

## ‘2010 White Paper on the Chinese Economy and Japanese Companies’ (Summary)

### Introduction

The “2010 White Paper on the Chinese Economy and Japanese Companies” is a portrait of Chinese economy from the perspective of Japanese companies in China. The white paper is based on the “China Economy & industry Review and Outlook” conventionally issued by the Research Committee, The Japanese Chamber of Commerce and Industry in China (head office: JETRO Beijing), with the following three points newly modified.

First, it covers as many subjects and industries as possible to depict China’s overall economic status. Second, it describes overall economic conditions and issues in regions where a great number of Japanese companies have invested in independent chapters. Third, it vigorously gathers china investment environment related topics from The Japanese Chamber of Commerce and Industry in China, and its member companies located in various regions of China. These topics are summarized as ‘Recommendations’ in each chapter and section. Because of this dominating feature, it is published with a new format and the title is changed to white paper.

Among foreign companies (with the exception of overseas Chinese capital companies from Hong Kong and Taiwan), Japan is China’s largest investor on both a single-year basis and a cumulative basis. The ‘Recommendations’ describes a variety of issues faced by Japanese companies so far in the long-term process of expanding their businesses in China. Mutual development of the Chinese and Japanese economies can be achieved through efforts and discussions with China’s central and local governments for the further improvement of the investment climate in China. This white paper is intended as a draft basis for discussion on allowing Japanese companies to become important partners for further development of the Chinese economy.

The white paper consists of three major parts: “Common issues and recommendations,” “Current status of each industry and recommendations,” and “Current status of each region and recommendations,” which are comprised of 25 chapters and 23 recommendations.

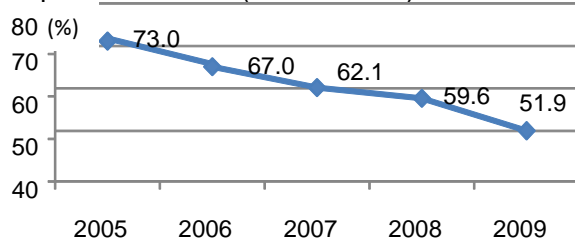
### 1. The business environment for Japanese companies

In 2009, China achieved an economic growth rate of 8.7%, while the world economy registered negative growth. Despite sluggish exports to Us and Europe due to the financial crisis, such growth was maintained by domestic demand, which was greatly increased through public investment and measures to stimulate consumption. Japanese companies demonstrate high interests in China as it is leading the worldwide economic recovery from the financial crisis.

At the same time, China is regarded as the most promising market by foreign companies around the world. Also, as domestic companies are coming to the forefront, China has become a fiercely competitive market. In addition, various expenses including labor costs and taxes have been rapidly increasing in recent years. Thus, China’s business climate is changing dramatically.

According to questionnaire survey conducted in 2009 on the business status of Japanese companies in China (1,367 companies with response rate of 46.6%), the percentage of profitable Japanese companies in China has been on the decline due to the changing business environment.

Percentage of profitable Japanese manufacturing companies in China (2005 – 2009)



Note: Non-manufacturing industries have been covered since 2007, so the comparison was made based only on manufacturing industry data.  
Source: “Survey of Japanese-Affiliated Firms in Asia and Oceania (FY 2009 Survey)” from JETRO

As for managerial problems faced by Japanese companies, most respondents pointed out “employee wage rise.” In 2010, labor costs have continued to increase due to local government-led minimum wage increases and a labor shortage. Other respondents cited “Cumbersome procedure for customs clearance,” “Intense competition,” “Insufficient familiarity with instructions and rules by bureaucrats,” and “Tax burden,” as shown below.

#### Business problems of Japanese-affiliated firms in China

|    |   | (%)  |
|----|---|------|
| 1  | Increase in employee wages                                    | 62.7 |
| 2  | Complicated customs clearance procedures                      | 58.6 |
| 3  | Difficulty in quality control                                 | 55.5 |
| 4  | Competitor's growing market shares (cost-wise competition)    | 52.9 |
| 5  | Difficulty in local procurement of parts and raw materials    | 45.9 |
| 6  | Time-consuming customs procedures                             | 44.0 |
| 7  | Major clients requesting lower prices                         | 43.6 |
| 8  | Limited cost-cutting measures available                       | 40.7 |
| 9  | Lack of publicizing trade rules and regulations               | 39.7 |
| 10 | Tax burdens (i.e. corporate taxes and transfer pricing taxes) | 38.8 |
| 11 | No increase in new clients or markets                         | 37.5 |

Note: The above items are the managerial problems most selected (with multiple answers allowed) in the order of response rate.

Source; Survey of Japanese-Affiliated Firms in Asia and Oceania (FY 2009 Survey)

However, according to the JETRO questionnaire survey, the number of Japanese firms responding that China is the most important business development region for them and will expand their China business within one to two years in the future accounts for 61.9% , 1.7% up from the previous year, still remaining high level. As specific business expansion strategies, ‘New market development (sales and distribution network enlargement)’ rated the highest of 68.3%, while ‘Diversify production items and service content (field expansion)’ is 43.6%; ‘Existing business scale upgrade by increasing investment’ is 39.9% and ‘Boost the added-value of production items and service’ reaches 36.3%. In addition, firms highlighting ‘Enhance R&D and plan function’ accounts for as high as 23.5%, positioning China as a R&D and production spot.

