 5.8% (12.2% increase in 2015) to 41.4 billion yuan.
The consumer price index (CPI) increased by 2.1% (1.2% in 2015), with urban areas accounting for a 2.2% increase (1.4% in 2015) and rural areas experiencing an increase of 1.8% (0.9% in 2015). Food products increased by 3.6% (1.2% increase), housing by 0.9% (0.8% increase in 2015), tobacco/liquor by 3.6% (1.8% increase in 2015), clothing by 1.7% (3.5% increase in 2015), and healthcare by 4.9% (1.6% increase in 2015).

The minimum wage was raised to 1,710 yuan in June 2016. Disposable income per urban resident was 34,012 yuan (7.8% increase over the previous year; for 2015, this was 31,545 yuan, an 8.0% increase over the previous year), while disposable income per farmer was 13,954 yuan (a 7.9% increase).

**Industrial Production/Fixed-Asset Investments**

Total industrial output in 2016 amounted to 2.665 trillion yuan (up 6.6% over the previous year), while total investment in fixed assets came to 5.236 trillion yuan (up 10.5%; a 13.9% increase over the 4.738 trillion yuan of 2015).

**Finance**

Regional financial revenue increased by 8.5% to 586 billion yuan (515.29 billion yuan in 2015; up 10.0% from the previous year). Of this amount, tax revenue made up 421.3 billion yuan (4.6% increase over the previous year), while the ratio of local government finances decreased by 4.1% to 71.9%. Regional fiscal expenditures were 875 billion yuan, up 6.1% from the previous year. Of this amount, social security and employment revenue increased by 9.9%.

**Major Numerical Targets for 2016**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual</td>
<td>Target</td>
</tr>
<tr>
<td>Gross regional product (GRP) growth rate</td>
<td>7.6</td>
<td>7.5-8</td>
</tr>
<tr>
<td>Local finance revenues</td>
<td>8.5</td>
<td>8.5</td>
</tr>
<tr>
<td>Total retail sales of consumer goods (100 million yuan) Growth rate</td>
<td>10.4</td>
<td>-</td>
</tr>
<tr>
<td>Total amount of investment in fixed assets (100 million yuan)</td>
<td>10.5</td>
<td>-</td>
</tr>
<tr>
<td>Urban unemployment rate (%)</td>
<td>3.46</td>
<td>4.0 or less</td>
</tr>
<tr>
<td>Number of newly employed in urban areas (10 thousands)</td>
<td>121.0</td>
<td>1.1 million</td>
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<tr>
<td>Relocation of rural labor force (10 thousands)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>2.1</td>
<td>3.0</td>
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<tr>
<td>Disposable income per urban resident (Yuan)</td>
<td>7.8</td>
<td>8.0</td>
</tr>
<tr>
<td>Disposable income per rural resident (Yuan)</td>
<td>7.9</td>
<td>8.5</td>
</tr>
<tr>
<td>Natural population growth rate</td>
<td>10.84</td>
<td>-</td>
</tr>
</tbody>
</table>

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Trends in Fiscal 2016 (Issues with the Investment Environment)

Improved Performance by Japanese Companies in Shandong Province

According to the latest results of an annual questionnaire survey of Japanese companies operating in Shandong Province that JETRO carried out in September 2016, while 64.4% of Japanese companies that have entered China are profitable, 65.4% of Japanese companies in Shandong are profitable, an improvement from 2015, when the number of profitable companies was the second lowest in all of China. Moreover, while an average of 20% of companies doing business in China are not turning a profit, only 13.5% of Japanese companies doing business in Shandong province are not profitable, also a big improvement from 2015, when this figure was much higher than the average for all of China.

Many Japanese companies doing business in Shandong province are exporters, and several of them export to Japan. While the ratio of exports to sales for companies that have entered China is 36.6%, the export ratio of Japanese companies in Shandong province is 50.9%, which is the second highest amongst provinces and cities. Moreover, while 59% of exports of companies that have entered China are destined for Japan, this figure is 77.4% for Japanese companies in Shandong province, making it the second highest amongst provinces and cities in China, following only Liaoning.

Chaos in the New Foreign Worker Permit System

From November 1, 2016, trial operations of a new foreign worker permit system began in 10 areas, including Shandong Province. Previously, foreigners had to acquire a “Foreigner Employment Certificate” unless the person was a teacher or at least 60 years old, in which case he or she could acquire a “Foreign Specialist Certificate” if certain education and work experience standards were met. Under the new system, “Foreigner Entry Permit for Employment” and “Foreign Specialist Visitor Permit” have been unified into the “Notification of Permission for Foreign National to Work” with foreign workers categorized into high-level human resources (type A), specialized human resources (type B), and general human resources (type C) based on academic qualifications, income level, work experience, annual service period in China, proficiency level in the Chinese language, and age. A point system was also introduced to tally points for employees of well-known companies, graduates of major universities, workers in special areas (some developing areas), and when the person in question can be classified as a special human resource necessary for local economic/social development.
Despite the introduction of this new system, some criteria are not clear. Although, previously, work permits were received from relevant individuals, there were cases wherein no work permits were granted for individuals aged 60 or older or those lacking a college degree, thus impacting some Japanese companies.

**Additional Taxes Resulting from Discrepancies in HS Code Recognition**

Due to past discrepancies in HS code recognition by customs officials, there are multiple cases wherein insufficient tariffs were charged. This issue arose as a result of turnover of customs officers and the fact that the HS code was recognized differently by previous and new staff. There was also a case wherein a relatively large supplementary charge was demanded.

**The Qingdao Japanese School**

The number of Japanese citizens in Qingdao has been decreasing. Due to the effects of air pollution and other negative factors, accompanying family members tend to return home or otherwise give up their residence in China, while the number of employees posted away from their families is on the rise. Influenced by these trends, the Qingdao Japanese School operated by the Qingdao Japanese Association reached peak enrollment of 118 students in April 2011, but this number dropped to 70 by the end of 2016. Moreover, with these declining numbers of students and because of rising tuition and enrollment fees in FY 2014, tuition at the school (5,000 yuan/month) is the highest amongst all Japanese schools in China.

In operating the Qingdao Japanese School, besides rising tuition and enrollment fees, if the number of students continues to decline, management of the school will become even more difficult, and measures to deal with this will become even more problematic, even though it has received financial support from the Qingdao Japanese Association.

**<Proposals>**

**Holding of Regular Roundtable Discussions**

To promote mutual understanding and improvement of the business environment, we would like to see periodic roundtable discussions between local governments and the Japanese Chamber of Commerce for that district, the Consulate-General of Japan in Qingdao, and the JETRO Qingdao office. When such meetings are held, to assure that concrete opinions are exchanged, we feel that no parties other than China and Japan should participate, and any adjustments to the schedule should be made upon consultation between the two parties.

**Operational Standards of the New Foreign Worker Permit System**

With the new foreign worker permit system, some standards are not clear, and although until now work permits were granted for individuals aged 60 or older or those lacking a college degree, there have been cases wherein work permits were not granted. We therefore request the relaxation of operational standards.

In Japan, even those lacking a college degree are often active in organizations, and so we would like this operational standard to be relaxed. Also, as Japanese companies in Shandong Province become increasingly sophisticated and there are advances in added value, there is a shortage of successors for more highly skilled administrators/technicians, and so we would like to see a continuation of flexible work permits for those aged 60 and older (for men; for women, aged 50 or 55 and older).

**Additional Taxation Due To Misrecognition of HS Code**

Due to past discrepancies in HS code recognition by customs officials, there have been multiple cases wherein insufficient tariffs were charged. There was also a case wherein a relatively large supplementary charge was demanded. When referring to the HS code from a company, we suggest taking measures such as issuing a confirmation form with taxes, so that no supplementary charges arise later.
Support for the Qingdao Japanese School

We are grateful to the Qingdao government offices for their continued support of the Qingdao Japanese School. Support of the Shandong Province and Qingdao Municipality administrations is more critical than ever due to circumstances surrounding school administration.

The Qingdao Japanese School is an educational facility for the basic education of children and students; it also serves to encourage Japanese employees to bring their families with them when relocating to Qingdao. As the school is administered as a not-for-profit, we would like to see tax incentives in addition to VAT reforms.

Moreover, with regard to security, we have received extraordinary support, such as when a large number of security guards were dispatched from public security (the district police station) when school sporting and other events were held; we definitely hope that this is continued.
Chapter 2 Eastern China (Shanghai, Jiangsu Province, and Zhejiang Province)

The GRP of the East China region (Shanghai, Jiangsu Province, and Zhejiang Province) amounted to about 15 trillion yuan (accounting for 20.2% of the total national GDP of 74.4 trillion yuan) in 2016. If we look at each province/city, we see that growth of GRP in Shanghai was 6.8%, the lowest rate of growth in all of China. Jiangsu Province grew by 7.8% and Zhejiang Province by 7.5%. In terms of the percentage of total GRP, the weight of tertiary industries in the provinces/cities as a whole was higher than that of primary and secondary industries with Shanghai at 70.5%, Jiangsu Province 50.1% and Zhejiang Province 51.6%. The tertiary industry makes up the majority and is seen as driving economic growth. Inward investment in East China in 2016 amounted to US$ 60.654 billion, up 1.6% from the previous year, the first positive growth in two years. Looked at by region, Shanghai grew by 0.3%, Jiangsu Province by 1.1%, and Zhejiang Province by 3.6%. With respect to inward direct investment contract amounts, Shanghai fell by 13.5%, Jiangsu Province by 9.3%, and Zhejiang Province by 0.9%, as only contract amounts related to investments of the Shanghai Municipality declined sharply. With regard to total trade value, Shanghai, Jiangsu, and Zhejiang increased by 2.7%, fell by 0.7%, and grew 3.1%, respectively, from the previous year.

Shanghai

Economic Trends in Shanghai

The GRP of Shanghai in 2016 was 2.747 trillion yuan (accounting for 3.7% of GDP nationwide), up 6.8% from the previous year, with a growth rate of 6.9%, continuing the slow growth of the previous year. Looked at by industry, secondary industries grew at a 1.2% clip to 799.434 billion yuan, while the tertiary industry grew by 9.5% to 1.936 trillion yuan, making up some 70.5% of all GRP, thus continuing to drive economic growth. In addition, per capita GRP exceeded 100,000 yuan for the first time since 2015, increasing to 113,600 yuan in 2016. Fixed asset investment grew by 6.3% from the previous year and total retail sales of consumer goods by 8.0%, both of which were below national growth rates (7.9% and 10.4% increases, respectively), but real estate investment increased by 6.9%, matching the national growth rate (6.9%). Total trade increased by 2.7% to 2.866 trillion yuan, with imports growing by 5.2% and exports by 0.5%. Moreover, Shanghai’s direct inward investment amount came to US$ 18.5 billion, accounting for 14.7% of China’s total. The rate of growth rose by 0.3% from the previous year, 3.8 percentage points less than the national increase in growth (4.1%), but there has been steady growth for 17 consecutive years. As a leading indicator, on a contract basis, this fell drastically by 13.5% from the previous year to US$ 50.978 billion. There were 5,153 contracts, a decrease of 14.2% from the previous year (Table 1).

Table 1: Growth Trends in Shanghai (2016)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross regional product</td>
<td>27,466</td>
<td>6.8</td>
</tr>
<tr>
<td>(GRP: 100 million yuan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary industries</td>
<td>109</td>
<td>Δ-6.6</td>
</tr>
<tr>
<td>(100 million yuan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secondary industries</td>
<td>7,994</td>
<td>1.2</td>
</tr>
<tr>
<td>(100 million yuan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tertiary industries</td>
<td>19,362</td>
<td>9.5</td>
</tr>
<tr>
<td>(100 million yuan)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Per capita GRP (yuan) 113,600 10.2
Gross industrial production in excess of scale (100 million yuan) 31,083 0.8
Industrial use electricity (100 million kwh) - -
Fixed asset investments (100 million yuan) 6,756 6.3
Real estate development investments (100 million yuan) 3,709 6.9
Total retail sales of consumer goods (100 million yuan) 10,947 8.0
Consumer price index (CPI) - 3.2
Total trade volume (100 million yuan) 28,664 2.7
  Export volume (100 million yuan) 12,105 Δ-0.5
  Import volume (100 million yuan) 16,559 5.2
Inward direct investment contract amount (US$ 100 million) 510 Δ-13.5
Inward direct investment execution amount (US$ 100 million) 185 0.3
Per capita disposable income for urban residents (yuan) 54,305 8.9

Source: Shanghai Municipal Bureau

If we look at inward direct investment by industry in Shanghai, in 2016, the amount executed by tertiary industries increased by 2.5% from the previous year to US$ 16.335 billion, making up 88.2% of the total in Shanghai.

For inward direct investment in the China (Shanghai) Free Trade Zone, in 2016, the executed amount increased by 28.2% from the prior year to US$ 6.179 billion, accounting for 33.3% of the total in Shanghai.

Looking at the amount of inward direct investment in Shanghai by country and region, Hong Kong, Singapore, and the Cayman Islands—the top three countries and regions—accounted for 73.9% of the total. The Cayman Islands in particular had a huge increase of 448.5% over the previous year, growing to US$ 1,428 billion. Meanwhile, investment from Singapore declined sharply by 30.1% from the previous year. Investment from the United States also decreased by 48.8% from the previous year, a sharp decline to US$ 513 million. Japanese investments fell by 0.9% to US$ 485 million, tumbling to sixth place, right after the United States.

More and more multinational corporations are selecting Shanghai as a strategic investment base and are exploring functions such as international trade and R&D. In 2016, 45 regional headquarters were newly established. Of these, 15 companies—including Husqvarna (Sweden), CAMSO (Canada), and Leah (the US)—established their companies’ Asia Pacific Region Headquarters in Shanghai. Moreover, 18 investment property companies (umbrella companies) are newly established in Shanghai, which continues to be the city with the most regional headquarters of multinationals in China. Moreover, 15 companies—including Schaeffler (Germany), the worldwide supplier of automobile industry and industrial machinery, and TRW Automotive Holdings (the US), one of the world's leading auto parts manufacturers—have established new R&D centers in Shanghai.

In total, 580 regional headquarters, 330 investment property companies, and 411 foreign research and development centers—a total of 1,321 companies—have set up shop in Shanghai.
Interactions with Local Government

Handing Over of White Paper to the Mayor of Shanghai

August 2, 2016

When the Ambassador Extraordinary and Plenipotentiary of Japan in China visited the Mayor of Shanghai, he handed out a white paper from the Chairman of the Chinese Chamber of Commerce in attendance and provided an overview.

Jiangsu Province

Economic Trends in Jiangsu Province

The GRP of Jiangsu Province grew by 7.8% in 2016 to 7.609 trillion yuan (making up 10.2% of the national GDP). With a growth rate of 1.1% higher than that of China as a whole, Jiangsu Province has overtaken Shanghai when it comes to growth rate. Secondary industries grew by 7.1% over the previous year, to 3.386 trillion yuan, and made up some 44.5% of the total GRP. Moreover, tertiary industries grew by 9.2% to 3.815 trillion yuan, and made up some 50.1% of the total GRP, overtaking secondary industries, and constituted the largest overall weight. Fixed asset investments grew at a 7.5% clip (7.9% nationally), while total retail sales of consumer goods increased by 10.9% (10.4% nationally), and total trade decreased by 0.7% (0.9% nationally). Meanwhile, there was a 1.1% increase in inward direct investment from the previous year to US$ 24.54 billion, with this accounting for 40.5% of the total amount for the East China region (Shanghai, Jiangsu Province, and Zhejiang Province). Constituting a leading indicator, the contract amount also increased by 9.3% to US$ 43.14 billion (Table 2).

Table 2: Economic Trends in Jiangsu Province (2016)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross regional product (GRP; 100 million yuan)</td>
<td>76,086</td>
<td>7.8</td>
</tr>
<tr>
<td>Primary industries (100 million yuan)</td>
<td>4,079</td>
<td>0.7</td>
</tr>
<tr>
<td>Secondary industries (100 million yuan)</td>
<td>33,856</td>
<td>7.1</td>
</tr>
<tr>
<td>Tertiary industries (100 million yuan)</td>
<td>38,152</td>
<td>9.2</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>95,259</td>
<td>7.5</td>
</tr>
<tr>
<td>Gross industrial production in excess of scale (100 million yuan)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Industrial use electricity (100 million kwh)</td>
<td>4,081</td>
<td>4.6</td>
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<tr>
<td>Fixed asset investments (100 million yuan)</td>
<td>49,371</td>
<td>7.5</td>
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<tr>
<td>Real estate development investments (100 million yuan)</td>
<td>8,956</td>
<td>9.8</td>
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<tr>
<td>Total retail sales of consumer goods (100 million yuan)</td>
<td>28,707</td>
<td>10.9</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>-</td>
<td>2.3</td>
</tr>
</tbody>
</table>
Looking at inward direct investment in Jiangsu Province for 2016 by region, the Suzhou area saw a remarkable increase in the infusion of foreign capital, with investments amounting to US$ 4.93 billion, an 18% increase over the previous year. These investments made up 20.1% of all investments in Jiangsu Province. Meanwhile, the Subei area saw a 2.5% decrease in inward investment from the previous year to US$ 4.42 billion, and the Sunan area saw a 2.4% drop to US$ 15.19 billion, continuing a downward trend from the previous year.

**Zhejiang Province**

**Economic Trends in Zhejiang Province**

The GRP of Zhejiang Province grew by 7.5% in 2016 to 4.648 trillion yuan (making up 6.2% of the national GDP). Zhejiang Province’s growth rate was 0.8% higher than that for China as a whole. Broken down by industry, secondary industries grew by 5.8% over the previous year, to 2.518 trillion yuan, while tertiary industries grew by 9.4% to 2.4 trillion yuan, with these making up some 44.1% and 51.6% of total GRP, respectively. The industrial structure is gradually switching from secondary industry (5.8% increase in growth rate) to tertiary industry (9.4% increase). Fixed asset investments grew at a 10.9% clip to 2.957 trillion yuan. Of these, real estate development investments increased by 5%, while total trade increased by 3.1% from the previous year to 2.22 trillion yuan. Meanwhile, there was a 3.6% increase in inward direct investment from the previous year in terms of executed amount to US$ 17.6 billion, which is slightly higher than the previous year. Constituting a leading indicator, the contract amount also increased by 0.9% to US$ 28.1 billion (Table 3).

