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The Power of Together

Branching Out

Investment Opportunities in China in 2020

About This Report

Branching Out: Investment Opportunities in China in 2020 is based on independent economic analysis carried out by Oxford Analytica in October 2014.

FDI forecasts have been developed through historical and comparative analyses looking into changes over time and identifying key economic indicators. Data was gathered from official and non-official, domestic and international sources.

Data in this report should be attributed to Oxford Analytica unless otherwise stated.

Key Terms

Foreign Direct Investment (FDI): encompasses mergers and acquisitions (i.e. M&A) and greenfield investments.

Stock: FDI net stock is the cumulative value of inward direct investment made by non-resident investors in the reporting economy.

Flows: FDI net inflows are the annual value of inward direct investment made by non-resident investors in the reporting economy.

Foreword

BY LORD GREEN OF HURSTPIERPOINT
CHAIRMAN OF TheCityUK

New Opportunities, Stronger Relationships

Over the course of my career in business, as a government minister and, now, as member of the House of Lords in the United Kingdom, I have sought to strengthen ties between Europe and China. As two of the world's leading trading powers in an increasingly globalised and competitive business landscape, building and reinforcing connections will be critical as both regions seek to drive economic growth.

China is in a time of great change. Its expanding and increasingly urban domestic market and emerging middle class is driving huge demand for goods and services, and having recently entered a structured economic slowdown the environment for investment is shifting.

The country's accession to the World Trade Organization in 2001 was a key milestone that has set the tone for a new and increasingly outward-looking China. In the years since, we have seen new initiatives including the Shanghai Free Trade Zone and Catalogue for the Guidance of Foreign Investors, as the country seeks to provide greater clarity and certainty for investors.

China's development as a major destination for trade and investment offers extraordinary opportunity for Europe as investors seek higher returns further afield. I have spoken at length about the European growth model and its flaws, as the region continues to struggle in the aftermath of the global financial crisis. In order to move into a sustained and prosperous economic future, amplifying international trade and expanding our investment interests abroad will be crucial. We must face outwards and recognise the overwhelming importance of flexibility and competitiveness in the global marketplace if we are to avoid marginalisation.

As China continues to grow, so do our shared interests and responsibilities. In the context of its evolution, China is increasingly important to us. Europe has welcomed Chinese investment in many strategically significant areas, and now China is taking steps to welcome European investors.

It is a complex country, however, there are substantial opportunities. I welcome this insightful report from King & Wood Mallesons, confident that the findings and practical advice included will promote understanding, support strategic decision-making and ultimately allow European investors to thrive in China.

BY STEPHEN KON, SENIOR PARTNER (EUROPE AND MIDDLE EAST)
& GLOBAL CO-DEPUTY CHAIRMAN, KING & WOOD MALLESONS

Connecting the World to China

China's rapid graduation from a high-growth emerging economy to a powerful global player has been amongst the most remarkable economic phenomena of recent times exemplified most recently by three new free trade zones based on the Shanghai free trade zone model that was established a year ago. China's own formidable growth together with its regulatory and policy evolution have enabled an increasingly mature and stable economy to emerge, which is today the second largest in the world.

Informed European investors are beginning to understand the significant potential offered by its attractive combination of strong growth and untapped investment opportunities. However, a complex regulatory environment and China's reputation as an opaque market still leave many potential investors unsure of how to pursue these opportunities. While China has been aggressive in seeking investment interests in Europe, investors into China have been slow to reciprocate.

As the first global law firm to be headquartered in Asia, King & Wood Mallesons is in an exceptional position to assist clients to navigate this complex market. We use the unique combination of our legal, business and cultural expertise in China and in Europe and the Middle East to promote dialogue, share knowledge and forge effective and innovative partnerships between the two regions.

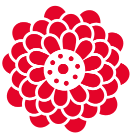
In order to help our clients understand the magnitude of these opportunities, this report sets out to quantify the scale of Foreign Direct Investment into China between now and 2020 – identifying new channels for global players now and in the future, and providing intelligence and insights into the underlying trends which are shaping some of China's key economic sectors.