## 2. Summary of common issues and recommendations

### (1) Trade and customs clearance issues

Japan- Sino trade has indicated a continuous decline on a year-on-year basis for 12 consecutive months from November 2008 to October 2009. However, it has tended to increase since the end of 2009 along with an increase in demand due to the economic stimulation program and consumption raising measures by the Chinese government. China now accounts for more than 20% of Japan’s total foreign trade for the first time, and has become Japan’s largest trading partner.

Although the interdependent relations between China and Japan has been strengthening, yet the fact is that a wide range of problems still exist implicitly and explicitly in the trade practice. This white paper summarizes eleven recommendations, starting from the point as below.

#### <Major recommendations>

- If any customs clearance related rules or regulations are to be changed, a sufficient preparatory period should be guaranteed, and suggest considering information release time and method such as publish documents on custom’s official website in advance.
- Expect the simplification and acceleration of customs clearance procedures. Also suggest avoiding inconsistency of implementation and explanation from different custom offices or responsible officials.

### (2) Tax and accounting issues

In 2009, the value added tax, business tax, and excise tax (distribution taxes), which account for more than 50% of China's tax revenue, were revised. In response to tax regulation regulations revision, FIE in China is required of large amount of work. As besides the conventional issue of transfer pricing taxation, other tax issues distinctive from the previous cases, such as the permanent establishment (PE) tax, are looming. The impact of taxation on corporate activities in China has become an unprecedentedly critical managerial theme.

<Major recommendations >

- Based on applications by foreign companies, remittances sent from the foreign company's overseas headquarters in China to Japanese headquarters should be allowed to be made more quickly, and without unfair suspicion of PE irregularities.
- Documentation related to transfer prices should be standardized without regional differences. In the transfer price investigation stage, proper response by tax authorities is desired without profit ratio being a sticking point. Functions and risks of individual companies, as well as individual industrial situations, should be taken into account.

(3) Labor-related issues

Since the enforcement of the Labor Contract Act, the number of labor disputes has been increasing dramatically. In Beijing, the number of cases of labor trouble handled by the Labor Arbitration Commission exceeded 73,000 in 2009, an increase of about 27,000 from 2008. Currently, the increasing awareness of rights protection among workers makes it difficult for company management to properly solve labor problems. Therefore, once a labor-management dispute occurs, it is likely to have a significant impact on the company's production and development.

<Major recommendations >

- Some detailed rules in the Labor Contract Act are disagreeable or inconsistent with each other. Such inconsistencies affect personnel administration at each company, and we therefore expect further clarification and improvement. For example, according to some interpretations of the rules, if a fixed period is not specified in a labor contract, the employer cannot terminate the continuance the job at the time of 2<sup>nd</sup> renewal. Therefore, clarification of rule interpretation is urgently expected.
- A practical operations guideline specifying Labor Contract Act-based standards, Q&A and examples, should be prepared and published in a timely manner.

(4) Intellectual property protection: status and issues

Intellectual property-related matters in China need to be considered from various perspectives, such as collaboration with various industrial associations and requests to Chinese government agencies, as well as independent protection activities by Japanese companies. In order to cope with imitation product-related problems in China, a cross-industrial organization called "IPG" has been established in the Japanese Chamber of Commerce and Industry in China. IPG now consists of 73 companies from various industries. In 2009, in order to solicit for public opinion before revision of intellectual property-related laws, opinions of member companies were collected, summarized, and provided to the government (eight times in 2009).

Many Japanese companies have suffered inconvenience because of counterfeit of their products and trademark infringement. And a number of claims have been reported about products having similar trademarks that will lead to false recognition and confusion of consumers. Furthermore, reports refer to similar products with well-known business names that were registered in Hong Kong or other areas.

<Major recommendations >

- We expect tightened control over increasingly-sophisticated counterfeit products and similar trademarks.
- We expect tightened control over counterfeit products sold over the Internet.
- We expect toughening of relevant criminal penalties, as well as more transparent operations.

- We expect that the appropriate authorities voluntarily give rise to regulations.
- We expect a nationwide intellectual property protection system that is free from “Local Protectionism” barriers.

(5) Energy conservation & environment industry and market: status and issues

Due to rapid industrial expansion and market growth in recent years, it has become increasingly difficult to grasp the situation of the energy saving and environment industries and markets in China. Since business development greatly depends on governmental policy, fields to which the government gives priority and importance with increasing government investment will surely drive up market expansion. However, it is not easy for foreign companies to identify those fields. Therefore, it is desired that the government disclose detailed information with clear interpretations in the environmental planning, legislative, and policy-making processes.

<Major recommendations >

- We expect disclosure of more comprehensive information regarding subsidies, tax benefits and other preferential treatment available to foreign companies by establishing detailed rules.
- We expect improvement of policies for protection of intellectual property in order to promote cooperation between Chinese and foreign companies.
- We expect relaxation of regulations on screening criteria for the acquisition of qualifications required for foreign companies to begin local production or establish a local company. Furthermore, we request swift action on this.

(6) Technical certificates and standards: status and issues

With regard to national patent standards, in November 2009 the Standardization Administration of China published the “Administrative Rules of Establishment and Revision of Patent-Related National Standard (Temporary Enforcement) (Public Comments Collection).” However, it contains a number of problems, including vagueness in the definition of terms and procedures. Furthermore, Japanese, U.S and European industrial associations have expressed strong concerns about 13 IT security product items that were listed as targets under the China Compulsory Certificate (CCC) System, and request an repeal. In response to such request, the Chinese government announced that the targets will be limited to government procurement, and that enforcement would be extended by one year, to May 1, 2010. Also, in March 2010, the government decided that state-owned companies would not be included in the scope of the government procurement.

