# Executive Summary

## 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 14th Five-Year Plan) 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 14th Five-Year Plan, 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.

In the Government Activity Report of the 14th NPC 1st Conference in March 2023, the priority activity mission for 2023 was to "focus on expanding domestic demand." In addition, the fourth priority mission is to "further focus on attracting and utilizing foreign investment. This mission includes "ensuring national treatment of foreign companies" and "providing strong support for foreign companies", indicating that the government will place particular emphasis on supporting foreign companies in 2023.

On the other hand, uncertainties in the business of Japanese companies are increasing due to still ongoing US-China economic and trade friction, protectionist actions by each country etc. 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 at each level of administration 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.

Japanese companies are hoping that the year 2023 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 14th Five-Year Plan and the 2023 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 fair competition, opening up to the international community, application and procedures of administrative regulations.

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.

### （1）Fair Competition

In the 14th Five-Year Plan, 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, standards and where fair competition takes place is 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 in March 2023, the priority effort, "steadily implementing the 'two unwavering principles'," included "creating a fair and free competitive environment for various ownership-based enterprises and improve market expectations and confidence through fruitful measures", and "ensuring national treatment of foreign companies" is included in "further focus on attracting and utilizing foreign investment". 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 their proper operation.

・**Competition Law**: The revised Anti-monopoly Law also clarifies the classification and classification examination system for business combinations and strengthens regulations for priority areas, which is commendable. On the other hand, the requirements for what constitutes a "business combination" and "control" at the time of notification of a business combination, the criteria for determining whether notification of a business combination is required, and the criteria and approach for examination and decision-making are still unclear in some respects, making it difficult for the operator to make a decision in some cases. We propose that these standards and approaches be clarified through promulgating of implementing regulations and guidelines.

・**Technical Standards/certifications:**

・Regarding data-related laws and regulations such as China Cybersecurity Law, many other laws, bylaws, standards, etc. that stipulate the specific contents are gradually being formulated. However, many have not yet been enacted and some are still in the stage of soliciting opinions. We propose considering the establishment and application of a system to ensure that new businesses, such as cloud services, are not hindered in their development, and that foreign products and services are not discriminated against by considering the opinions of related parties including foreign companies in the process of establishing these bylaws, standards, etc. In addition, we propose the provision of necessary advance guidance, ensuring a sufficient response period, and coordination and cooperation among the relevant government departments for smooth enforcement.

・In terms of the operation of each system, we propose that improvements be made to increase predictability so that companies can properly comply with laws and regulations by clarifying interpretations, ensuring sufficient preparation time, simplifying and speeding up various procedures, and providing written responses to applications and inquiries, as well as holding explanatory meetings.

・**Government Procurement:**

・Currently, China's government procurement is dominated by domestic products, and there are restrictions and exclusions on the procurement of imported products. It can be seen from the "Notice on Equal Treatment for Domestic and Foreign Companies in Government Procurement Activities" published by the Ministry of Finance on October 13, 2021, that the subject of equal treatment is limited to products (including provision of services) manufactured in China by foreign-funded enterprises. We propose that the contents of the current "Government Procurement Law" that limit the scope of government procurement to domestic goods, projects and services be revised at an early stage, reduce the restrictions on the entry of imported products into the government procurement market, further liberalize the scope of government procurement market, and an environment be created in which imported and domestic products can participate equally in government procurement market competition.

・We welcome and highly appreciate the provision of equal treatment for domestic and foreign companies was required for units implementing government procurement in the "Notice on Equal Treatment for Domestic and Foreign Companies in Government Procurement Activities" published by the Ministry of Finance on October 13, 2021. To date, however, we still hear that foreign companies' products and services are excluded from the call for bids in some local state-owned enterprises. In order to establish a market system of orderly and fair competition in the Chinese market, we propose that an environment be created in which domestic and foreign companies can participate equally in market competition, without excluding the products and services of foreign companies in activities such as government procurement and calls for bids for public works projects.

・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.