Branching Out: Investment Opportunities in China in 2020 combines macro-economic analysis and forecasting with King & Wood Mallesons' unique understanding of the challenges and opportunities associated with investing in China. By exploring how this powerhouse economy is opening up to foreign interests and how to overcome potential barriers to investment, this report seeks to explain in practical terms how investors can capitalise on the numerous emerging channels for investment in China.

Transform & Grow

Investment in China Today and Tomorrow

Introducing the changing economic, political and regulatory environment in China and predicting the impact of these shifts on inward investment in 2020.



Fertile Ground: An Emerging FDI Destination

China is becoming an important investor in Europe, with interests in the region ranging from Weetabix and Pizza Express to Energias de Portugal and Telecom Italia. Meanwhile, ongoing slow growth in Europe – which is set to continue – has prompted those European companies with additional cash to look elsewhere. Having grown more comfortable and knowledgeable with the investment environment in China, European companies are looking to China in great numbers for growth. And as the Chinese authorities implement new initiatives to facilitate inward investment, the country is emerging as a compelling destination for European capital.

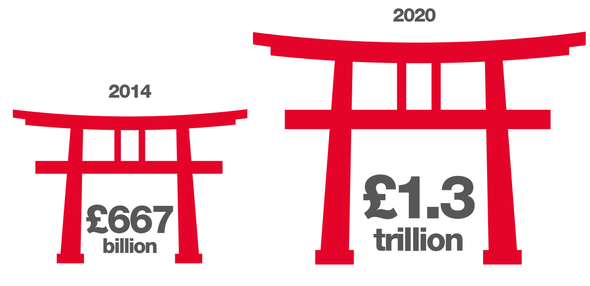
An increasingly liberalised home market has buoyed investment potential. Having entered a 'structured economic slowdown', there has been a notable shift away from state-led investment and export-oriented manufacturing. The government is looking to domestic consumption and high-end goods and services to drive growth and respond to rising incomes, rapid urbanisation and changing consumer preferences – using FDI as a critical driver of economic advancement. China's private sector is also set to grow, now accounting for 60% of GDP, meaning that there are likely to be the right capabilities to make inward investment feasible.

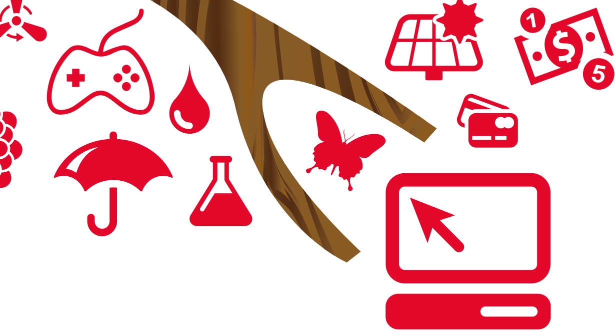
The current Five Year Plan – the 12th – demonstrates that the government's commitment to attracting FDI by encouraging domestic consumption and liberalising key industries.

With an expanding home-market and high demand for government resources, China's policy, as reflected in the Five Year Plan and Catalogue for the Guidance of Foreign Investment Industries (CGFII) has been to encourage, guide and control foreign investment. These measures highlight the wider direction of the economy and particular channels the government has identified as benefiting from outside contribution. This commitment is underpinned by the current CGFII, which encourages inward contributions in 350 of 467 investment types, and is the most pro-business to date

This cautious welcome to foreign investors is a significant development, offering a wealth of new investment

Foreign Direct Investment into China





opportunities by 2020. Foreign direct investment into China is set to rise from £667 billion (¥6.6 trillion) in 2014 to £1.3 trillion (¥13 trillion) in 2020. Its share of FDI as a percentage of GDP will also rise by 2.8% – greater than that of the US or EU.

Set to Thrive: Key Players in China

As China opens up to FDI, which countries are the key investors and how will this change over the next six years?

In 2014 Hong Kong contributed the largest proportion of FDI into China – due in large part to its robust legal system, simple tax regime and efficient government. It is also highly integrated into the global economy through its free market policies and status as a leading financial centre (where credit is easily accessible to investors). Whilst primarily English speaking, Hong Kong also has strong cultural affinities with China and boasts quick and easy transport links to the mainland. However, over the next six years new players will gain prominence as investors increasingly enjoy direct access to China – with Hong Kong's share of inward FDI falling from 68% to 63% in 2020.