<Major recommendations>

- As a general rule, national standards should conform to international standards. China’s unique standards may cause not only a nontariff barrier to foreign companies, but also an obstacle to Chinese companies that will conduct business on a global scale in the future. Therefore, for mutual benefits, there is a desire to adopt internationally-accepted standards domestically in China. For that purpose, we suggest that China actively accede to international convention and agreements, such as ISO, IEC and the UNECE Vehicle Regulations 1958 Agreement.
- In the planning stage, actual technological development should be taken into account without excessively pursuing an ideal. Some standards stipulate physically impossible testing conditions and target values that are almost ideal values. To avoid the establishment of such improper standards, we recommend that the concerned authorities hold discussions with companies.

(7) Technology and innovation: status and issues

In November 2009, the Chinese government released the “Circular of 2009 Indigenous Innovation Product Accreditation system by the Ministry of Science and Technology, National Development and

Reform Commission, and the Ministry of Finance.” This is a system to accredit “Indigenous Innovation Products” which targets 125 items in six fields, including telecommunication equipment, on the condition that the companies have intellectual property rights and trademarks in China. The accredited products are accorded precedence at the time of government procurement. If this policy is enforced, many foreign products will lose a competitive edge, and there is a possibility that they will be substantially excluded from Chinese government procurement.

<Major recommendations>

- In order to facilitate the protection of intellectual property, improvements in infrastructure to establish and enforce legal systems, as well as corporate morale, are necessary. Along with improving research capabilities in China, interest in collaborative research with Chinese institutes or establishment of R&D bases in China is growing in Japan. However that alone does not lead to concrete action because Japanese companies have concerns about insufficient intellectual property rights protection. For example, at the time of various applications for approval and licensing, public offices request submission of extremely (sometimes excessively) detailed engineering documents. Therefore, we expect the government to instruct public offices not to require the documents for which the necessity cannot be explained.
- For the “Circular of 2009 Indigenous Innovation Product Accreditation system,” it is desirable for China to promote innovative technological developments and create numerous intellectual properties on its own. However, such a system may become a kind of external and internal discriminatory practice, and it may be regarded as a movement towards protectionism. The stifling of competition in such a manner will result in holding back innovation. Therefore, we expect early abolishment of this system.

(8) Government procurement: status and issues

The Legislative Affairs Office of State Council officially announced the “People's Republic of China Government Procurement Act Enforcement Regulation (Public Comments Collection)” on January 11, 2010. However, the draft includes text that indicates the possibility of completely excluding foreign companies’ products from government procurement. There are a number of distinct disadvantages to foreign companies included.

<Major recommendations>

- For government procurement in China, foreign investors wish to receive the same treatment as that provided to companies in China or Chinese companies.
- To maintain the dignity of its position in the international economy, China is strongly urged by the international community to establish and implement a transparent trade and investment system, without external and internal discriminatory practices. From that standpoint, we would like China to accede to the WTO Government Procurement Agreement as early as possible.

### **3. Outline of recommendations related to individual industries**

(1) Agriculture, forestry, fisheries and food industries

- Since food is directly ingested, if imitation or counterfeit products are available on the market they may be extremely hazardous. Tight control is necessary in order to assure consumer safety and comfort. We expect local administrations for industry and commerce to tighten control over imitation products.
- Certification standards may vary at state, province, and city levels, respectively. When a state level decision is required, a form of implementation that is entirely different from other levels may be made. All levels of administration should keep each other well informed.

(2) Mining and energy industries

- Fuel purchase by Japanese companies: We expect a continuous and stable supply of petroleum

products in each area.

- Implementation of a Smart Grid: We expect continuous activity for standardization of power distribution and power grid levels.

(3) Construction industry

- We expect uniform regulations concerning the establishment of branch offices in the construction industry through unification of legal systems by the central government in order to avoid regional differences.
- We expect abolishment of the rule requiring establishment of a branch office as a condition for obtaining construction permits.
- Various procedures (such as registry book transfer registration procedures) and the required documents, viewpoints and instructions often vary depending on the public officer at the real estate exchange bureau in the given jurisdiction. We expect unified or standardized instructions.

(4) Manufacturing industry

A) Textile and apparel

- We expect strict scrutiny for registration of trademarks, and swift action at the time of receiving a expected to cancel a trademark. In addition, we expect clarification of specific penal provisions and fines against imitation products, as well as tightened control over them.
- We expect a nationally unified standard of quality indication method. Further, we expect the simplification of quality indication method and the adoption of rules that allow for easy observance. In addition, items to be described in a quality label should be made clear in a written form.

B) Chemical products

- Imitations and products produced with copied technology are still found among chemical products. Therefore, penal provisions and detection by Administration for Industry and Commerce should be strengthened, and the public should be notified of detected products.
- Regarding pollutant reduction targets as they are applied to pollutant releasing companies, it is unfair to uniformly apply the reduction targets to both nonconforming companies discharging high levels of contaminants and conforming companies simply based on the previous year's records. We expect a more reasonable target establishment method that fits the actual state of contamination.
- Recently, many national standards have been newly established or revised. We expect official announcements of policies, plans and schedules for establishment of chemical products-related standards, as well as information about the progress and a contact person for further information.