・**Medical Devices/Pharmaceuticals for in-vitro Diagnostics:** We propose that the procurement product selection process be optimised for foreign medical device products with advanced functions, performance, specifications, clinical value, etc. that existing domestic products do not have, so that the target products are not excluded and fairly supplied if the aforementioned advantages are clearly indicated in documents for on-site medical needs, etc.

## （2）Opening up to the international community

In the 14th Five-Year Plan, 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 addition, the Government Activity Report of March 2023 listed "further focus on attracting and utilizing foreign investment" as one of the priority efforts, which included "easing market entry restrictions and further opening up the modern service industry."

In January 2022, the “Foreign Investment Negative List (2021 edition)” was enforced, and restrictions and prohibitions on foreign investment were reduced from 33 to 31, 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. Shanghai, Guangdong, Shenzhen, and other cities have also enacted and implemented local-level ordinances that flesh out the contents of the Foreign Investment Law, and 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:**

・The “Special Management Measures on the Entry of Foreign Investment (Negative List) (2021 edition)”, which went into effect on January 1, 2022, reduced the number of restrictions and prohibited items from 33 in the 2020 version to 31, although we appreciate that a certain degree of relaxation has been achieved, we propose the National Development and Reform Commission and the Ministry of Commerce further adjusting or reducing restrictions and prohibited items. In addition, when adjusting or reducing restrictions or prohibited items, we propose that the government clarify what specific cases and business categories are actually allowed to enter the market by presenting interpretations, explanations, guidelines, etc., and also provide an environment and guidance to ensure that these details are thoroughly implemented at each administrative level.

・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) (2021 edition)” and “Negative List for Market Entry (2022 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 “national 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.

・The “Special Management Measures on the Entry of Foreign Investment (Negative List) (2021 edition)”, which went into effect on January 1, 2022, includes the phrase “management of products related to Internet culture (excluding music).” Since the phrase “excluding music” is used, we can see the possibility of foreign investment handling Internet music products. However, in reality, it is considered difficult due to the existence of the “Network Publishing Service Management Regulations (Ministry of Industry and Information Technology, formerly the State Administration of Press, Publication, Radio, Film and Television)” and other factors. We propose the National Development and Reform Commission and the Ministry of Commerce, which are in charge of the Negative List, and the Ministry of Industry and Information Technology, which is in charge of the above Regulations, to amend the “Network Publishing Service Management Regulations” in accordance with the “Special Management Measures on the Entry of Foreign Investment (Negative List)” so that foreign companies can also operate music services on the Internet.

・**Information and communications**: Restrictions on the entry of foreign investment are still being set in value-added telecommunication services such as data centers 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 to 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 lead to the result in the spread of counterfeit and pirated content that has not passed the government's preliminary examination and censorship. Therefore, we propose the followings:

・Remove various restrictions and barriers to entry for imports, production, distribution, sales, etc. of foreign companies and overseas contents.

・We would like to see that foreign-affiliated companies are able to operate music distribution services on the Internet.

・We would like to see relaxation of the pre-screening regulations for animation distribution on the Internet. We would like to see the elimination of the need to submit the entire video sample at the time of the examination, relax and clarify the examination criteria, and speed up the examination.

・In order to promote cultural exchange with overseas markets and further develop the domestic game market, we propose prompt examination for imported games, prompt issuance of edition numbers, promotion of more active approval of high-quality overseas game content and consider related policies.

