

# Executive Summary

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## China's Economic Reform Direction and Business Environment

In the year since the release of the 2023 White Paper, the Chinese government has continued its reform and high-level opening up efforts toward high-quality economic growth. The Chinese government has designated 2023 as "Invest in China Year". In August 2023, the State Council announced in its "Opinions on Further Optimizing the Foreign Investment Environment and Increasing Efforts to Attract Foreign Investment" that 24 measures would be implemented to attract and utilize foreign investment. In February 2024, the Ministry of Commerce held a meeting to explain the progress to foreign companies and is trying to improve the business environment through dialogue with foreign companies. Furthermore, in March 2024, the State Council issued an "Action Plan for Steadily Promoting High-level Opening-up and Making Greater Efforts to Attract and Utilize Foreign Investment," which declared that foreign companies are an important force that can participate in China's modernization and promote the common prosperity and development of the Chinese and global economy. The 24 items include many that share the same direction as the proposals made in the 2023 White Paper, and their steady implementation is expected. We expect that the implementation guidelines will continue to reflect the voices of foreign companies in the future.

The following is a list of the main items in the 2023 White Paper that have shown improvement.

### (1) Personal Income Tax (2023 White Paper p.58, "Taxation and Accounting" ②)

The tax exemption applicable to foreign nationals (housing allowances, language training expenses, and child education) are to be continued until the end of 2027, according to a public notice in August 2023. While the public notice regarding this re-extension is commendable, we continue to propose that this measure be extended indefinitely.

### (2) Progress in the Three Data Laws

Three laws (the Three Data Laws), namely, Cybersecurity Law, Data Security Law, and the Personal Information Protection Law, have been enacted, and many other laws, bylaws, standards, etc. are gradually being formulated. With the "Provisions on Regulating and Promoting Cross-Border Data Flows (Draft for Comments)" released on September 28, 2023, a draft for comments was promulgated to relax regulations on the cross-border transfer of personal information, which can be evaluated to a certain extent as indicating a direction to avoid excessive regulations. In addition, in March 2024, the "Provisions on Promoting and Regulating Cross-Border Data Flows" came into effect on the same day. It is commendable that the standards for personal information and sensitive personal information have been relaxed from the past, easing the burden on companies. On the other hand, the "Provisions" states that "data processors must identify and declare critical data in accordance with the relevant regulations." However, if the definition of critical data to be stipulated in the future is unclear or the scope of such data is too broad, or if the procedures for crossing the border of critical data are too cumbersome, foreign companies will be discouraged from doing business internationally, and as a result, may be discouraged from investing in China. From this perspective, we propose that the opinions of industry, including foreign companies, be fully heard and taken into consideration when formulating regulations on data classification and grading in the future.

### (3) Relaxation of COVID-19 epidemic prevention measures and relaxation of regulations concerning traffic between Japan and China

Many of the issues proposed in the 2022 White Paper and the 2023 White Paper related to various epidemic prevention measures in various parts of China, such as tightening of COVID-19-related entry controls and restrictions on movement, have been resolved. However, the visa waiver for stays of 15 days or less for Japanese nationals, which was withdrawn in the wake of the COVID-19 disaster, has not been resumed, and we would like to see continued improvements.

### (4) Formal promulgation of regulations on business combination notification criteria (2023 White Paper p.52, "Competition Law" ⑫)

In January 2024, the State Council promulgated the revised "Regulations on the Standards for Declaration of Concentration of Business Operators". It is commendable that this official promulgation has revised and clarified the sales declaration standards for concentrated businesses. The revised standards are expected to further lower the hurdles to market entry, lower the institutional transaction costs of business concentration, streamline supervision and administration and law

enforcement, and help facilitate mergers and acquisitions.

#### **(5) Intellectual Property (2023 White Paper p.72, "Intellectual Property Rights" ①)**

The following improvements have been seen in accordance with the Implementing Regulations of the Patent Law and the Guidelines for Patent Examination, which were enforced on January 20, 2024.

- Examination principle for designs (substantive examination system): Although it still only involves a preliminary examination and the substantive examination system has not been introduced, a clear distinction (non-creativity) has been added to the examination requirements for the preliminary examination (the revised Implementing Regulations of the Patent Law, Article 50).
- Delayed examination of designs: a monthly delay period can now be set. Delayed suspension is also possible. (the revised Guidelines for Patent Examination, Part 5, Chapter 7, 8.3).

However, we propose that the examination principle (substantive examination system) be introduced for designs. In addition, while the delayed examination system has just been made more flexible, we propose the introduction of a secret design system that allows for even more flexible timing of publication.

#### **(6) Mandatory Standards in Medical and Electrical Equipment Safety Standards (2023 White Paper p.162, "Medical Devices/Pharmaceuticals for in-vitro Diagnostics")**

A notice regarding the GB9706.1 series standards was issued, clarifying that if there is an extension of the response period or a parallel standard that has not yet been promulgated, it should be implemented when that standard is implemented. This avoided major disruptions for companies, such as sudden suspension of imports. It is proposed that, in the future, for standards that have a wide scope of influence, it should be notified at the same time or as early as possible after the promulgation of the standard that the conformity verification should be completed before the implementation of a relatively long response period and parallel standards.

