



THE US-CHINA BUSINESS COUNCIL

美中贸易全国委员会

## USCBC Comments on Revising the Catalogue of Encouraged Foreign Investment Industries (2019)

The US-China Business Council (USCBC) welcomes the measures taken by the Ministry of Commerce and the National Development and Reform Commission and other relevant departments to revise the Catalogue of Encouraged Foreign Investment (hereinafter referred to as the Catalogue) and further expand the scope of foreign investment. While the 2019 version of the Catalogue also expanded the areas where foreign enterprises are encouraged to invest in and further supported investments in high-end manufacturing, USCBC believes a few additional industries may also be worthy of consideration. The Council would like to use this opportunity to address these potential considerations and submit brief summaries of issues encountered by our member companies to relevant decision-making bodies as references.

USCBC would like to respectfully raise the following recommendations:

- 1. List urgently needed medical equipment related to the prevention and control of epidemics, such as ventilators, ECMO machines, monitors, PCR machines, testing kits, and materials related to the production and testing of the above-mentioned products within the Catalogue.** Encouraging foreign enterprises to actively participate in the investment and production of urgently needed medical equipment is conducive to facilitating rapid response times needed to cope with the sudden outbreak of major epidemics. It would also promote foreign enterprises in relevant fields to play an important role in the continued improvement of China's prevention and treatment measures for major epidemics.
- 2. Include foodstuffs among the industries listed in the Catalogue, especially the production of various snacks, nut products, and sports nutrition food products.** USCBC additionally recommends expanding the written definition of the "non-staple processed food industry" to include the sub-specification of "pet food, supplies, and services." In addition to bringing experience in food safety and nutrition experience, as well as the related technology, foreign enterprises can provide additional high-end food choices for Chinese consumers, which serves to better meet the growing demand of Chinese consumers in this space. This addition is also consistent with the government stated goals of stabilizing and promoting consumption in China. It is also consistent with the continued development of the national nutrition and health industry to include nut products, sports nutrition food products, as part of the list of incentivized industries. Chinese demand for pet food and products from related industries has huge growth potential. Adding these items to the Catalogue will help guide foreign enterprises in meeting the increasing demand of Chinese consumers through investment and production in China.

The snack foods (candy, chewing gum, dried fruit preserves, ice cream, and puffed food products such as corn puffs or popcorn) industry is labor-intensive. Incentive policies that come with addition to the Catalogue will enable foreign investment to create more

employment opportunities to China, thereby helping to relieve employment pressure, and assist in meeting goals within the “six stabilities” initiative.

More importantly, encouraging foreign investment in this field will help China increase its participation in global food industry supply chains, especially as it pertains to the transformation and upgrading of upstream supply, such as raw agricultural goods production, initial processing of agricultural products, food processing, food packaging, and other traditional industries. Raw agricultural goods are sourced from all over the world, and end-consumer markets are even more common. China has the potential to place itself at the center of the agricultural industrial chain and further develop the related export markets.

**3. Encourage the leasing of automobiles.** Encouraging new means of financing is conducive to promoting new energy vehicle (NEV) sales, promoting the second-hand vehicle market, and providing diverse services for Chinese consumers. At present, given that the sales volume of automobiles is low, the development of financial leasing of automobiles is conducive to stimulating consumption and supporting the development of the industry. Similarly, USCBC respectfully recommends keeping whole-vehicle investment in the central and western regions within the Catalogue.

**4. Add “R&D, application and production of transformer/ insulating oil made from agricultural products.”** Vegetable-sourced insulating oil is mainly used in transformers, which are primary components within power grids. Compared with traditional mineral insulating oil, vegetable insulating oil has lower flammability, is renewable, carries a small carbon footprint, is easily biodegradable, has higher insulation performance, and may extend the service life of transformers. China is a major exporter of power equipment, and coupled with the push from the central government to promote construction of ultra-high-voltage (UHV) infrastructure, vegetable-sourced transformer oil could enhance the competitiveness of local enterprises at the international level. Adding this item will help encourage foreign enterprises to bring high-performance products and technologies to China and promote the upgrading of the manufacturing sector.