・**Travel:** We propose the early realization of the full opening up of the outbound travel business of Chinese citizens to wholly foreign-owned travel agencies. Since 2011, foreign joint venture travel agencies have been approved to handle outbound travel business of Chinese citizens under some conditions, but full approval has yet to be granted to wholly foreign-owned travel agencies. Under such circumstances, on October 8, 2022, the State Council issued a notice that "Qualified wholly foreign-owned travel agencies established in Shanghai and Chongqing may engage in outbound tourism business outside of Taiwan (to be implemented until April 8, 2024)" (Letter No. 104 [2022] of the State Council), based on the "Approved Response of the State Council on the Consent for the Comprehensive Experiment of Service Industry Expansion and Opening-up in Tianjin, Shanghai, Hainan and Chongqing (Letter No. 37 [2021] of the State Council)". We sincerely welcome the opening of the door to the two cities of Shanghai and Chongqing for the items that Japanese travel agencies have long proposed in this white paper, albeit for a limited period. As expectations for the resumption of travel to Japan by Chinese citizens are rising in the aftermath of the COVID-19 pandemic, we believe that Japanese travel agencies, which have networks in Japan and abroad and have handled domestic travel in Japan for many years, have advantages in terms of service, emergency response systems, and epidemic prevention measures, and will greatly contribute to the comfort and safety of Chinese citizens traveling to Japan. We propose that the Japanese travel agencies be further opened to the public in the future.

・**Non-life Insurance**:

・With the revision of the "Insurance Company Equity Management Law" in March 2018, standardization for shareholders of insurance companies was paid attention to, and shareholders' conditions and the upper limit of investment ratio (upper limit of 1/3 of registered capital for each insurance company) have been tightened. On the other hand, the options for partners (Chinese non-insurance companies) in foreign joint venture non-life insurance companies have become more limited. 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.), the upper limit of the investment ratio of the partner in foreign non-life insurance companies be relaxed from 1/3 to approximately 1/2 of the registered capital of insurance companies.

・In order for foreign non-life insurance companies to provide comprehensive services and improve consumer convenience and satisfaction, we propose that "other insurance-related services" be added to the scope of business under Article 15 of the Administration of Foreign-Funded Insurance Companies so that they can provide risk management services to companies and adjusting services (examination services) in the event that a policyholder in Japan has an accident in China.

### （3）Application and procedures of administrative regulations

In the 14th Five-Year Plan, 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. At the 20th Chinese Communist Party Congress in October 2022, General Secretary Xi Jinping announced, "We will protect the rights and interests of foreign companies in accordance with the law and build a world-class business environment that is market-oriented, law-based, and internationalized." In addition, in the Government Activity Report of the NPC held in March 2023, one of the priority efforts for 2023, "steadily implementing the 'two unwavering principles'," included "creating a fair and free competitive environment for various ownership-based enterprises and improve market expectations and confidence through fruitful measures". These are what Japanese companies continue to demand in many fields in this white paper, and we propose that they continue to take more active efforts in the future.

・**Trade:**

・In some cases, the interpretation of the operation, rules, and regulations of customs inspections and bonded areas, logistics parks, or bonded ports concerning import/export declarations such as HS numbers and certificates of origin for the same product may differ depending on the region and the person in charge. Although some improvements have been seen with the promotion of customs clearance integration, we propose that the relevant divisions, such as the General Administration of Customs, strengthen training for counter personnel and develop more detailed manuals to ensure uniform operation throughout the country. We also propose that the coordination function among customs offices be strengthened to enhance the effectiveness of unified nationwide operations.

・In 2012, the cargo trade reform made it unnecessary to check the data against customs clearance data when making outbound payments, making trade settlement more convenient. On the other hand, when making foreign currency payments related to cargo trade, in principle, the company is required to inquire about import customs clearance information. As a result, foreign currency payments cannot be made until customs clearance procedures are completed, resulting in payment delays. In addition, while regulations regarding trilateral trade settlement have been eased, they are limited in scope. We propose continued deregulation and further easing of operations for companies with good credit regardless of company size.

・**Investment:**

・In some areas, such as Beijing and Hangzhou, the establishment of branch offices of investment companies has been rejected in some cases. In other regions, foreign companies can establish a branch of an investment company by obtaining approval from the local financial office and then carrying out the establishment procedures at the Market Supervision and Administration Bureau. On the other hand, there are no clear regulations in some areas, such as Beijing and Hangzhou, and the competent authorities (the Financial Office and the Market Supervision and

Administration Bureau) have rejected the application on an individual basis. Foreign investment companies have a supervisory function and make various types of substantial investments in China, contributing to the country's economic development. The establishment of branch offices in various regions by investment companies is essential to the advancement of the original supervisory function of investment companies. In order to support the continuation and development of foreign-invested companies, we propose improvements to ensure that foreign-invested companies are not rejected establishment without legal grounds, and that they are treated in the same manner as in other regions.