#### **(7) Releasing of the qualification of lead underwriter of project bonds and panda bonds issued by business corporations (2023 White Paper p.270, "Banks" ④)**

The early releasing of the qualification of lead underwriter of project bonds and panda bonds issued by business corporations was reopened for subscription in December 2023 and new qualifications were released in January 2024. The policy is to release qualifications on a regular basis in the future. In January 2024, Mizuho Bank and MUFG acquired the qualification of lead underwriter of the Panda bonds, which means there has been some progress.

### **Contribution of Japanese companies to the Chinese economy**

Japanese companies have played a very important role in the past as China has achieved its economic scale while improving growth quality and efficiency. In terms of trade, according to statistics from the General Administration of Customs of the People's Republic of China, Japan is the second largest trading partner (total imports and exports in 2023), which makes Japan an important trading partner for China, accounting for 5.4% of its total trade.

As for investment, according to the State Administration of Foreign Exchange of China, China's inward direct investment in the balance of payments statistics for 2023 was 33,000 million USD, down 81.7% from the previous year. On the other hand, although the statistical standards differ, according to Japan's Ministry of Finance (preliminary figures), net direct investment from Japan to China in 2023 was only 545,800 million yen, down 24.7% from the previous year. According to the Ministry of Foreign Affairs of Japan's "Survey on the Number of Offices of Japanese Companies Operating Overseas 2022", the number of Japanese companies' offices in China is 31,324, with investment taking place in a wide range of industries, from large corporations to small and medium-sized companies.

### **Japanese Companies' Stance on China**

According to the second survey on the perception of the economic and business environment (released on January 15, 2024) by the Japanese Chamber of Commerce and Industry in China, regarding the amount of investment in China in 2023, of the 1,713 Japanese companies that answered, 15% said that they will "significantly increase" or "increase" their investment compared to 2022, while 38% answered that their investment will be "the same amount as in 2022". When asked how they see the Chinese market in 2024 and beyond, 51% of the companies answered that it is "the most important market" or "one of the three most important markets". According to JETRO's survey (FY2023 JETRO Survey on Business Conditions for Japanese Companies Operating Overseas), 27.7% of Japanese companies in China answered "expansion" for their business development over the next 1-2 years, falling below 30% for the first time since the 2007 survey, indicating

a cautious attitude, but including those maintaining the current status, the percentage is over 90%. The fact that less than 10% of the respondents answered "downsizing or withdrawing" shows that the majority of Japanese companies have a strong commitment to remain firmly entrenched in the Chinese market. In the aforementioned second survey by the Japanese Chamber of Commerce and Industry in China, 54% of companies were very satisfied or satisfied with the business environment in China. From the result that 46% of respondents want to see improvement or very much improvement, it is apparent that there is still plenty of room for improvement in the business environment, as they expressed their desire for visa-free travel to resume, a shortage of young workers, not being treated equally with Chinese companies in terms of subsidies, etc., and a change in interpretation of the system.

## What to Expect from the Chinese Government

In its 2024 Report on Government Activities, the Chinese government has announced that it will "expand high-level opening up and win-win" and "further focus on attracting foreign investment," and 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. Japanese companies would like to contribute to China's high-quality economic development as we have in the past, or even more so.

Although the COVID-19 outbreak temporarily stalled the exchange of information, in January 2024, for the first time in four years, the Japan-China Economic Association, Japan Business Federation, and the Japan Chamber of Commerce and Industry dispatched a joint delegation to China, and exchanges in the business community have been resumed. In addition, a summit meeting was held in November 2023, at which the leaders confirmed their commitment to building "constructive and stable Japan-China relations" and comprehensively promoting "strategic mutually beneficial relations" and dialogue between the governments of the two countries has also been promoted.

Although China's economic growth is not as high as in the past and there are some structural challenges and risk factors, it is a large market, accounting for about 18% of global GDP, and is one of the world's leading manufacturing powers and sources of innovation, we believe that there is great potential for deepening trade and investment relations between the two countries if the reform and opening up policy is pursued by the Chinese government in an appropriate manner. We expect the Chinese government to prioritize economic construction, implement further economic measures, and ensure stable economic development. We look forward to strong economic management so that various economic entities can regain confidence in the Chinese economy and maximize China's potential.

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.

This white paper consolidates more than 600 proposals from Japanese companies in various fields, industries, and regions on the challenges they face in doing business in China (see Appendix). Of these, the issues are summarized as follows from the three perspectives of fair competition, opening up to the international community, improvement and facilitation of administrative predictability and transparency. The specifics of each of the proposals are attached at the end of this summary.

### (1) Fair competition

In the 14th Five-Year Plan, it was emphasized that a high-level market system is to be constructed, equal entry and fair supervision and management to be maintained, and a domestic unified market where fair competition takes place is to be formed. The Foreign Investment Law and the Implementation Regulations of the Foreign Investment Law state the principle of equality of domestic and foreign investment. In the Government Report to the National People's Congress in March 2024, the government also states that it will "ensure national treatment of foreign companies and guarantee equal participation in government procurement, bidding, and standard making in accordance with the law". In this White Paper, various systems that are obstacles to fair competition will be reviewed in order to fully utilize market principles and we also propose development of highly transparent market economy rules and their proper operation.