**5. Add “molecular breeding research and development of maize within the agriculture section of the catalogue.** Molecular breeding is an advanced breeding technology that is different from genetically modified organism (GMO) technology. It can improve various characteristics of crops and even increase individual yield without changing gene modification. Compared with traditional hybrid breeding, molecular breeding boasts improved efficiency in achieving the desired effects of plant breeding.

**6. Development and production of aromatherapy products:** In keeping with consumers' increasing desire for products they associate with a higher quality of life, the amount of daily use of aromatherapy products is continuing to gradually increase. Various fragrant plants contain aromatic components that can be extracted as an essential oil for use in food processing, cosmetics, and other industries, and generally yields a high added value to such products. Encouraging the R&D and production of aromatherapy is also conducive to enhancing value of the industrial chain as a whole, especially in the central and western regions, which possess the natural conditions suitable for the cultivation of the aromatic plants essential oils can be derived from. Adding this item to the list is furthermore conducive to bringing in more foreign capital, new varieties of typically-foreign aromatic plants, and advanced breeding, cultivation, and oil extraction techniques.

7. In addition to adding new items to the Catalogue, USCBC member companies have suggested that the Catalogue could be further improved and refined by making changes to existing items, **especially pertaining to chemical raw materials and chemical production**. USCBC members recommend adopting a more scientific approach with precise language and classifications specific to these fields in order to better promote the development of leading technologies in the industry.

8. USCBC member companies have additionally raised the following constructive suggestions that USCBC believes to be important and deserving of immediate attention from relevant decision-making government departments.

- **Some of the encouraged items also appear on the Foreign Investment Negative List, which, to a certain extent, has led to confusion from foreign investors.** For example, "medical institutions" are included on the encouraged list, but at the same time, "medical institutions are limited to joint ventures and cooperation" in the Special Administrative Measures for Foreign Investment Access (Negative List) (2019 version). Allowing for wholly foreign-owned hospitals is conducive to the introduction of more high-quality foreign medical resources and funding, and the overall improvement of the level of diagnosis and treatment technology in the domestic medical field. USCBC therefore suggests revising the negative list for foreign investment to remove items that appear contradictory to the Catalogue.
- **A number of enterprises are unclear on the scope of application of the Catalogue of Industries for Encouraging Foreign Investment and the Catalogue for Guiding the Adjustment of Industrial Structure (hereinafter referred to as the Industrial Catalogue). Some USCBC members have suggested that the Industrial Catalogue should be revised concurrently, especially pertaining to the restrictions or elimination of items within the Industrial Catalogue.** For example, current industrial policy limits soybean crushing capacity. "Soybean crushing and extraction projects (except the main soybean producing areas in Heilongjiang, Jilin, and Inner Mongolia)" is included in the restricted category in the Guiding Catalogue of industrial structure adjustment (2019 Edition). **It is suggested that soybean crushing and extraction should be removed from the restricted list.** At present, soybean crushing capacity is facing structural imbalance, and there is still demand for increased capacity. Foreign enterprises in the soybean crushing industry are optimistic about the long-term protein demand in the Chinese market and are willing to continue to increase investment in China. However, the current capacity policy restrictions will force enterprises to increase their capacity only through M&A, where companies face obstacles in the M&A review process. USCBC respectfully recommends allowing enterprises to make investment decisions independently based on market-oriented factors.
- Feedback from USCBC membership shows that companies are **not very clear on supportive policies within the industries on the Catalogue**. Supportive measures related to corporate income tax relief, or additional support for employee work visas and residence permits, etc., may provide enterprises a stronger sense of "encouragement" in relevant fields. Moreover, feedback from members also indicates that a general **lack of clear and specific policy support has led to some challenges in policy implementation**. For example, industries listed in the Catalogue may enjoy tax exemptions on relevant imported equipment for self-use, but the General Administration of Customs has a separate list of equipment not subject to tax reduction and exemption, resulting in a considerable number of encouraged projects that cannot fully enjoy the

import tax exemption policies. It is the hope of USCBC members that the former Catalogue will prevail.

- Various projects in the “western region” section of the Catalogue are eligible for the preferential income tax policies. Due to the impact of the COVID-19 epidemic on the economy, USCBC suggests expanding the scope of these support measures to include both the central and western regions so that central regions such as Shanxi, Henan, and other provinces may also benefit from such policies.