Other key contributors into the Chinese economy lie within the region, reflecting the pattern of China's import and export relationships. Japan, Singapore and South Korea are all affiliated with China through trade agreements.

Europe's significance is set to climb over the next six years, especially if the EU and China learn to work through their trade disputes and are able to successfully negotiate a bilateral investment treaty. The newly

OUR VIEW

The Significance of China's Five-Year Plan for Potential Foreign Investors

China's 12th Five-Year Plan has outlined major economic development goals for the country from 2011 to 2015. Compared with previous plans, which focused on the increasing of economic growth from a quantitative perspective, the 12th FYP highlights the importance of quality growth, and aims to build a sustainable development model. It also provides important insights for foreign investors.

The latest FYP demonstrates China's determination to accelerate its "opening-up" plan by encouraging capital – including those from overseas – to invest in inland areas and specific industries. New energy and high technology as well as energy conservation and environment protection have been identified as key areas for attracting foreign investment. For instance, clean energy and clean energy cars are singled out as two strategic investment areas. Foreign enterprises that have rich experience in these fields may see potential market growth and high yield return through introducing advanced technology, management protocols and capital to China.

Laws and policies have also lifted restrictions on foreign investors to encourage them to participate in the Chinese market. For example, the 2011 Catalogue for the Guidance of Foreign-Invested Industries has taken healthcare out from the "restrictive" category and foreign investors are now allowed to establish wholly foreign-owned hospitals in seven pilot regions.

A more competitive environment will be shaped when more foreign capital is introduced into the market. The deepening reform of financial mechanisms, the incentives of establishing research and development centres, and the commitment to protect foreign investors' legitimate rights are all signs for these foreign investors to embrace unlocked opportunities.

Yet these opportunities are accompanied by risks and it is important for those looking to invest to work with Chinese legal advisors to understand the context and implications of doing business in the region.

JIANWEN HUANG, PARTNER, BEIJING

OUR VIEW

The Catalogue for the Guidance of Foreign Investment Industries

The CGFII is the 'bible' for foreign investors. It first came into existence in 1995. Revised in 2011, the most recent version is the fifth. The CGFII is an important industrial policy document used by the Chinese government to administer and guide foreign direct investment into China. When reviewing and approving foreign-invested projects and applying certain policies to corresponding foreign-funded enterprises, the relevant government authorities will use the CGFII as the basis for their decisions.

The CGFII explicitly divides all industries in China into four categories:

- Encouraged
- Permitted
- Restricted
- Prohibited

The document lists specific industries as "encouraged", "restricted" and "prohibited". Industries that are not listed are considered "permitted".

These classifications will determine the types and level of regulatory approvals that must be obtained in order to move forward. For the most part, foreign investors are generally free to establish foreign-invested enterprises (FIEs) in the "encouraged" and "permitted" categories. However, in "restricted" industries, foreign investors are subject to a number of barriers and the establishment of FIEs in "prohibited" industries is forbidden.

The latest CGFII encourages more foreign investment into areas such as modern agriculture, high technology, new energy and modern service industries. It also encourages multinational corporations to increase their research input in China by establishing a research and development (R&D) centre or co-operating with Chinese companies in R&D.

The CGFII has been revised a number of times, adjusting the foreign investment policies according to the situation. A revised draft of the CGFII was issued by the National Development and Reform Commission in November 2014 for public consultation, making a comparatively large scale U-turn in terms of the number of investment industries categorised as restricted (from 79 items to 35 items). As a result of these changes, there will be positive effects on guiding the orientation of foreign investment.

JIANWEN HUANG, PARTNER, BEIJING

established Shanghai Free Trade Zone, which is now in operation, also offers opportunities for EU investors. Germany, the Netherlands, the UK and France will all increase their share of inward FDI by 2020.

However, European nations make up only a fraction of total inward investment and no single European country ranks in the top five inward investors. There are significant opportunities for the region to expand interests in China over the coming years by actively pursuing FDI.