**Table 3: Economic Trends in Zhejiang Province (2016)**

<table>
<thead>
<tr>
<th>Total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross regional product (GRP; 100 million yuan)</td>
<td>46,485</td>
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<tr>
<td>Primary industries (100 million yuan)</td>
<td>1,997</td>
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<tr>
<td>Secondary industries (100 million yuan)</td>
<td>20,518</td>
</tr>
<tr>
<td>Tertiary industries (100 million yuan)</td>
<td>24,001</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>83,538</td>
</tr>
<tr>
<td>Gross industrial production in excess of scale (100 million yuan)</td>
<td>-</td>
</tr>
</tbody>
</table>
### Industrial Use Electricity

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion kwh)</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Industrial Use Electricity</td>
<td>2,761</td>
<td>6.9</td>
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</tbody>
</table>

### Fixed Asset Investments

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Asset Investments</td>
<td>29,571</td>
<td>10.9</td>
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</table>

### Real Estate Development Investments

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Real Estate Development Investments</td>
<td>7,469</td>
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### Total Retail Sales of Consumer Goods

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Retail Sales of Consumer Goods</td>
<td>21,971</td>
<td>11.0</td>
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</table>

### Consumer Price Index (CPI)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Price Index (CPI)</td>
<td>-</td>
<td>1.9</td>
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</table>

### Total Trade Volume

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Trade Volume</td>
<td>22,202</td>
<td>3.1</td>
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</tbody>
</table>

#### Export Volume

<table>
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<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Volume</td>
<td>17,666</td>
<td>3.0</td>
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#### Import Volume

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<thead>
<tr>
<th>Description</th>
<th>Value ( billion yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Import Volume</td>
<td>4,536</td>
<td>3.7</td>
</tr>
</tbody>
</table>

### Inward Direct Investment Contract Amount

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward Direct Investment Contract Amount</td>
<td>281</td>
<td>0.9</td>
</tr>
</tbody>
</table>

### Inward Direct Investment Execution Amount

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( billion US$)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward Direct Investment Execution Amount</td>
<td>176</td>
<td>3.6</td>
</tr>
</tbody>
</table>

### Per Capita Disposable Income for Urban Residents

<table>
<thead>
<tr>
<th>Description</th>
<th>Value ( yuan)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Disposable Income for Urban Residents</td>
<td>47,237</td>
<td>8.1</td>
</tr>
</tbody>
</table>

Source: Zhejiang Province Bureau of Statistics

Looking at inward direct investment in Zhejiang Province for 2016 by region, the cities of Taizhou and Zhoushan saw a remarkable increase in the infusion of foreign capital, with increases of 189.5% and 169.7%, respectively. Investments in Hangzhou City were especially large, amounting to US$ 7.292 billion, or 41.4% of all investments in Zhejiang Province, and they helped to push up investment in the entire province. If we add investments in the cities of Hangzhou, Ningbo (US$ 4.51 billion), and Jiaxing (US$ 2.69 billion), we come up with some 81.8% of all investments in Zhejiang Province.

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### Issues and Suggestions about the Environment, Energy Conservation, Urban Development, and Related Matters

#### Ensuring Adequate Information Disclosure and Compensation for Factory Removals

As there is a shift in industrial structure to tertiary industries, it has become necessary to remove factories in Shanghai and the surrounding areas in East China, with cases of factories stopping production because their licenses were not renewed or for other reasons. Pursuant to forced factory evictions, along with information disclosures, establishment of a preparatory period, and timely provision of suitable compensation, we would like to see consideration given for the smooth renewal of permission for various operations.

#### Securing the Transparency of the Transfer of Industrial Land

According to the “Measures to Strengthen Municipal Regulations on Control of Industrial Land Transfers,” as promulgated on March 25, 2016, by the Shanghai Bureau of Planning and Land Resources, and the “Legal Notification of Protective Environmental Life Cycle Management of Shanghai’s Business and Industrial Lands and the Environment,” as promulgated on June 13, 2016, by the Shanghai Environmental Protection Agency and Shanghai Municipal People’s Land Resources Management Bureau, prior to stockpiling, paying
for, collecting, or period renewal of industrial land, the concerned party must investigate, analyze, and evaluate whether the current land, groundwater, or geological formation is contaminated.

If the company conducting such work through surveys, analysis, evaluation, and decontamination is approved by the government authorities and becomes a designated evaluation company or decontamination specialist, we would like to see a formal announcement that it is a government-approved measurement and evaluation business. In addition, we would like there to be considerations, so that transparency can be secured in advance regarding a series of work methods and costs.

**Abolishing Power Restriction Regulations and Providing Prior Notification When Restrictions are Ordered**

As power restrictions continue to exist in some areas, to ensure that companies improve production efficiency and contribution to economic development, we feel it is important to not restrict electric power to companies. In the unlikely case in which it is unavoidable that the supply of electricity must be limited, we would appreciate it if plenty of notice could be given before any restrictions are carried out.

**Implementing Regulations Related to Chemical Products and Dangerous Materials Progressively and Rationally**

In Shanghai, a goal has been established to halve the number of plants that produce chemical products. As a result, some companies have not renewed their chemical manufacturing licenses or established any business operations. To ensure such companies fulfill their supply responsibilities and continue their development unabated, we would like to see these measures carried out gradually and on a case-by-case basis.

Moreover, with regard to registration of dangerous chemicals requiring the person responsible for finance and accounting to acquire a permit on behalf of the person who will be responsible for handling the dangerous items, the fact that no rules for series appraisal of multiple mixtures with similar dangers have been determined, in-house testing data on physicochemical properties of international safety data sheets (SDS) is not accepted, there are no provisions for the exclusion of the importation of small quantities of dangerous chemicals, and the like, lead to unreasonable judgments, making it difficult to comply with laws and regulations. We would like to see flexible and rational treatment of hazardous waste restrictions, such as efforts made to further clarify the operational rules related to registration of dangerous chemicals, which do not require employees involved in the work to obtain permits.

**Efforts to Balance Environmental Regulations**

On January 1, 2015, the revised Environmental Protection Act came into effect, followed by the revised Pollution Control Act on January 1, 2016, with various local laws and regulations also coming on line. While we can see that various environmental pollution countermeasures such as the PM$_{2.5}$ countermeasures are being carried out, in some instances, it is difficult to obtain permission to establish a factory with plating processes and proceed with projects as planned due to stricter environmental regulations than those of Japan, and sometimes, changes in emissions are not approved; this makes it impossible to increase production. Moreover, in designated industries that fall under regulations corresponding to PM$_{2.5}$ concentrations, measures such as stopping factory production are being imposed on plants that are working on emission countermeasures. In some cases, this hinders stable economic activity.

Moreover, with regard to exhaust (volatile organic compound emissions), besides emissions concentration and rates by discharge quality, removal efficiency is also controlled. However, even when concentration on the IN side is low, the OUT side must be further lowered, and the removal rate is also limited. We would like to see some consideration given, so that companies do not lose business opportunities or are excessively burdened by regulations. Moreover, we would also like to see both Chinese and foreign companies treated equally when it comes to such burdens.
Environmental Improvements for Waste Disposal
As the number of waste handlers and the amount handled by each dealer decreases in each region, companies are struggling with higher throughput and processing speed as well as higher costs. We would like to see an environment created as soon as possible, wherein appropriate waste disposal can take place by increasing the number of handlers and taking other steps, so that business activities are not negatively impacted.

Issues/Requests Regarding Labor

Reconsidering Labor Contract-Related Laws and Regulations
Considering that wage increases resulting from government guidance based on excessive worker protections and corporate earnings greatly affect corporate management activities and also impact contributions to economic development through declining competitiveness and the like, we would like to see the recalibration of appropriate measures related to worker safeguards.

Loosening Restrictions on the Issuance of Work Visas
Due to restrictions on the issuance of work visas to persons over the age of 60, companies are unable to utilize talented, experienced professionals. We would like to see a quick easing of restrictions on issuance of work visas due to age restrictions. Moreover, there are also cases wherein it is difficult for technicians with a high school degree to receive a work visa. We would like to see the smooth issuance of work visas.

Introducing Transitional Measures for Forced Participation by Foreign Workers in Social Insurance
We do not object to the obligation that foreign workers enroll in social insurance, but this does result in a burden for companies doing business in China. To prevent double payment of social insurance premiums in Japan and China, we would like to see social insurance agreements concluded and come into effect more quickly. In addition, to allay fears that it is difficult to receive insurance premium payments related to unemployment or child-bearing insurance, we would like to see the introduction of transitional measures related to compulsory registration until the conclusion/coming into effect of the social insurance agreement.

Speeding Up of Procedures for Applying for Residence and Managing Receipts
We commend the fact that when applying for a residence permit, a uniform receipt is issued nationwide, which makes business trips inside China very convenient. However, in some areas, this process takes longer, especially on arrival when a large amount of money is needed, in which case bank procedures are burdensome. We would like to see consideration given to shortening the period necessary for application or renewal of residence permits and thorough notifications that allow receipts to be handled at any bank counter.

Issues/Requests Regarding Customs

Clarification and Simplification of Import/Export Customs Procedures and Reduction of Tariff Burdens
While efforts to shorten customs clearance periods, such as the expansion of electronic customs clearance systems, can be evaluated, it takes considerable time to clear customs as the standards are ambiguous and procedures are complicated.

As opinions regarding the HS Code are constantly changing depending on who is in charge, we would like to see the standards related to customs procedures clarified, as well as to see these procedures sped up and simplified. In addition, administrative procedures are complex, with necessary forms differing depending on the customs office. We would like to see customs clearance operations carried out more smoothly through unification of forms and the spread of paperless customs clearance procedures. Moreover, we would also like
to see a reduction in tariff rates and a simplification of VAT refund procedures in an effort to cope with high costs.

**Thorough Knowledge of Tariff Rate Reviews and the Suitability of Introductory Periods**

China Customs (海关) will go as far as to adjust tariffs on imports and exports during the year, depending on economic conditions. We can evaluate efforts by China Customs (海关) to disclose information when the customs tariff rate is adjusted, such as timely postings to the official website, but it is inefficient to keep checking the website. Furthermore, due to the overly short introductory period for tariff adjustments and policy changes, the Japanese are unable to comply, and many times, they have had to cancel cargo at customs, but still pay the deposit. We would like to see a review of the suitability of the introduction period carried out to ensure thorough knowledge when the tariff rates and policies have been revised and to provide the time necessary for overseas companies to respond.

**Standardization of Cross-Border EC Systems and the Legal Development of Stable Operations**

While the volume of trade via cross-border EC is increasing year after year, no legal standards yet exist. In April of last year, there was an amendment to the tariff rate and quarantine inspection system as per a circular notification distributed by the Ministry of Finance. However, since there is still lack of consistency and the current policy is valid only until 2017, companies are understandably anxious about the future. Moreover, each test area currently implements import controls based on the regulations distributed by the central government and administration provisions, but there are particularly large variances by region when it comes to the criteria for quarantine inspections and interpretation of positive lists. To standardize the cross-border EC system and ensure stable operation, we would like to see early consideration given to legislative preparations.

**Abolition of the Loss Control System for Processing Trade Companies**

Production-type businesses are similar to processing trades in the general domain (i.e., non-bonded domain). They register rates of loss with Customs, and based on this, receive a customs bond and are aggressively controlled. However, there are quite a few cases wherein the yield value calculated from the loss rate accepted by Customs differs from the yield value in the actual production process. Meanwhile, according to the test measures of the China (Shanghai) Free Trade Zone, companies in compliance with these requirements see loss controls abolished, with the management of bonded items recognized based on the company’s quantitative achievements.

By changing the loss management system to one based on real quantitative performance, it is anticipated that management of the bonded goods of processing companies will be made more efficient and costs reduced. Therefore, we would like to see the examination measures of the free trade zone extended to foreign companies all over the country, so that loss management is carried out based on the actual conditions these enterprises face and it becomes possible to manage bonded items based on a company system.

**Improvement of the Customs System at Hongqiao Airport**

The establishment of customs at Hongqiao Airport as the primary customs for other bonded areas, which makes it possible to transfer to and go through customs at Hongqiao Airport, is to be commended for making cargo transport much more convenient.

Moving forward, we would like to see a system that allows direct import/export customs clearance, which is currently available at Pudong Airport and now introduced at Hongqiao Airport.

**Issues/ Requests Regarding Finance**
Relaxation of Foreign Currency Exchange Restrictions

Restrictions on foreign currency exchanges into yuan act to erode the capital of companies and are an obstacle to smooth business activities. We would like to see these currency exchange restrictions relaxed.

Abolition of Limits on Overseas Remittances and Remittances Related to Overseas Investments

With service contracts and similar agreements that do not involve the import/ export of goods, overseas remittances are restricted, often resulting in unintended tax consequences or serves to hinder business activities. Moreover, foreign capital companies in China are unable to gain approval if they attempt to invest overseas, making such investments is very difficult. We would like to see foreign capital companies able to remit money or invest overseas without having to worry about caps.

A Request for Initiatives in the China (Shanghai) Free Trade Zone

Further Utilization of the China (Shanghai) Free Trade Zone

In the China (Shanghai) Free Trade Area (自由贸易试验区), efforts to deregulate service industries, such as finance, have picked up steam. It is commendable that these areas are being opened up to foreign companies. On the other hand, the fields and companies subject to this deregulation are limited, and there are persistent calls for more markets to be opened up to foreign companies. To develop as a more open international city, we would like to see an exchange of opinions established with regard to demands from Japanese companies, together with further deregulation, such as even more improved convenience of FT accounts (including early lifting of a ban on the handling of foreign currencies), in various industries including financial services, as well as deregulatory measures that also benefit companies outside the free trade zone.

Implementing “2016 Notice of the State Council (No. 24)”

In the April 2016 issue of the “2016 Notice of the State Council,” six provisions concerning the Pudong New Area were to be temporarily ceased until December 31, 2018. These included procedures for ratification of non-specialized types of cosmetics for initial import, registration of foreign sites for pharmaceutical advertising, permission to use radiopharmaceuticals (first and second class), and examination of processed trade contracts. The suspension of ratification of non-specialized types of cosmetics for initial import was introduced formally on March 1, 2017, with the ratification system changed to a notification system. In addition, we would like to see five other provisions introduced as soon as possible. We would also like to see the plan for introduction disclosed in advance.

An Appeal for Harmonious Support of Japanese Company Activities

Maintaining Openness/ Sustainable Growth and Realizing a Favorable Japanese Business Environment

To ensure Japanese companies’ advancement into China goes more smoothly, we would like to see cooperative efforts to realize a favorable Japan–China business environment based on mutual interests, openness, sustained growth, and friendship between Japan and China.

We would like to see increased opportunities for Japanese companies to participate in bidding and procurement, as well as exhibitions, spot sale of Japanese products, and similar activities. We would also like to see Japanese companies and Japanese products given more opportunities to contribute to the development of China’s economy and society.

Promoting Activities and Exchanges with Japanese Corporate Clubs
Japanese-affiliated corporate clubs in various regions find that there are a variety of obstacles to their activities, such as not being able to issue vouchers because they lack corporate status. We would like to see various forms of support, such as approval as a non-profit corporation, to offer smooth support for the activities of these Japanese-affiliated corporate clubs. Moreover, we would also like to see future dialogues between Japanese companies and administrative authorities promoted via the implementation of exchange of ideas with Japanese corporate clubs.

Other

Facilitating the Transfer of Offices Spanning Administrative Districts

When relocating or withdrawing from an office that spans administrative districts, sometimes, there are delays in the issuance of invoices by the tax bureau, thorough investigations into past tax issues, or other disadvantageous acts that serve as major obstacles to the creation of an optimal business structure. As a result, we would like to see the establishment of a mechanism to facilitate the smooth relocation of business offices and reorganization of businesses in East China.

Reviewing Business Practices in the Distribution Industry

Distribution costs are rising due to an increase in entrance fees of major retail outlets. This is one cause of the problematic distribution of inferior quality products seen in some areas. To ensure general consumer safety as well as fair and free competition, we think that such business practices should be reviewed.

Abolishing the Establishment of Branch Offices in the Construction Industry and Tax Payment Guidance, Relaxing Various Restrictions

The local government may ask for the establishment of a corporate office or ask that tax payments be made in the district for any construction work that is being carried out in the province, city, or ward. Moreover, should a company ask for return of the deposit required at the time of establishment of the branch office and it is refunded, it cannot engage in any construction in the district within one year. We would like to see the abolishment of guidelines on the establishment of branch offices and tax payments that are not based on the authority of clear laws and regulations.

Moreover, regardless of the above, regulations and systems concerning construction vary by region, and there are limitations such as the substantial difficulty that foreign capital companies have in obtaining building qualifications. We would like to see these issues resolved.

At the same time, current foreign-owned construction companies cannot undertake construction work unless such work is performed by a builder with 50% or greater foreign capital. In addition to expanding the system of the China (Shanghai) Free Trade Zone to other areas, we would like to see further relaxation of regulations, including construction using only Chinese capital.

Formulating Detailed Regulations Concerning the Food Safety Law

In October 2015, the Food Safety Law was amended and its regulations strengthened. However, because detailed rules concerning the law remain unclear, companies are struggling with their operations. We would like to see detailed rules formulated and specified, so that relevant companies can take appropriate measures.

Moreover, there is, for example, a rule that imported food additives must go through the immigration inspection and quarantine agency and pass an inspection in accordance with laws concerning imported articles and provisions of administrative laws. However, with regard to food additives being formulated based on standards, criteria, and test methods, there is the risk that analysis is not carried out because test procedures are not yet determined and that sanitation certificates for imported foods will not be issued.
We request the early formulation of standards, norms, and test procedures, and we would also like to see the establishment of relief measures during the formulation period.

**Strengthening Corporate Governance**

Even for audited accounts, there are examples of fraudulent accounting that hamper normal transactions. We would like to see measures to further strengthen corporate governance, so that false declarations are not made with regard to such accounting audits as annual inspections.

**Abolishing Discrimination between Chinese and Foreign Entities in Government Procurement**

Only 100% Chinese-held companies can participate in government procurement, even for environmentally friendly products such as inverter-equipped elevators. We would like to see discrimination between domestic and overseas capital eliminated promptly from government procurement.

**Public Bidding for Large-Scale Projects under Government Control**

Public bidding for large-scale commercial projects involves a short information disclosure period, and there have been cases wherein even companies under consideration were unable to participate due to lack of information. We would like to see improved fairness and openness for domestic and foreign companies when it comes to bidding under government control.

**Modifying Usage of Real Estate Properties · Deregulating Corporate Registration**

Some districts such as the Shanghai city center have a shortage of storefront properties and high rents. We would like to see it become easy to change real estate usage in order to provide necessary store properties and effectively develop the service industry. In addition, to reduce the cost burden on small- and medium-sized enterprises, we would like to see changes made, so that private residences can be registered.