- **Improving the treatment of imported products in the government procurement market and achieving fair competition between imported and domestic products**
- **Clarification of the "secure and controllable" or "innovation on informatization and application" systems and disclosure of**

#### information on certified products

- Publication of relevant detailed regulations and controlled items of the Export Control Law and operation in accordance with international standards
- Facilitation and speeding-up of export license applications for gallium, germanium and graphite
- Unify the way of operation and improve transparency and fairness of the official standard setting process, such as national standards and industry standards
- Elimination of temporary suspension of imports of Japanese marine products
- Elimination of measures based on laws and regulations for additional certificates at the time of import customs clearance for Japanese food products
- Lifting or relaxing import restrictions on Japanese food products
- Requirement to use domestic products for information security

## (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, a high level of opening up to the international community will be promoted. At the Belt and Road High-Level Forum in October 2023, President Xi Jinping referred to the total elimination of restrictions on foreign investment in the manufacturing industry, and in the Government Report to the National People's Congress in March 2024, it is stated that “the negative list for trade in services will be fully implemented”, “the negative list for investment in China will continue to be reduced, the restrictions on entry into the manufacturing sector will be eliminated, and the restrictions on entry into the services sector, including telecommunications and healthcare, will be eased”. We expect that this direction of liberalization will be reflected in the revision of laws and regulations in the future, allowing foreign companies to contribute to the Chinese economy on a broader scale.

- Further Relaxation of the Special Management Measures on the Entry of Foreign Investment (Negative List)
- Relaxation of entry restrictions by laws and regulations other than the negative list
- Establishment of a system for deregulation
- Considerations for the participation of Japanese companies in environmental projects
- Relaxation of foreign investment restrictions on licensing of value-added telecommunication services
- Deregulation and removal of barriers to entry for foreign companies and foreign content
- Expansion of the scope of banks eligible for the special funding program for loans that contribute to carbon neutrality
- Full opening up of outbound travel business by wholly foreign-owned travel agencies to Chinese citizens

## (3) Improvement and facilitation of administrative predictability and transparency

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. Regulations under the law are underway, and we expect that appropriate legislation and enforcement will be promoted.

It is only natural for the Chinese government to change regulations and systems as it pursues “Chinese-style modernization” and “reform and opening up”. However, a major challenge is that in some cases, changes in regulations and systems are made known at the last minute. When implementing changes to regulations and systems, we propose that sufficient preparation time be given, and that consideration be given to the timing of information disclosure and specific implementation methods, such as posting the information in writing on the website in advance. When formulating policies, laws, and plans, it is still necessary to exchange information with related industries, including foreign companies, and to proceed with adequate coordination with government agencies of the countries concerned, as well as to develop regulations such as implementation guidelines, and clarify interpretations and contact points for inquiries.

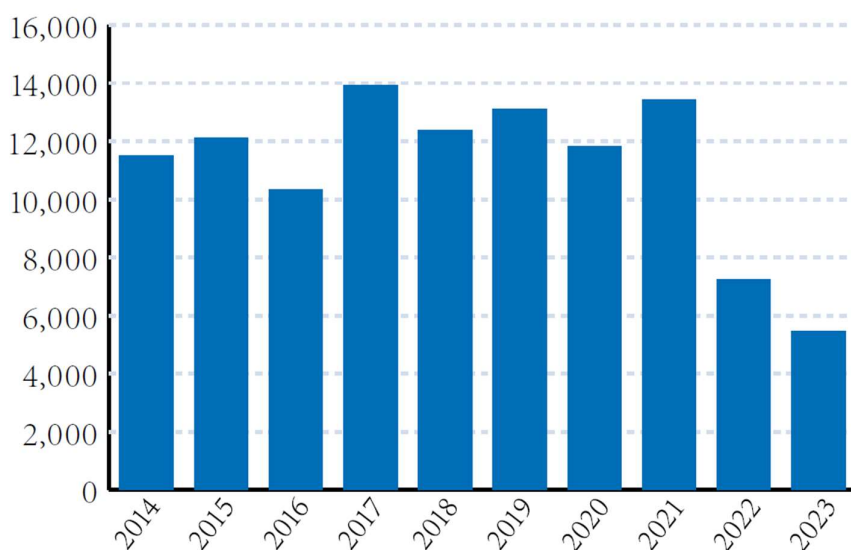
In order for Japanese companies to properly comply with laws and regulations, we propose that the enforcement aspects, such as monitoring and crackdowns by the authorities, be operated based on uniform standards, regardless of whether

they are domestic or foreign-affiliated. In addition, we propose that when administrative guidance, etc., is given to companies, explanations be provided in writing, etc., showing the basis for the violation of laws, regulations, data, etc. on which the guidance is based.