Top Ten Investor Countries in 2014 & 2020 (projected)

Country	% of Overall FDI in 2014	Projected % of Overall FDI in 2020
Hong Kong	68	63.37
Singapore	6	5.65
Japan	5.75	5.36
Taiwan	4.75	4.65
USA	2.90	3.83
South Korea	3.00	3.00
Germany	1.75	2.71
Netherlands	1.00	1.28
UK	1.00	1.97
France	0.65	0.79

Europe's Leading Investors In China

UK

The UK's share of FDI into China will almost double from 1% to 1.97%. With an economy predicted to grow at a faster rate than the euro-area average, the UK will increase its investment capacity relative to other European states. The internationalisation of the Renminbi (RMB) will also drive FDI as the country increasingly invests directly into Mainland China – bypassing Hong Kong entirely.

Germany

Alongside the UK, Germany is a European leader in the trade of goods and services. However, of all European nations it has the closest ties with China – ranking fifth for outbound exports and with China ranking second for imports into Germany. This close relationship – combined with Germany's large capital outflows – explains its place as a leading European investor in China.

France

France's share of FDI into China will experience the smallest level of growth, attributed to limited growth forecasts. In 2014 the government cut the country's growth predictions, with France's economy slowing and reducing investment capacity. Unsurprisingly, French firms are shoring up domestic revenue streams over

OUR VIEW

Hong Kong: The Gateway to China

Since the handover in 1997, Hong Kong has continued to grow in its relevance and reputation as the gateway to China, for a number of reasons.

Firstly, it is undisputedly part of China under the "One Country – Two Systems" policy. Investments into the Mainland via Hong Kong enjoy the benefit of a double tax agreement which typically – although not always – results in a better tax treatment on distributions.

However, the key reason that international investors choose to buy into China via Hong Kong is the confidence they have in the rule of law and the application of the common law – key to today's global commerce. The stable, predictable Hong Kong legal system, which has hardly changed since 1997, is Hong Kong's real strength in the region and a key justification for using it as the base for investments into the Mainland.

Even so, as Mainland China begins to liberalise, it is clear that the role of Hong Kong as the gateway will diminish. This will be due to developments such as the Shanghai Free Trade Zone, which will enable foreign investors to invest directly into certain sectors that were previously restricted. Funds will also flow more freely than they have in the past. It is expected that over time, additional free trade zones will be declared. This will not only increase the ability, but also the willingness of foreign investors to buy into China.

The Party Congress has recently emphasised that strengthening the rule of law in China should be a top priority and steps to do so will be likely to draw more investors towards the region. However, it is important to remember that the common law, as it is in Hong Kong, has developed over many hundreds of years. The existing legal systems in parts of Mainland China are well enshrined and will not be easily replaced – especially in the more remote parts of China. As a result, Hong Kong will continue to play a key role for quite some time as the gateway to China.

JOSH COLE, PARTNER, HONG KONG

OUR VIEW

EU & China: The Bilateral Investment Treaty

The EU and China are committed to building a strong partnership, launching negotiations to enter into a Bilateral Investment Treaty at the Sixteenth China-EU Summit, held in Beijing on 21 November 2013.

Since the Lisbon Treaty in 2009, investment is part of the EU's Common Commercial Policy and this is the first standalone investment treaty negotiated by the EU. Most Member States currently have their own investment treaty with China, which creates a complex patchwork of different agreements that no longer adapts to the reality of China's powerful economic status.

A bilateral treaty should therefore establish a single comprehensive investment framework and a solid foundation for future relations between the EU and China., The stakes are high: trade flows in goods and services between the EU and China amount to over EUR 1 billion every day. However, foreign direct investments – while on the rise – remain under-developed. Today China accounts for less than 3% of European investments abroad and foreign direct investment from China into the EU is of the same order of magnitude.

As a result, there are enormous untapped opportunities that a bilateral investment treaty could unlock. For a deal to be done, both sides will need to compromise. But a treaty with balanced and high standards of protection and an efficient dispute resolution mechanism will create legal certainty for investors and could deliver huge benefits. It will not only increase bilateral investment flows but could pave the way for an even more ambitious Free Trade Agreement in the future.