**Improving the Communications Environment**

With the digitization of business and advancement of cloud computing, there are more opportunities for foreign capital companies to exchange large amounts of digital data, both domestically and overseas. However, often, it is impossible to smoothly exchange data domestically or overseas using the internet during business hours due to line congestion. For foreign companies to set up regional headquarters in the East [China] Region and be able to carry out smooth operations, it is indispensable that they be able to secure large-capacity lines at low cost that enable stable communications with domestic and overseas markets. We would therefore like to see proactive efforts made to improve the communications environment both inside and outside the country. Moreover, for periods when it may be difficult to connect to the network, we would like to see this information disclosed in advance.

**Improving the Residential Environment of Foreigners**

Regarding rental housing where the bulk of foreign residents live, there are instances of this housing being closed and evictions ordered within an abbreviated notice period, leading to an unstable living environment. To ensure a stable living and working environment, we would like to see improved commercial practices.

**Improving the Living Environment with an Emphasis on Transportation and Medical Care**

Although there are areas where improvements have been made, every day, there are incidents of motor vehicles—including motorcycles—ignoring traffic lights, going the wrong way, being operated on sidewalks, and otherwise being operated in dangerous manner. There are also many areas wherein traffic laws have not been enacted. As a result, workers and commuters are sometimes involved in accidents when commuting. We therefore feel strongly that traffic laws should be thoroughly enforced. Moreover, regions other than Shanghai
often lack medical services for foreign residents. We therefore hope to see improvements in their living environment.

<Proposal>

**Issues and Requests Regarding the Environment, Energy Conservation, and Urban Development**

1. We request that sufficient notice be given and compensation offered pursuant to forced factory closures.
2. We request transparency regarding the conditions surrounding the assignment of industrial land.
3. We request the elimination of power restriction regulations and thorough advance notification when there is no option but to restrict power.
4. We request the gradual and rational implementation of regulations related to chemicals and hazardous materials.
5. We request balanced environmental regulation efforts.
6. We request environmental improvements to waste disposal.

**Issues and Requests Regarding Labor**

7. We request a review of labor contract-related laws and regulations.
8. We request a loosening of restrictions on the issuance of work visas.
9. We request the introduction of transitional measures with regard to forced participation in social insurance by foreign workers.
10. We request a speedup in procedures for applying for a residence permit as well as improved deposit certificate operations.

**Issues and Requests Regarding Customs Clearance**

11. We request clarification and simplification of export and import customs procedures and a reduction in tariff burdens.
12. Along with thorough notification of tariff rate reviews, we request the establishment of a suitable introduction period.
13. We request standardization and stable operations of a cross-border EC system.
14. We request the abolition of loss management systems for companies in the processing trades area.
15. We request the development of a customs system at Hongqiao Airport.

**Issues and Requests Regarding Finance**

16. We request relaxation of foreign currency exchange restrictions.
17. We request the elimination of upper limits on the amount of corporate overseas remittances and overseas investments.
Request for Initiatives in the China (Shanghai) Free Trade Zone

18 We request further utilization of the China (Shanghai) Free Trade Zone.

19 We request timely implementation of the “2016 Notice of the State Council (No. 24).”

An Appeal for Harmonious Support of Japanese Company Activities

20 We request the implementation of a favorable Chinese-Japanese business environment based on openness and sustained growth.

21 We request support for the activities and promotion of exchanges with Japanese corporate clubs.

Other

22 We request the facilitation of relocation of offices that span administrative districts.

23 We request the review of business practices in the physical distribution industry.

24 We request abolishment of the establishment of branch offices in the construction industry, tax payment guidance, and relaxation of various restrictions.

25 We request the creation of detailed regulations concerning the food safety law.

26 We request promotion of policies to strengthen corporate governance.

27 We request abolishment of the discrimination between domestic and foreign enterprises in government procurement.

28 We request improved fairness and openness when it comes to bidding for large projects under government control.

29 We request modification of usage of real estate properties and loosening of regulations on corporate registration.

30 We request improvement of the communications environment with overseas entities.

31 We request improvements to foreigners’ residential environments.

32 We request improvements to the living environment with an emphasis on transportation and medical care.
Chapter 3: Southern China (Guangdong Province and Fujian Province)

Guangdong Province

The GRP of Guangdong Province came to about 7.951 trillion yuan in 2016 with a growth rate of 7.5%. Although trade volume decreased for the third consecutive year, both investment and consumption showed steady growth. The actual inward direct investment amount shrunk by more than 10%. According to a JETRO questionnaire survey, Japanese enterprises in Guangdong Province have the lowest inclination to expand of all such companies in China, while the percentage considering downsizing, transferring, or withdrawing is the highest. On the other hand, Guangdong Province ranks first in the country when it comes to profitable companies. It seems that bipolarization of strong and not-so-strong companies has picked up steam, continuing a trend from 2015. While the integration and contraction of bases is evident in investment projects, with regard to new investment, the following characteristics have become clear: (1) bases are established to carry out production of high added-value products and highly technical production processes; (2) bases are established to strengthen R&D and sales within China; and (3) investments are made in the eastern and northern parts of Guangdong Province.

Economic Trends in Guangdong Province

The GRP of Guangdong Province grew by 7.5% in 2016 to 7.951 trillion yuan. Broken down by industry, tertiary industries grew by 9.1% to 4.145 trillion yuan, largely outgaining secondary industries (6.2% growth, 3.437 trillion Yuan) for the second year in a row.

Looked at by item, investments in fixed assets (including farms) increased by 10.0% over the previous year (9.7% in real terms) to 3.301 trillion yuan. Total retail sales of social consumer goods were nominal and increased by 10.2% (9.3% in real terms) to 3.474 trillion yuan.

Trade decreased by 0.8% from the previous year to 6.303 trillion yuan, decreasing for the third consecutive year. Exports decreased by 1.3% to 3.945 trillion yuan, and imports remained flat at 2.357 trillion yuan. Looking at trade type, general trade surpassed processing trade.

Looking at foreign direct investment in Guangdong Province in 2016, the number of contracts increased by 14.9% to 8,078 cases, contract amount increased by 54.5% to US$ 86.675 billion, and the execution amount decreased by 13.1% to US$ 23.349 billion. Of this, direct investment from Japan consisted of 37 contracts, a decrease of 27.5%. The value of these contracts decreased by 10.8% to US$ 355 million, and the executed amount decreased by 5.6% to US$ 430 million.

Specific Issues and Requests for Improvement

According to a survey by the Japanese Consulate-General in Guangzhou, there were about 1,600 companies operating in Guangdong Province as of October 2016.

Looking at how Japanese companies situated in Guangzhou Province answered the “2016 Fact-Finding Survey of Japanese Companies in Asia/ Oceania (hereinafter referred to as the Fact-Finding Survey)” that was carried out by JETRO in October and November 2016, 26.9% of companies responded that they would “expand” their business presence in China over the next one to two years, the lowest in the major provinces and cities, significantly lower than the national average (40.1%) and a 9.9% decrease from the previous year. Moreover, companies answering that they would “reduce their presence” or “transfer/ withdraw” made up 12.6% of responses, the highest in all of China.
On the other hand, 67.2% of companies responded that they expected to generate an operating profit, trailing only Fujian Province, Beijing, and Shanghai. If we look at profitable companies by company size, the number of profitable large companies declined by 4.5% to 72.9% from the previous year, while the number of small- to medium-sized companies increased by 4% to 59.2%. At the same time, amongst small- to medium-sized companies, the number of companies reporting as unprofitable increased by 5.8%, as it appears that bipolarization of strong and not-so-strong companies has picked up steam, continuing a trend from 2015.

In terms of management issues, “increasing employee wages” was the number one concern in Guangdong Province, with 82.4% of companies citing this, although the number did decrease by 9.5% from the previous year and was the lowest it had been since 2009. One reason for this decrease is that the Guangdong Provincial Government has laid out policies aimed at curbing labor cost in recent years. In February 2016, the Guangdong Provincial Government promulgated the “Guangdong Province Supply Side Structural Reform Cost Reduction Action Plan (2016–2018)” (Guandong Provincial Government 2016 #15) and announced that the minimum wage level for 2015 would be applied to 2016 and 2017 minimum wages. Furthermore, in March 2017, it promulgated the “Guangdong Province Corporate Cost Reduction Plan” (Guangdong Provincial Government 2017 #14), revising the frequency of minimum wage in Guangdong Province from “at least once every two years” to “at least once every three years.” This same plan also restricts social insurance premium rates by putting a lid on costs. Wages in Shenzhen continue to be based on the “Shenzhen Employee Salary Payment Ordinance” and are revised at least once every two years.

In addition, “not able to cultivate new customers,” which first entered the top ten in 2015 at seventh place, finished at fifth place at 45.4% in 2016. All companies who responded that they will “expand” their operations cited “increased sales.” Keeping in mind that this is the highest percentage in the entire country, we can see that companies with strong sales are increasing profits significantly and growing their businesses, but it is clear that many companies are struggling to expand their sales channels.

Looking at investment projects of Japanese companies, new investments can be characterized by (1) establishment of bases to implement the production of high added-value products and high-level production processes; (2) establishment of bases to strengthen R&D and sales within China; and (3) investments in the eastern, western, and northern parts of Guangdong Province (areas around the Pearl River delta that are relatively economically undeveloped).

Moreover, with regard to business restructuring, there is (1) a reduction in the manufacturing base of low value-added and small-scale products and (2) streamlining as a result of the clustering of bases.

**Interactions with Local Governments**

Cooperating with the Consulate General of Japan in Guangzhou and various commercial and industrial associations, the JETRO Guangzhou office has continued to strengthen relations with the Guangdong Provincial Government. It carried out the following activities in FY 2016.

**Brainstorming Session between Dongguan and Japanese-Affiliated Companies**

July 21, 2016

Participants from Dongguan: Relevant departments, including the Commerce Bureau, with the Deputy Secretary General serving in a leadership position
Japanese participants: About 80 Japanese companies and 140 individuals from Dongguan, chairpersons of the Japan Chamber of Commerce from various parts of Dongguan, the Consulate-General of Japan in Guangzhou, and the JETRO Guangzhou Office
Subject matter covered: Requests from local Japanese companies were compiled, opinions were exchanged with local governments, and responses to the matters requested were provided.

**Brainstorming Session between Shenzhen and Japanese-Affiliated Companies**
November 23, 2016

Participants from Shenzhen: Relevant departments, including the Economic Trade and Information Committee, with the Deputy Secretary General serving in a leadership position
Japanese participants: about 70 Japanese companies and 120 individuals from Shenzhen, President of the Japan Chamber of Commerce and Industry of Shenzhen, Consulate-General of Japan in Guangzhou, and the JETRO Guangzhou Office.
Subject matter covered: Requests from local Japanese companies were compiled, opinions were exchanged with local governments, and responses to the matters requested were provided.

**Brainstorming Session between Guangzhou and Japanese-Affiliated Companies**

December 15, 2016

Participants from Guangzhou: Head of the Guangzhou City Commerce Committee
Japanese participants: President of the Japan Chamber of Commerce and Industry of Guangzhou, the Consulate-General of Japan in Guangzhou, and the JETRO Guangzhou Office.
Subject matter covered: Requests from local Japanese companies were compiled, opinions were exchanged with local governments, and responses to the matters requested were provided.

**Additional Handover of White Papers to Key Persons**

Such key persons include the Deputy Director of Guangdong Province, Deputy Director of the Guangdong Province Commercial Administration Agency, Mayor of Shaoguan, Mayor of Dongguan, Maoming City Clerk, Mayor of Maoming, Deputy Mayor of Zhaoqing, Deputy Mayor of Yunfu, Deputy Director of the Guangdong Provincial Intellectual Property Office, and others.

**Fujian Province**

The GRP of Fujian Province grew by 8.4% in 2016 to 2.852 trillion Yuan. Although fixed asset investment and total retail sales of social consumer goods were solid, there was a big drop-off in trade from the previous year—a decline of 7.1%—as it was down for the second consecutive year. There was a 6.7% increase in inward direct investment from the previous year. Larger Japanese companies tend to run a surplus but, in addition to rising costs and quality controls, they seem to experience difficulties when it comes to recruiting personnel.

**Economic Trends in Fujian Province**

The GRP of Fujian Province grew by 8.4% in 2016 to 2.852 trillion yuan. Broken down by industry, primary industries grew by 3.6% to 236.414 billion yuan, secondary industries grew by 7.3% to 1.391 trillion yuan, and tertiary industries grew by 10.7% to 1.224 trillion yuan.

Looked at by item, investments in fixed assets increased by 9.3% over the previous year to 2.293 trillion yuan, and total retail sales of consumer goods increased by 11.1% to 1.167 trillion yuan. Trade volume continued its decline from 2015, falling by 7.1% to US$ 156.85 billion. Of this amount, export value declined by 8.0% to US$ 103.676 billion, and import value declined by 5.3% to US$ 53.171 billion. The inward direct investment execution amount increased by 6.7% to US$ 8.195 billion.

**Specific Requests and Issues**

Japanese affiliates in Fujian Province are mainly clustered in Fuzhou, Xiamen, and their suburbs. According to a survey by the Japanese Consulate General in Guangzhou, as of October 2016, there were 53 Japanese companies in Fuzhou and 102 Japanese companies in Xiamen. In the “Survey of Actual Conditions,” 38.7% of companies in Fujian Province responded that they would “expand” their business development in China in
the next one to two years, a 0.3% decrease from the previous year. As for the outlook for operating income, 71.0% reported that they would run a surplus, 16.0% higher than the previous year, and the highest of the major provinces and cities. Large companies were especially optimistic, with 93.3% of them answering that they would be running a surplus, a whopping 29.7% increase over the previous year.

With regard to the issues of concern for Japanese companies in Fujian Province, the number one concern was “employee wage increases” (74.2%), followed by “quality control difficulties” (66.7%) and “reaching the limits of cost reductions” (55.6%). In 2015, “not able to develop new customers” (32.3%), which had ranked fourth amongst concerns in 2015, fell back to tenth place, while “difficulty in recruiting human resources (general workers)” (48.2%) rose from seventh to fourth place.

<Proposals>
Based on the main issues and requests submitted by Japanese affiliates at an exchange meeting with local governments, we summarized the suggestions as follows:

**Trade/Customs Issues and Requests**

1. It is suspected that data from customs clearance systems are being leaked. We request that data be securely managed.

2. Providing free facilities for independent entities is effective in terms of policy, but this has not been possible since 2012. Currently, only Nantou Customs can provide free facilities to independent entities, but we would like to see information provided about whether free facilities could be given to other independent entities.

3. China IPG (Japanese-Affiliated Companies’ Intellectual Property Information Exchange Group), which is operated mainly by Japanese companies operating in China, has made various efforts to solve intellectual property issues. Amongst these, it has focused on holding seminars in various parts of China for customs staff to introduce how to distinguish between authentic items and counterfeit goods. We would like to see regional customs offices jointly sponsor such seminars with JETRO Guangzhou and China IPG.

**Labor Issues and Requests**

1. In Article 22 of the “Shenzhen Municipal Employee Wage Payment Ordinance” that came into effect in 2004, during maternity leave, employers are to treat female employees as if they were carrying out their normal duties and are required to pay their salaries. On the other hand, in Article 17 of “Guangdong Provincial Employee Childrearing Insurance Regulations” enacted in 2015, during maternity leave, employers are required to pay a salary to female employees based on the average monthly wage paid for the 12 months prior to childbirth. “Wages of normal working hours” and “average monthly wages of the 12 months prior to childbirth” are different concepts; employers would like to know which of these they are to follow.

2. Should employees strike seeking a wage increase, there is a question about whether it is possible to cancel their labor contracts based on employment rules that the company has created in accordance with legal provisions. If this is a possibility, we would like to know to which type of things we should pay attention.

3. It is difficult to obtain a work permit or work visa when relocating workers who are over the age of 60 years from Japan. Even though these individuals have reached the age of compulsory retirement, they possess technological skill that is considerably higher than locally hired Chinese and Japanese and are needed to introduce new products to the Chinese market and to train local Chinese technical experts. We request that work permits and work visas be issued to foreign workers with special abilities even if they are aged 60 years or older.
Issues and Requests Related to Administrative Services

1. Expenses are sometimes collected based on unclear legal basis. Even now, an entity that has gained independence from a wholly owned processing plant is paying expenses to a village’s foreign economic development bureau in the form of cooperation fees, management fees, and service fees. We urge you to stop the collection of such expenses.

2. Pursuant to extending the management deadline and applying for free importation of equipment, additional investments are always required. We would like to see the basis of such requests or else relevant laws and regulations clarified.

3. Given the goal of government of maintaining the living environment of residents, there have been cases wherein the expansion of companies has been limited. This has resulted in companies being forced to consider either relocating or closing down. In cases wherein companies are forced to relocate or close as a result of government orders, we request that compensation or some type of logistical assistance be provided.

Miscellaneous

1. Hazardous waste recovery has not been carried out on a regular basis for several years. Even when business operators are contracted, they will still not collect the garbage, saying that they have not been provided with an adequate framework for treatment from the Environmental Protection Bureau. There is no place to store this waste even inside the factory, and dangerous goods remain. We would definitely like to see an improvement in this situation.

2. When Chinese employees are sent on business trips to Japan or other overseas destinations and these trips last two weeks or longer, inspections by the Foreign Affairs Office and Administration of Foreign Experts Affairs become overly burdensome; it takes one to two months to get permission, and no clear examination period is established. In addition to shortening the examination period to the extent possible, we also request that a standard examination period be established.
Chapter 4: Northeast China (Shenyang, Dalian)

The GRP of Liaoning Province came to 2.204 trillion yuan in 2016, a decline of 2.5%, as it recorded the lowest growth rate of all the provinces or autonomous regions in China for the second year in a row. Dalian’s GRP grew by 6.5% to 815 billion yuan, a rate of increase close to the national average of 6.7%. However, the GRP of Shenyang, the provincial capital, was 671.2 billion yuan (as of March 31, 2017, the growth rate was unknown), a sharp drop from the previous year. However, in the “Liaoning Provincial Government Work Report (政府工作报告)” of January 2017, the provincial government announced that industrial electricity consumption and port cargo handling volume, which had until that time been trending downward, started to move upward in 2016, and they regarded this as a sign that the economy had bottomed out, indicating a positive attitude toward future economic recovery.