C) Medical products

- We expect thorough supervisory management of regulatory data protection (RDP) in order to protect the intellectual property rights of the persons who have developed medical products.
- Standards, procedures and inspection methods for registration and certification vary by region. We expect urgent unification and standardization.

D) Cosmetics

- At present, each provincial Food & Drug Administration gives sanitation approval to cosmetic production companies, while the General Administration of Quality Supervision, Inspection and Quarantine gives approval for production to those companies. Both types of approval are

nearly identical in terms of content and requirements, and we therefore expect unification of them by improving multi-sector management in order to simplify the examination and approval procedures prior to introduction of products into market.

- Further, we expect unification of the two types of compulsory cosmetic sanitary standards adopted by the Ministry of Health and General Administration of Quality Supervision, Inspection and Quarantine, respectively.

E) Home electric appliance

- In order to expand the market share of environmentally friendly products, we suggest the improvement of relevant systems and policies, such as tax benefits, subsidies, and appeals to the public. Also, we recommend completing measurement methods and information disclosure systems establishment in order to facilitate consumer purchases of eco-friendly products.
- We suggest clarification of legal grounds and technical justification when information regarding quality problems or complaints is provided to consumers. Information based only on complaints may mislead consumers and may lead to a risk to the given company's brand name, and discriminatory comparisons to other competitors. Therefore, careful and fair treatment is desired.

F) Business equipment

- Unification of customs clearance standard: Interpretation of HS number of the same product varies by region or individual official. We expect the People's Republic of China Customs Office to instruct all custom offices to carry out standardized and specific customs procedures.
- We advise the responsible authorities to voluntarily tighten investigation and ban on counterfeit products (consumable goods).
- There are a number of national and industrial standards, which are sometimes disagreeable or inconsistent with each other (considered as a case that is unique to China). Therefore, we recommend abolishment, revision or consolidation of these standards.

G) Automobiles

- We expect transparency and fairness in policy enforcement processes. Unfair treatment or inconsistent implementation of policy from region to region, or from company to company, should be avoided.
- We expect the establishment of effective solutions to intellectual property rights infringement problems.
- We expect incorporation of the opinions of both manufacturers and dealers into automobile sales related governing regulations, with international practices taken into account.

(5) Information and communications industry

- Data center hosting service: It is predicted that needs for high-security, high-grade data centers will further increase along with higher levels of corporate activity. We expect that China open widely to foreign capital companies.
- Current media content is highly digitalized and designed for transient entertainment to users. Therefore, piracy and plagiarism is a critical issue. Unless this problem is solved, normalization of the market in China will be difficult. As for protection of copy rights, we expect strong, legally binding force, similar to tax regulations.
- Because of poor management of image rights for rented positive prints (highly-versatile photo material used for making advertising materials), there are cases of lawsuits brought by the relevant party. It is very difficult to confirm whether or not copyright clearance has been

obtained, and that leads to a greater burden on ad creators. In particular, this is a problem on the internet, where there are a number of websites behaving as if copyrights are not an issue. We expect urgent improvement of the situation.

(6) Transport industry

- We expect bolstering of supervision over the international container vessel freight notification program so it does not become merely a formality.
- We expect tightened controls over illegal vehicles, overloaded vehicles and false “receipts,” and also request intervention in unfair freight terms, in order to maintain healthy land freight market conditions.
- We expect step-by-step reductions and disposal of traffic and transportation equipment that does not conform to environmental regulations (especially vehicles that do not meet the national standard).

(7) Wholesale and retail industry trade

- When dealing with products in a new field, companies must apply for an expansion of management range to authorities. The required length of time, the required number of documents, and the required contents of documents may vary by individual officer. We expect urgent improvement of this situation.
- Due to small company sizes, food wholesalers are unable to invest in the equipment necessary for low-temperature storage and transportation. Therefore, we expect promotion of industry reorganization through cooperative arrangements with foreign companies that possess the know-how to achieve this.

(8) Finance and insurance industry

- In early 2009, the State Taxation Administration abruptly announced a retroactive imposition of a withholding tax (10%) on fund procurement from overseas, going back to 2008. In some areas (Liaoning, etc, but not yet in Beijing), a business withholding tax (5%) had begun to be collected. Such tax burden will be in the end borne by the consumer. Therefore, we expect that these taxes be rescinded because they will increase interest costs that are to be borne by customers of foreign capital banks.
- Foreign capital companies are expected by the China Insurance Regulatory Commission or its provisional administration not to apply for the establishment of two or more regional or branch offices simultaneously. Even if such applications are made, there are indications that screening and approvals will not be cleared concurrently. It is desired that foreign capital insurance companies receive the same treatment as their Chinese counterparts in the application process for approval to establish new regional or branch offices.
- For foreign non-life insurance, sales restrictions are still imposed on automobile compulsory insurances. We expect early relaxation of the regulations and fair enforcement following the relaxation.
- We expect relaxation of the restrictions on entry of foreign companies into the Chinese securities business and asset management businesses, as well as expansion of the scope of business services. And we would like the government to announce the schedule for relaxation of restrictions.

(9) Tourism and leisure industry

- We expect removal of the ban on Chinese civil overseas travel to foreign companies.
- We expect relaxation of regulations concerning “experienced and talented employees” who will be sent from Japan for the purpose of improving service levels to be provided by local hotel

workers. Regulations stipulate the qualification criteria (persons with a college background) and an obligation to submit a diploma to obtain a work permit visa.