- **Resumption of visa waiver measures as soon as possible, shortening of visa examination period**
- **Unified interpretation of customs rules and regulations, and enhanced uniform application of these rules and regulations**
- **Development of detailed regulations for the Foreign Investment Law and Regulations on the Implementation of the Foreign Investment Law**
- **Continuous and ongoing publication of statistical and survey data**
- **Provision of unified information on corporate support measures**
- **Permanent tax exemption for foreign nationals**
- **Taxation of foreign companies under the Stamp Tax Law**
- **Consideration for user companies in the enactment and operation of China Cybersecurity Law and related regulations**
- **Requests for fully listening to the opinions of foreign companies on the implementation of the “Regulations on Promoting and Regulating Cross-Border Data Flow”**
- **Appropriate procurement process for imported goods**
- **Cosmetics: Appropriate development of information on raw material safety registration (requests for development of information on raw material registration, requests for relaxation of the scope of mandatory registration of raw material information, and requests related to nanomaterials)**
- **Diversification of investment source of investment companies**

**Figure 1: Japan's Investment in China**

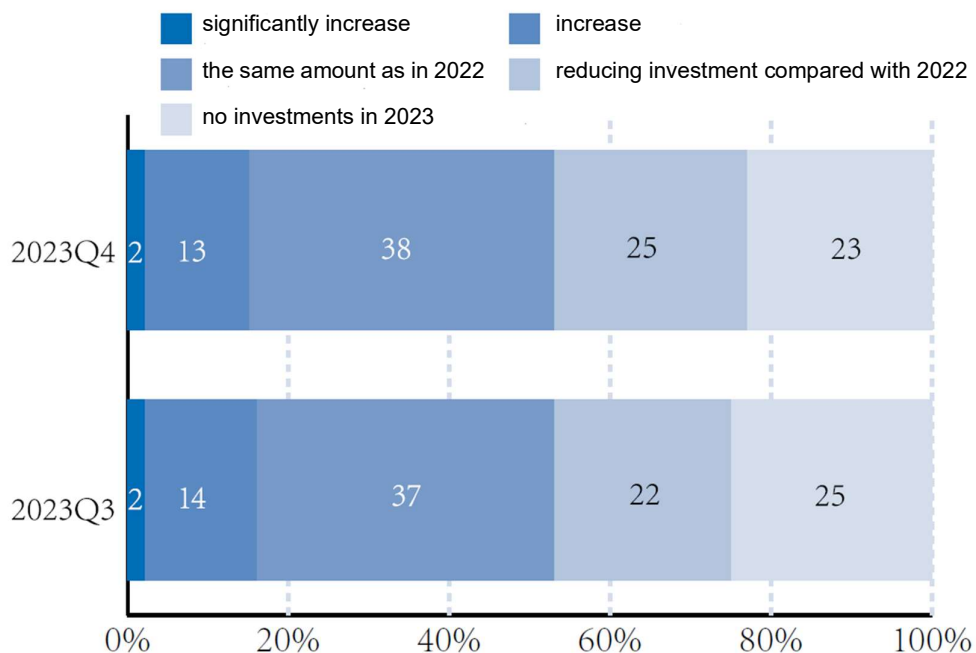
(100 million yen)



Note: Figures for 2023 are preliminary.

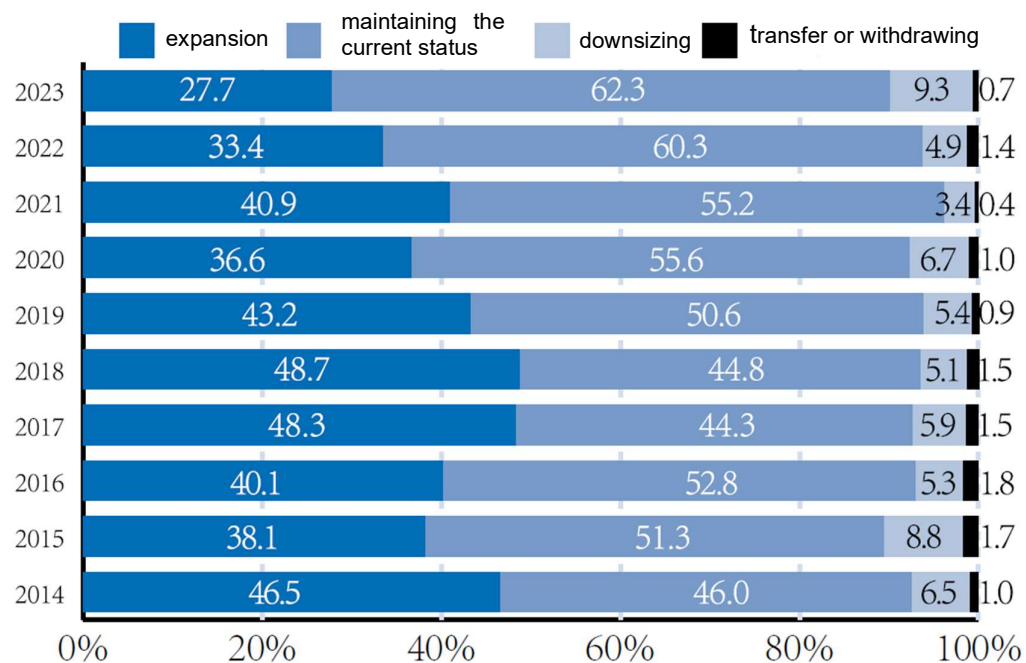
Source: Ministry of Finance

**Figure 2: Investment in 2023 compared to 2022**



Source: The Japanese Chamber of Commerce and Industry in China, "Results of the Second Questionnaire on the Economic and Business Environment Perceptions of Member Companies"