・**Taxation and Accounting**

・Regarding personal income tax, the tax exemption applicable to foreign nationals will be abolished at the end of 2023. The measure had previously been repealed at the end of 2021, but was to continue to apply until the end of 2023, according to an additional notification. If this measure is abolished, housing allowances, language training expenses, and child education will be treated as taxable, which is expected to result in a significant increase in personal income tax for foreign nationals. In order to lighten the tax burden on companies and foreign individuals, we propose that this measure be extended indefinitely.

・Regarding stamp tax, the Stamp Tax Law came into effect in July 2022, replacing the previous Stamp Tax Temporary Ordinance. In the related public notice, it is clearly stated that when an overseas company creates a taxable document with a domestic Chinese company, even if the document is created outside of China, if the customer or other business partner exists in China, the overseas company is also liable for tax payment. In Japan, no stamp tax is imposed on contracts, etc. made outside of Japan, and we propose that the said provision be revised. In addition, there are no clear implementation guidelines for payment by overseas companies, and different tax bureaus have different views. We propose that specific guidelines be issued for practical application.

・**Medical Devices/Pharmaceuticals for in-vitro Diagnostics:** With the implementation of the mandatory standards, the National Medical Products Administration is asking each company to take corresponding measures. However, due to some parallel standards that have not yet been promulgated, companies cannot immediately conduct related inspections, and at the same time, considering the inspection period of type inspections, it is difficult to complete the application for changes to the mandatory standard updates before the implementation date. For example, in the GB9706.1 series standards, which have a wide scope, the parallel/dedicated standard may not have been promulgated yet. Therefore, we propose that the mandatory standard and its parallel standard be promulgated simultaneously, and that the transition period for implementation of the standard after promulgation be extended to three years.

・**Cosmetics:** We propose that the information on raw material safety registration be sufficiently prepared prior to operation.

・We propose detailed operational rules that take into account the gap between the information registered in the system by raw material manufacturers and the information held by cosmetics manufacturers.

・We propose that safety evaluation criteria be established for nanomaterials, taking into account sufficient market performance, so that safety evaluation does not become an excessive requirement for nanomaterials.

・**Banks (Leasing)**: Suspension of the introduction of regulations on cross-provincial sales for financing lease companies.

・Article 11 of the "Regulations on Local Financial Supervision and Administration (Draft for Comment)" published by the People's Bank of China on December 31, 2021 includes the proposed provision that "local financial organizations (including finance leasing companies) shall adhere to the principle of local service, operate within the area approved by the local financial supervision and management department, and in principle shall not operate across provincial-level administrative areas."

・We propose deleting the proposed provision, which may have a significant impact on the business environment, where the majority of foreign finance leasing companies operate under a limited network of offices.

・**Non-life Insurance**: Relaxation of licensing system on a regional basis
・Insurance operations are basically licensed on a regional basis, which is on a provincial, autonomous region, or direct-controlled municipality basis, but we propose that this system be relaxed. We propose the introduction of a nationwide business license system, etc., so that insurance services can be provided uniformly not only to consumers in some large commercial properties, etc., that fall under the exceptions, but also to consumers across business areas.

## Main items that showed improvement from the proposals of 2022 White Paper

The main items that showed improvement from the proposals of 2022 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) 【Significant relaxation of epidemic prevention measures against COVID-19 and relaxation of regulations on travel between Japan and China】**

Since December 2022, China has successively relaxed various epidemic prevention regulations regarding COVID-19. As a result, many of the problems related to epidemic prevention measures regarding COVID-19 that were proposed in the 2022 White Paper have been resolved. On the other hand, some issues remain unresolved, such as the resumption of visa exemptions for stays of 15 days or less for Japanese nationals and the resumption of group travel from China to Japan, and we would like to continue to seek improvements in these issues.