USCBC appreciates the opportunity to provide feedback on the Catalogue. We hope these comments are constructive and useful. Please consult the annex for specific suggestions from some of USCBC’s members on the new items. USCBC is looking forward to communicating and following up with relevant departments on specific suggestions and issues as appropriate.

The US-China Business Council

April 8, 2020

### **Annex: specific suggestions for adding new items on the Catalogue**

1. **Industry Sector:** manufacturing- (11) medical and pharmaceutical manufacturing; (18) specialized equipment manufacturing industry

**New Item: public health-related medical equipment and related materials for production and assessment, such as ventilators, ECMO machines, monitors and medical display systems, PCR machines, and testing kits**

#### **Justification:**

(1) Listing urgently needed medical equipment related to the prevention and control of public epidemics in the Catalogue of Industries for Encouraging Foreign Investment and encouraging foreign enterprises to actively participate in the investment and production of urgently needed medical equipment is conducive to facilitating a rapid response during the sudden outbreak of major epidemics. This moreover could assist foreign enterprises in relevant fields in becoming a more important part of further improving China's prevention and treatment system for major epidemics.

(2) In order to meet the needs of the National Health Commission’s COVID-19 epidemic prevention and control work, the China Medical Equipment Association issued a notice identifying medical equipment urgently needed for the prevention and control of COVID-19, and announced four batches of a new medical equipment catalogue to prevent and control the COVID-19 epidemic. The catalogue covers more than 70 kinds of urgently needed medical devices and equipment, which could be used as a reference.

**2. Industry Sector:** health and social work

**New Item: 412. medical institutions**

**Justification:**

(1) Although medical institutions are on the encouraged list, these are currently limited to joint venture hospitals with at least 30 percent equity held by Chinese institutions.

(2) We suggest implementing a supportive policy for wholly foreign-owned hospitals as soon as possible in order to better integrate more high-quality foreign medical resources and funding, and to improve the overall level of diagnosis and treatment technology in the domestic medical field.

(3) Hospitals generally require a large amount of upfront capital to begin operations, and often need many years to achieve net profitability. However, hospitals are currently within the highest corporate income tax category, which can be a heavy burden for companies with slow return on investment.

**3. Industry Sector:** leasing and business services

**New Item: encouraging automobile finance leasing**

**Justification:** Diversified services for Chinese consumers may be provided by encouraging new financing service models that are conducive to promoting the sales of new energy vehicles and used cars.

**4. Industry Sector:** agriculture, forestry, animal husbandry, and fishery

**New Item: molecular breeding research and development of maize**

**Justification:** Considering the state of development and urbanization in China, using less arable land to produce food of higher quality and yield is a big challenge. Only through constant innovation and technological revolution can this problem be solved. Different from GMO technology, molecular breeding is an advanced breeding technology that can help crops improve various characteristics and increase yield without gene modification. Compared to traditional hybrid breeding, molecular breeding is likely to greatly improve breeding efficiency.

**USCBC suggests that molecular breeding should be included in the category of encouragement and the development of molecular breeding should be vigorously promoted and encouraged.**

**5. Industry Sector:** agriculture, forestry, husbandry, and fishery

**New Item: breeding and planting of aromatic plants; diffusion of essential oils**

**Justification:** Various fragrant plants contain aromatic components that can be extracted as essential oils for use in various industries such as food processing and cosmetics. Essential oil extraction is the process of extracting the aromatic components in fragrant plants. Including this

item in the Encouraged List is beneficial to the introduction of foreign aromatic plant species and mature breeding, cultivation, and essential oil extraction of foreign species of plants. Due to geographic needs of the industry, this will encourage foreign companies to invest in rural areas where additional investment is needed.

#### **6. Industry Sector:** food manufacturing

**New Item: snack food: candy gum, dried fruit preserves, biscuits, ice cream, and yogurt, etc.**

**Justification:** Encouraging foreign investment in this field will help China to deepen its participation in the global value chain and industrial chain in the field of food manufacturing and processing, especially as it applies to the transformation and upgrading of upstream production, such as agricultural raw material production, initial processing of agricultural products, food processing, food packaging, and other traditional sub-sectors within. China has the potential to position itself at the center of the industrial chain and form export-oriented industries in related fields. With proper adoption, the volume of international trade and domestic added value could increase significantly in this industry, contributing to the growth of the national economy.