The negotiation of a bilateral investment treaty marks a significant milestone in deepening the relationship between the EU and China.

CHRISTOPHE HUMPE, PARTNER, BRUSSELS

OUR VIEW

Joint Ventures, Shared Risks

Overseas investors intending to do business in China face a challenging and complex environment. The myriad of legal, cultural and political issues – for example, the restrictions on permitted areas and levels of foreign investment – provide the framework within which they operate in their local markets.

Historically, due to challenges in the developing regulatory and business environment, many of these foreign investors sought a "local" partner to assist them in setting up and operating their trade rather than carrying on business through a wholly foreign-owned enterprise (WFOE), which can be established on-or-off shore.

Often that local partner would be financially interested in the underlying business, which enabled the foreign investor to share the risk and reward of the enterprise and facilitate the entry into local markets – including those sectors that WFOEs are prohibited from entering into, for example, telecoms and life insurance.

However, concerns over control of intellectual property rights, misaligned interests, exit strategies, operational management and governance can bear heavily on these types of investments. In addition, the markets in China have become more accessible to non-Chinese enterprises and therefore many will feel confident enough in their business to go it alone. Over the years, where business needs permit, investors have increasingly moved away from formal joint venture arrangements in favour of operating through wholly-owned entities.

Therefore when entering China, investors need to assess their requirement for operating with local investment rather than accessing the local market direct, controlling the decision-making process and strategy of the business and, crucially, claiming the economic spoils.

WILL HOLDER, PARTNER, LONDON
(CURRENTLY ON SECONDMENT TO BEIJING)

CGFII guidelines for foreign investors – from 467 total investment types

350 encouraged **79** restricted **38** prohibited

growth in foreign markets until at least 2017. However, for investors considering future strategic development further afield to generate greater returns, China is an attractive investment destination.

Netherlands

The Netherlands has a historically strong relationship with China as its government has deliberately cultivated strong cultural, political and economic ties. The country has introduced a number of basic principles, based on the 'One-China' policy and respect for the territorial integrity of the region. As a result, levels of FDI into China are not expected to grow given that the level of investment from the country is already high, compounded by the backdrop of economic instability across Europe.

FDI flows from Europe into China in 2014 & 2020 (projected)

Country	£ FDI flow in 2014	£ FDI flow in 2020
UK	820 million	2.3 billion
France	54 million	92 million
Netherlands	82 million	1.5 billion
Germany	1.4 billion	3.2 billion
Rest of Europe	1.8 billion	3.3 billion

Total FDI flows from Europe into China

Reaching For Growth: Capitalising on Investment Opportunities In China

China offers unmatched investment opportunities but is also a complex and difficult environment for investors. According to the CGFII, the central policy document of the Chinese government that regulates FDI, investments remain prohibited in certain sectors – including publishing and other media – and restricted in others – for example, manufacturing.

In sectors in which investments are restricted, investors are often required to invest via joint ventures and in some cases these must be under majority Chinese ownership. Foreign investment can also be restrained in various other ways. Investors must not only take into account the laws and regulations adopted at national level but must also navigate through various administrative practices and opaque approval processes which often exist at provincial or local level. This can inevitably create legal uncertainty and cause delays.

Foreign investors may also need to overcome regulatory obstacles that do not apply to domestic investors. In some areas, investors must also share technology in order to gain market access.

These various difficulties should, however, not be overstated. The investment environment in China is rapidly changing. Many industrial sectors are undergoing a process of liberalisation and government administrative approval procedures for foreign investments are being revised and simplified. For example, the Chinese government recently published a new draft CGFII that lifts or relaxes restrictions on foreign investments across many sectors and industries, including pharmaceutical and medical, automotive, telecommunications and the Internet, infrastructure, education and services.

The Shanghai Free Trade Zone is another example of an initiative taken to encourage foreign investment and is regarded as a laboratory for future rounds of economic reforms.

Obstacles and complexities remain but as the Chinese economy continues to undergo reforms and is gradually being opened to competition, the regulatory framework is shifting. This creates new opportunities from which well-informed investors can benefit, provided market entry plans are well prepared and a clear strategy is put in place to protect the investment and minimise potential risks.