・**Major COVID-19-related issues that were proposed in the 2022 White Paper**
・Early resumption of direct flights to Japan and increase of routes

・Prompt issuance of visas, including those for spouses, children, and Japanese students, relaxation of procedures that restrict expatriates taking up new posts and business trips

・Improvement of centralized quarantine environment and shortening of centralized quarantine period, and abolition of additional quarantine measures in each city after the end of centralized quarantine

・Early clarification and rationalization of fast-track operation procedures

・Resumption of group travel from China to Japan

・Clarification of the termination date of measures to prevent and control the spread of infection

・Ensuring equal access for foreigners in the operation of "health codes" and other systems

・Avoidance of inconsistencies between notices and instructions regarding epidemic prevention measures

・Improvement of the strictness of the operation of terminal regulations such as communities and sub-districts

・Improvement of issues related to work visa and other procedures (e.g., additional application documents)

・Improvement of access to information on epidemic prevention measures for foreigners

・Resumption of visa exemption for Japanese staying within 15 days

・Clarification and unification of management rules for imported frozen foods

・Exemption of crew members from PCR testing when they arrive in China

・Equal disclosure of information on epidemic prevention measures to all airlines and clarification of operational responsibility of field authorities

・Approval for diversion of international passenger flight slots to cargo flights

・Improved response to disinfectant spraying in airport quarantine

・Limitations on the scope of special class management for crew members and other airport-related personnel

・Expansion of post-entry quarantine facilities

・Consideration for the impact on product logistics caused by measures to prevent the spread of infection, such as lockdown control

・Resumption of entry trips to China

**2) Business combination（2022 edition of White Paper p60, "Competition Law" Proposal）**

In the Proposed Amendment to the "Regulations of the State Council on Business Combination Notification Criteria" (draft for comments), one of the business combination notification criteria, the threshold amount of the sales of the entire group of parties to the business combination, is raised. While this point is commendable, we propose that the revision of this provision be completed and implemented as soon as possible, as it has not yet been officially promulgated.

**3) Foreign bond limit for foreign-invested companies（2022 edition of White Paper p284, "Bank" Proposal ⑦）**

In October 2022, 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 [2022] No.238) 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, the performance and cash flow of foreign-invested companies have not necessarily returned to the levels before the COVID-19 pandemic, so we propose the expansion of foreign bond limit in order to support the business continuity and development of foreign-invested companies.

**4) Opening up of the outbound travel business of Chinese citizens to wholly foreign-owned travel agencies（2022 edition of White Paper p312, "Travel" proposal ①）**

Since 2011, foreign joint venture travel agencies have been approved to handle outbound travel business of Chinese citizens under some conditions, but full approval has yet to be granted to wholly foreign-owned travel agencies. Under such circumstances, on October 8, 2022, the State Council issued a notice that "Qualified wholly foreign-owned travel agencies established in Shanghai and Chongqing may engage in outbound tourism business outside of Taiwan (to be implemented until April 8, 2024)" (Letter No. 104 [2022] of the State Council), based on the "Approved Response of the State Council on the Consent for the Comprehensive Experiment of Service Industry Expansion and Opening-up in Tianjin, Shanghai, Hainan and Chongqing (Letter No. 37 [2021] of the State Council)". We sincerely welcome the opening of the door to the two cities of Shanghai and Chongqing for the items that Japanese travel agencies have long proposed in this white paper, albeit for a limited period. As expectations for the resumption of travel to Japan by Chinese citizens are rising in the aftermath of the COVID-19 pandemic, we believe that Japanese travel agencies, which have networks in Japan and abroad and have handled domestic travel in Japan for many years, have advantages in terms of service, emergency response systems, and epidemic prevention measures, and will greatly contribute to the comfort and safety of Chinese citizens traveling to Japan. We propose that the Japanese travel agencies be further opened to the public in the future.