The amount of inward direct investment (execution basis) of Liaoning Province in 2016 was US$ 2.999 billion, down by 42.2% from the previous year and continuing the decrease of 2015. While the amount for Shenyang fell by 22.6% to US$ 820 million, Dalian saw an overall increase of 11.0% to US$ 3 billion. (As Liaoning Province and Dalian use different statistical methods, the sum of inward direct investment amounts for Shenyang and Dalian city does not match the amount for Liaoning Province.) Direct inward investment amounts for Dalian (contract basis) increased drastically by 105.2% from the previous year due to an increase in large-scale investment in automobiles and machinery.

Each year, the operating environment is becoming harsher for Japanese companies due to the rise in personnel expenses and depreciation of the yen. According to a survey of Japanese companies operating in China carried out in September 2016 by JETRO, an increase in personnel expenses and reduction of various costs were cited as the top two management issues that Japanese companies in Liaoning Province had to grapple with. On the other hand, regarding the business expansion of Japanese companies in Liaoning Province over the next one to two years, responses of planned expansion increased from 22.7% to 32.8%, as companies increasingly showed willingness to expand operations. Given that Shenyang and Dalian are also experiencing robust growth in consumer spending, it is anticipated that, with an eye on market expansion, Japanese companies will begin to advance into these markets as well. New Japanese expansion in the restaurant industry in Dalian was pronounced from 2016 to 2017. Moreover, in the nursing care services field, a company entrusted by the government to manage a day service center opened a second operation, and companies that provide Japanese nursing care services also entered “publicly-owned, privately-managed” operations, as Dalian has seen an increased presence of Japanese companies.

Progress can be seen in the 2016 policy of opening the country to foreign business, which is aimed at attracting new investment. In January, Dalian was selected as one of the “trans-border EC comprehensive test areas” to be established at 12 locations nationwide. Furthermore, at the end of August, the State Council (国务院) decided to set up the “China (Liaoning) Free Trade Zone,” and on April 10, 2017, it started operations utilizing the three cities of Dalian, Shenyang, and Yingkou as implementation zones. For Japan, which is Liaoning’s largest trading partner, these preemptive efforts, which include relaxation of regulations on industries entering the market, are noteworthy.

At the same time, the local government is moving forward with efforts to improve the business environment based on the recognition that such improvements are needed to attract new investment. In December 2016, the Liaoning Provincial Government promulgated the “Liaoning Province Business Environment Improvement Ordinance,” the first such ordinance in Northeastern China, which took effect on February 1, 2017. In addition to tasking administrative organizations and staff within the province with improving the business environment,
the ordinance also stipulated safeguards and the like for corporate interests, including those of foreign companies. Moving forward, we would like to see accelerated efforts to improve the business environment for businesses entering the marketplace, including for Japanese companies.

**Economic Trends in Shenyang and Dalian**

**Shenyang**

In 2016, investments in fixed assets fell by 69.4% from the previous year to 163.1 billion yuan, with real estate development falling by 46.9% to 70.9 billion yuan. In 2016, the Shenyang Municipal Government raised the mortgage loan limits and lowered interest rates, as it advanced various stimulus measures such as encouraging students to buy real estate; the government is now promoting inventory controls at a fevered pitch. Average disposable income per capita increased by 6.8% from the previous year to 39,135 yuan, and total retail sales of social consumable goods, which indicate the size of the retail market, were about 398.5 billion yuan, an increase of 2.5%; income and consumption continued to trend up (Table 1).

- Inward direct investment (execution basis) in 2016 was 22.6% lower than the previous year, falling to US$ 820 million. Shenyang has a strong auto industry presence as represented by BMW, GM, and other makers, but it appears as though the momentum of increased investment by foreign-affiliated parts companies mainly from Europe and the United States has subsided somewhat.

- According to the Ministry of Foreign Affairs’ “Statistics of Number of Japanese Living Abroad,” as of October 1, 2015, there were 212 Japanese companies in the city (down by 6.6% from the previous year) and 667 Japanese residents (down 5.3%). As of the end of March 2017, the Shenyang Japanese Association had about 120 corporate members.

**Dalian**

- In 2016, investments in fixed assets fell by 68.5% from the previous year to 143.6 billion yuan, with real estate development falling by 40.4% to 53.5 billion yuan. Average disposable income per capita increased by 6.5% from the previous year to 38,220 yuan, and total retail sales of social consumable goods was about 341 billion yuan, an increase of 10.4%; similar to Shenyang, income and consumption continued to trend up (Table 1).

- Execution-based inward direct investment in 2016 was down 7.2% from the previous year, falling to 206 cases; however, in dollar terms, it was up by 105.2% to US$ 5.17 billion. Execution-based investment increased by 11.0% to US$ 3.02 billion. Automobile-related investment and investments in machinery-related industries led to growth in inward direct investment.

- According to the Ministry of Foreign Affairs’ “Statistics of Number of Japanese Living Abroad,” as of October 1, 2015, there were 1,691 Japanese companies in the city (down by 2.6% from the previous year) and 5,721 Japanese residents (also down by 2.6%). As of the end of March 2017, the Dalian Japanese Association had about 770 corporate members.

**Table 1: 2016 Major Economic Indicators for Liaoning Province, Shenyang, and Dalian**

<table>
<thead>
<tr>
<th></th>
<th>Liaoning Province</th>
<th>Shenyang</th>
<th>Dalian</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Growth rate (%)</td>
<td>Amount</td>
</tr>
<tr>
<td>Gross regional</td>
<td>22,038</td>
<td>Δ2.5</td>
<td>6,712</td>
</tr>
</tbody>
</table>
Product (GRP; 100 million Yuan)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2023 Value (100 million Yuan)</th>
<th>Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary industries</td>
<td>2,173</td>
<td>4.6</td>
</tr>
<tr>
<td>Secondary industries</td>
<td>8,505</td>
<td>7.9</td>
</tr>
<tr>
<td>Tertiary industries</td>
<td>11,360</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Industrial added value over scale (100 Million yuan)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2023 Value (100 Million yuan)</th>
<th>Increase (%)</th>
</tr>
</thead>
</table>

Total fixed asset investment (100 million yuan)

Real estate development

<table>
<thead>
<tr>
<th>Industry</th>
<th>2023 Value (100 Million yuan)</th>
<th>Increase (%)</th>
</tr>
</thead>
</table>

Total retail sales of consumer goods (100 million yuan)

<table>
<thead>
<tr>
<th>Industry</th>
<th>2023 Value (100 Million yuan)</th>
<th>Increase (%)</th>
</tr>
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</table>

Rate of CPI growth (%)

<table>
<thead>
<tr>
<th>Rate of CPI growth (%)</th>
<th>2023 Value</th>
<th>Increase (%)</th>
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Average disposable income per city resident (yuan)

<table>
<thead>
<tr>
<th>Average disposable income per city resident (yuan)</th>
<th>2023 Value</th>
</tr>
</thead>
</table>

Total trade (US$ 100 million)

Exports

<table>
<thead>
<tr>
<th>Export</th>
<th>2023 Value (US$ 100 million)</th>
<th>Increase (%)</th>
</tr>
</thead>
</table>

Imports

<table>
<thead>
<tr>
<th>Import</th>
<th>2023 Value (US$ 100 million)</th>
<th>Increase (%)</th>
</tr>
</thead>
</table>

Direct inward investment (execution based, million USD)

<table>
<thead>
<tr>
<th>Direct inward investment (execution based, million USD)</th>
<th>2023 Value</th>
<th>Increase (%)</th>
</tr>
</thead>
</table>

[See source for numbers]

Source: materials made public by provincial/municipal government

**Interactions with Local Governments**

**Handing Over of White Papers to Liaoning Provincial Director**

April 7, 2016

White papers were exchanged at a press conference between the President of JETRO and the Liaoning Provincial Director with views exchanged regarding the business environment of Japanese companies operating in Liaoning. The Deputy Director of the Development and Reform Committee was also present.

**Handing Over of White Papers to Dalian City Clerk**
White papers were exchanged at a press conference between the President of JETRO and the Dalian City Clerk with views exchanged regarding the business environment of Japanese companies operating in Dalian. The Deputy Mayor of Dalian was also present.

<Proposals>

Proposals Related to the Investment Environment in Shenyang (Issues and Requests for Improvement)

1. Factory Relocation Problem in Tiexi District

Current state of affairs:

Although factories were relocated to the Shenyang Economic and Technological Development Zone in the suburbs of the city under the guidance of the Shenyang Municipal Government, infrastructure at the relocation site (electricity, water, gas, roads, public buses, etc.) was not maintained, and problems such as delays in required licenses and approval and nonpayment of relocation compensation sprang up as result of environmental regulations and the like.

Proposal:

Due to efforts of the municipal government, problems such as payment of relocation compensation were gradually resolved, but because of the fact that, subsequent to factory relocation, businesses could not develop their business activities as planned proved to be a life-and-death matter to those companies. At the same time, this has also been a factor in the remarkable deterioration of these companies’ economic contributions to Shenyang. We would like to see these issues caused by factory relocation quickly resolved.

2. Work Visa Issues

Current State of Affairs:

(1) The fact that work visas are not issued to employees aged 60 or older has served to restrict business travel and otherwise negatively impact business activities.

(2) Last year, valid residence licenses (foreign employment certificate) effective for multiple years were issued to only a few major foreign-funded enterprises (senior employees). However, in this situation, issuance requirements, standards, and the like were not disclosed.

Proposal:

(1) Employees with abundant knowledge and experience are indispensable for the development and growth of corporate activities here. We would like to see work visa determinations made based not only on the age of the individual, but on other factors as well.

(2) Extensions of the term of validity for residence permits (foreign work permits) are welcomed as preferential policies designed to improve foreign companies’ motivation to make investments. On the other hand, we feel that making administrative services transparent is also beneficial in attracting foreign-funded enterprises promoted by the Shenyang Municipal Government.

3. Lack of Industrial Waste Business Operators
Current State of Affairs:

Since Shenyang has only two or three companies with industrial waste disposal certification, processing of industrial waste has not kept up with the amount being disposed. This has led to an impact on production activities, as industrial waste is stored for an extended amount of time at the companies’ sites.

Proposal:

We are worried about the effects that keeping waste on-site for longer periods of time due to stalled industrial waste efforts will have on production activities. Finding more qualified industrial waste operators should help alleviate the environmental issues in Shenyang. We request that there be a sense of urgency in dealing with this problem.

Proposals Related to the Investment Environment in Dalian (Issues/Suggestions for Improvement)

1. Taxation and Accounting: Application of Measures to Assure Favorable Tax Treatment

1. Exemptions from Municipal Maintenance and Construction Taxes

Current State of Affairs:

Three taxes (incremental tax, consumption tax, and business tax) are collected in the form of a municipal maintenance tax at a rate of 7% (tax exemption applicable until 2009; as of 2010, tax collection restored at 7.0%).

Proposal:

We request that foreign enterprises be given tax-exempt status.

2. Alleviating the Burden of Additional Local Education Taxes

Current State of Affairs:

Three taxes (value-added tax, sales tax, and business tax) are collected in the form of an additional regional education tax at a rate of 2%.

Proposal:

We request that foreign enterprises have their taxes reduced by 1%.

3. Exempt Real Estate Taxes on Dormitories

Current State of Affairs:

Only real estate owned by the state is subject to real estate tax exemptions. Company-owned dormitories for employees are subject to taxation (although they were previously exempted).

Proposal:

We request that corporate-owned employee dormitories be exempted from real estate taxes.

⇒ With regard to the above three points, if mitigation, exemptions, and other such tax breaks cannot be introduced early on, we would like to see grants and incentives for recommended industries and projects in Dalian.

2. Labor: Introduction of Mitigation Measures
1. Reducing the Substantial Burden on Companies as Presented by Residential Reserve Funds

Current State of Affairs:

In April 2016, under the policy of reducing corporate burdens, the State Council (国务院) decided to reduce the corporate contribution ratio to 12% or less. However, Dalian issued Document #78 on June 17, 2016, and although the housing reserve fund had been reduced to 12% or less, we have requested the difference with the traditional corporate rate under the pretext that this would represent housing money assistance. With this, the amount of substantial burden on the company did not change. Only Dalian has been verified as having adopted this method. Moreover, while the document stipulates that housing reserve funds can be kept at 12% or less if the association has given consent, it is very difficult for a company to adopt this agreement. The Dalian Municipal Government authorities have not made any substantial responses designed to improve the situation, and the actual burden placed on companies has not changed.

Proposal:

We request reduction of the actual corporate rate for the residential reserve fund, including elimination of housing assistance.

2. Abolishing the Burden of Providing Heating Payments

Current State of Affairs:

In Jinpu New District, companies are required to pay heating subsidies to employees for their entire lives even after they retire from the company. As it is anticipated that there will be many people retiring in the future, it will be an excessive burden for companies to pay heating bills over the entire lives of these individuals. This compromises the physical strength of the company as well as its ability to invest, and makes it difficult to sustain operations.

Proposal:

We would like to see the system of providing mandatory payments to employees as well as retirees abolished. Furthermore, in the case of married couples working together, we propose revisions be made, so that there is no overlapping of benefits and the revisions are in favor of a publicly-funded system that provides benefits regardless of the circumstances surrounding corporate enrollment.

3. Abolishing the River Management Fee System (Sales × 0.1%)

Current State of Affairs:

Collection of this fee was postponed on February 1, 2014, but beginning in 2016, collection was resumed. Because this fee is collected based on sales volume regardless of the company’s business performance, it is a considerable burden on the company and acts to stifle management. In response to a request for improvements, we received a reply from the government authorities of Dalian stating that a system based on a Shanghai-style of distribution tax was being considered. Meanwhile, Treasury [2017] Circular No. 20, which stops the collection of this fee, was issued by the Chinese Ministry of Finance; however, the system itself remains.

Proposal:

We urge the abolishment of the system of river management fee (sales amount × 0.1%), emulating regions that do not have such a system and do not collect fees.

4. Reducing the Burden Presented by Disability Payments

Current State of Affairs:
An application has been made to the Liaoning Provincial Government to lower the disability payment rate from the current 1.7% to 0.8%. Meanwhile, on March 17, 2017, the Chinese Ministry of Finance announced that the base would have an upper limit of three times the average wage in Liaoning Province. As some companies are greatly affected by this, we will verify the status of introduction in Dalian.

**Proposal:**

With regard to employment, we request that firms that are actively participating in these payments be evaluated and that penalties be reduced. Moreover, we request that, should a disabled foreign individual find him or herself outside the application of the law, this person’s salary be excluded from the base.

3. **Acceleration of Customs Clearance and Quarantine Operations**

**Current State of Affairs:**

As customs clearance and quarantine of cargo is a time-consuming process, sometimes, smooth business operations are hindered.

**Proposal:**

We request further clarification, simplification, and speedup of customs clearance procedures.
Chapter 5: Central China (Hubei Province, Hunan Province, Jiangxi Province, and Anhui Province)

Hubei Province, Hunan Province, and Jiangxi Province

There are presently two Japanese associations in Wuhan and Hunan Province. Wuhan has the Japan Commerce & Industry Club (157 corporate members as of March 2017) and Hunan Province has the Hunan Japanese Association (150 members as of March 2016). Hubei Province and the Wuhan Municipal Government are working with JETRO in this region to implement initiatives to improve the investment environment. On November 4, 2016, we submitted a business environment request to the Wuhan Municipal Government’s leaders.

Economic Trends in Hubei Province

While it is becoming clear that the Chinese economy is losing steam, the economy of Hubei Province continues to expand at a relatively brisk pace. The GRP for 2016 was roughly 3.2 trillion yuan (an increase of 8.1% over the previous year), making it the seventh largest of all provinces in China (direct-controlled municipalities, autonomous regions) if Hebei Province is excluded. Moreover, the province’s GDP growth rate also exceeded the 6.7% rate for China as a whole. Per capita GRP has also steadily increased and now stands at 55,000 yuan (an 8.96% increase over the previous year).

Investment has become the engine of growth. Fixed asset investments amounted to 2.95 trillion yuan (an increase of 13.1% over the previous year), while foreign direct investment to Hubei Province came to another US$ 10.13 billion (an increase of 13.2% over the previous year). Looking at the amount of direct foreign investment in Hubei Province (execution base: 2016), Japan comes in fourth at US$ 617 million (decrease of 14.7% from the previous year). Hong Kong came in first at US$ 4.075 billion (a 10.2% decrease), France came in second at US$ 788 million (a 121.5% increase), Singapore came in third at US$ 624 million (a 92.6% increase), and South Korea came in fifth at US$ 608 million (a 62.1% increase). However, the Wuhan metropolitan area (Wuhan, Huangshi, Xiaotian, etc.) receives about 78.4% of the foreign direct investment made to Hubei Province, as overconcentration in the Wuhan metropolitan area continues.

Along with investment, personal consumption has also been strong. Total sales of consumer goods in Hubei province came to 1.56 trillion yuan (an increase of 11.8% over the previous year). Reflecting such strong personal consumption, Japanese-style convenience stores are becoming increasingly popular. Lawson opened three stores in Wuhan in May 2016 and has since accelerated the pace at which it opens stores. The company has sped up its original plan to open 500 stores in Hubei Province within five years to within three years.

Meanwhile, real estate has been spotty. While the unit price for a square meter of housing in the provincial capital of Wuhan is 10,976 yuan, which is lower than that in Beijing and Shanghai, prices have been rising since February 2015 and are 24% higher than they were last year. However, real estate deals are much more muted in regional cities other than Wuhan, highlighting the bipolarization in the market.

The tertiary industry has grown right along with consumption. In 2016, the tertiary industry was worth some 1.44 trillion yuan (an increase of 9.5% over the previous year), exceeding the secondary industry at 143 million yuan (a 7.8% increase) to become the top industry in Hubei Province.

Economic Trends in Hunan Province
The economy in Hunan Province has also been expanding steadily. Its GRP came to about 3.1 trillion yuan in 2016 (up 7.9% over the previous year). Per capita GRP also continued to grow steadily, reaching 46,000 yuan (up 7.3% over the previous year). Looking at individual industries, secondary industries were worth 1.31 trillion yuan (up 6.6% over the previous year), while tertiary industries came in at 1.45 trillion yuan (up 10.5% over the previous year), as the rate of increase for secondary and tertiary industries was higher than that of China as a whole (secondary industry, 6.1%; tertiary industry, 7.8%). Moreover, the service industry continues to expand rapidly, as can be seen by the tertiary industry being the largest industry in Hunan Province.

In 2016, investments in fixed assets amounted to 2.77 trillion yuan (a 13.8% increase over the previous year), while foreign direct investment in Hunan Province amounted to US$ 12.85 billion (up 11.1% over the previous year). Moreover, total retail consumer goods in Hunan Province amounted to 1.34 trillion yuan (an increase of 11.7%), as personal consumption continued to grow along with investment.

