

# Executive Summary

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## Direction of Chinese Economic Reform and Main Proposals

### “Expectations for improving the predictability of the Chinese business environment”

The guiding ideology of the 14th Five-Year Plan Outline (hereinafter referred to as the 14-5 Plan Outline) decided at the 4th meeting of the 13th National People's Congress (hereinafter referred to as the NPC) in March 2021, states that in order to make a good start toward the full-scale construction of a modern socialist country, the 5 growth philosophies, namely, innovation development, harmonious development, green development, open development, and development that can be enjoyed by all, will be thoroughly implemented. Moreover, it is also emphasized that the focus is on deepening supply-side structural reforms and that innovation is the fundamental driving force for reforms.

In addition, in the 14-5 Plan Outline, as “facilitating the domestic general circulation”, it was indicated that “we will accelerate the formation of a unified large domestic market, benchmark international advanced rules and best practices, promote harmonization and unification of standards, rules and policies of different regions and industries, and break down local protection, monopolies and market divisions.” Furthermore, as “promoting domestic and international dual circulation”, it was included that “based on the domestic general circulation, we will promote the development of a powerful domestic market and the construction of a trading powerhouse in harmony to form a gravitational field attracting the elements and resources of the world, promote domestic and foreign demand, imports and exports, and realize development while attracting foreign capital and investing overseas harmony.” It is hoped that “facilitating the domestic general circulation” will lead to the formation of a unified domestic market and breaking down various barriers, and “promotion of the domestic / international dual circulation” will lead to an increase in business opportunities and further expansion of opening up to the international community due to the expansion of domestic demand.

The Government Activity Report adopted at NPC in March 2021 stipulated the priority activity missions for 2021. The first task was to “maintain continuity, stability and sustainability of macro-policy and encourage the economy to move within reasonable limits”. In addition, focus would be placed on “pushing forward with reforms in priority areas and further drawing out the vitality of market players” and “implementing a high-level opening up to the international community and promoting qualitative improvement in the context of the stability of foreign trade and foreign capital”.

Uncertainties in the business of Japanese companies are increasing due to the US-China economic and trade friction, protectionist actions by each country and the Coronavirus Disease 2019 (COVID-19) pandemic. Under such circumstances, it is expected that a system that contributes to “improving the predictability” of the business environment in China will be developed and operated.

Regarding the improvement of predictability, the Foreign Investment Law came into effect on January 1, 2020. Under this Law, the contents that Japanese companies etc. have proposed until now in the “Chinese Economy and Japanese companies White Paper” were included as the following: it is necessary to hear the opinions and proposals of foreign companies when establishing laws and regulations relating to foreign investment (Article 10); ensure fair participation of foreign-affiliated companies in government procurement activities (Article 16), etc. The Law will have a major impact on Japanese companies operating businesses with China, and we hope that the law will be implemented as specified in the provisions stipulated by the law so that the Chinese market can further open up. Also, in the NPC held in May 2020, China's first “Civil Code” was passed and established. We hope that the enactment of these laws will lead to further “improvement in predictability” for Japanese companies.

Due to the ongoing strict restrictions on the control of COVID-19 pandemic, the movement of people between Japan and China, which is the foundation of business, has been adversely affected. For the early recovery of the business environment in the future, we strongly expect immediate improvements such as early return of flights between Japan and China, shortening of the quarantine period, improvement of the quarantine environment, and prompt issuance of invitation letters necessary for obtaining an entry visa for China.

Japanese companies are hoping that the year 2021 will be an important year for deepening the reform that will lead to the development of a “Highly Transparent” business environment, in which “Non-Discriminatory Status is secured” while they are poised to actively contribute through various businesses as the Chinese government is planning to deepen reforms.

In the 14-5 Plan Outline and the 2021 Government Activity Report, the Chinese government indicated that the direction is to deepen its reforms with the aim of constructing a higher-level new open economic system, a first-class business environment, and a high-level market system. On the other hand, the issues facing Japanese companies in the field of Chinese business are summarized as follows from the perspectives of opening up to the international community, application and procedures of administrative regulations and fair competition.

In deepening reforms, we are convinced that many of the constructive ideas are included in this White Paper, which has compiled proposals for analysis and resolution of the issues facing Japanese companies engaging in business in China for a long period of time. We would like to see that something in this White Paper is used as a reference for policy management in the future.