In addition to bringing in experience and technologies related to food safety and nutrition, foreign-invested enterprises could also provide additional high-end food choices for Chinese consumers, which may also lend itself to meeting the growing demand of Chinese consumers, and is consistent with development goals surrounding stable consumption and promotion fees in China.

Snack foods (candy, chewing gum, dried fruit preserves, ice cream, and puffed food products such as corn puffs or popcorn) industry is labor-intensive. Incentive policies that come with addition to the Catalogue will enable foreign investment to create more employment opportunities to China. The latest data released by the National Bureau of Statistics show that the epidemic situation has led to an increase in the domestic unemployment rate. Premier Li Keqiang stressed at the executive meeting of the State Council on March 10 that stable employment is more important than stable growth this year. The strain on China's employment situation is relatively severe following the COVID-19 outbreak. Adopting incentive policies for labor-intensive industries will help to increase employment, alleviate pressure caused by unemployment, and assist in meeting goals within the "Six Stabilities" initiative.

#### **7. Industry Sector:** food manufacturing

**New Item: nut products**

**Justification:** Nut products are very nutritious and contain a variety of beneficial fats, proteins, vitamins, and minerals, as well as rich dietary fiber. According to the Dietary Guidelines for Chinese Residents (2016) each person should consume a certain amount of nuts every day. In February, COVID-19 guidelines issued by the National Health Commission also recommended that the general population should eat nuts in moderation. Nuts contain many functional ingredients (such as phospholipids, polyphenols, flavonoids, etc.) that are beneficial to human health as part of a balanced daily diet. This addition to the Catalogue is consistent with development goals of the national nutrition and health industry.

## 8. Industry Sector: food manufacturing

### **New Item: sports nutrition food**

**Justification:** The National Nutrition Plan (2017-2030) clearly calls for increasing research and development on sports nutrition food technology and the promotion of relevant industrial development. China's nutrition and health strategy emphasizes the promotion of a healthy lifestyle and recommends a balanced diet. Therefore, USCBC recommends adding sports nutrition food under "the food manufacturing industry" section of the Catalogue. Doing so could help accelerate the implementation of China's nutrition and health strategy and action plan.

## 9. Industry Sector: food manufacturing

**New Item:** in the existing "agricultural and sideline food processing industry" category of "feed" related content, add "pet food, supplies, and services industries."

### **Justification:**

**(1) The demand for pet food and related industries in China has huge potential for growth, and adding it to the Catalogue is conducive to future industrial localization development.**

According to research from the School of Animal Medicine of China Agricultural University, when the per capita GDP of a country reaches 3000-8000 US dollars, pet ownership begins to more rapidly develop. China's per capita GDP reached 9360 US dollars in 2017, which means basic needs such as food and clothing are within reach for most. This in turn leads to more non-material desires and "emotional consumption," wherein pet breeding has become a popular trend. At present, the number of pets in China is about 99.15 million, with an annual growth rate of about 6%. Tier 1 and 2 cities are growing more rapidly as well. Chinese consumers now have a growing demand for diverse selections of safe and nutritious pet food, and many are willing to spend a lot of money buying overseas products. Adding pet food and related industries to the Catalogue will guide the local development of the industry and guide foreign enterprises in meeting the increasing needs of Chinese consumers through investment and production in China.

**(2) Relevant departments now pay more attention to the safety and regulation of pet food, and also encourage foreign investment to further promote the standardized development of the industry.**

In May 2018, the Ministry of Agriculture and Rural Affairs (MARA) formulated regulatory documents, such as Management Measures for Pet Feed, which separated pet feed from the livestock feed industry, stressing that pet food production should prioritize safety, indicating its support for the development of the pet industry. Compared with the extensive environmental implications of the traditional livestock feed industry development model, the processing and production of pet feed is a sustainable, environmentally-friendly "green industry," and leads the animal feed industry in terms of product quality standards and business and management philosophy.