**Economic Trends in Jiangxi Province**

The economy in Jiangxi Province has also been expanding steadily. The GRP for Jiangxi Province came to about 1.8 trillion yuan in 2016 (up 9% over the previous year). This GRP is the smallest in all of Central China, but the growth rate of 9% is the highest in this region, as Jiangxi Province has been able to maintain a high economic growth rate. Looking at individual industries, secondary industries were the largest, worth 903.2 billion yuan (an 8.5% increase over the prior year) and also enjoyed the highest growth rate in Central China. On the other hand, tertiary industries came in at 742.8 billion yuan (an 11% increase over the previous year). Despite maintaining high growth rates, the promotion of tertiary industries continues to be a challenge.

Moreover, investments in fixed assets amounted to 1.90 trillion yuan, the smallest in all of Central China, but were up 14% over the previous year. Meanwhile, total retail sales of consumer goods came in at 663.5 billion yuan, a 12% increase over the previous year.

**Interactions with Local Governments**

**Roundtable Discussion between Wuhan and Japanese Companies**

November 4, 2016

Participants from Wuhan: Authorized individuals from the city including representatives from the Wuhan Commercial Affairs Bureau

Japanese participants: Wuhan Japanese Commerce & Industry Association President, Secretary General, and the JETRO Wuhan Office Subject matter covered: The Japanese side explained the subject matter of the proposals. Wuhan Municipal Government replied that they wanted to take the proposal up proactively.

**Table 1: Various Economic Indicators of Hubei, Hunan, and Jiangxi Provinces (2016)**

<table>
<thead>
<tr>
<th></th>
<th>Hubei Province</th>
<th>Hunan Province</th>
<th>Jiangxi Province</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Growth rate</td>
<td>Amount</td>
</tr>
<tr>
<td>Gross regional product (GRP; billion yuan)</td>
<td>3,229.7</td>
<td>8.1</td>
<td>3,124.4</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>55,196.0</td>
<td>8.96</td>
<td>4,593.1</td>
</tr>
<tr>
<td>Primary industry (billion yuan)</td>
<td>349.9</td>
<td>9.5</td>
<td>357.8</td>
</tr>
</tbody>
</table>
Secondary industry (billion yuan)  1,437.5  7.8  1,318.0  6.6  903.2  8.5
Tertiary industry (billion yuan)  1,442.3  3.9  1,448.5  10.5  742.7  11.0
Fixed asset investments (billion yuan)  2,950.3  13.1  2,768.8  13.8  1,937.8  14.0
Total retail sales of consumer goods (billion yuan)  1,564.9  11.8  1,343.6  11.7  663.4  12.0
Rate of growth in consumer prices (%)  2.2  1.9  2.0
Total exports (billion yuan)  172.0  -5.3  120.5  1.5  196.7  -4.1
Total imports (billion yuan)  88.0  -13.6  57.7  -8.9  67.7  17.3
Foreign direct investment in the province (billion yuan)  10.1  13.2  12.8  11.1  10.4  10.2

Source: Provincial government presentations

<Proposals>

Issues Related to the Investment Environment of Wuhan and Requests for Improvement

Request to Improve Physical Distribution

• Improve the stability of maritime and air freight (shortening the time it takes to clear customs, clarifying HS codes, and improving the consistency of inspection details).

• Strengthen guidance on compliance with traffic rules. (Worsening traffic congestion caused by the disorderly operation of electric motorbikes has a serious effect on distribution.)

Request to Improve and Rationalize Laws and Regulations

• Eliminate certification of non-criminality and the like from the necessary requirements for acquiring employment certification.

• Consolidate procedures related to temporary foreigner residence registration.

• Shorten the approval period for environmental assessments required when executing plant expansion.

• Ensure flexible administration of the licensing system for foreigners employed in China.

• Reconsider regulations not consistent with actual conditions. (Although strict regulations on industrial waste disposal have been introduced, due to the shortage of waste collection operators, these do not match the situation on the ground.)

Request for Economic Improvements

• Maintain economic conditions through continued proactive fiscal policy.

• Avoid economic burdens to companies in the form of environmental and other types of regulations.

Request for Infrastructure Improvements
• Prevent flood damage.

Other

• Get rid of pernicious taxis at the international terminal of Wuhan Tianhe International Airport.

Anhui Province

Economic Trends in Anhui Province

GRP in Anhui Province grew by 8.7% in 2016 from the previous year to 2.412 trillion yuan. This rate of growth surpassed that of China as a whole by 2.1%. Looking at this growth by industry, primary industries grew by 2.7% to 256.8 billion yuan, secondary industries grew by 8.3% to 1.167 trillion yuan, and tertiary industries grew by 10.9% to 988.4 billion yuan, with these making up 10.6%, 48.4% and 41% of total GRP, respectively. The composition ratio for secondary industries is highly industrial, but that for tertiary industries is increasing year by year. Fixed asset investments increased by 11.7% from the previous year, and total retail sales of consumer goods increased by 12.3%, with both of these surpassing the national growth rate of 7.9% and 10.4%, respectively. Total trade volume decreased by 7.2% from the previous year to US$ 44.38 billion, imports increased 2.1% to US$ 15.9 billion, and exports decreased by 11.7% to US$ 28.48 billion. Moreover, the actual amount of inward direct investment increased by 8.4% over the previous year to US$ 14.77 billion, while the contract amount increased by 4.5% to US$ 4.11 billion (Table 2).

Table 2: Economic Trends in Anhui Province (2016)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross regional product (GRP; 100 million yuan)</td>
<td>24,118</td>
<td>8.7</td>
</tr>
<tr>
<td>Primary industries (100 million yuan)</td>
<td>2,568</td>
<td>2.7</td>
</tr>
<tr>
<td>Secondary industries (100 million yuan)</td>
<td>11,667</td>
<td>8.3</td>
</tr>
<tr>
<td>Tertiary industries (100 million yuan)</td>
<td>9,884</td>
<td>10.9</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>35,997</td>
<td>8.6</td>
</tr>
<tr>
<td>Gross industrial production in excess of scale (100 million yuan)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Industrial use electricity (100 million kwh)</td>
<td>1,199</td>
<td>5.8</td>
</tr>
<tr>
<td>Fixed asset investments (100 million yuan)</td>
<td>26,758</td>
<td>11.7</td>
</tr>
<tr>
<td>Real estate development investments (100 million yuan)</td>
<td>4,604</td>
<td>4.0</td>
</tr>
<tr>
<td>Total retail sales of consumer goods (100 million yuan)</td>
<td>10,000</td>
<td>12.3</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>-</td>
<td>1.8</td>
</tr>
</tbody>
</table>
Looking at foreign direct investment amounts in Anhui Province by industry, we see that secondary industries accounted for US$ 10.125 billion, or 68.6%, of total investment, an enormous increase of 26.3% over the previous year. Of these, investments in the manufacturing industry climbed by 22.9% to US$ 8.58 billion. Meanwhile, the tertiary industry fell by 18.1% from the previous year to US$ 4.375 billion, with its proportion of total investment amount also falling by 9.4% to 29.6%. Of particular note is that the amount invested in the real estate industry decreased by 34% to US$ 2.13 billion, a major factor in the fall of the tertiary industry's actual volume. By industry, actual investments in real estate (-34%), commerce (-3.3%), and public services (-42.2%) were all down.

Looking at inward direct investment in Anhui province by country or region, investments from Hong Kong exceed 50% of the total, increasing by 7.9% from the previous year to US$ 8.26 billion on an actual basis after last year’s decline. Taiwan’s inward direct investment increased by 18.4% to US$ 895 million from the previous year, a significant move up. On the other hand, investment from the United States declined drastically from the previous year, by 26.4% to US$ 593 million.

Following on the heels of an increase in 2015, Japanese investment in Anhui Province was again impressive, increasing by 24.9% over the previous year to reach US$ 743 million. Moreover, with Germany (up 215.7%), Ireland (up 29.3%), and France (up 11.9%) all having large investments in the province, investment from the EU increased by 30% to US$ 1.59 billion.

Looking at the amount of inward direct investment in Anhui Province by region in 2016, Hefei, the provincial capital, saw an increase of 12% from the previous year to US$ 2.884 billion, continuing to account for the most investment by city in the province. Coming in at number two, Wuhu saw an increase of 9.2% in inward direct investment at US$ 2.511 billion. Both cities’ growth rates exceeded that of the province as a whole (8.4%).

**Specific Issues and Requests for Improvement**

**Provision of Information on the Local Investment Environment in Japanese and Enhancement of the Dissemination of Local Regulations**

In Japan, there is not necessarily a high degree of recognition of Anhui Province and Hefei, and so we would like to see information on the investment environment and business opportunities disseminated in Japanese. We would also like to see consideration given to further reinforcing the allocation of Japanese human resources to government-related organizations or development zone management committees and similar organizations.

Moreover, when amendments are made to the local tax system and investments are treated more preferentially, if possible, we would like you to consider sending advance notice in Japanese and English.

**Support and Cooperation for Smooth Business Operations**

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Given that the total amount of payout of land is limited, it takes longer than anticipated to obtain land use permission, meaning that it also takes more time than anticipated to build and operate plants. We would like to see support and cooperation, so that foreign companies can smoothly start operations, including requests/permissions for the smooth implementation of environmental impact assessments.

Establishment of Transportation Infrastructure Such as More Direct Flights to Japan and Promotion of User Friendliness

In 2016, in addition to LCC, regular direct flights by China Eastern Airlines to Nagoya were established, and convenience was enhanced by improving arrival times in Japan. However, there are still cases of flight cancellations depending on the number of passengers, and so we would like to more stable operations. Moreover, we would like to see direct flights to major Japanese cities such as Tokyo and Osaka, which would be very convenient for business trips.

Last year, a subway connecting Hefei Station to South Hefei Station and then Lake Chao was opened, making it easier to move about within the city. Moving forward, we hope to see enhancement of the subway network in the near future.

In addition, while the number of taxis seems to have increased somewhat, we would like to see improvements in the service level through the establishment of a management company to procure more taxis and provide guidance on etiquette, so that refusal to provide service, unnecessary detours, and the like no longer occurs.

Furthermore, with regard to the purchase of high-speed rail tickets, we would like consideration given to making it possible for foreigners to also buy tickets from vending machines using only their passports or to setting up a special window for foreigners.

Restrictions on Overseas Remittances and Investments

For service agreements and contracts that do not involve the import or export of goods, overseas remittances are limited, often creating a considerable tax burden and effectively hindering business. We would like to see foreign companies be able to make remittances freely overseas.

Improving the Living Environment of Resident Employees

The living environment of resident employees from Japan is improving, but we would still like to see improvements in the medical, culinary, and education areas. We would like to continue to see efforts to attract foreign-owned convenience stores and Japanese fast-food shops, more shops where international credit cards are available, and other initiatives designed to create a comfortable living environment for foreign residents.

Moreover, as there are no brokers that handle real estate for foreign residents, in most cases, one-on-one negotiations with individual property owners are required; in many of these cases, the property owners take advantage of their power. We would like to see things improved, so that foreign residents can rent properties with peace of mind.

Supporting Exchanges between Japanese Residents and Government Authorities

Against the backdrop of more Japanese companies entering the market, the number of Japanese residing in Hefei has also been increasing. In an effort to effectively promote exchanges between Japanese residents of Hefei, in January 2015, the Hefei Japan Chamber of Commerce and Industry Club was established. Presently, interactions with government authorities are rare, and so we would like to see opportunities created for Japanese residents and authorities to exchange opinions and requests.
1. We request information in Japanese on the local investment environment and enhanced dissemination of local regulations.

2. We request support and cooperation aimed at smooth business operations.

3. We request the establishment of transportation infrastructure such as more direct flights to Japan, as well as the promotion of user friendliness.

4. We request restrictions be relaxed on overseas remittances and investments.

5. We request improvements be made to the living environment of resident employees.

6. We request support for exchanges between Japanese residents and government authorities.
Chapter 6: Western China (Chongqing, Sichuan Province, and Shaanxi Province)

Chongqing

Real GRP growth for 2016 in Chongqing stood at 10.7%, maintaining its position as the leader amongst all Chinese regions when it comes to GRP growth since 2015. However, total dollar-based trade decreased by 15.7% from a year earlier, the second year in a row of minus growth. Investment by foreign-affiliated companies increased by 5.4% over the previous year.

According to the Chongqing Municipal Statistics Bureau, the total GRP of Chongqing is 1.756 trillion yuan with a real growth rate (year-to-year) of 10.7%, which is fully four points higher than the growth rate for China as a whole. Chongqing has maintained double-digit growth for the last fifteen consecutive years, going back to 2002. This rate of growth puts it first amongst 31 provinces, municipalities, and autonomous regions.

Table 1: Economic Trends in Chongqing (2016)

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
<th>Change from previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross regional product (GRP; 100 million yuan)</td>
<td>17,559</td>
<td>10.7 (Real)</td>
</tr>
<tr>
<td>Primary industries (100 million yuan)</td>
<td>1,303</td>
<td>4.6</td>
</tr>
<tr>
<td>Secondary industries (100 million yuan)</td>
<td>7,755</td>
<td>11.3</td>
</tr>
<tr>
<td>Tertiary industries (100 million yuan)</td>
<td>8,500</td>
<td>11.0</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>57,902</td>
<td>9.6</td>
</tr>
<tr>
<td>Gross industrial production in excess of scale (100 million yuan)</td>
<td>-</td>
<td>10.3</td>
</tr>
<tr>
<td>Industrial use electricity (100 million kwh)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed asset investments (100 million yuan)</td>
<td>17,361</td>
<td>12.1</td>
</tr>
<tr>
<td>Real estate development investments (100 million yuan)</td>
<td>3,726</td>
<td>Δ-0.7</td>
</tr>
<tr>
<td>Total retail sales of consumer goods (100 million yuan)</td>
<td>7,271</td>
<td>13.2</td>
</tr>
<tr>
<td>Consumer price index (CPI)</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>Total trade volume (US$ 100 million)</td>
<td>628</td>
<td>Δ-15.7</td>
</tr>
<tr>
<td>Export volume (US$ 100 million)</td>
<td>407</td>
<td>Δ-26.3</td>
</tr>
<tr>
<td>Import volume (US$ 100 million)</td>
<td>221</td>
<td>14.5</td>
</tr>
<tr>
<td>Number of inward direct investment contracts</td>
<td>260</td>
<td>Δ17.5</td>
</tr>
</tbody>
</table>
Looking at the supply side, primary industries grew 4.6% to 130.3 billion yuan, secondary industries increased by 11.3% to 775.6 billion yuan, and tertiary industries increased by 11% to 850 billion yuan, as growth in the secondary industries slightly outpaced growth in the tertiary industries.

Among the secondary industries, the increase in industrial output (added value basis) of companies of a size above the prescribed scale was 10.3%. If we look at the production output of major goods, we see that pocket calculators increased by 7.4% to 67.65 million units (of which, personal computers [PCs] accounted for an increase of 4.8% to 58.42 million units), automobile increased by 3.4% to 3.16 million units (of which, sport utility vehicles accounted for an increase of 28.2% to 1.26 million units), mobile phones rose by 58.7% to 287 million units (of which, smartphones accounted for an increase of 47.7% to 115.26 million units), integrated circuits increased by 38.7% to 334.54 million units, and liquid crystal display (LCD) panels increased by 556.7% to 39.49 million units. The production of smartphones and other electronic products experienced a relatively drastic increase.

Looking at demand, total investment in fixed assets rose by 12.1% to 1.74 trillion yuan. Of this amount, secondary industries saw an increase of 13.4% to 566.6 billion yuan; manufacturing-related investment rose by 13.5% to 566.4 billion yuan. Tertiary industries experienced a 11.9% increase to 1.11 trillion yuan, of which real estate-related investment accounted for a 0.7% decrease to 372.6 billion yuan. Total retail sales of consumer goods indicative of consumer trends increased by 13.2% in real terms to 727.1 billion yuan, continuing a trend of double-digit growth.

Moreover, trade volume decreased by 15.7% to US$ 62.8 billion, the second year of declines. Exports declined by 26.3% to US$ 40.7 billion, while imports increased by 14.5% to US$ 22.1 billion, as exports showed no sign of recovery. (The Chinese yuan-based trade volume decreased 10.3% to 414 billion yuan, of which exports declined by 21.6% to 267.8 billion yuan and imports increased by 22.1% to 146.2 billion yuan.)

Investment by foreign-owned enterprises decreased by 7.4% from the previous year to 224 cases, with a decrease in contract value of 15.0% to US$ 4 billion. The execution amount increased by 5.4% to US$ 11.3 billion, maintaining the 10-billion-dollar mark for the sixth consecutive year.

Major projects in the manufacturing field include the establishment of a factory for a German auto parts company and establishment of automotive steel and paint companies by a Korean company, as automotive-related investment held steady in 2016. When the factory of a Korean automobile company scheduled to be completed in 2017 starts production, the volume of automobile production is expected to increase further.

The service sector has seen a German auto-related concern start a car-sharing service in the downtown area, a Singapore real-estate development company announce plans to open a comprehensive medical service base, and a German machine tool company open a dealership, as well as other developments.

Looking at the trends of Japanese companies, four contracts have been entered into (there were three in the previous year). Specific projects include the establishment of factories to produce industrial robots and pharmaceutical manufacturing companies.
Currently, Chongqing is the leader when it comes to automobile production in China, but it is also focusing on attracting the industrial robot industry. Along with the notebook PC assembly and automobile industries, much attention is being paid to whether it will grow to become a major industry.

Chongqing has set a target for economic growth for 2017 of around 10%.

**Specific Issues and Requests for Improvement**

**Proactively Promoting and Publicizing Chongqing**

To arouse the interest of Japanese companies in Chongqing, we would like to see, through city leaders’ visits to Japan, the “One Belt, One Road” and “Yangtze River Economic Belt” initiatives, as well as proactive public relations (PR) carried out to highlight the current state of affairs and investment environment in Chongqing through the establishment of a “Chongqing Free Trade Zone.” Moreover, we would also like to see more public disclosure of economic information and improved transparency through websites and the like that cover matters such as statistics on direct investment. At the same time, while Chongqing has many attractive tourist attractions, including a World Heritage site, these are not widely known. We would like to see PR efforts that take advantage of these charming tourist attractions. Moreover, we hope for further promotion of exchanges between Chongqing and Japan, including student exchanges.

Some Japanese believe that anti-Japanese sentiments run strong in Chongqing; eliminating this perception is critical. In addition to the investment environment and tourism, we would also like to see the introduction of a wide range of positives in terms of economics and quality of life (convenience and humanity) as related to the development of the Western regions.