## **Opening up to the international community**

In the 14-5 Plan Outline, as “construction of a higher-level new open economic system”, the level of opening up to the international community will be raised completely, the liberalization and facilitation of trade and investment will be promoted, the opening up of products and elements will be continuously intensified, and deregulating rules, regulations, management, standards, etc. will be steadily promoted. In July 2020, the “Foreign Investment Negative List (2020 version)” was promulgated, and restrictions and prohibitions on foreign investment were reduced from 40 to 33, and restrictions on foreign

ownership in some industries were eased along with efforts that are underway to make China a more open market. On the other hand, there are some fields that are not stipulated in the negative list, but the entry of foreign capital is substantially restricted by other related laws and regulations. In Osaka G20 Summit in June 2019, the head of state, President Xi Jinping announced that it will completely abolish restrictions on foreign capital entry other than the negative list, and we expect that such laws and regulations will be revised in the future.

In addition, since January 1, 2020, the Foreign Investment Law, and the Foreign Investment Law Implementation Regulations, which are the basic laws for foreign-affiliated companies, came into effect. It is expected that related laws and regulations will continue to be revised in the future. We continue to propose further abolition of regulation against the market entry for foreign investment and active efforts of further adoption of global standards.

- **Investment:** While various negative lists are being revised and companies are seeking to enter new fields, although not restricted by the “Special Management Measures on the Entry of Foreign Investment (Negative List) (2020 edition)” and “Negative List for Market Entry (2020 Edition)”, other related laws and regulations effectively limit the fields open to foreign capital, hence there are cases where it is difficult to enter the market. In order to respond to such cases so as to realize the major pillars of the Foreign Investment Law, such as “domestic treatment before entry and foreign investment management system based on negative list” and “establishment of a fair competitive environment for foreign investment companies”, we propose that the National Development and Reform Commission and the Ministry of Commerce establish a response window so that they can grasp issues and revise necessary related laws and regulations in cooperation with related departments.
- **Real Estate:** We propose that the restrictions on foreign investment in the real estate construction industry be relaxed, in particular, the removal of the foreign borrowing prohibition clause for foreign-invested real estate companies and the clarification of antitrust law examination standards.
- **Information and communications:** Restrictions on the entry of foreign investment are still being set in value-added telecommunication services such as data centres and cloud services. We propose deregulation so that foreign-affiliated companies can utilize the know-how cultivated in their own countries to develop attractive ICT services in China. Regarding the above, we propose that clear guidelines (practical requirements and procedures necessary for obtaining a license) be presented for foreign-affiliated companies for entering the value-added telecom business.
- **Content:** The key point of the development of Chinese content industry is not the protection of domestic companies, but the development of domestic companies and human resources through sound competition. In addition, if there is a market need and restrictions are placed on the market entry of overseas genuine products, it will result in the spread of counterfeit and pirated content that has not passed the government's preliminary examination and censorship. Therefore, we propose that various regulations and entry barriers for foreign companies and import/production/distribution/sales of foreign contents should be removed, and foreign-affiliated companies also be able to operate music distribution services etc. on the Internet.

• **Non-life Insurance:** With the revision of the “Insurance Company Equity Management Law” in March 2018, shareholders’ conditions of insurance companies (from the perspective of avoiding competition in the same industry, if a shareholder is a control shareholder or a strategic shareholder, he/she cannot invest in two or more insurance companies in the same industry), and the upper limit of investment ratio (upper limit of 1/3 of registered capital for each insurance company) have been tightened. In order to promote the opening and sound development of the Chinese insurance market, we propose further relaxation of this provision if foreign insurance companies meet certain conditions (shareholder governance, financial ability, joint venture purposes, etc.). In addition, regarding the limitation of the investment ratio, it will lead to the limitation of options for joint venture partners (non-insurance companies in China), so we propose that the upper limit of the investment ratio be relaxed from 1/3 to approximately 1/2 of the registered capital of insurance companies.

### **Application and procedures of administrative regulations**

In the 14-5 Plan Outline, it was emphasized to deepen “Fang · Guan · Fu Reform” (reform to streamline administration, delegate powers, and improve regulation and services) and to streamline administrative permits. In the Government Activity Report of the NPC held in March 2021, one of the priority initiatives in 2021 was “pushing forward with reforms in priority areas and further drawing out the vitality of market players”, in which the promotion of simplification of procedures for approval items, reduction of documents, and shortening of the time to process regarding company-related examination and approval items was emphasized. Simplifying and speeding up administrative procedures, abolishing permits, licenses, and certifications except for the minimum necessary ones, and improving government services are what Japanese companies continue to demand in many fields in this White Paper, and we propose more proactive efforts in the future.

Furthermore, from 2020 to 2021, various measures were taken by the central and local governments to prevent and control COVID-19 pandemic, however, there are also issues related to these measures. We propose improvement so that these issues will not arise in the event of an emergency to the extent possible. The proposals related to COVID-19 pandemic will be introduced together in the section “The COVID-19 Pandemic and Japanese Companies”.