**(3) The development of the pet service industry will bring new employment opportunities.**

The pet service industry, in keeping with the rapid development of the pet product industry, is also growing quickly, and primarily includes veterinary services, pet sales, and other services. With the integration of China's pet service industry with international standards, the education, training, and certification systems, within need to be further developed to form a mature and

complete industrial chain, which will not only lead to new economic growth of high-end services, but also play a role in promoting professional training and providing multi-level employment opportunities.

**11. Industry Sector:** power, heat, gas and water production and supply

**New Item:** R&D, application and production of green vegetable insulating/ transformer oil

**Justifications:**

(1) Vegetable-sourced insulating oil is mainly used in transformers, which are primary components within power grids. Compared with traditional mineral insulating oil, vegetable insulating oil has lower flammability, is renewable, carries a small carbon footprint, is easily biodegradable, has higher insulation performance, and may extend the service life of transformers.

(2) China is a major exporter of power equipment, and coupled with the push from the central government to promote the construction of ultra-high-voltage (UHV) infrastructure, vegetable-sourced transformer oil could enhance the competitiveness of local enterprises at the international level. In the United States, the proportion of plant-based insulating oil used for distribution transformers is about 15%, and is 3-5% in Brazil. In Europe, Germany, Italy, and Spain have installed 420kv high-voltage vegetable oil transformers. **Adding this item will help encourage foreign enterprises to bring high-performance products and technologies to China and promote further upgrading of the manufacturing industry.**

**(3) The National Key Energy-saving and Low-Carbon Technology Promotion Catalogue, Key Green Manufacturing Projects, Energy Efficiency Improvement Plan of Distribution Transformers, etc. have included vegetable insulating oil transformers.**

**11. Industry Sector:** manufacturing

**New Item:** development and manufacturing of aromatic products

**Justification:** As domestic standard of living increases, daily use of fragrance products also steadily increases. While the use of fragrance products has a long history in some countries, adding this item to the Encouraged List helps foreign investors to invest companies that manufacture fragrance products in China and bring over their fragrance product formulas and production technology.

**12. Industry Sector:** manufacturing-(6) leather, fur, feather, products, and footwear

**New Item:** add one more item: "High-performance elastomer shoe material"

**Justification:** Footwear manufacturing now extends beyond leather. High-performance elastomer material is the future of footwear manufacturing.

**13. Industry Sector:** manufacturing- (10) chemical raw materials and chemical production



**New Items:** Add “environmentally friendly organic solvent-free material production” after No. 52. After modification, the text should read: “production of water-based ink, electron beam curing, UV curing, and other low volatile inks, in addition to environmentally friendly organic solvents, and solvent-free materials.”

**Justification:** Environmentally-friendly organic solvents are only one category of materials. Solvent-free material has become more common, and its use will greatly reduce VOC emissions.

**14. Industry Sector:** manufacturing- (10) chemical raw materials and chemical production

**New Item:** Add “environmentally-friendly organic solvent-free plastic flexible packaging material” to No. 87 so that No. 87 reads, “No. 87. development and production of new technologies and products (high barrier, multi-functional membranes, and raw materials) for plastic flexible packaging (organic solvent and solvent-free materials, etc.)”

**Justification:** As solvent-free materials have become more common, downstream markets should be encouraged to choose environmentally friendly products and materials. There may be more new technologies within this area in the future, so USCBC recommends adding “etc” here.

**15. Industry Sector:** manufacturing- (10) chemical raw materials and chemical production

**New Item:** Recommend amending “No. 100: high performance energy-conserving thermal insulation materials for industrial and commercial buildings, and thermal insulation materials for the modern centralized agricultural breeding industry” to read **as** “organic-inorganic compound foam insulation material production, high-performance, energy-saving thermal insulation materials for commercial and industrial buildings, and modern centralized agriculture and aquaculture insulation materials.”

**Justification:** The industrial, commercial, and modern agricultural sectors are subject to high standards and ample demand for high-performance energy-conserving and thermal insulation materials.

**16. Industry Sector:** manufacturing (10) chemical raw materials and chemical production

**New Item:** USCBC suggests that "57. Production and supply of large, high-pressure and high-purity industrial gas (including electronic gas)" **be revised to "57. Production, supply, processing, and other supporting services of large, high-pressure and high-purity industrial gas, including the leasing of relevant important equipment."** In addition, the Article 6 mention of "wholesale and retail projects," should also include "the operation of helium."

