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# China opens up more industries to foreign investment

**China recently released the 2018 Negative List, which amends the Foreign Investment Industrial Guidance Catalogue. The new Negative List opens up additional field to foreign direct investment, in a further easement of the limitations on FDI in China. Here is a brief review of the changes.**

In the past two decades or so, the ability of foreigners to invest in China was governed by the Foreign Investment Guidance Catalogue (**"the Catalogue"**). The catalogue defined in which industries foreign entities may invest in China through direct investment (**"FDI"**) and under which conditions. The Catalogue effectively controlled the ability of foreign companies to buy a stake in Chinese companies or to set up subsidiaries or joint-ventures in China.

The Catalogue divides industries into four categories: "prohibited", "restricted", "encouraged" and "permitted". "Prohibited" industries are industries in which foreign entities are not allowed to invest at all. Foreign entities can invest in "restricted" industries but are subject to certain restrictions (e.g. only in a joint-venture where the Chinese side has a controlling stake). The approval process for FDI in "restricted" industries is also more complex and time-consuming. "Encouraged" industries are specific industries in which the Chinese government wants to attract FDI. Everything which does not fall within the former three categories is considered as "Permitted". Generally there is no specific limitation on foreign entities to invest in "permitted" industries. Over the years the Catalogue reflected China's gradual opening up, with a larger number of industries being removed from the "prohibited" category (and also from the "restricted" category).

In June 2018, China's Ministry of Commerce published the 2018 Special Administrative Measures on Access to Foreign Investment (commonly known as "the Negative List"), further revising the Catalogue. Following the amendment made by the Negative List, the number of "prohibited" or "restricted" industries was reduced from 63 to 48. Industries with respect to which restrictions were eased include, among others: passenger vehicle, commercial vehicle and special and low emissions vehicle manufacturing; airplane manufacturing; seed production and manufacturing (excluding wheat and corn); exploration of some types of natural resources. Among the service sectors which were partially or wholly derestricted include: securities, fund management, futures trade and life insurance; railway lines and power grids; international shipping; petrol stations; grain distribution.

Some easements of restrictions went into force immediately, while others will kick-in gradually during the next few years. It also remains to be seen how some general guiding principles published alongside and as part of the Negative List will be interpreted and implemented in practice. It is therefore recommended to carefully observe the changes made to the Catalogue in the Negative List and to conduct specific regulatory clearance prior to committing to any direct investment in China.

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