#### 4. Outline of recommendations to Provincial/City

##### (1) North China (Beijing, Tianjin, and Qingdao)

- We expect improvement of the current system that prohibits the transfer of a business office beyond a zone in Beijing. The notice itself is not disclosed. Also, in terms of promotion of investment in Beijing, it is clearly a disincentive.
- When an employee over 60 years of age, who was to be sent from Japan to China, applied for a work permit, the relevant visa was not issued solely because said employee was over 60 years of age. Although such situations have improved, we expect further improvement. (Tianjin)
- In cases of new events such as moving out of or transferring an office, along with land development and the tax on compensation for the transfer of property, which both the government and companies had never experienced, companies must bear a heavy burden. Therefore, in order to avoid unnecessary confusion or anxiety, we expect improvement in administrative services, such as providing a written advance notice to explain the required procedures, and defining an administrative unit that allows for one-stop service for each case. (Qingdao)

##### (2) East China (Shanghai, Jiangsu, and Zhejiang)

- We expect the government authority to tighten control over violations of intellectual property rights.
- Interpretation of HS code varies depending on the custom office. Furthermore, custom offices fail to check even when inquired beforehand. Further improvement is expected.
- There are currently no tax deductions for expenses related to employee welfare benefits, etc. We expect an improvement in this situation.

##### (3) South China (Guangdong and Fujian)

- Interpretation of the HS number for the same product varies by regions or individual officer. We expect the Chinese Customs Office to instruct all customs offices to carry out standardized and specific customs procedures.
- With reference to a specific case in which a Japanese employee sent to China on a technical transfer contract is requested to pay both corporate income tax and individual income tax despite the fact that he does not constitute to any PE. We expect the same treatment as in the past.
- With reference to a case in which process materials supplied by clients factory is registered as a Chinese company, we expect standardized handling of the operating license of the material processing factory and permission for overseas remittances after the supplied material processing factory has sold free equipment introduced from a Hong Kong company.
- We expect local intellectual property-related government agencies (such as The Guangdong Administration for Industry and Commerce, The Bureau of Quality and Technical Supervision, and The Intellectual Property Office) to accept claims against imitation products more positively and seriously and proactively give rise to regulations.

##### (4) Northeast China (Shenyang and Dalian)

- We expect fair implementation of a legal system with a sufficient preparatory period (to avoid retroaction) for public comment before a policy change, operation method, or legal interpretation that may lead to the deterioration of the investment climate.

- We expect some government measures to secure manpower and cultivate workers. Such measures include programs to promote recruiting manpower from surrounding areas, allowing medical care insurance to be used by workers even when they return home, provisions for financial assistance to cultivate specialists and engineers, defining a sensible calculation of average wages as a basis for a social security system (clarified ground), and analyzing the influence of changes to social systems.
- (5) Mid-west China (Anhui, Hubei, Hunan, Chongqing, and Sichuan)
- We strongly expect a stable supply of electricity and gas.
  - We expect early commencement of direct flight services between Tokyo and major Chinese cities, such as Chengdu, where a number of Japanese companies are located.
  - We expect an increase in the number of taxis in such major cities as Chengdu.

## 5. Other recommendations

- We expect the granting of corporate status to the Japanese Chamber of Commerce and Industry and the Japanese Associations located in each region.

## 6. Summary

Although recommendations by Japanese companies in China vary according to the industry, there are many common points that may be roughly divided into the following four items.

- (1) Improvement of transparency of the legal system and its enforcement  
 Transparency in the legal system has steadily improved, but many Japanese companies are still confused about it. Along with the development of the Chinese economy, consolidation of the legal system has seen much progress. At the same time, however, the business environment has changed significantly, and bureaucratic procedures and required documentation for various applications have become ever more cumbersome and complicated. As a result, bureaucratic responses to individual Japanese companies are increasingly varied in different local governments, and from bureaucrat to bureaucrat. Therefore, improvement of the legal implementation system by means of thorough education and training for public officers to strictly adhere to specific rules and procedures is strongly desired.
- (2) National treatment of all foreign companies in China as domestic companies  
 Since its participation in the WTO, China's business climate has greatly improved. However, there are still some barriers domestically, and foreign investors are not allowed establish a company with 100-% foreign capital in some industries. Also, some analysts have concerns about the possibility that the CCC certification system and government procurement laws may bring about a situation that will clearly put foreign companies at disadvantage. Before establishing of legal systems, the Chinese government should provide foreign companies with a sufficient time period for public comment and opportunities to exchange opinions among the government, foreign companies and industrial associations.
- (3) Full protection of intellectual property rights  
 Although there is significant improvement, protection of intellectual property is still a major issue to all Japanese companies. Japanese companies are aggressively developing new products to enhance their competitiveness. Such efforts are a driving force to promote industrial advances and achieve further economic development. If protection of intellectual property can be ensured, Japanese companies are sure to further expand their businesses and increase investment in China. This is also an important matter to Chinese counterparts, which aim to develop the domestic economy with their own innovative technologies and products. Therefore, further reinforcement of intellectual property protection is strongly desired.

(4) Conformance of Chinese standard and certificates to International standards

China's unique standards may cause not only a nontariff barrier to foreign companies, but also an obstacle to Chinese companies that will conduct businesses on a global scale in the future. Therefore, for mutual benefit, there is a desire to adopt internationally-accepted standards domestically in China. For that purpose, we expect that China aggressively accede to international convention and agreements.