**Justification:**

(1) Industrial gases are widely used in various manufacturing industries, such as the medical, electronics, aerospace, food, fine chemicals, petroleum refining, and coal chemicals industries, among others. Since industrial gases can be subdivided into electronic gases, standard gases, special gases, and synthetic gases, "electronic gases" does not need to be listed separately.

(2) The proposed change of "processing and other supporting services, including the leasing of relevant important equipment" is due to the increasing professional requirements of various industries in terms of the level of technology and operations, not to mention the increasing requirements for capital. More diversified operations can make use of an increase in the use of foreign advantages in technology, equipment manufacturing, and capital to promote the development of the industry.

(3) The recommendation to include "helium operation" is due to its wide application in medicine (MRI), electronics, aerospace, energy, automobile manufacturing, metal processing, high-precision welding, and other fields. However, helium is a scarce gas resource in China, and its source mainly depends on imports. If foreign investors can make full use of their capital, channels, and technological advantages to import and supply helium, they can better support the development of the above industries.

**17. Industry Sector:** manufacturing (10) chemical raw materials and chemical products manufacturing

**New item:** recommending amending "carbon capture, utilization, and storage (CCUs)" to read as "project construction and operation of carbon capture, utilization, and storage (CCUs)"

**Justification:** Due to global awareness of climate change, the capture utilization of carbon dioxide has attracted more and more attention around the world. USCBC is pleased to see that there are relevant items in the 2019 edition of the Catalogue, such as "203. Manufacturing of carbon dioxide capture, utilization, storage, and monitoring equipment" and "387. Development and service of carbon capture, utilization, and storage (CCUs) technology." Considering technological progress and the development of the industry, it is now the time for demonstrations of this technology to promote greater industrialization. Therefore, USCBC suggests adding project construction and operation based on CCU technology to guide foreign enterprises in increasing investment in the carbon utilization industrialization.

**18. Industry Sector:** manufacturing (10) chemical raw materials and chemical production

**New items:** "62. Development and production of new pesticide varieties, new dosage forms, and special intermediates and auxiliaries focused on efficiency, safety, and environmental friendliness..." **USCBC suggests amending to "development and production of efficient, safe and environmentally-friendly chemical pesticide products, new varieties, new dosage forms, and special intermediates and auxiliaries."**

**Justification:** According to the Ministry of Agriculture and Rural Affairs, China is to achieve zero growth of pesticide use in 2020. Considering the constraints posed by such a goal, ensuring the prevention and control of pests and diseases, promoting the increase of grain production and farmer income, reducing soil and water pollution caused by pesticides, and protecting the rural ecological environment are all major challenges ahead for the agrochemical industry. Chemical pesticides play an irreplaceable role in food security. In addition, the R&D and production of chemical pesticides is similar to that of medicine, which is a technology-intensive and investment intensive industry. **USCBC recommends clearly encouraging the R&D and production of efficient, safe, and environmentally friendly chemical pesticides, including both new and old varieties, rather than limiting this to new varieties.**

19. **Industry Sector:** scientific research and technological services

**New item:** Modify the catalogue title to “**scientific research, development, and products, and technological services.**”

**Justification:** Enterprises often seek to conduct research and development. **Basic scientific research is generally completed in research institutions and higher education institutions. Development is the only way to transform technology into production and products.** Therefore, in addition to retaining scientific research and technical services, we suggest adding development of products.

20. **Industry Sector:** scientific research and technological services

**New item:** Add "new products" to "390. New technology of energy saving and consumption reduction in chemical fiber production, printing and dyeing processing, and three wastes treatment" so as to read, "390. **New products** and technologies for energy conservation and reduction of consumption in chemical fiber production, printing, and dye processing."

**Justification:** **Since the printing and dyeing industry is a significant source of pollution, we suggest encouraging the promotion of new products and technologies in the industry to help reduce pollution as soon as possible.** If there are energy-saving and consumption-reducing products, they should be encouraged as soon as possible. This can also encourage foreign enterprises to bring the best products and technologies to China and help the printing and dyeing industry achieve energy conservation and emission reduction.