• **Trade:** When using a free trade agreement (FTA) between China, ASEAN and Latin America, the detailed enforcement regulations stipulate that the HS code stated on the certificate of origin should be the HS code of the importing country. However, for items with different HS codes for importing country and exporting country (China), certificate of origin issuing agencies in various regions of China require to list the HS code for their own country (China). Certificates of origin issued as requested by the issuing agency violate the provisions of the importing country, so FTAs may not be available, or negotiations with issuing agencies may take time and delays in using FTAs may occur. This issue has been raised in this White paper every year since 2016, and they have not been resolved since then, and similar issues have been occurring recently. Therefore, we strongly propose that thorough guidance be given so as not to make requests that are inconsistent with the FTA’s provisions or that are not stated in the text.

• **Energy Saving and Environment:** The 14-5 Plan stipulated the “establishment of an action plan with the peak of carbon

emissions before 2030”, and CO<sub>2</sub> emission reduction will become an even more important policy in the future. Regarding the nationwide introduction of the emissions trading system announced by the National Development and Reform Commission of China in December 2017, power generation businesses and approximately 1,700 companies with large energy consumption and having private power generation facilities will be targeted first. It is planned to be expanded to other industries in the future, and it is expected that it will affect a wide range of companies including foreign-affiliated companies. Full-scale operation is expected by 2021 to 2025, but at the test operation stage, the target industries and standards in each city are not unified, and there are impacts on predictability and probability on related businesses. Therefore, we propose exchanging information with related industries, including foreign-affiliated companies, and coordinating with the government agencies of related countries when promoting this plan.

## Fair Competition

In the 14-5 Plan Outline, it was emphasised that a high-level market system is to be constructed, the basic system of the market system to be completed, equal entry and fair supervision and management to be maintained, and a domestic unified market with high efficiency, standard and where fair competition takes place to be formed. This includes breaking down barriers in the system mechanism that constrains high-quality development and organizing and abolishing rules and methods that hinder the national unified market and fair competition. In addition, in the Government Activity Report of the NPC held in March 2021, one of the priority initiatives was “pushing forward with reforms in priority areas and further drawing out the vitality of market players”, in which “continuing to optimize marketed, legalized and internationalized business environment” was included. In this White Paper, various systems that are obstacles to fair competition will be reviewed in order to fully utilize market principles in line with this direction and we also propose development of highly transparent market economy rules and its proper operation.

- **Investment:**

- Regarding the “Regulations on Unreliable Entity List” that came into effect in September 2020, “Danger to the development of China’s national sovereignty, security, and profits”, “Violation of normal market trading principles”, and “Discriminatory measures” which are presented as acts to be punished are ambiguous concepts. When operating this system in related departments such as the Ministry of Commerce, we propose that these concepts be clarified by subordinate laws and regulations. Moreover, since the US-China friction is also pointed out as the background of the enactment of this regulation, we propose that Japanese companies not be subject to countermeasures between the US and China or arbitrary application. In addition, we propose that the procedures be transparent and fair, and that the opinions of Japanese companies be fully taken into consideration.
- The “Export Control Act” that came into effect in 2020 stipulates “re-exports”, “deemed exports”, and “pursuit of liability by extra-territorial application of laws”. However, it is unclear how these will be applied. Depending on the application, these have a great impact on the existing business model including the supply chain of the industry and the company and can be a major factor that significantly reduces the predictability of the existing business and suppresses new investment. We propose that these be clarified as soon as possible by subordinate laws and regulations, and that the

opinions of foreign-affiliated companies, including Japanese companies, be fully taken into consideration when applying them.