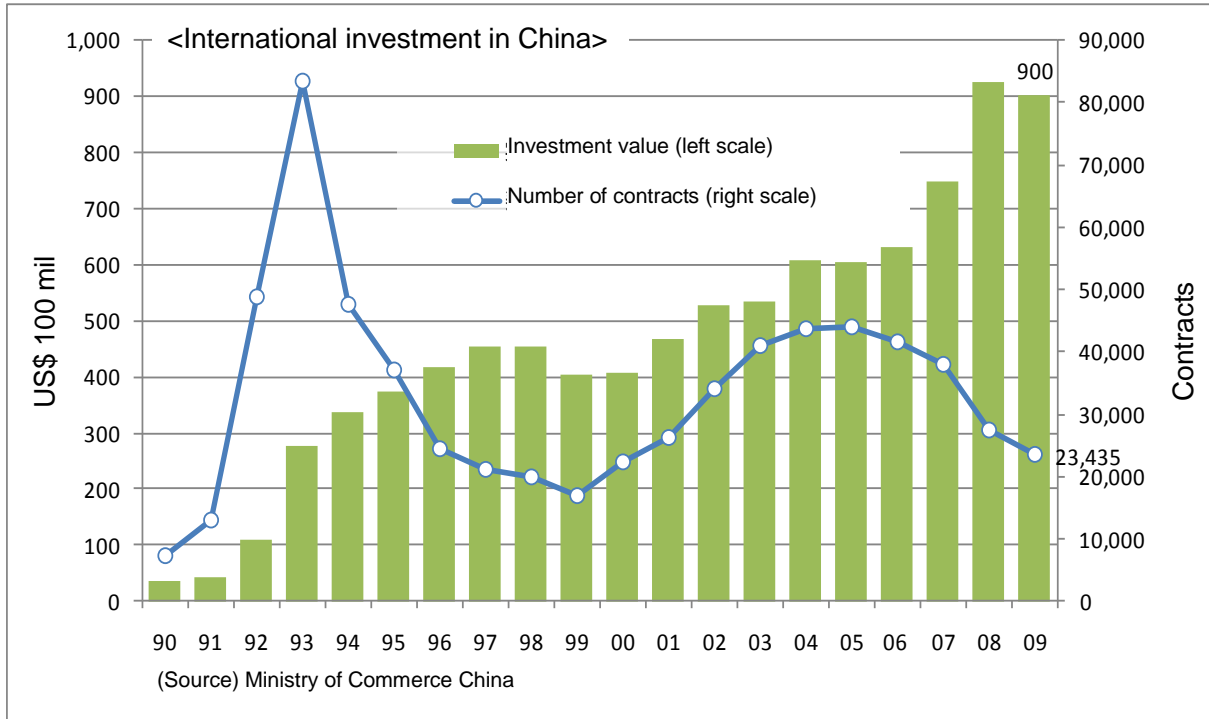
The world financial crisis of 2008 greatly changed the position of China in the world economy. China has become more attractive not only as a "giant manufacturing country," but also as a "great potential market." The sustainable development of Chinese economy is now regarded as indispensable to the world economy. Accordingly, Japanese companies will gradually change their investment activities in China toward manufacturing and selling or servicing in China

Japanese companies strongly wish to be an important partner for further development of the Chinese economy. We believe this white paper will contribute to in-depth discussion for the sustainable growth of both the Chinese and Japanese economies.

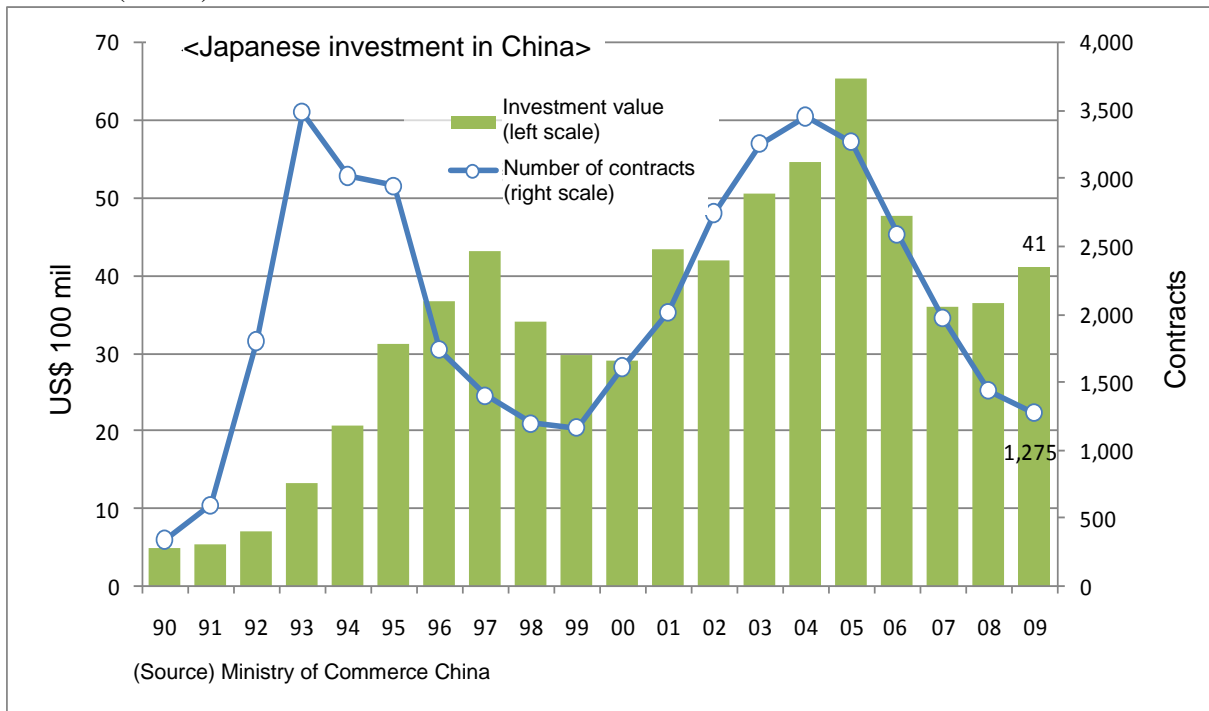
[Appendix] Current Status of Investments in China