## Contribution of Japanese companies to 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 of the People's Republic of China, Japan is the third largest export destination for China in 2022 by country / region and the third largest import destination, making Japan to remain an important trading partner for China. In addition, when JETRO looked at Japan-China trade in 2022 based on Japan's Ministry of Finance trade statistics and China Maritime Statistics, the total trade amount declined by 4.6% from the previous year to 373,537.43 million USD, the third highest value on record after the year 2011 (378,424.9 million USD), although this was a decline from the record high of the year 2021.

According to the Ministry of Commerce of China, the amount of investment in China (excluding banks, securities, and insurance) from around the world in 2022 reached a record high of 189,130 million USD, increased by 8.0% from the previous year, maintaining stable growth. According to the National Bureau of Statistics, executed direct investment from Japan into China in 2021 was 3,913.25 million USD, increased by 16.0% from the previous year. Based on Chinese side statistics, Japanese investment in China turned to increase for the first time in three years after two consecutive years of decline in 2019 and 2020. Investment from Japan accounted for 2.3% of total investment in China from all over the world, the same level as in 2020.

According to the Ministry of Foreign Affairs of Japan's "Survey on the Number of Japanese Companies Expanding Overseas, 2021 Edition: As of October 1, 2021", the "number of bases" of Japanese companies in China is 31,047. In addition, according to JETRO's survey (FY2022 Survey on Japanese Companies Expanding Overseas), about 45% of Japanese companies in China (593 companies) indicated that they have used "almost" or "about half" of their cumulative earnings in China as a source of investment (reinvestment) for expanding production and sales capacity in China. It can be seen that many Japanese companies are using the profits from their investments in China to further develop in China.

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. Japanese companies hope to further expand their businesses in China and continue contributing 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 improve, and the predictability will increase.

## Carbon Neutral and Japanese Companies

The Chinese government has set a goal of reaching the peak of carbon emission by 2030 and carbon neutrality by 2060, and Japanese companies would like to actively cooperate and contribute to these goals through business activities.

According to JETRO's survey (FY2022 Survey on Japanese Companies Expanding Overseas), among Japanese companies in China (654 companies), the total of companies that are already working on decarbonization (reduction of greenhouse gas emissions) and companies that are planning to work on it in the future accounted for 72.4% (63.5% in the previous year), exceeding 70%. By industry, 38.2% of manufacturing companies (33.2% in the previous year) and 38.9% of non-manufacturing companies (29.2% in the previous year) responded that they are "already working on it," with the percentages of companies responding that they are taking action both increasing from the previous year. In particular, more than 50% of companies in the electrical / electronic equipment, rubber / ceramic / soil and stone, retail, and finance / insurance industries responded that they are "already working on it." Overall, an increasing number of companies in many industries have begun to implement such initiatives.

As for specific initiatives, "energy saving / resource saving" was the most common at 70.9%, followed by "procurement of renewable energy / new energy (solar, wind, hydrogen, etc.) power" at 38.6%, "development of new environment-friendly products" at 36.6%, "green procurement (requesting that suppliers decarbonize)" at 34.4%, "reviewing logistics for procurement and shipping (e.g., using low-carbon emission vehicles)" at 24.1%, and "converting energy sources (heat, transportation fuel, etc.) to electricity (electrification of buildings, introduction of EVs, etc.)" at 21.2%.

21.5% of the companies responded that they "have numerical targets related to decarbonization" at their local sites in China. Among them, 49.2% said that "the head office set the targets," 42.3% said that "local sites set the targets voluntarily" (including cases where specific numerical targets were set by local sites at the direction of the head office), and 8.5% said that "local sites set the targets to meet customer requirements." Among companies that have not set numerical targets at their local sites, 56.6% said that their "head office has numerical targets," and 5.0% said that they are "planning to set their own numerical targets in the near future at the request of their customers." It suggests that Japanese companies in China are more specifically and proactively considering and implementing initiatives to achieve carbon neutrality.