**Figure 3: Japanese Companies in China - Business Expansion in the Next 1-2 Years**



Source: JETRO, "Survey on Business Conditions for Japanese Companies Operating Overseas"

### (1) Fair Competition Main Proposals

#### Government Procurement:

Improving the treatment of imported products in the government procurement market and achieving fair

### **competition between imported and domestic products (Part 2, Chapter 10, Government Procurement ③)**

The government procurement market continues to limit itself to domestically produced products. In many industries, such as health care, government procurement bid announcements state that imported products are not allowed to participate and that only domestic equipment is to be purchased. Even in cases where imported products can participate, there are unfair competition problems such as arbitrary, unfair, and opaque practices in the actual implementation process on site, causing deep embarrassment to foreign companies and making it difficult to deal with the situation.

We propose that the current "Government Procurement Law" be revised as soon as possible to abolish the limitation of the scope of government procurement to domestic products, Chinese construction and services, to ease restrictions on the entry of imported products into the government procurement market, and to further liberalize the scope of the government procurement market to create an environment in which imported and domestic products can compete on an equal, transparent and reasonable basis in the government procurement market.

### **Clarification of the "secure and controllable" or "innovation on informatization and application" systems and disclosure of information on certified products (Part 2, Chapter 10, Government Procurement ⑤)**

We propose that the list related to "secure and controllable" or "innovation on informatization and application" systems be published and the range of applicable products, the requirements, and standards 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.

#### **Trade:**

### **Publication of relevant detailed regulations and controlled items of the Export Control Law and operation in accordance with international standards (Part 2, Chapter 1, Trade ①)**

Although the Export Control Law has been in effect since December 1, 2020, there are still some unclear regulatory targets regarding the law, and there is uncertainty for Japanese companies in their business operations. We propose that related bylaws and controlled items, etc. be developed and published as soon as possible, and that their content and operation do not deviate from international standards. In addition, the criteria for whether or not an export license is required under the law are not clear, and when a license is required, it can take up to 45 days from application to obtaining the license. We propose clarifying the criteria regarding whether or not a permit is required, as well as reducing the amount of time required from permit application to obtaining a permit.

### **Facilitation and speeding-up of export license applications for gallium, germanium and graphite (Part 2, Chapter 1, Trade ②)**

In the export license applications for gallium and germanium related items and some graphite items, which were implemented sequentially starting in 2023, there have been cases where applications have been stalled. China is a major producer and exporter of these resources in the world and plays an important role in the supply chain. We propose that the application process be facilitated and that the time required for approval be shortened.

#### **Technical Standards/certifications:**

### **Unify the way of operation and improve transparency and fairness of the official standard setting process, such as national standards and industry standards (Part 2, Chapter 8, Technical Standards/certifications ②)**

In the process of setting official standards, such as national standards and industry standards, there is still a lack of transparency due to the lack of uniformity in the way standard organizations operate. For example, there is still a distinction between domestic and foreign capital in terms of membership qualifications, membership fees, etc. The "Guiding Opinions on the Participation of Foreign-Invested Enterprises in the Standardization Work in China" was promulgated, and the policy that foreign-invested companies and domestic-invested companies will receive equal treatment in standardization activities is highly commendable. However, we propose that the standardization process be made open to the public in principle, as well as the standardization activities be carried out in accordance with this policy, along with foreign companies be allowed to participate in standardization technical committees and standardization development groups under the same conditions as Chinese companies, thereby facilitating the participation of foreign companies and enhancing transparency and fairness.

## **Foods:**

### **Elimination of temporary suspension of imports of Japanese marine products (Part 3, Chapter 1, Foods ④)**

A temporary suspension of imports of Japanese marine products to China has been in place since the start of the ocean discharge of ALPS treated water from the Fukushima Daiichi Nuclear Power Plant on August 24, 2023. The safety of the discharge of ALPS treated water was confirmed by a third-party international organization, and the safety of ALPS treated water has been continuously confirmed by Japanese government agencies and such international organizations since then. More than six months have passed since the discharge into the ocean, and no problems have been found in the monitoring so far. Based on scientific evidence, we propose the removal of the temporary suspension of imports of Japanese marine products.

### **Elimination of measures based on laws and regulations for additional certificates at the time of import customs clearance for Japanese food products (Part 3, Chapter 1, Foods ④)**

Since August 2023, there have been cases where additional certificates have been requested by each port or person in charge regarding imports of Japanese food products, excluding marine products, even for imports for which the necessary and sufficient procedures have been completed. We propose a unified response based on relevant laws and regulations to the different responses of each port and person in charge. We also propose that the central government inform the field and companies in advance of any additional certificates that are required, after consultation and agreement between the Japanese and Chinese authorities.