JETRO Beijing

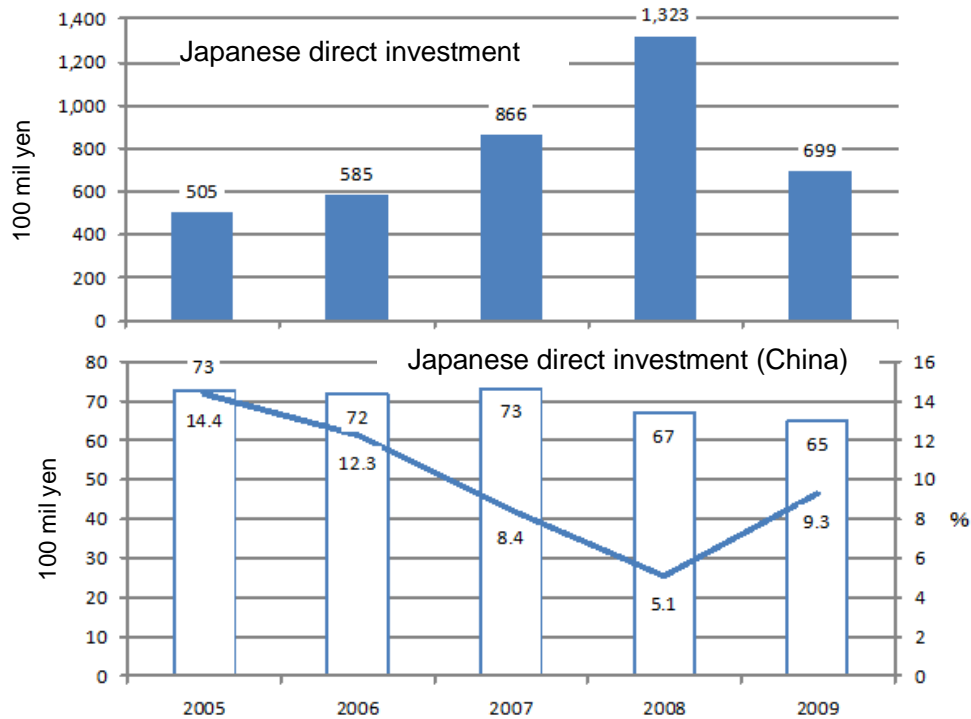
- Trends in international investment in China (China's statistics) --- High levels, but slightly declined in 2009 (down 2.6%)



- Trends in Japanese investment in China (China's statistics) ... Double-digit increase in value in 2009(12.4%)

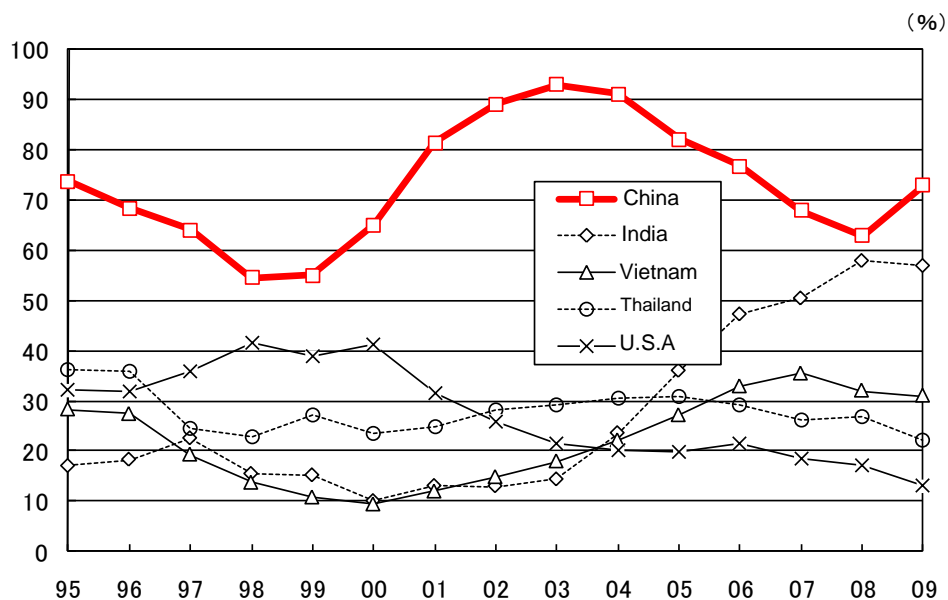


- Japanese external direct investment (Japan's statistics)  
 --- Ratio of investment in China to the world increased



(Source) "Balance of Payments Statistics" from the Ministry of Finance Japan

- Countries that are regarded as promising areas for business expansion by Japanese companies --- Resurgent interest in China