**Unifying a System for Attracting Investment and Enhancing the Deployment of Japanese Data and Human Resources**

We would like to see unification of an internal government structure for attracting foreign companies, as well as horizontal information sharing between related duty stations. With the goal of promoting further investment by small- and medium-sized and other Japanese companies that do not employ Chinese-speaking talent, we would like to see efforts made to enhance human resource allocation of Japanese-speaking personnel to government agencies, development zone management committees, and the like, as well as the creation of Japanese versions of various investment promotion documents and related materials.

**Securing Transparency of Legal Regulations**

In government agencies, there are individual differences in the interpretation of laws and systems, and there may be cases wherein no unified view is indicated by administrative units. Moreover, there are also cases wherein foreign companies are at a disadvantage when it comes to established practice in comparison with their Chinese counterparts. We hope you will bear in mind operations based on the unified opinion of the central government pursuant to the application of laws and regulations. Moreover, we would like to request that government officials receive training on how to carry out highly transparent administrative management.

**Supporting Improvements to Distribution Networks and Cost Reductions**

In addition to high distribution costs, compared with coastal areas, there are times when cargo does not arrive at the date and time promised. We would like to ask that the government strive to enhance the distribution network, reduce its costs, and further strengthen the physical distribution management system.

**Promoting Efforts to Further Open Markets**

With the participation of Japanese companies in government procurement and similar activities, one can observe practices that disadvantage Japanese companies when compared with their Chinese counterparts or
companies from other countries. Moreover, there are still situations wherein some companies monopolize the market. We would appreciate it if efforts were made, so that all companies can participate fairly in the bidding process, such as complete branding of company and country names and the like at the time of bidding. We would like to see Chongqing further open its market, including for government procurement, taking the lead over other regions, as well as undertake efforts to improve bottleneck issues that are disadvantageous to Japanese companies.

**Establishing a Venue for Strengthening Cooperation between Local Enterprises, Other Foreign Enterprises, and Japanese Enterprises**

To further expand their business dealings, Japanese companies need to strengthen cooperation with local companies, as well as other foreign-affiliated enterprises. We would like to ask the government’s assistance in strengthening the business relationship between local entities and Japanese companies.

**Providing Favorable Treatment to Japanese Companies in Chongqing**

In terms of logistics and parts procurement, it is undeniable that the investment environment of Chongqing has not reached the level of coastal regions in some areas. Even in the sense of encouraging more investment by Japanese companies in Chongqing, we would like to see maximum utilization of various policies that promote development of the area, including the Plan for Developing the Western Regions; the One Belt, One Road initiative; and the Yangtze River Economic Belt initiative. We would also like to see the expansion of preferential treatments afforded to Japanese companies and environmental improvements, such as through clear disclosure of the content of favorable treatment and period of time within which it must be applied to make it is easier to apply for such treatment.

**Ensuring Adequate Information Disclosure and Compensation When Evacuating Factories**

With urbanization, even in Chongqing, there are cases of forced evacuations of factories. In addition to avoiding the occurrence of these forced evictions to the extent possible, when there are such evictions, we would like to see consideration given to providing proper disclosure in advance and appropriate compensation, as well as securing of substitute sites as nearby as possible.

**Improving Customs Clearance and Making Customs Clearance Procedures More Convenient**

With an eye on improving convenience, we would like to see the gate to the Chongqing Customs Free Trade Zone, which is currently open from 10 a.m. to 9 p.m. on weekdays only, open 24 hours a day, including Saturdays, Sundays, and national holidays.

In the customs office in Chongqing, there have been cases wherein the issuance of export-related documents was delayed, causing the sales of Japanese companies to fall behind by one to two months. Compared with coastal areas, it takes a long time to clear customs, so we would like to see the number of staff increased with experts brought on board and other steps taken to shorten the time it takes to clear customs.

During one period, the lead-time for water transportation at the Three Gorges Dam construction increased, and there were cases wherein, due to the short notice, the businesses could not adapt. For events affecting transportation time and changes in laws and systems, we would appreciate it if consideration could be given, so that actual business is not affected, such as by ensuring a time period for notification.

**Establishing a Stable System of Power Supply to Include Electricity and Other Power Sources**

Some development zones have experienced periods when there is no electricity or water due to construction or other causes. Since such occurrences exert enormous influence over factory production, when the stable supply of energy, including energy and water, are to be interrupted, we request that sufficient advance notice be provided.
Implementing Measures Aimed at Securing a Talented Workforce

Top-notch talent continues to flow out of coastal areas such as Beijing and Shanghai; in Chongqing, however, it is not easy to secure personnel. We would like to see a strengthening of efforts aimed at securing professional talent in Chongqing, including the implementation of systematic recruitment of U- and J-turn candidates from major coastal metropolises.

Relaxing Regulations on Motorcycles

Compared with Japan, the US, and Europe, motorcycles in China are subject to many restrictions, such as not being allowed on expressways and the like, and demand for motorcycles in China is on the wane due to the impact of these regulations. We would like to see a relaxation of relevant regulations on motorcycles, such as by allowing motorcycles that meet certain criteria to travel on expressways.

Increasing the Number of Direct Flights to Japan

In addition to the traditional direct flights to Kansai International Airport, we were happy to see direct flights to Narita Airport begin in February 2015 with access to Japan improved. We hope to see continued expansion of direct flights to other destinations in Japan. Moreover, when establishing direct flights, we would like to see routes established for non-LCC airlines as well.

Improving the Convenience of High-Speed Rail to Chengdu

Including day trips, Japanese companies in Chongqing take many business trips to Chengdu. We were pleased when high-speed rail to Chengdu was started in December 2015, drastically shortening travel time. Moving forward, we hope to see further improvements in convenience as a result of measures such as revising train schedules, establishing dedicated windows for handling tickets between Chongqing and Chengdu, and providing change services at stations.

Promoting Urban Development That Alleviates Traffic Congestion and Provides Peace of Mind

Traffic congestion in Chongqing is terrible, and the impact on employees’ commuting is considerable. We would like to see government organizations take the initiative of reducing the use of government vehicles in the morning and evening in an effort to tackle traffic congestion. We also hope to see further improvements to the public transportation network.

Moreover, sometimes, it is impossible to catch a taxi at the Chongqing International Airport Terminal at night, and buses and rail can only be used for travel to the Domestic Terminal. In addition, some taxis are meter-less, and these invariably charge steep fares. We would like to see efforts made to make these more user friendly and to provide more supervision.

Taxis in Chongqing are difficult to use from 3 p.m. to 4 p.m. because this is the time drivers change shifts. We would like to see corrective actions taken to help alleviate this problem, such as staggering the time when drivers change shifts.

Simplifying the Procedures for Acquiring or Changing Work Permits and Residence Certificates

The process of acquiring or changing work permits and residence certificates is very burdensome; we would like to see these procedures simplified. Moreover, beginning in April 2017, a new foreign resident permit system is to be started throughout China. We request that this system be applied flexibly, so that those aged 60 years or older and high school or vocational school graduates will not have any difficulty in acquiring residence permits in Chongqing.

Reviewing the Introduction of the Foreigner Permanent Residence Card
Foreigners are obliged to carry their passports, but this comes with the risk of burglary or loss and is also inconvenient. We would like to see the introduction of an easy-to-carry identity (ID) card, such as an alien registration card that would be comparable to the “ID cards” that Chinese carry, such as the previously issued “Foreign Residence Certificates.” These could be made available at rail ticket vending machines and similar locations.

**Expanding Educational Institutions for Foreign Children**

Presently, there are few kindergartens and schools for foreign residents in Chongqing, and these have waiting lists due to capacity limitations and other factors. We would like to see more kindergartens and elementary and junior high schools for foreign children.

**Establishment of Medical Institutions for Foreigners**

Currently, although VIP floors have been established at existing hospitals, these really do not function effectively as medical institutions for foreigners. We would like to see an environment created wherein foreigners can conduct business activities with peace of mind; this would involve measures such as establishing medical institutions for foreigners.

**<Proposals>**

1. We request efforts be made to maximize publicity and advertise the attractions of Chongqing, such as the investment climate and tourist attractions. Moreover, we would like to see sincere efforts made to promote exchanges with Japan.

2. We request a unified system for attracting investment, as well as the deployment of Japanese-speaking personnel to government organizations and the enhancement of Japanese materials.

3. We request efforts be made to ensure the transparency of laws and regulations.

4. We request support aimed at enhancing distribution networks and reducing associated costs.

5. We request enhancement of efforts to advance open markets.

6. We request the creation of opportunities aimed at promoting cooperation with local companies and other foreign-affiliated companies.

7. We request that Japanese companies in Chongqing be treated favorably.

8. We request the disclosure of sufficient information and fair compensation when factories are to be forcibly closed.

9. We request improved and user-friendly customs clearance services.

10. We request the establishment of a stable power supply to include electric power and other power sources.

11. We request the implementation of measures aimed at attracting a talented workforce to Chongqing.

12. We request that regulations on motorcycles be relaxed.

13. We request that the number of direct flights to Japan be increased.

14. We request improved convenience of high-speed rail to Chengdu.
15. We request that urban areas be developed in such a way that traffic congestion is relieved and travel is made safer.

16. We request that the procedures for acquiring or changing work permits be simplified and that this new system be applied flexibly.

17. We request that foreigner permanent residence cards be introduced.

18. We request that more educational institutions be provided for the children of foreign residents.

19. We request that medical facilities be established for foreigners.

Sichuan/Chengdu

As in 2015, in 2016, Sichuan Province’s GRP continued to outgain that of China, outpacing it by 1%. Looking at trade volume, although export volume was negative on a year-on-year basis, import volume turned positive compared with the previous year, with the total amount decreasing slightly from the previous year. The amount invested by foreign-affiliated companies decreased by 20.2% from the previous year.

According to the Sichuan Province Bureau of Statistics, the province’s GRP totaled 3.268 trillion yuan with a real growth rate (year-on-year) of 7.7%. This is still 1% higher than the overall Chinese growth rate of 6.7%. Moreover, the total GRP of Chengdu was 1.217 trillion yuan with the same 7.7% growth rate as Sichuan Province that, similar to 2015, was 1% higher than that of China as a whole.

Table 1: Economic Trends in Sichuan Province and Chengdu (2016)

<table>
<thead>
<tr>
<th>Item</th>
<th>Sichuan Province</th>
<th>Chengdu</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Change from</td>
</tr>
<tr>
<td></td>
<td></td>
<td>previous year</td>
</tr>
<tr>
<td>Gross regional product (GRP; 100 million yuan)</td>
<td>32,681</td>
<td>7.7 (Actual)</td>
</tr>
<tr>
<td>Primary industries (100 million yuan)</td>
<td>3,924</td>
<td>3.8</td>
</tr>
<tr>
<td>Secondary industries (100 million yuan)</td>
<td>13,925</td>
<td>7.5</td>
</tr>
<tr>
<td>Tertiary industries (100 million yuan)</td>
<td>14,832</td>
<td>9.1</td>
</tr>
<tr>
<td>Per capita GRP (yuan)</td>
<td>39,695</td>
<td>7.0</td>
</tr>
<tr>
<td>Gross industrial production in excess of scale</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>(100 million yuan)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial use electricity (100 million kwh)</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Fixed asset investments (100 million yuan)</td>
<td>29,126</td>
<td>12.1</td>
</tr>
<tr>
<td>Real estate development investments (100</td>
<td>5,283</td>
<td>9.8</td>
</tr>
<tr>
<td>million yuan)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Total retail sales of consumer goods (100 million yuan) 15,502 11.7 5,647 10.4

Consumer price index (CPI) - 1.9 - 2.2

Total trade volume (100 million dollars) 493 Δ-3.6 2,713 11.0

NOTE: Billion yuan for Chengdu

Export volume (100 million dollars) 280 Δ-15.6 1,451 Δ-2.0

NOTE: Billion yuan for Chengdu

Import volume (100 million dollars) 214 18.2 1,263 30.9

Number of inward direct investment contracts 331 3.8 - -

Inward direct investment contract amount (US$ 100 million) 43 18.7 - -

Inward direct investment execution amount (US$ 100 million) 80 Δ-20.2 - -

Per capita disposable income per urban resident (yuan) 28,335 8.1 35,902 8.1

Per capita net income per rural resident (yuan) 11,203 9.3 18,605 9.4

[See source for numbers]

Source: Created from materials provided by the Sichuan Province Bureau of Statistics, Sichuan Province Commerce Bureau, Chengdu Statistics Bureau, and the Chengdu Investment Promotion Committee.

Looking at the supply situation in Sichuan Province, primary industries grew by 3.8% to 392.4 billion yuan, secondary industries increased by 7.5% to 1.392 trillion yuan, and tertiary industries increased by 9.1% to 1.483 trillion yuan. The growth in primary industries outpaced that of the previous year (3.7%), while secondary and tertiary industries both saw growth that lagged that of the prior year (7.8% and 9.5%, respectively).

In the primary industry, grain production increased by 1.2% to 34.84 million tons, slightly higher than the previous year, while the number of pigs shipped, in which China is a world leader, was down by 4.3% to 69.25 million heads.

In the secondary industry, gasoline production increased by 18.0% to 2.57 million tons and natural gas production was up by 11.1% to 29.7 billion m³, both relatively high rates of growth. Meanwhile, production volume of pig iron decreased by 0.7% to 17.33 million tons, production of iron and steel (crude steel) decreased by 4.9% to 20.08 million tons, and tablets and other electronic devices fell by 6.4% to 59.37 million units. Moreover, automobile production, which exceeded 1 million units in 2015, increased by 24.7% to 1.31 million units, a truly substantial gain.

Iron/steel and coal—both susceptible to overproduction—saw reductions in production capacity of 4.2 million and 23.03 million tons, respectively.

Looking at the demand side, the total investment in fixed public assets rose by 12.1% to 2.913 trillion yuan. Of this, investments in the tertiary industry sector stood at 1.979 trillion yuan, roughly two-thirds of the total.
Investment in real estate development increased by 9.8% to 528.3 billion yuan, an increase of 9.9% over the previous year.

In terms of consumption, total retail sales of consumer goods increased by 11.7% to 1.55 trillion yuan, maintaining double-digit growth.

Looking at income growth, disposable income per urban resident rose by 8.1% year-on-year to 28,335 yuan, and net income per rural resident increased by 9.3% to 11,203 yuan, as income growth for rural residents was greater than that of urban residents. While income disparity between urban and rural residents tended to shrink, there was still a 2.5-fold difference.

Total trade (in dollars) fell considerably in 2015—by 26.5%—but it was down by 3.6% in 2016 to US$ 49.3 billion. Of this, exports fell by 15.6% to US$ 28 billion, while imports increased by 18.2% to US$ 21.4 billion, as total trade volume fell slightly.

Investment by foreign-owned enterprises increased to 331 contracts, 3.8% higher than the previous year, and the contract amount increased by 18.7% to US$ 4.3 billion. Falling below US$ 10 billion, the execution amount came in at US$ 8 billion, a decrease of 20.2%.

By country/region, Hong Kong, which experienced an 11.2% decline from the prior year, was the largest in terms of the execution amount at US$ 6 billion, which accounts for 70% of foreign investments. Next was Singapore, which fell by 54.0% to US$ 391.1 million, and then Taiwan, which fell by 41.0% to US$ 342.9 million.

Twenty-two Fortune 500 companies entered Sichuan Province for the first time in 2016. As a result, a total of 321 companies had entered the market as of the end of 2016 (of which 232 were foreign-affiliated entities).

Major projects in the manufacturing industry included the completion of a French automobile plant in Chengdu, which began production in September of 2016, as well as the progress being made on the construction of a factory for a major Chinese LCD maker.

In the service industry, the proactive investment deals of Chinese companies are drawing attention, including a major Chinese real estate developer that opened seven shopping centers in Sichuan Province in 2016. There were other developments as well, including the expansion of store networks by French and Swedish retailers and German wholesale companies.

Looking at the trends of Japanese companies, there were no large-scale factories established in the manufacturing industry field, while development in the service industry field was centralized. In addition to the network expansion carried out by companies in the restaurant industry, the opening of retail stores by food manufacturers, establishment of branch offices by life insurance companies, and preparations undertaken by nursing care facilities to develop operations were also noteworthy. In January 2017, a Japanese-affiliated retailer opened its seventh store in Sichuan Province, in Meishan, with food service industry companies and food product manufacturers establishing shops inside this store. Meanwhile, there was also a switch from direct management to FC, with shop closings and liquidation resulting from capital liquidation.

In Chengdu, subway line #3 opened in August of 2016, increasing the number of lines in the subway network to four.

In 2017 line #4 was extended, and plans were made to open a loop line (line #7) and an airport line (line #10), as construction of the subway steadily advanced. In May 2016, construction of a second airport (Tianfu International Airport) began at the border with Jianyang (a Chengdu prefecture-level city), 50 km southeast of the city center. This airport is scheduled to begin operations in 2020, and construction of a subway connecting the airport to Chengdu is planned.
Sichuan Province saw the ratification of the China (Sichuan) Free Trade Zone by the Commerce Department in August 2016. A test area was to be established in Chengdu as well as in Luzhou with specific details regarding the test area that were announced in 2017 expected to be implemented.

An economic growth rate target of around 7.5% has been established for both Sichuan Province and Chengdu.

**Specific Issues and Requests for Improvement**

**Proactively Promoting and Publicizing Sichuan Province/Chengdu**

To arouse the interest of Japanese companies in Sichuan Province and Chengdu, we would like to see leaders take advantage of opportunities to visit Japan, engage in friendship and sister city exchanges, and have Japanese economic organizations visit Sichuan and take similar steps through the “One Belt, One Road” and “Yangtze River Economic Belt” initiatives and through proactive PR carried out to highlight the current state of affairs and investment environment in the region. As the core ministry in charge of the two major national projects noted above, the disclosure of specific action plans and goals will serve to maximize the charms of Sichuan Province for foreign capital. In addition, we would also like to see detailed information provided regarding the “China (Sichuan) Free Trade Zone,” an important project for Chengdu and Sichuan Province. Moreover, we would also like to see more public disclosure of economic and statistical information and improved accuracy and transparency through websites and the like that cover matters such as statistics on direct investment. At the same time, we would like to see PR efforts that take advantage of the tourist attractions of Chengdu and Sichuan Province to increase the number of tourists visiting from Japan.