- According to the “Rules on Counteracting Unjustified Extra-Territorial Application of Foreign Legislation and Other Measures” which came into effect in January 2021, If the Chinese government determines that “it is in a situation of unjustified extra-territorial application”, the Chinese government can issue a ban on Chinese corporations, etc. from complying with sanctions and regulations of other countries. On the other hand, the concept of “unjustified extra-territorial application” is ambiguous, leading to a significant decline in business predictability. We propose that the criteria for determining when the rules apply be clarified. We also propose that it not to be applied arbitrarily to Japanese companies.
- Regarding the “Measures for the Security Review of Foreign Investment” that came into effect in January 2021, the law expanded the scope of foreign investment review to include green field investment. Moreover, it has been pointed out that there is room for a wide range of interpretations for the review authorities because there is no clear definition of the scope of review. We propose further clarification of the scope of “important infrastructure”, “important technology”, and “important information technology, and Internet products and services” which are the scope of self-reporting.
- **Competition Law:** From the viewpoint of improving the transparency of business combination examination, we propose that the criteria for business combination examination such as the grounds for approval or disapproval, the provisions regarding the grounds for conditional approval, the method of defining the market range, etc., in particular, the criteria for adding and cancelling the restriction condition of “maintaining the independence of business or assets” be further clarified through the revision of the law and the application of guidelines, and that the examination be conducted purely from the viewpoint of whether there is a competition restriction / exclusion effect.
- **Taxation Business and Accounting:** The Personal Income Tax Act was significantly amended in 2019, and the preferential treatment applicable to foreigners will be revoked at the end of 2021. If it is revoked according to the regulations, the burden on the company will increase significantly, so we propose that the preferential treatment be continued.
- **Intellectual property rights:** Article 22 of the Foreign Investment Law states that the terms of a technical tie-up will be established by each investor after consultation in accordance with the fair principle. We propose that it be clarified that the guarantee period and scope of licensed technology under the Technology Export and Import Control Regulations can also be determined through consultation between the parties under the principle of fairness.
- **Technical standards/certifications:** Regarding data-related laws and regulations such as the China Cybersecurity Law, many of the laws, bylaws, standards, etc. that stipulate the specific contents have not been established or at the stage of solicitation of opinions. We hope for the establishment and application of a system to prevent foreign products from being treated discriminately by taking into account the opinions of related parties including foreign companies in the process of establishing these bylaws, standards, etc. In addition, we propose that necessary advance guidance be provided, and a

sufficient response period be secured for enforcement.

**• Government Procurement:**

- Article 10 of the current “Government Procurement Law” stipulates that the government should purchase cargo, construction, and services in its own country. Under the “Business Environment Improvement Ordinance” promulgated on October 22, 2019, the government procurement should be open / transparent, fair / impartial, and should treat various ownership systems and different market players in each region equally by law, and stipulate that the restrictions and exclusions should not be made due to unreasonable conditions or the origin of the product. However, Article 29 of the “Government Procurement Law (Revised Draft for Comments)” promulgated by the Ministry of Finance of China on December 8, 2020, still has the phrase “supporting its own industry”. In this revision of the “Government Procurement Law”, we propose that this wording be deleted to create an environment in which the scope of the government procurement market is broadened and imported products and domestic products can participate equally in the market competition of the government procurement.
- Laws and regulations such as the “Foreign Investment Law” and “Foreign Investment Law Implementation Ordinance” have been officially put into effect and enforced since January 1, 2020. It is welcomed that the provisions that guarantee the participation in fair government procurement activities by law for the foreign investment companies have been established thereof. However, since all the government procurement-related provisions in the above-mentioned laws and regulations are somewhat principled, we would still strongly propose that the new provisions to ensure equal participation of foreign-affiliated companies in government procurement activities will be implemented by promptly issuing clearer and more specific detailed implementation rules and by thoroughly enforcing these even at the local government level.
- We propose that the existence of a list related to “secure and controllable” or “innovation on informatization and application” and the range of applicable products, the requirements, and standards should be clarified to ensure transparency and predictability of market entry. In particular, there are no clear provisions regarding the criteria and conditions for entry into the information security area, making entry by foreign-affiliated companies virtually impossible. In addition, in order to increase predictability, we propose the disclosure of information on products certified in this case.
- It is unreasonable discrimination to exclude products with high security functions from government procurement by excluding the products of foreign companies only because they are not manufactured by Chinese companies, and it is inconsistent with the opening up policy of the Chinese government. Moreover, especially regarding information security issues, we understand that excluding foreign companies’ products and procuring products developed and manufactured by Chinese companies feels more emotionally safe. However, there is a risk that the Chinese government will narrow down its options and it can even create vulnerabilities when it comes to quickly and optimally defending against evolving hacking and other fraudulent means. In order to ensure the security of information systems in China, we propose opening doors to foreign products.

- **Construction:** We propose that unequal handling of qualification acquisition system for foreign employees and local employees engaged in the construction industry to be rectified and establish laws and regulations, specifically, qualifications such as Japanese first-class architect and first-class construction management engineer be treated in the same way as Chinese architect qualification, etc.
- **Retail:** Currently, the sale of tobacco is not permitted to foreign-affiliated companies under the “Detailed Regulations for the Implementation of Tobacco Monopoly Permit Management Law (National Tobacco Law [2020] No. 205)”. For this reason, many foreign retail stores have a tobacco store as a tenant to meet consumer demands for convenience. In addition to tobacco, medicines, books, etc. are not allowed to be handled by foreign-affiliated companies, and not only in terms of direct sales, but also in terms of attracting customers, it has become a factor that forces unequal competition with domestic companies that can sell them. In order to further enhance the convenience of consumers, we propose the removal and relaxation of restrictions on the handling of tobacco, medicine, books, etc. so that they will be treated in the same way as domestic companies within the same business format.