### **Lifting or relaxing import restrictions on Japanese food products (Part 3, Chapter 1, Foods ⑤)**

Although the ban on rice from Niigata Prefecture was lifted in November 2018 following the accident at the Fukushima Daiichi Nuclear Power Plant caused by the March 2011 Great East Japan Earthquake, import control measures are still in place for all other agricultural and food products from the 10 prefectures. In addition, the remaining 37 prefectures are virtually unable to export vegetables, fruits, dairy products, and other products to China. Furthermore, food products from 37 prefectures cannot be exported via Narita Airport or other logistics hubs in the 10 prefectures. Ten years have passed since the earthquake, and while many countries and regions have lifted restrictions, China continues to have the strictest regulations in the world. In order to enrich the dietary life of Chinese consumers, we propose that investigation be expedited based on scientific evidence and lift or ease these import control measures as soon as possible.

## **Business equipment:**

### **Requirement to use domestic products for information security (Part 3, Chapter 4-9, Business equipment ⑦)**

We propose that the fact that the product is developed and manufactured by a Chinese company should not be a requirement to meet information security requirements. The exclusion of products from government procurement, even those with high security functions, solely because they are the products of foreign companies or not made in China, is unreasonable discrimination and incompatible with China's policy of opening up to the international community.

## **(2) Opening up to the international community    Main Proposals**

### **Investment:**

### **Further Relaxation of the Special Management Measures on the Entry of Foreign Investment (Negative List) (Part 2, Chapter 2, Investment ⑦)**

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. We appreciate that a certain degree of relaxation has been achieved. In addition, we welcome that at the Belt and Road High-Level Forum in October 2023, President Xi Jinping referred to the total elimination of restrictions on foreign investment in the manufacturing industry and propose that the restrictions be eliminated as soon as possible. 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.

### **Relaxation of entry restrictions by laws and regulations other than the negative list (Part 2, Chapter 2, Investment ⑧)**

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-invested companies handling Internet music products. However, in reality, it is considered difficult due to the existence of the “Provisions on the Administration of Online Publishing Services (Ministry of Industry and Information Technology, formerly known as 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 “Provisions on the Administration of Online Publishing Services” 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.

#### **Establishment of a system for deregulation (Part 2, Chapter 2, Investment ⑨)**

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.

#### **Energy saving / Environment:**

#### **Considerations for the participation of Japanese companies in environmental projects (Part 2, Chapter 7, Energy saving / Environment ⑧)**

Although environmental pollution in Chinese cities is improving year by year, measures against environmental problems such as air, water, and soil pollution are still required. Further participation of Japanese companies in the projects by Ministry of Ecology and Environment and provincial and municipal projects, as well as the introduction and diffusion of their technologies and equipment, are expected to contribute to the improvement of environmental problems in China. From the perspective of promoting superior products and technologies, we propose that information on regulations and projects be made publicly available at an early stage so that companies have sufficient time to consider applications and proposals.

#### **Information and communications:**

#### **Relaxation of foreign investment restrictions on licensing of value-added telecommunication services (Part 3, Chapter 5-1, Information and Communications ②)**

Restrictions on the entry of foreign investment are still being set in value-added telecommunication services such as data centers and cloud services, except in some trial areas as per the notification promulgated in April 2024. 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:**

#### **Deregulation and removal of barriers to entry for foreign companies and foreign content (Part 3, Chapter 5-3, Content ①)**

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:

- We would like to see removal of 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.

- We would like to see relaxation of the total amount of restrictions on Internet distribution of foreign content. We would like to see the written rules.
- In order to promote cultural exchanges with overseas markets and further develop the domestic game market, we propose that the government more actively promote the approval of high-quality overseas game content and consider related policies, such as prompt examination for imported games (including software for game consoles), prompt issuance of edition numbers, and an increase of edition numbers, etc.

#### **Banks:**

##### **Expansion of the scope of banks eligible for the special funding program for loans that contribute to carbon neutrality (Part 3, Chapter 8-1, Banks ⑨)**

When nationalized commercial banks and foreign banks provide loans that contribute to carbon neutrality that meet the applicable conditions, the People's Bank of China provides support (up to 60% of the loan funds, at an interest rate of 1.75%) to each bank by offering special funding that is substantially below market funding costs. The banks covered by the system are mainly national commercial banks, and the system is open only to a limited number of foreign banks. In addition, the conditions for application of this program are that the use of funds is limited to non-recourse loans for capital investment that contributes to carbon neutrality, and furthermore, the applicability of the program will be determined after the execution of the loan.

We propose improving the convenience of the program and expanding the conditions of application to facilitate decision-making between financial institutions and their customers. Specifically, we propose further opening of the program to foreign banks and conditions for application, including the addition of recourse loans, pre-approval of the program, and the relaxation of restrictions on eligible companies and projects (e.g., adding leasing companies to the list of eligible companies). Prior approval will clarify the profitability decisions of each financial institution, thus contributing to the provision of more in-depth financial services and the development of China's carbon neutrality.