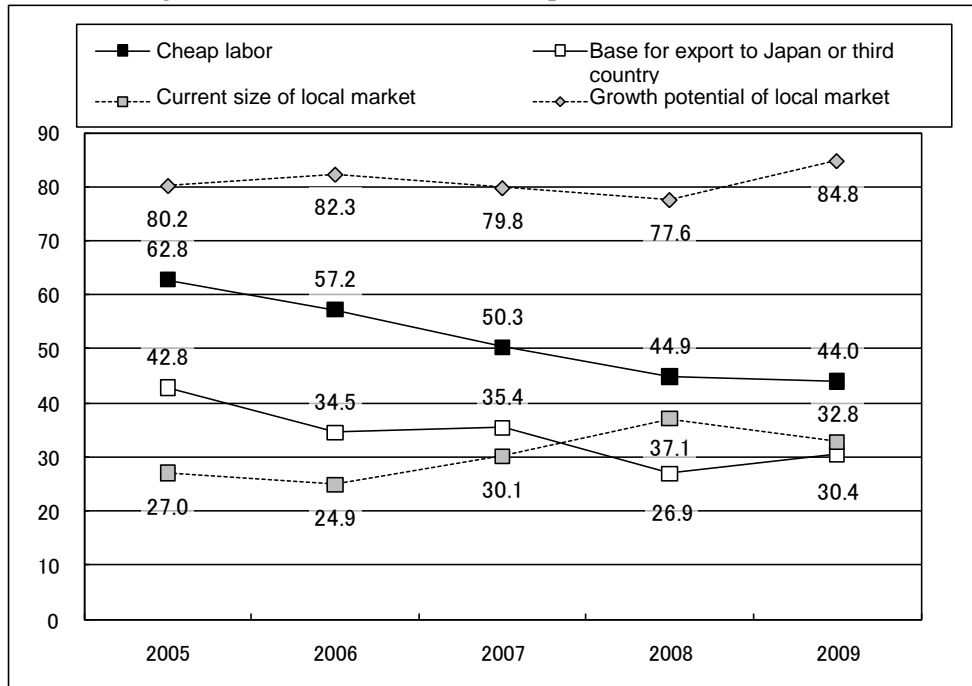


(Note) The above percentages indicate the ratios of companies selecting the respective countries (with multiple answers allowed) to the total respondents.

(Source) "FY2009 (21st) Survey Report on Overseas Business Operations by Japanese

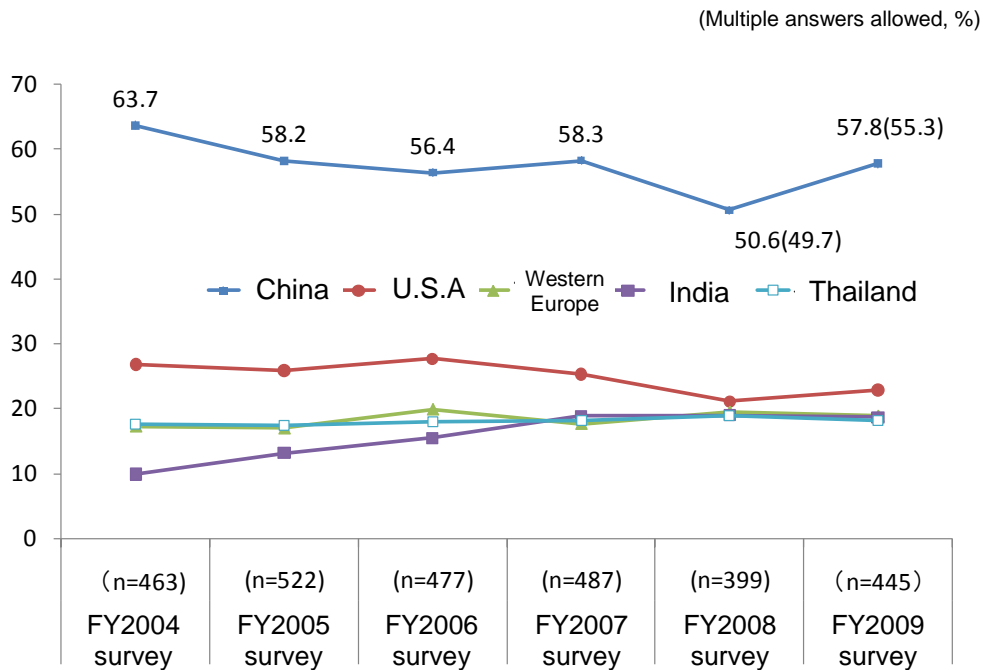
Manufacturing Companies” from the Japan Bank for International Cooperation

● Reasons for resurgent interest in China --- Market potential



(Source) “FY2009 (21st) Survey Report on Overseas Business Operations by Japanese Manufacturing Companies” from the Japan Bank for International Cooperation

● Countries and regions (top five) where Japanese companies are expanding marketing functions ---China ranked first



(Note 1) The above percentages indicate the ratios of those companies expanding marketing functions in the respective areas to the total number of companies expanding their businesses overseas.

(Note 2) Values in parentheses for FY2008 and FY2009 figures are those of all industries including nonmanufacturing sectors. The respective populations (n) are 467 for FY2008 and 524 for FY2009 survey.

(Source) “FY 2009 Survey on the International Operations of Japanese Firms” from JETRO