#### **“Main items that showed improvement from the proposals of 2020 White Paper”**

The main items that showed improvement from the proposals of 2020 White Paper are as follows. In these items, we believe that improvements have been made along the direction of the proposals, and we appreciate the Chinese government for the efforts to improve the business environment. However, some of these still require further improvement. In addition, there are still many other areas where improvement is expected and we hope that improvement efforts will be continued.

- 1) Decrease in restrictions and prohibition clauses in foreign investment (2020 edition of White Paper p36-38, “Investment” proposal ③)

It is welcomed that, in the “Special Management Measures for Foreign Investment Entry (Negative List) (2020 Edition)” that came into effect in July 2020, the restrictions and prohibitions have been reduced from 40 items in the 2019 version to 33 items, and some relaxation has progressed. However, we propose the National Development and Reform Commission and the Ministry of Commerce further reducing the restrictions and prohibitions items.

- 2) Exemption from appraisal / registration for dangerous chemicals (2020 White Paper p140, “Chemicals” Proposal 2.1) ①, ②)

Regarding hazardous chemicals, as we have proposed “exemption from appraisal of small amounts of hazardous chemicals” and “exemption from appraisal / registration for safety test applications”, the “Dangerous Chemicals Safety Law (Draft for Comments)” published in October 2020 states that registration is exempted in the case of research and development, low doses, polymers, etc. We welcome that the items proposed in this white paper for many years have been (partially) reflected. At the same time, we propose that the appraisal be exempted if the registration is exempted,

and that guidance documents and related lists be prepared so that the exemption is clarified.

3) Regarding the adoption of the animal substitution test method (2020 White Paper p162, "Cosmetics" proposal ⑧)

As we have proposed the adoption of a method to replace animal testing, we welcome the fact that, according to the Provisions on the Administration of Cosmetics Registration and Filing Documents (No. 32, 2021) published in March 2021, with the exception of ordinary cosmetics, the examination can be omitted by the qualification certification related to the production quality control system issued by the administrative department of the country (district) where the manufacturing company is located.

4) Management appointment examination (2020 White Paper p268, "Non-life Insurance" Proposal①)

Regarding the appointment of management, even if the prospective candidate is a foreigner, an examination in Chinese will be imposed, so we have proposed making an optional system so that it can be replaced by participating in the training designated by the authorities. In February 2021, the China Banking and Insurance Regulatory Commission (CBIRC) abolished the qualification examination for directors and senior management.

### **“Japan in the Chinese Economy”**

Japanese companies have played a very important role in the past as China has expanded its economic scale while improving growth quality and efficiency. According to statistics from the General Administration of Customs, Japan has become an important trading partner for China with the third largest export destination for China in 2020 by country / region, with an amount of 142.7 billion USD, and China's imports from Japan are 176.1 billion USD, the second largest by country / region.

According to the “Balance of Payments” of the Ministry of Finance of Japan, Japan's investment in China decreased by 21.1% from the previous year to 1,104.6 billion JPY for the full year of 2020. On the other hand, according to the announcement by the Ministry of Commerce of China, the amount of investment in China from around the world in 2020 increased by 4.5% from the previous year to 144.37 billion USD, a record high as in the previous year.

In addition, the number of Japanese companies expanding into China is 23,094 (as of the end of 2012, China Trade and External Economic Statistical Yearbook 2013: Note), which is the top by country (according to the Ministry of Foreign Affairs of Japan, “Number of Overseas Japanese Population Survey Statistics First Year of Reiwa Edition: As of October 1, 2018”, the “number of bases” of Japanese companies in China is 33,050). It is said that direct and indirect combined employment of more than 10 million people and the contribution in the job creation aspect is significant.

In addition, many of Japanese companies have excellent technologies, expertise etc., contributing to improving the technical capabilities and management efficiency of Chinese enterprises and strengthening competitiveness in both order receiving and ordering. Moreover, in supply chains of some industries, there are also high presence of Japanese companies in the

supply of key parts such as high-tech products and special raw materials in which it is difficult to find an alternative.

Japanese companies are striving to develop with China in the future as the economy becomes globalized and supply chains become complicatedly intertwined.

On the other hand, it can be seen that the uncertainty of Japanese companies in making important business decisions is increasing due to the effects of US-China economic and trade friction and the COVID-19 pandemic. Japanese companies hope to further expand their business in China and contribute to the development of China's economy and society in the future, and for this reason, it is expected that the business environment in China will be improved and the predictability will increase.

Note: China Trade and External Economic Statistical Yearbook has not released statistics on the number of companies by country since the 2014 edition.

## 【The COVID-19 Pandemic and Japanese Companies】

From 2020 to 2021, the COVID-19 pandemic had a major impact on Japanese companies in China.