#### **Travel:**

##### **Full opening up of outbound travel business by wholly foreign-owned travel agencies to Chinese citizens (Part 3, Chapter 9-1, Travel ②)**

We propose the early realization of 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.

### **(3) Improvement and facilitation of administrative predictability and transparency Main Proposals**

#### **Labor service:**

##### **Resumption of visa waiver measures as soon as possible, shortening of visa examination period (Part 2, Chapter 5, Labor service ①)**

Effective January 29, 2023, the National Immigration Administration resumed issuing arrival visas for Japanese nationals and resumed its 72/144-hour transit visa waiver policy. This approach is beneficial for those entering and departing between the two countries. However, Japanese nationals on short-term business trips to China or visiting relatives are still

unable to enter the country without visa procedures in advance, and it takes a certain amount of time until the visa is issued, making it difficult to respond to unexpected situations such as sudden business trips. In order to promote smooth traffic and business promotion between two countries, we strongly propose that National Immigration Administration, the Ministry of Foreign Affairs, and other agencies resume visa waivers for Japanese nationals for 15 days or less as soon as possible.

#### **Trade:**

##### **Unified interpretation of customs rules and regulations, and enhanced uniform application of these rules and regulations (Part 2, Chapter 1, Trade ④)**

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.

#### **Investment:**

##### **Development of detailed regulations for the Foreign Investment Law and Regulations on the Implementation of the Foreign Investment Law (Part 2, Chapter 2, Investment ①)**

The Foreign Investment Law and Regulations on the Implementation of the Foreign Investment Law came into effect in January 2020. Existing foreign-invested companies will face major institutional changes in practice, such as the need to complete adjustments to their organizational form and structure prior to January 1, 2025. On the other hand, practical detailed regulations and other laws and regulations for such individual changes have not been sufficiently developed. We propose that the State Administration for Market Regulation, the Ministry of Commerce, the National Development and Reform Commission, and other relevant agencies enact effective and appropriate laws and regulations promptly and clearly. We also propose that, in developing the bylaws, the opinions of the Foreign Chamber of Commerce and foreign-invested companies be heard and reflected in the bylaws in accordance with the Foreign Investment Law. Furthermore, we propose that the "Claims Filing Mechanism for Foreign-invested Companies" stipulated in Articles 29 and 30 of the Regulations on the Implementation of the Foreign Investment Law be properly implemented in practice.

##### **Continuous and ongoing publication of statistical and survey data (Part 2, Chapter 2, Investment ⑤)**

The data published by the National Bureau of Statistics has changed the scope of statistics for fixed asset investment since 2023, and there is no longer any continuity with the previous year's figures. In addition, the release of the urban survey unemployment rate for 16–24-year-olds was suspended after June 2023 and resumed in January 2024 under a new definition. The People's Bank of China's survey of urban depositors, banks, and entrepreneurs stopped being released after the second quarter of 2023, and the unpublished results were compiled and released in March 2024. While the need for institutional change to make statistical and survey data more relevant to actual conditions is understandable, the continuity and sustainability of data is extremely important for investment decisions. We propose that statistical and survey data by government agencies continue to be published whenever possible, and that when definitions are changed, existing data be revised as far back in time as possible.

##### **Provision of unified information on corporate support measures (Part 2, Chapter 2, Investment ⑥)**

We appreciate that the central government and local governments have established various enterprise support programs for industrial promotion, which in many cases also include foreign companies. On the other hand, since multiple administrative departments at multiple administrative levels, such as the national government, provinces, and local municipalities, have established their own systems, it is difficult for foreign companies to know which support measures are available to them. We propose providing information that will enable a unified list of corporate support programs throughout the country.

#### **Taxation and Accounting:**

##### **Permanent tax exemption for foreign nationals (Part 2, Chapter 4, Taxation and Accounting ③)**

The tax exemption applicable to foreign nationals (housing allowances, language training expenses, and child education) were to be abolished at the end of 2023, but a public notice was issued in August 2023, and they will continue until the end of 2027. Since the abolition of this measure is expected to result in a significant increase in

personal income taxes for foreign nationals, the public notice regarding the extension is highly commendable. In order not to increase the tax burden in the future, we propose that this measure be extended indefinitely.

#### **Taxation of foreign companies under the Stamp Tax Law (Part 2, Chapter 4, Taxation and Accounting ⑨)**

Under the new Stamp Tax Law, foreign companies are now obligated to pay tax on their side when they conduct certain transactions. In Japan, no stamp tax is imposed on contracts, etc. made outside of Japan, and we would like to see 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 would like to see specific guidelines be issued for practical application.