**Consolidating the Investment Promotion System and Enhancing the Deployment of Japanese Human Resources**

We would like to see centralization of the internal structure of the government to attract foreign companies as well as information sharing between relevant departments. Based on the needs of the Japanese companies in this region, beginning in 2014, the Chengdu Investment Promotion Committee issued a Japanese version of Chengdu Investment Guidance, which is very helpful in understanding the investment environment for Japanese companies in Chengdu. We would be very pleased if such efforts could continue. Moreover, we would also like to see the enhancement of Japanese human resource allocation to government agencies, development zone management committees, and similar organizations with the aim of promoting further investment by small- to medium-sized Japanese companies and other entities that do not have Chinese speakers.

**Securing Transparency of the Application of Laws and Regulations**

In government agencies, there are individual differences in the interpretation of laws and systems, and there may be cases wherein no unified view is indicated by administrative units. Moreover, there are also cases wherein foreign companies are at a disadvantage when it comes to established practice in comparison with their Chinese counterparts. We hope you will bear in mind operations based on the unified opinion of the central government pursuant to the application of laws and regulations. Moreover, we would like to request that government officials receive training on how to carry out highly transparent administrative management. Furthermore, we would like to see improvements in the service level of state-owned enterprises, especially infrastructure-related companies including communication-related concerns and the four state-run banks.

Traditionally, applications for acquiring ICP numbers in association with the operation of websites of foreign-affiliated companies have involved much more hardship than those of Chinese companies. However, for particularly obscure reasons, recently unapproved cases have arisen. China Telecom and other related organizations want to clarify the items necessary for application and the reasons for rejection if they are dismissed.

**Supporting Improvements to Distribution Networks and Cost Reductions**
In addition to high distribution costs, when compared with coastal areas, there are times when cargo does not arrive at the date and time promised. We would like to ask that the government strive to enhance the distribution network and reduce costs and further strengthen the physical distribution management system.

**Promoting Efforts to Further Open Markets**

When doing business with state-owned enterprises, there are cases wherein confidential matters with other customers are subject to disclosure. Sichuan Province and Chengdu are important bases for the “One Belt, One Road” and “Yangtze River Economic Belt” initiatives; as such, we would like to see this area further open its markets, taking the lead over other regions, as well as undertaking efforts to improve bottleneck issues that are disadvantageous to Japanese companies.

When applying to establish a foreign-funded enterprise or obtain a driver’s license, it is necessary to trust certification documents issued by Japanese institutions to a translation company in China for translation, which is very cumbersome. We would like to see improvements made in this process.

**Establishing a Venue for Strengthening Cooperation between Local Enterprises, Other Foreign Enterprises, and Japanese Enterprises**

To further expand their business dealings in Sichuan Province and Chengdu, Japanese companies need to strengthen cooperation with local companies as well as other foreign-affiliated enterprises. We would like to ask the government’s assistance in strengthening the business relationship between local entities and Japanese companies.

**Providing Favorable Treatment to Japanese Companies in Sichuan Province and Chengdu**

In terms of logistics and parts procurement, it is undeniable that in some areas, the investment environments of Sichuan Province and Chengdu have not reached the level of coastal regions. Moreover, some companies complain that incentives offered when they were lured to the area have not come to fruition. To encourage more investment in the area by Japanese companies, we would like to see maximum utilization of various policies that promote the development of the area including the Plan for Developing the Western Regions; the One Belt, One Road initiative; and the Yangtze River Economic Belt initiative. We would also like to see expansion of preferential treatment afforded to Japanese companies and environmental improvements, such as through clear disclosure of the content of favorable treatment and the period of time within which it is to be applied to make it easier to apply for such favorable treatment.

Subsidies for R&D have been abolished since 2017. As an alternative to this, measures have been announced to provide low-interest loans. Japanese companies that have not been provided with loans will not be able to receive the assistance payments that they had received up until 2016. We would like to see improvements made, so that these companies can receive subsidies in the same manner as they did prior to 2017.

**Ensuring Adequate Information Disclosure and Compensation When Evacuating Factories**

With urbanization, even in Chengdu, there are cases of forced evacuations of factories. In addition to avoiding the occurrence of these forced evictions to the extent possible, at the time of eviction, we would like to see consideration given to providing proper disclosure in advance and appropriate compensation, as well as to securing substitute sites as nearby as possible.

**Improving Customs Clearance and Making Customs Clearance Procedures More Convenient**

We would like to see abrupt changes made to customs duty days and holidays eliminated, so that even during extended consecutive holidays, work and leave times will be clear well in advance. At the same time, responding to company needs, we would also like to see flexible establishment of provisional government offices. Moreover, we would like to ask for flexibility in simplifying the import procedure for sample goods, in discarding defective goods, and in cases wherein it becomes unavoidable to change or otherwise cancel
customs clearance. We would also like to see consolidation of customs clearance unification as introduced by Customs (海关) to a level that can be carried out as quickly as possible.

There are cases wherein customs checks on imported goods are quite strict. This delays production, with some companies having to arrange separate transport to customers. Moreover, certificates are required for some liquids exported to Japan, meaning that a third-party agency is entrusted with issuing a certificate prior to export. We would like to see simplification of import/export cargo procedures and shortening of lead-time.

Establishing a Stable System of Power Supply to Include Electricity and Other Power Sources

The summer of 2016 saw long stretches of hot weather with some Japanese companies receiving word from utilities that there would be temporary adjustments made to their power supply. A few days later, power supply was shut off during the day, resulting in production stops. Such sudden power outages occurred four or five times over the next two weeks. To keep up with customer demand, companies were forced to go into production on Saturdays and Sundays. We would like to see a stable supply of electric power because its influence on revenue is large, as can be seen with the rental of in-house power generation facilities, heavy oil, labor costs, and so on.

Meanwhile, neighboring factories never lost electricity and were able to maintain stable production. We would like to see improvements made on this unfair treatment between companies.

Improving the Business Environment as It Relates to the Leasing Industry

There is a trend toward late lease fee payments. In the case of bank loans, once an extension of payment occurs, it will appear on the People's Bank of China Registration System’s "Credit Report," but foreign leasing companies under the jurisdiction of the Ministry of Commerce (商务部) do not have access to data posted on the registration system. Users with ill intent tend to pay their lease fees late. To deter late payment, we think it would be good if foreign leasing companies were able to review the "Credit Report."

Within the scope of work granted to bank-type leasing companies, there are ship leases and leases for maintaining subways and similar infrastructure. However, there are no foreign-affiliated leasing companies. We believe that if the same scope of business provided to bank-type leasing companies is also provided to foreign-affiliated leasing companies, the range of operations will broaden, which would be beneficial.

In China, software leases are lease-enabled if the proportion of software, as well as hardware, accounts for 50% or less of the total. However, because software, not hardware, is the present focus, this is not consistent with actual conditions and does not meet users’ needs. We would therefore like to see these regulations eliminated.

Simplifying Procedures for Acquiring Inspection Certificates for Importing Second-Hand Equipment

Second-hand equipment imported from Japan is to undergo preliminary review by the China Certification and Inspection Group (CCIC). Some Japanese-affiliated companies frequently relocate facilities used by their parent company to Chinese factories. In such cases, an inspection certificate is acquired by CCIC Japan each time it is imported, but when the parent company is located in a regional city other than Tokyo or Osaka, travel and other expenses of the person in charge must also be considered, making acquisition costs prohibitive. We would like to see consideration given to making it easier to acquire inspection certificates (for example, by making small facilities exempt from these procedures).

Early Specification of Demarcations at Chengdu Airport No. 2 (Tianfu International Airport), Where Construction Has Started, and Shuangliu International Airport
We would like to see the domestic, international, cargo, and other demarcations in both airports identified early on.

Moreover, we also request the enhancement of facilities and functions at both airports to make them more user friendly. Specifically, we would like to see inline screening, barrier-free functionality, maintenance of sufficient China Inspections and Quarantine (CIQ) bureau staff (including automation, express lanes, and lanes dedicated to resident aliens [such as in Hong Kong]), maintenance of systematic lines to withstand future increases, and promotion of smoking bans.

In addition, we would like to see improvements in transportation infrastructure such as the introduction of linear and subway systems to coincide with the start of operations between the two airports, as well as between Airport No. 2 and Chengdu and surrounding cities.

Improving the Convenience of High-Speed Rail to Chongqing

Including day trips, Japanese companies in Chengdu take many business trips to Chongqing, and so we were pleased when high-speed rail to Chongqing was started in December 2015, drastically shortening travel time. Moving forward, we hope to see further improvements in convenience as a result of measures such as revising train schedules, increasing the number of runs, establishing dedicated gates for handling tickets between Chongqing and Chengdu, and providing change services at stations.

Promoting Urban Development That Alleviates Traffic Congestion and Provides Peace of Mind

Traffic congestion in Chengdu is terrible, and the impact on employees’ commuting is considerable. We would like to see government organizations take the initiative in reducing the use of government vehicles in the morning and evening in an effort to tackle traffic congestion. We also hope to see further improvements to the public transportation network.

We would like to see the bus rapid transport or BRT that is operated on bicycle paths connected to the subway and public bus routes, as well as enhanced connectivity between subway and public bus routes.

There are many electric bicycles in Chengdu, and some of these are operated at high speeds on sidewalks, making them very dangerous to pedestrians. We would like to see motorized bikes prohibited on pedestrian paths, with necessary measures taken to enforce this.

Taxis serving tourist sites outside Chengdu, such as the Panda Research Base, Chengdu East Railway Station, and Shuangliang Airport, do not have meters and charge exorbitant fees. We would like to see controls on taxis strengthened. When catching a taxi from Chengdu to anywhere other than the Chengdu city center, passengers have to pay an additional fee equal to 50% of the meter fee. We would like to see corrective measures taken, so that passengers only pay the amount indicated by the meter.

Factory employees are increasingly parking on the streets in Chengdu’s development zone. We would like to see consideration given to measures such as utilization of green areas surrounding factories to make up for the lack of parking spaces.

Simplifying Procedures for Acquiring or Changing Work Permits and Residence Certificates

The process of acquiring or changing work permits and residence certificates is very burdensome, and we would like to see these procedures simplified. Moreover, beginning in April 2017, a new foreign resident permit system is to be started throughout China. We request that this system be applied flexibly, so that those aged 60 or older and high school or vocational school graduates will not have any difficulty acquiring residence permits in Sichuan Province and Chengdu.

Reviewing the Introduction of the Foreigner Permanent Residence Card
Foreigners are obliged to carry their passports, but this comes with the risk of burglary or loss and is also inconvenient. We would like to see the introduction of an easy-to-carry ID card, such as an alien registration card, which would be comparable to the “ID cards” that the Chinese carry, such as the previously issued “Foreign Residence Certificates.” These could be made available at rail ticket vending machines and similar locations.

Enhancing Medical Institutions for Foreigners
Although there are clinics serving foreigners in Chengdu and VIP floors have been established at existing hospitals, the medical care system serving foreign residents and their families is not of the same standard as in coastal areas. We would like to see an environment created wherein foreigners can conduct business activities with peace of mind, which would involve measures such as establishing medical institutions for foreigners.

Improving Air Quality
Air pollution (PM$_{2.5}$ concentration) in Chengdu has worsened since the winter of 2016. It is feared that this situation will adversely affect the health of all people living in Chengdu. Moreover, serious air pollution has become an obstacle for Japanese companies seeking to assign employees to China. We would like to see air quality improved as quickly as possible.

<Proposals>
1. We request efforts be made to maximize publicity and advertise the attractions of Sichuan Province and Chengdu, such as the investment climate and tourist attractions. Moreover, we would also like to see sincere efforts made to promote exchanges with Japan.

2. We request unification of a system for attracting investment as well as the deployment of Japanese-speaking personnel to government organizations and the enhancement of Japanese materials.

3. We request efforts be made to ensure the transparency of laws and regulations and to improve the level of service. We also request improvements in ICP number acquisition.

4. We request support aimed at enhancing distribution networks and reducing costs.

5. We request enhancement of efforts aimed at opening the market.

6. We request the creation of opportunities aimed at promoting cooperation with local companies and other foreign-affiliated companies.

7. We request that Japanese companies in Sichuan Province and Chengdu be treated favorably. We request improvements in the terms for receiving R&D grants.

8. We request the disclosure of sufficient information and fair compensation when factories are to be closed forcibly.

9. We request improved and user-friendly customs clearance services.

10. We request the establishment of a stable power supply to include electric power and other power sources.

11. We request improvements to the business environment as it relates to the leasing industry.

12. We request simplification of the procedures for acquiring inspection certificates for the import of used equipment.
13. We would like to see demarcations in both Chengdu No. 2 Airport and Shuangliu Airport identified early on, as well as improvements made in the airport facilities and functions of both airports.

14. We request improved convenience of high-speed rail to Chongqing.

15. We request that urban areas be developed in such a way that traffic congestion is relieved and travel made safer.

16. We request that the procedures for acquiring or changing work permits be simplified and that this new system be applied flexibly.

17. We request that foreigner permanent residence cards be introduced.

18. We request efforts be made to improve air quality.

Shaanxi Province

In 2016, Shaanxi Province's GRP was 1.916 trillion yuan, with a growth rate of 7.6%, which was 0.9% higher than the 6.7% growth rate for China as a whole. Per capita GRP was up by 7% over the previous year to 50,395 yuan. In its 13th Five-Year Plan (第十三个五年规划纲要, "十三五"规划), the provincial government seeks to maintain a real economic growth rate of around 8% annually, with the aim of exceeding the average income in urban and rural areas. The main economic goal for 2017 is a real economic growth rate of around 8%, annual increases in fixed asset investments of about 10% (in 2016, the increase was 12.1%), about 7.5% increase in industrial production above a prescribed scale (6.9% increase), about 10% increase in total retail sales of consumer goods (11% increase), and about 3% increase in the CPI (1.3%).

Economic Conditions in 2016

Although, in 2016, GRP growth slowed 0.3 points from the 7.9% rate in 2015, it remained higher than the national average, as economic growth remained lofty. Looking at GRP by industry, the primary industry saw a 4% increase over the previous year, growing to 169.3 billion yuan, the secondary industry grew by 7.3% to 939 billion Yuan, and the tertiary industry grew by 8.7% to 808 billion yuan.

The CPI grew by 1.3%, as prices remained steady. Total public fixed asset investment increased by 12.1% (in 2015, the increase was 7.8%), industrial production above a prescribed scale increased by 6.9% (a 7% increase), and total retail sales of consumer goods increased by 11% (an 11.1% increase).

The permanent population at the end of 2016 exceeded the population at the end of 2015 by 197,500, an increase of 0.5% to 38.12 million. After a decline in the previous year, commercial real estate sales increased by 9.5% to 32.627 million square meters.

Total trade volume increased by 4.2% over the previous year to 197.48 billion yuan. Of this, exports rose by 13.7% to 104.46 billion yuan, while imports fell by 4.8% to 93.019 billion yuan, with a trade surplus of 11.442 billion yuan. Processing with supplied materials increased by 20.3% to 129.161 billion yuan, making up 65.4% of the total trade volume.

For inward direct investment, the number of contracts increased by 3.6% from the previous year to 116 contracts, while the amount of these contracts came to 4.633 billion dollars, a decline of 19.9%. Executed amount increased by 8.5% to US$ 5.012 billion, the first time the executed amount reached the 5-billion-dollar level.
Features of Shaanxi Province

Serving as a starting point on the Silk Road, the provincial capital of Shaanxi Province, Xi’an, has been the site for international trade and culture since ancient times. In recent years, the province has gained much attention as the birthplace of the Silk Road Economic Zone in China’s “One Belt, One Road” initiative, which is to be advanced as a Chinese national strategy.

Located in the geographical center of China, Shaanxi Province serves as a traffic hub, connecting the east, west, north, and south of the country. As the Western Regions Development Project unfolds, the opening of expressways, high-speed railway lines, expansion of the Xi’an Xianyang International Airport, and other infrastructure projects are proceeding at a rapid pace in Shaanxi Province.

In Xi’an, the international freight train "Chang’an" has begun runs to Central Asia and Europe, and the city serves as a strategic position on the Eurasian land bridge linking Jiangsu Province’s Lianyungang Port to the Port of Rotterdam in the Netherlands. The number of passengers at Xi'an Xianyang International Airport in 2016 increased by 12.2% from the previous year to a total of 36.994 million people, while the volume of cargo handled increased by 10.5% to 233,779 tons, a double-digit growth higher than the national average. A key player in the nation’s “One Belt, One Road” scheme, the China (Shaanxi) Free Trade Zone, was launched in April 2017 with the expectation that it would be a driving force behind China's inland economy.

Shaanxi Province has high education level, with more than 1 million students enrolled in higher education. Moreover, it has the third highest number of students enrolled in higher education per 100,000 people, as well as patent applications in all of China. Utilizing its abundant science education resources, the area serves as an industrial base for the aerospace industry, information technology industry, advanced agriculture, and so on. R&D and technological innovation that utilize the top-notch human resources and industrial base of Shaanxi Province also play an important role in elevating all of China's industries.

Aim of Being an International Cultural Center Boasting Top-Notch Talent, Concentration of Corporations, and Unique Characteristics

In promoting the advancement of functionality and deepening of technological innovation as a logistics hub for Shaanxi Province, we believe that it would be beneficial to attract more foreign companies including Japanese entities that engage in cutting-edge work and to develop an environment where already-advanced companies can continue to develop in Shaanxi Province. Japanese companies have made truly stellar advances in Shaanxi Province. We feel that the following three points are needed for them to continue to contribute to economic development in Shaanxi Province.

First, for Shaanxi Province to further develop as a physical distribution hub, we feel it is important to promote economically rational and transparent policy management in logistics, customs, and trade. Securing transparency is indispensable for domestic and foreign companies in China to actively develop their businesses, and can be thought of as a kind of premise for “the creation of a modern market system” as advanced by the Chinese government. By actively exchanging opinions with companies, we would like to see lower distribution costs and simplified customs procedures. There are calls to improve the efficiency of customs and other systems and to simplify the export license application process.

Second, for Shaanxi Province to attract the people and companies needed for it to become a base for technological innovation in the manufacturing industry, we feel it is important to develop top-notch human resource policies and strengthen support for facilitation of corporate activities. In seeking to become an innovation base for the cutting-edge manufacturing industry, it is beneficial to further utilize top-end human talent. To make it possible to flexibly and carefully deploy experienced Japanese, we feel it is critical to reduce expenses affecting personnel. Moreover, to make it possible for top-caliber Chinese professionals to pursue their work with peace of mind, we feel it is important to ensure an appropriate housing environment. Some Japanese companies operating in Shaanxi Province are highly competitive globally, and can thus serve as a driving force for technological innovation in Shaanxi Province. We would like to see stable supply of
electricity and infrastructure such as land, so that these companies can continue to develop in Shaanxi Province.