On December 1, 2020, the Japan-China Economic Association Beijing Office, and the Japanese Chamber of Commerce in China announced the results of the 11th questionnaire survey on the effects of the COVID-19 pandemic, which was conducted from November 25 to 27. The questionnaire survey was sent to 508 corporate members of the Japanese Chamber of Commerce in China located in Beijing, and 116 of them responded.

According to the results of the questionnaire survey, 64.3% of the responding companies answered that they have "returned to the work system before the outbreak of the COVID-19 pandemic" regarding the work system of locally hired employees at the Beijing office. "After the outbreak of the COVID-19 pandemic, we have established a work-at-home system and have a normal commuting system" and "Although there are staggered commuting system and shift work as a countermeasure against COVID-19 pandemic, all employees are commuting to work" followed by 14.8% each.

In addition, although the original number of Japanese expatriates in Beijing was 543, it was found that as of November 27, 2020, there were 496 (91.3%) expatriates in Beijing. Many companies cited as factors that hinder the arrival (return) of expatriates to Beijing are "stagnation of issuance of invitations" (61.0%), "difficulty of quarantine for 14 days" (46.3%), and "difficulty of securing flights" (39.0%). Moreover, 15.2% of companies answered that they would reduce the number of expatriates from before the outbreak of the COVID-19 pandemic.

In February 2020, the Japanese Chamber of Commerce and Industry in China solicited opinions on "issues and proposals regarding the COVID-19 pandemic" centered on member companies, and submitted "Opinions of Japanese companies

regarding active measures against the COVID-19 pandemic and early recovery of normal production and operation of companies" to the governmental organizations, etc. jointly with Japan External Trade Organization Beijing Office and Japan-China Economic Association Beijing Office. In the Opinions, regarding the necessity of classifying the management of the movement restrictions across provinces or cities instead of uniformed isolation, improvement of the issues related to applications for resuming operations, and the discrepancy between notifications from the central and provincial governments and the actual operation conditions at the site, we proposed thorough disclosure on the website and notifications in official documents, and discrepancy between notifications and instructions should be avoided. Besides, we also raised issues such as visa and residence permit expiration during temporary return to Japan.

In addition, in July 2020, regarding travel between Japan and China of personnel from Japanese companies, etc., we proposed the followings to authorities in July: (1) extensive and quick issuance of visas; (2) issuing visas to not only business-related personnel but also Japanese school teachers, and (3) early recovery and increase or routes for passenger flights between Japan and China, including resumption of direct flights to Beijing.

Furthermore, on December 28, 2020, the Japanese Chamber of Commerce in China sent proposals for travel between Japan and China to the Ministry of Foreign Affairs, the Ministry of Commerce, and related ministries and city governments. The proposals included five items that are the main obstacle to travel: (1) early clarification and rationalization of fast-track operation procedures; (2) early resumption of direct flights to Japan and increase of reopened routes; (3) prompt issuance of invitation letters required for visa acquisition; (4) improvement of centralized quarantine environment and shortening of centralized quarantine period; and (5) abolition of additional quarantine measures in each city after the end of centralized quarantine.

## **【Proposals for travel between Japan and China (①～⑤)】**

### **① Early resumption of direct flights to Japan and increase of reopened routes**

Direct flights between some countries and Beijing have resumed since September 2020 but have not yet resumed with Japan. In view of the importance of Japan-China relations and smooth travel to and from Beijing, we propose allowing Japanese airlines to promptly resume direct flights. In addition, we propose the prompt resumption of direct flights to other cities in China (Shenyang, Tianjin, Wuhan, Chengdu, Xiamen, etc.) that have not yet resumed direct flights of Japanese airlines. In Shanghai, which has the largest number of Japanese residents, direct flights from Japanese airlines have already resumed, but the number is insufficient. We propose an early increase in flights for routes that have already resumed direct flights, including Shanghai.

### **② Prompt issuance of invitation letters required for visa acquisition**

For Japanese to obtain a visa to visit China for business purposes, an invitation letter issued by each provincial and municipal government is required, but there are many cases in which the issuance of this invitation letter has been suspended or

delayed. Regarding the invitation letter for some expatriates, there is also a problem that the departments of the provincial and municipal governments do not accept applications. In addition, the issuance of invitation letters to the families of expatriates has been stagnant since November. We strongly propose the prompt and smooth issuance of invitation letters necessary for visa procedures for the necessary personnel, including the families of expatriates. Furthermore, from the perspective of developing business personnel between Japan and China, we propose the prompt issuance of student visa.