#### **Technical Standards/certifications:**

#### **Consideration for user companies in the enactment and operation of China Cybersecurity Law and related regulations (Part 2, Chapter 8, Technical Standards/certifications ⑦)**

Regarding China Cybersecurity Law and regulations, 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 in the stage of soliciting opinions. We propose that the opinions of related parties, including foreign companies, be incorporated in the process of establishing these bylaws, standards, etc. and that the establishment and application of a system be considered 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. 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 addition, we propose that predictability and user-friendly improvements be made in operation by clarifying interpretations, simplifying and speeding up various procedures, providing written responses to applications and inquiries and holding explanatory meetings, and preparing and publishing FAQs based on questions received from companies in the past to enable companies to properly comply with laws and regulations.

#### **Requests for fully listening to the opinions of foreign companies on the implementation of the "Regulations on Promoting and Regulating Cross-Border Data Flow" (Part 2, Chapter 8, Technical Standards/certifications ⑧)**

With regard to the cross-border transfer of information and data including personal information, the "Regulations on Promoting and Regulating Cross-Border Data Flow", which was promulgated and enforced in March 2024, eases the requirements for the conclusion of standard contracts for the cross-border transfer of personal information, and specifies the conditions for the procedures, thereby reducing the burden on companies, which is commendable. On the other hand, the "Provisions" states that "data processors must identify and declare critical data in accordance with the relevant regulations." If the definition of critical data to be stipulated in the future is unclear or the scope of such data is too broad, or if the procedures for cross-border transfer of critical data are too cumbersome, foreign companies will be discouraged from doing business internationally, and as a result, may be discouraged from investing in China. From this perspective, we propose that the opinions of industry, including foreign companies, be fully heard and taken into consideration when formulating regulations on data classification and grading in the future.

#### **Medical Devices/Pharmaceuticals for in-vitro Diagnostics:**

#### **Appropriate procurement process for imported goods (Part 3, Chapter 4-4, Medical Devices/Pharmaceuticals for in-vitro Diagnostics ⑩)**

With the promulgation of the "Foreign Investment Law" (effective January 2020), the "Detailed Rules for the Implementation of the Fair Competition Review System" (effective June 2021), and the "Special Management Measures on the Entry of Foreign Investment (Negative List) (updated version)", etc., there have been improvements in the legal environment, such as the application of various policies to support the development of foreign-invested companies and the guarantee of fair participation in government procurement activities. However, no tangible improvements have been recognized at the frontline level of medical facilities. We propose that the procurement process be optimized for imported medical device products approved for sale in China 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.

#### **Cosmetics:**

#### **Appropriate development of information on raw material safety registration**

### **Requests for development of information on raw material registration (Part 3, Chapter 4-5, Cosmetics ⑩)**

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.

### **Requests for relaxation of the scope of mandatory registration of raw material information (Part 3, Chapter 4-5, Cosmetics ⑪)**

We propose that the safety of raw materials and products in product applications be collectively evaluated in the safety evaluation report, and that the collection and maintenance of raw material safety information be promoted separately from the product application process.

### **Requests related to nanomaterials (Part 3, Chapter 4-5, Cosmetics ⑫)**

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:**

### **Diversification of investment source of investment companies (Part 3, Chapter 8-1, Banks ⑩)**

In China, there are more than 150 investment companies serving as regional headquarters of Japanese multinationals, and reinvestment in China is generally funded by the capital of the investment company, foreign debt from the Japanese parent company, and dividends from the Chinese subsidiary. Under Chinese regulations, borrowed funds cannot be used for equity investment, so in a great many cases, investment companies are unable to directly apply surplus funds from group companies to domestic reinvestment (including capital investment in facilities, new establishment, capital increase, equity purchase, M&A, etc. of affiliated companies) and are stuck with cash and deposits.

In recent years, global companies listed on the stock exchange have been required to achieve capital efficiency such as ROE, and the fact that cash and deposits cannot be reinvested in China has been one of the factors restraining investment in China.

We propose a review of the restrictions on domestic investment through borrowing as stipulated in the "General Rules for Loans" by the People's Bank of China and the entrusted loan provisions by the National Financial Regulatory Administration (formerly known as the CBIRC).

Simply limiting the scope of the restriction to "investment by the group surplus funds of investment companies is allowed" will have a significant effect and is expected to contribute not only to the expansion of intra-regional investment but also to the improvement of potential deflation within China.

In addition, we would like to propose that investment companies be allowed to use bank M&A loans. According to the regulations of the National Financial Regulatory Administration (formerly known as the CBIRC), companies may use bank M&A loans to conduct M&A transactions. However, in accordance with Notice No. 1078 of 2011 by the Ministry of Commerce and the State Administration of Foreign Exchange, foreign investment companies are not allowed to use intra-regional loans to make intra-regional investments. As a result, general foreign-invested companies that do not have an investment function can use M&A loans, but investment companies that do have an investment function cannot use M&A loans, and policy twists have restricted investment activities of investment companies to a certain degree in fulfilling their original functions.

After the promulgation of the "Foreign Investment Law" and the repeal of the "Three Foreign Investment Laws", foreign investment-related laws and regulations will be substantially adjusted, and the aforementioned Notice No. 1078 should also be relaxed. One of the main functions of an investment company is investment and M&A, and when the above is permitted, it is expected to have a very large multiplier effect on the expansion of intra-regional investment.