On the other hand, the cost-effectiveness and monetization of decarbonization investments, the heavy cost burden, the lack of clarity and complexity of the system, and the difficulty in understanding subsidies and other information, etc. are mentioned as issues when tackling decarbonization. In the "Chinese Economy and Japanese Companies 2023 White Paper", there was a proposal for implementation of preferential measures and cost support measures for energy-efficient technologies and companies in order to help Japanese companies work on carbon neutral initiatives. The main proposals related to carbon neutrality submitted in this white paper are introduced as follows.

・**Energy saving / Environment:**

・Against the background of energy consumption control policies aimed at reducing $CO_2$ emissions, sudden power restriction orders have become the norm, causing major obstacles and opportunity loss to corporate activities. We propose early notification in the event of a power outage, visualization of schedules and reduction targets, exemption from restrictions on companies with a high degree of environmental contribution rather than imposing uniform targets, target setting that does not hinder corporate production and economic growth, and a consistent and stable power supply.

- Utilization of renewable energy is important for reducing $CO_2$ emissions. However, in 2018, some subsidies related to the introduction of renewable energy were reduced, making procurement and utilization more difficult than before. We propose various incentives such as tax incentives for companies that will continue to expand the use of renewable energy to promote their utilization. We also propose the expansion of subsidies for generator leasing to meet power restrictions, introduction of renewable energy, and introduction of high-efficiency equipment to improve energy efficiency.

- In order to establish diverse renewable energy procurement channels, provide readily available and reasonably priced renewable energy power, and achieve green reforms, including renewable energy promotion in the power industry, we propose mutual recognition of, for example, International Renewable Energy Certificates (I-REC) and Green Energy Certificate (GEC) approved by the Chinese government. In addition, we propose that tax incentives, awards, and other policies to encourage companies that have made advanced efforts to become carbon neutral, such as by proactively introducing renewable energy, be implemented.

- In order to promote $CO_2$ emission reduction more actively, we propose that a contact window between the government and the corporate alliance to actively promote energy saving, renewable energy, $CO_2$ capture, DX, etc. be set up, and furthermore, consider further promotion of cooperation and collaboration including foreign-affiliated companies.

- **Chemicals:** China has formulated and announced relevant plans for goal of reaching the peak of carbon emission by 2030 and carbon neutrality by 2060, and is steadily advancing the development of renewable energy, one of its key pillars, with the nationwide launch of carbon emissions trading for the power generation industry in July 2021. Expansion to seven other industries, including steel, petroleum, and chemicals, is being considered for the future. The chemical industry, including petrochemicals, has a much larger number of operators than the power generation industry, and the scale of their operations varies from small to large and in different situations. When introducing a carbon emissions trading system, many issues are expected, including the calculation of emissions, allocation of emission credits, and trading methods. We propose that the authorities explain their plans to business operators well in advance, confirm the opinions of business operators, and ensure a sufficient period for the introduction of the system.

- **Electronic Components and Devices:** In 2022, many temporary power use restrictions still occurred during the summer months, and electronic component manufacturers suspended factory operations, shifted production, and reduced production capacity utilization rates. This has had a negative impact on the global supply chain of electronic components as a whole. The Chinese government has set initiatives to achieve a goal of reaching the peak of carbon emission by 2030 and carbon neutrality by 2060, promoting the efficient use of energy and emphasizing the promotion of a shift to low-carbon production in industry, construction, transportation, and other sectors. To solve this global issue, many Japanese companies have also formulated a roadmap to carbon neutrality, aiming for zero environmental impact, and have begun to actively promote this goal. We expect the Chinese government to establish diverse renewable energy procurement channels, supply domestic companies with renewable energy that is both accessible and reasonably priced, and promote green reforms. In addition, we propose the introduction of incentive policies such as tax incentives for companies that actively introduce renewable energy and have achieved high utilization rates.