### **③ Improvement of centralized quarantine environment and shortening of centralized quarantine period**

We understand that quarantine after entering China is an unavoidable measure to prevent epidemics, and we thank the local governments in some host areas and the people involved in the quarantine hotels for their devoted efforts. However, not all receiving sites have a good quarantine environment, and it is expected that people who are new to China, who do not understand Chinese, people with small children, etc. are worried during quarantine life. To prevent this from happening, we propose the provision of staff who can speak Japanese, Japanese TV broadcasting, Japanese food and meals for children, rooms with windows that allow the room temperature to be adjusted, and frequent replacement of towels and sheets. Furthermore, we propose that the Wi-Fi environment be improved so that remote working can be performed even during centralized quarantine. For immigrants from Japan, we propose the nationwide application of “7 days of centralized quarantine + 7 days of quarantine at home” and “quarantine at home for families with small children” as conducted in Shanghai, on the premise of a negative test conducted before entering China.

### **④ Abolition of additional quarantine measures in each city after the end of centralized quarantine**

In some cities, after 14 days of centralized quarantine after entry, additional quarantine measures are required under their own rules. In fact, in addition to the 14 days of centralized management, there are cases where an additional 14 days of quarantine is required, which is a major obstacle to business activities. For this reason, we propose that additional quarantine measures by some local cities be abolished and implement health observations only as practiced in many cities.

### **⑤ Early clarification and rationalization of fast-track operation procedures**

The operation of the fast-track (business track) started on November 30, 2020, between Japan and China, however, the contents and usage procedures have not been clarified by the Chinese side. When expatriates residing in China travel to Japan and return to China, it is a heavy burden for companies to be required to take centralized quarantine measures for two weeks. For this reason, we propose that companies not be overburdened by clarifying the operational procedures for fast-track (business track) as soon as possible and making reasonable content that can be used by companies (e.g., allow movement between home and work for 14 days after returning to China).

In addition, in this white paper, the following proposals were mainly made in relation to COVID-19 pandemic.

• **Investment:**

- Among the preventive and control measures against the spread of COVID-19 pandemic, it is not clear when the measures will end after they are promulgated. For example, regarding the measures to prohibit group dinners in Beijing, etc., the end time was not clear, and the response varied depending on the restaurant. We propose that the end time of various measures be clarified.
- In the preventive and control measures against the spread of COVID-19 pandemic, authentication systems based on "health codes" have been introduced in various places. On the other hand, in some areas, the system did not support foreigners even after the start of operation. When introducing such a system, we propose that foreigners be able to use it equally at the start of operation.
- During the epidemic period of COVID-19, there are cases in which mutual inconsistencies in instructions issued at central government level, provincial governments, cities, townships/towns, etc. occurred and there are cases where Japanese companies have had difficulty responding. We propose to local governments at each level that they should avoid oral communication and guidance, publish notifications on the website and thoroughly notify them in official documents. We propose that lower-level administrative bodies should avoid conflicts between mutual notifications and instructions by clearly indicating relevant notifications of higher-level administrative bodies.
- After entering the border from overseas, or when traveling or staying in a city with strict epidemic prevention measures such as Beijing, in some cases, the community districts and sub-districts that manage residential apartments for entry personnel and accommodation hotels for business travellers make even higher demands than notification requests at the national, provincial, or municipal level (for example, the quarantine of the last 7 days for the quarantine period of 14 days + 7 days + 7 days after entry). We propose not making higher demands than the regulations of higher-level administrative bodies regarding the operation of terminal regulations such as community districts and sub-districts.
- **Taxation and Accounting:** Due to the COVID-19 pandemic, Japanese expatriates who returned temporarily could not return to China for a certain period of time, and as a result, personal income tax was paid in both Japan and China. We propose flexible practical operations to avoid double taxation, such as the application of foreign tax credits in one country.
- **Labor:** Currently, it is necessary to obtain an "invitation letter" issued by the Foreign Affairs Office a commercial institution of the province or city where the destination is located before moving to China, and according to notification of the Ministry of Foreign Affairs and the National Immigration Administration, the issuance is limited to "when engaged in activities such as economic trade, and science and technology, and when there is an urgent need for humanitarianism". However, there are still situations in which employees of some Japanese companies cannot be assigned to China because they cannot receive an "invitation letter". We propose that this policy be properly implemented, and there be less differences in enforcement between regions. We also propose that the time required for visa procedures before entering China be

shortened.

• **Agriculture, Forestry and Fisheries/Food:** Management of imported frozen foods as a countermeasure against COVID-19 pandemic continues to be strengthened, but there is confusion at the site due to the retention of business at the quarantine site and the incomplete notification content. In addition, in on-site inspections at food factories, warehouses, and restaurants, there are cases in which sales and businesses are forced to be suddenly interrupted, which hinders stable business activities. Although full cooperation with epidemic prevention policies is a matter of course, we propose thorough and clarification of the notification in its operational rules.