Third, for Shaanxi Province to develop as a distinctive city with an international culture and unrivalled living environment, we would like to see initiatives adopted that take an international approach. The municipal government has strengthened efforts aimed at air pollution in recent years, and we would like to see continued improvements. Moreover, in the China (Shaanxi) Free Trade Zone, which is leading the “One Belt, One Road” initiative, there is expectation that deregulatory efforts aimed at stimulating China’s inland economy will be attempted.

In bringing advanced management systems and the management concepts of Japanese companies to Shaanxi Province, and further enhancing the various strengths of Shaanxi Province such as national strategy, industrial base, geographical advantage, and human resources, we hope to see the implementation of bold and distinctive deregulation measures unique to the China (Shaanxi) Free Trade Area (自由贸易试验区).

**Interactions with Local Governments**

**Handing Over of the White Paper to the Shaanxi Communist Party Committee Secretary**

July 27, 2016

While attending a meeting between the Ambassador Extraordinary and Plenipotentiary of Japan in China and the Shaanxi Communist Party Committee Secretary, the executive of the Japanese Chamber of Commerce and Industry in China handed out the white paper.

**Roundtable Discussion between Shaanxi Province and Japanese Companies (China-Japan [Shaanxi] Collaborative Research Society)**

October 27, 2016

Participants from Shaanxi Province: Department of Commerce and other related departments under the leadership of the Deputy Secretary of the People’s Republic

Japanese participants: Eleven Japanese companies, the Embassy of Japan in China, and JETRO Beijing office

Subject matter covered: Organization and visualization of the business appeal of Shaanxi Province and establishment of joint consideration of methods of dissemination to Japanese companies were discussed. Research aimed at enhancing the superiority and business environment of Shaanxi Province was conducted.

**Roundtable Discussion between Xi’an and Japanese Companies**

February 23, 2016

Participants from Xi’an: Department of Commerce and other related departments under the leadership of the Deputy Director of the Department of Commerce.

Japanese participants: Ten Japanese companies from the Xi’an Japanese Association and JETRO Beijing office

Subject matter covered: The department in charge explained the actual situation surrounding the content of the proposal and the municipal government’s thinking on this matter.

**<Proposals>**

1. For Shaanxi Province to take advantage of functions that make it an ideal distribution hub as compared with other Chinese cities, and further develop its superiority as an open-market inland city leading the Silk Road
Economic Zone, we feel that it needs to engage in economically rational and transparent policy management and simplify administrative procedures concerning logistics, customs, and trade.

1. Distribution costs

Located in the middle of China, Shaanxi Province faces higher distribution costs for procurement and shipping than coastal cities. Moreover, international freight trains running between China and Europe carry little cargo, so lowering distribution costs is a challenge. We think consideration should be given to specific countermeasures to lower distribution costs by utilizing policies, such as the “One Belt, One Road” initiative and establishing a free trade zone and the largest international airport and trade distribution center in China.

We request that travel restrictions on cargo transport vehicles within the city be relaxed.

2. Customs systems

There are times when import/export customs clearance is suspended or significantly delayed due to issues caused by the customs system or software upgrades. Due to the unnecessary cost burdens placed on distribution companies and shippers and the effects on production activities, we would like to see customs clearance without delays.

When systems are to be upgraded, we would like to see workshops held covering changes to the system and how the system is to be used.

There are multiple software packages used by the customs and tax offices of Xi’an involving many operations such as input and verification. However, efficiency is poor. We would like to see the operations, inputs, checks, and software consolidated.

3. Cargo handling quality

Inspections by the Customs and Quarantine Bureau have caused problems such as contamination, loss of products, and packing defects after inspection, resulting in products that have been sampled and inspected not being sold. We request that improvements be made in inspection methods.

4. Export licenses

Companies must apply for an export license each time they want to export magnetic iron ore, electromagnetic valves, cork, and similar products. Although there was a response that this was in keeping with national policy at the roundtable discussion with the Xi’an Municipal Government, we would like to see senior institutions encouraged to let companies consolidate applications for export permits involving identical items.

5. Support for export companies

While overseas price competition for products exported from China will become extremely unforgiving due to the global downturn and rising costs in China, government support for export companies is waning. We would like to see policies that enhance the competitiveness of exporters in Shaanxi Province.

2. To encourage Shaanxi Province to promote the accumulation of human talent and companies needed to create a base for technological innovation for the manufacturing industry, we would like to see the development of an advanced human resources policy and enhanced support for facilitation of corporate activities.

1. Resident permit procedures

Foreigners applying for foreign resident permits need to hand over their passports and cannot go abroad for any reason until they get them back. We request improvements be made in the application process, so that
foreign residents only need to relinquish their passports when applying for permits and again when their application is accepted.

As a result of amendment of the Immigration Control Law in July 2013, the examination period for resident permit procedure has been changed from five business days to "within 15 business days." At a roundtable meeting with the Xi’an Municipal Government, it was reported that this was shortened to "within two business days" in Xi’an. We request that these operations be publicized and thoroughly implemented.

In principle, renewal procedures are necessary every year for residence permits, but we would like to see an extension of the renewal period.

2. Social insurance

Japanese expatriates working in China find that they have to pay social insurance premiums in both Japan and China. This is a real problem for Japanese companies in Shaanxi Province. We request that this duplicate payment of premiums and other issues be resolved through the timely conclusion of a social insurance pact between China and Japan. We would also like to see more consultations on these agreements in order to reduce burdens placed on Japanese companies and employees, as well as an aggressive approach taken with the central government aimed at accelerating negotiations.

3. Workers Compensation Insurance

The procedures for receiving workers compensation payments are complicated and time-consuming. At a roundtable meeting with the Xi’an municipal government, it was announced that provisions were being established to simplify these procedures. We are hopeful that this simplification soon becomes a reality.

4. Supplying human talent

When it comes to beginner-level technical training, the educational system is lacking. We request that vocational training that teaches beginner technical skills be institutionalized in a systematic manner to supply the professional talent that companies need.

There is a shortage of production workers, and it is difficult to recruit human resources in this area. We request the establishment of a supply route of foreigner talent under the guidance of the government, and would also like to see employment agencies established.

Rent is expensive and there is little housing available for young employees around the Xi’an Hi-Tech Industrial Development Zone. We request a supply of sufficiently low-priced rental housing, so that young people can work without having to worry about their housing situation.

5. Power supply

Power outages and blackouts occur without notice. In the case of instantaneous blackouts, there have been cases of serious losses occurring, such as suspension of operations, disposal of defective products, repairs to damaged equipment, compensation to employees, and so on. We request that, should a power outage be required, it be implemented systematically and that a schedule be provided to companies in advance.

6. Environmental policy

In response to energy saving/pollutant emission reduction targets, we request a comprehensive policy response from a broader perspective. For example, considering an examination of the propriety of emission reduction target values and the ability of companies to invest in energy conservation/pollution emission reduction facilities, we would like to see favorable treatment and financial support provided to companies that remodel or renovate their facilities for energy conservation or environmental improvement purposes, as well
as crackdowns for violators. We also request that policies be considered for companies that have obtained ISO or similar certification.

7. Factory relocations

Some companies worry that the areas surrounding their factories will be commercialized or developed as residential land, resulting in their forcible relocation. We would like consideration given to companies when urban plans are to be changed and, should a plan be adopted that will impact a company’s activities, we request that this be sufficiently communicated, so that the company understands and a schedule be adopted that provides the company with sufficient time to react.

8. Foreign companies

Some 10 to 20 years have passed since Japanese companies started operations in Shaanxi Province, and due to the global economic downturn and slowdown in economic growth in China, more than a few firms are facing highly challenging business environments. Some of these are highly competitive globally in specific fields, meaning that, moving forward, Shaanxi Province could be a real driving force for technological innovation. In terms of preserving employment and technology development in Shaanxi Province and Xi'an, we request consideration of measures to enable foreign companies to continue to develop in Shaanxi Province.

3. In contrast with other Chinese cities, for Shaanxi Province to develop as a distinctive city with an international culture and an unrivalled living environment, we would like to see initiatives adopted that take a comprehensive approach.

1. Air pollution

Although significant efforts to improve air pollution have been taken over the last several years, compared with other regions, the situation in Shaanxi continues to beg for improvement. We feel strongly that continued efforts should be made to improve air quality. We request that a plan related to measures to deal with winter air pollution be announced.

2. Roads/transportation

Congested roads are becoming a real problem. We request continued efforts to improve road and traffic conditions, such as further improving and expanding public transportation, strengthening traffic controls, maintaining parking lots, cracking down on illegal parking, and making citizens more aware of the need to comply with traffic rules.

The pedestrian environment has been made dangerous by motorbikes being operated on pedestrian paths, uneven sidewalks, and so on. We request efforts to improve the urban environment, so that pedestrians can get around safely.

Roadways become inundated after rains, posing problems for pedestrian and motor traffic. We request improved drainage of roadways.

Even taxis that operate at the airport or from taxi stands often charge exorbitant fees and do not have meters. We would like to see meters used in all taxis and dubious taxi operations eliminated.

3. The Free Trade Areas (自由贸易试验区)

A free trade area (自由贸易试验区) was established in Shaanxi Province after such zones were established in Shanghai, Guangdong Province, Tianjin, and Fuzhou Province. We request implementation of advanced regulatory mitigation measures that the China (Shaanxi) Free Trade Zone can carry out, and that briefing sessions be carried out, so that companies can understand and utilize deregulatory measures.
4. Roundtable discussions

We would like to express our gratitude for the exchange of ideas between the executives of Xi’an Municipal Government and Japanese companies in Xi’an hosted by the Xi’an Commerce Bureau on February 23, 2017. There are some areas in which even more mutual understanding is needed, so we would like to see periodic dialogues and exchanges of opinion between the various affiliated authorities of Xi’an and Japanese companies with operations or offices in Xi’an.
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ISO
ISP
RQFII
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Design system
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## Translation Terminology List (tentative)

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<td>《外国人入境完成短期工作任务的相关办理程序（试行）》</td>
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<td>《关于印发&lt;职业学校学生实习管理规定&gt;的通知》</td>
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### Ch. 6 Intellectual Property Rights

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<td>Some Opinions of the State Council on Accelerating the Construction of a Nation Strong in Intellectual Property Under New Conditions</td>
<td>《国务院关于新形势下加快知识产权强国建设的若干意见》</td>
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<tr>
<td>Small group that cracks down on intellectual property infringements and manufacturing and selling of counterfeit products across the country</td>
<td>“全国打击侵犯知识产权和制售假冒伪劣商品工作领导小组”</td>
<td>「全国打擊侵犯知識産権和制售假冒僞劣商品工作領導小組」</td>
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<td>trademark examination and trial standards</td>
<td>《商标审查及审理标准》</td>
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<td>Patent Law</td>
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<td>regulations concerning prohibition of competition exclusion/ restraining action by abusing intellectual property rights</td>
<td>《关于禁止滥用知识产权排除、限制竞争行为的若干规定》</td>
<td>知的財産権濫用による競争排除・制限行為の禁止に関する規定</td>
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<td>植物新品种权</td>
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<td>integrated circuit placement rights</td>
<td>集成电路布图设计专有权</td>
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<td>agreement priority principle</td>
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<td>the current utility models and designs</td>
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<td>examination guidelines</td>
<td>《专利审查指南》</td>
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<td>screening designs (graphical user interface)</td>
<td>图形用户界面（GUI）产品外观设计</td>
<td>画面意匠(グラフィカルユーザーインターフェース)</td>
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<td>famous trademarks in foreign countries</td>
<td>外国著名商标</td>
<td>外国で著名な商標</td>
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<td>being famous (well-known)</td>
<td>驰名性</td>
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<td>Misappropriated applications</td>
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<td>Japan–China patent examination highway [PPH]</td>
<td>中日专利审查高速路（中日 PPH）</td>
<td>日中特許審査ハイウェイ（日中 PPH）</td>
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<td>Range of claims and requirements described in the specification</td>
<td>权利要求书和说明书</td>
<td>商標審査の範囲および明細書（の記載要件）</td>
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<td>business model inventions</td>
<td>商业模式发明</td>
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<td>computer program inventions</td>
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<td>illegal business value</td>
<td>非法经营额</td>
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<td>The &quot;Draft of the Patent Law Amendment (submitted for review)&quot; of the Legislative Office of the State Council</td>
<td>国务院法制办公室印發的《专利法修订草案》（送审稿）</td>
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<td>the &quot;Special Administrative Law Enforcement Operation Guidance&quot; (requesting opinions) of the SIPO</td>
<td>国家知识产权局印發的《专利行政法执行操作指南》 (意见徵集稿)</td>
<td>国家知識産権局「専利行政法執行操作指南」(意見募集中)</td>
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<td>Guidelines for Identifying Patent Rights Infringements (trial stage)</td>
<td>《专利侵权行为认定指南（试行）》</td>
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<td>&quot;Antimonopoly Law Enforcement Guidance Concerning Intellectual Property Abuse (7th draft)&quot; of the SAIC</td>
<td>国家工商行政管理总局印發的《关于滥用知识产权的反垄断执法指南》 (国家工商总局第七稿)</td>
<td>国家工商行政管理局「知的財産権濫用に関する独占禁止法執行指南（第7稿）」</td>
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<td>&quot;Antimonopoly Guidance on Intellectual Property Rights Abuse (request for opinion)&quot; of the NDRC</td>
<td>国家发展和改革委员会印發的《关于滥用知识产权的反垄断指导》 (征求意见稿)</td>
<td>国家発展改革委員会「知的財産権を濫用し競争を排除・制限する行為の禁止に関する規定」</td>
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<td>&quot;Provision on the prohibition of acts that abuse intellectual property rights and preclude and limit competition&quot; of the Industry and Commerce Administration Bureau</td>
<td>国家工商总局印發的《关于禁止滥用知识产权排除、限制竞争行为的规定》</td>
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<td>rights based on prior use</td>
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<td>Some provisions of the Supreme People's Court concerning the publication of a name list of offenders who are enforcement targets</td>
<td>《关于公布失信被执行人员名单信息的若干规定》</td>
<td>「信用喪失の執行者名簿等の公表に関する最高人民法院の若干規定」</td>
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<td>Operation outline regarding the execution of the plan for “Basically solving problems of enforcement difficulties in 2–3 years”</td>
<td>《关于落实“用两到三年时间基本解决执行难问题”的工作纲要》</td>
<td>「1、2、3年間で執行難の問題を基本的に解決するこ もの実施に関する業務要領」</td>
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<td>Patent Reexamination Committee</td>
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<td>Regulations on the Disclosure of trial documents of the Supreme People’s Court on the Internet</td>
<td>《关于人民法院在互联网公布裁判文书的规定》</td>
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<td>Chinese technology import and export control ordinance</td>
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<td>“Action plan to control soil pollution (the so-called “10 articles for soil pollution”)</td>
<td>《土壤污染防治行动计划》（土十条）</td>
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<td>Action plan for controlling air pollution</td>
<td>《大气污染防治行动计划》</td>
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<td>Action plan for controlling water pollution</td>
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<td>Environmental protection tax law</td>
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<td>Environmental protection law (trial)</td>
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<td>Ordonnance for collection, use, and management of the contaminant emission fee</td>
<td>《排污费征收使用管理条令》</td>
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<td>Thirteen-Five ecological environment protection plan</td>
<td>《“十三五” 生态环境保护规划》</td>
<td>「“十三五” 生態環境保護規画」</td>
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<td>Thirteen-Five general measures for saving energy and reducing emission</td>
<td>《“十三五” 节能减排综合工作方案》</td>
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<td>Law for controlling the environment polluted by solid wastes</td>
<td>《固体废物污染环境防治法》</td>
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<td>Ordonnance for controlling contamination in electrical equipment (Chinese version of RoHS)</td>
<td>《电子信息产品污染控制管理办法》</td>
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<td>Ordonnance was then amended by the ordinance for use restriction on hazardous substances for electrical equipment (the ongoing Chinese version of RoHS)</td>
<td>《电器电子产品有害物质限制使用管理办法》</td>
<td>「電器電子製品有害物質使用制限管理規則」（現行の中国版RoHS）</td>
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<td>Ordonnance of collecting and managing waste electric products (Chinese version of the waste electrical and electronic equipment directive [WEEE])</td>
<td>《废弃电器电子产品回收处理管理条例》</td>
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<td>total volume control</td>
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<td>総量規制</td>
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<td>primary unit control</td>
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<td>原単位規制</td>
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<td>labelling system related to issues regarding energy savings and the environment</td>
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<td>List to manage target achievements of the law for use restriction on hazardous substances for electrical equipment</td>
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<td>「電子製品有害物質使用制限目標達成管理目録」</td>
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### Ch.8 Technical standards and certification

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**mandatory standards**

Integration and simplification of the mandatory standards

recommended standards

corporate standards

platform for public information service of corporate standards

system of self-announcement and disclosure

The rules of the management of patents related to national standards (tentative implementation)

GB/T2003.1 first section of the special procedures for establishment of standards, the standards related to patents

Information security assessment system

China compulsion certification system

Multi-Level Protection Scheme

instructive statements for the telecommunication or internet industries

China cybersecurity law

Ordinance of managing commercial encryption

the national department of encryption management

the standardization technical committee

the standardization formulation work group

**Ch.9 Logistics**

**Ch.10 Government procurement**

**English (Tentative Translation)** | **Original Chinese** | **Japanese (for reference)**
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notice on the thorough collaboration of the government and social capital for the field of conventional infrastructure | 《关于切实做好传统基础设施领域政府和社会资本合作有关工作的通知》 | 「従来型インフラ領域における、政府と社会的資本の提携の取り組み方針に関する通知」

notice for better joint promotion of relevant operations of PPP | 《关于进一步共同做好政府和社会资本合作 (PPP) 有关工作的通知》 | 「官民パートナーシップ (PPP) の関連業務を共同でよりよく進めるための通知」

Instructive opinion on the enhancement of internal control of government procurement activity | 《关于加强政府采购活动内部控制的指导意见》 | 「政府調達活動の内部統制管理を強化することに関する指導意見」

notice on the issues of reference to the credit record of government procurement | 《关于在政府采购活动中查询及使用信用记录有关问题的通知》 | 「政府調達活動における信用記録の照会および使用についての問題に関する通知」

Agreement on Government Procurement | WTO《政府采购协定》 | WTO《政府調達協定》

**Ch.11 Chamber of commerce organization**

**English (Tentative Translation)** | **Original Chinese** | **Japanese (for reference)**
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temporary rules of management of foreign chamber of commerce | 《外国商会管理暂行规定》 | 外国商会管理臨時規定