• **Air Transportation:**

- To prevent the spread of COVID-19 pandemic, airlines are continuing necessary epidemic prevention measures such as compliance with the guidelines of the Civil Aviation Administration of China. When the flow of passengers between Japan and China gradually recovers after the infection is suppressed, shortening the time required for quarantine at the airport and improving the quarantine processing capacity are major issues. For example, at some international departure airports, there are cases where local customs require airlines to limit the start time of safety inspections and to assign passenger guidance personnel at inspection sites. We propose that the local customs deploy an appropriate number of staff and clarify the work to be done as a public service.
- We propose that crew members staying on both passenger and freight flights be exempt from PCR testing when they arrive in China, as in the case of handling in other countries, on the premise of possessing a negative PCR test certificate before departure from Japan and restrictions on going out at accommodation facilities.
- Regarding the prevention of the spread of COVID-19 pandemic, we are fully aware of our responsibility as a private company to comply with various notifications in order for the government, public and private sector to cooperate and take all measures to prevent it thoroughly. However, most of the notifications from the field authorities used the chat function on SNS, and the official written disclosure and standard guidelines were not specified, and the information was sometimes limited to Chinese airlines. Even after the issuance of the notification, there are still cases where there is no grace period for the response. In addition, instructions may differ depending on the judgment of the person in charge of the site, or instructions that clearly go beyond the role of the company may be imposed, which will be a burden on companies and employees working at the site, in particular, there were occasions where safety was threatened when dealing with COVID-19 pandemic. We propose that the notification be issued with sufficient time, that all airlines be equally disclosed when issuing the notification, that a formal written notice be given, and that the operational responsibilities of the field authorities be clarified.
- While the number of international flights is severely restricted, the international passenger flight slots of Japanese airlines are not fully utilized. In an environment where the supply and demand of international logistics is tight due to the COVID-19 pandemic, in order to meet the needs of emergency transportation projects such as supply chain maintenance and

vaccine transportation, we propose flexible approval of the conversion of passenger planes and freighters to cargo-only flights, including the daytime.

- **Wholesale:** Due to the spread of COVID-19 pandemic in 2020, the response to imported frozen foods has become stricter, and as a result, the handling of imported frozen foods has been greatly affected. We propose easier ways for companies to respond by disclosing the test results of the importer, product, discovery site, etc., and from where the virus was found. We propose that the operation does not differ significantly depending on the local governments.
- **Retail:** In the event of an outbreak in various regions of the country, strict blockade control is put in place to prevent the spread of the infection, and measures are often taken to prohibit the entry of foreigners and vehicles into residential compounds in medium and high risk areas. Road entry may be prohibited. These are measures that are expected to be highly effective in containing infections, however, if they are regulated uniformly regardless of the scale of infection, distribution will be delayed and products that have been confirmed to be safe cannot be procured. In addition, it will take longer than expected to deliver, the freshness will drop, and the sellable period will be shortened, which will have a great impact on economic activities. We propose the implementation of countermeasures that give consideration to ensuring logistics while putting safety first.
- **Banking:** In January 2017, the People's Bank of China promulgated the "Notice Concerning Foreign Bonds of Foreign-Invested Companies" (Banking Notice [2017] No. 9), stating that the foreign bond management method, which allows foreign bonds to be procured by electing either the investment difference method or the macroprudential method, is to be evaluated and finalized according to the implementation status by the authorities after one-year transition period. In March 2020, the People's Bank of China and the State Administration of Foreign Exchange promulgated "Notice Concerning Adjustment of Macroprudential Policy Factors for Full-Range Cross-Border Loans" (Banking Notice [2020] No.64) in order to prevent financial deterioration of companies due to the spread of the COVID-19 pandemic, and the macroprudential policy factor was raised from 1.00 to 1.25, which expanded the foreign bond limit from 2.0 times to 2.5 times the net assets. However, in January 2021, the People's Bank of China and the State Administration of Foreign Exchange promulgated the "Notice Concerning Adjustment of Macroprudential Policy Factors for Full-Scope Cross-Border Loans of Companies" (Banking Notice [2021] No. 5), and the macroprudential policy factor has been reduced from 1.25 to 1.00, which cut down the foreign bond limit from 2.5 times to 2.0 times the net assets. Since there is a great advantage that foreign-invested companies can choose from multiple foreign bond management methods, we propose highly flexible management that allows them to continue to choose between the two methods. While the performance and cash flow of foreign-invested companies have not necessarily returned to the levels before the COVID-19 pandemic, the foreign bond limit has been reduced to the level before the COVID-19 pandemic. We propose the expansion of foreign bond limit in order to support the business continuity and development of foreign-invested companies.
- **Travel:** We propose the resumption of entry trips, which are prohibited from operating since January 24, 2020.