OUR VIEW

Urbanisation: A Tale of Many Cities

Urban planning has evolved to become a strategic instrument for building competitiveness and enabling economic growth. Economists regularly predict the rate of growth alongside the benefits for foreign investors looking to buy into China.

It is common knowledge that China's population currently stands at 1.4 billion people, the largest in the world. We associate China with two or cities – namely Beijing and Shanghai. However, contrary to popular belief, China has 13 cities with more than 10 million people, including Shenzhen, Hangzhou and Tianjin.

Further to this, the region consists of another 32 cities with a population of more than seven million people, and 135 cities with more than three million. These regions will no doubt expand further into new cities, offering fresh markets and opportunities to foreign investors.

Apart from well-known infrastructure construction projects and real estate deals, all other opportunities that arise from urbanisation are crying out for foreign investment, including high tech products or services in the areas of healthcare, consumer and education, to name a few.

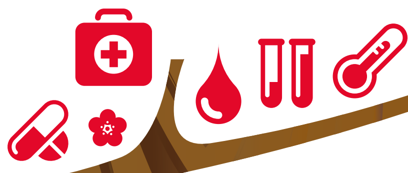
More importantly, unlike mature and competitive markets, the emerging nature of the markets that are coming into existence as a result of urbanisation mean that it is likely to be easier to contribute as a foreign investor. The Chinese government welcomes contributions from outside of the country, which existing Chinese enterprises and institutions might otherwise not be able to provide instantly.

MIKE WANG, PARTNER, SHANGHAI
(CURRENTLY ON SECONDMENT TO LONDON)

Supporting Growth

Sector Opportunities for European Investors

Uncovering the investment options in four key sectors: Energy, Financial Services, Life Sciences and Media & Entertainment.



Energy

Key greener growth targets:

- Cutting carbon intensity by 45%, to 40% by 2020
- Make non-fossil fuels account for 15% of total energy use by 2020
- 30% of government vehicles are to be powered by alternative energy by 2016

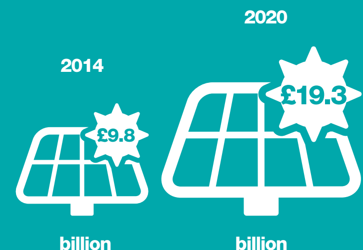
£1.8 trillion

Planned government investment in the power industry by 2021

ELAINE GIBSON-BOLTON
PARTNER, LONDON

"We work with PRC stakeholders such as SASAC, MOFCOM and NRDC on a regular basis so we can help plot the best courses through the authorisation process. This deep knowledge, coupled with a thorough understanding of national and local market conditions and an ability to keep pace with the fast changing investment landscape, are the essential credentials of an advisor to help unlock new opportunities for foreign players and to aid the successful implementation of projects".

FDI in 2014 vs 2020



OUR VIEW

Energy: A Natural Expansion

With energy demand projected to grow dramatically by 2030, China has committed to a significant expansion of natural gas usage. This commitment is supported by several state-mandated development plans, most notably the 12th Five-Year Plan for Natural Gas Development, as implemented by the 2012 Natural Gas Utilization Policy.

Drivers behind this expansion include:

- A desire for security of supply, including a reduction in relative dependence on coal and oil;
- Climate change objectives, as embodied in the new Environmental Protection Law coming into force from 1 January 2015 and multilateral and bilateral agreements, such as the Sino-US emissions pact announced in November 2014.

China's strategy is not to rely on any single source of energy supply. This in turn presents diverse investment opportunities, including in shale gas, coal-bed methane, coal-to-gas (syngas) and LNG.

Meanwhile, in recognition that coal will long remain China's dominant energy source, the government is also encouraging greater utilisation of clean coal technologies. In particular, China is at the forefront of deploying commercial-scale coal gasification and liquefaction technologies. China is also actively pursuing the development of carbon capture and storage.

Within each of these sub-sectors, promising opportunities exist for foreign investors to enter into Sino-foreign joint ventures, through which they can access the Chinese market and provide much-needed technology, management and operational expertise.

The Chinese market and legislative landscapes are favourable to investment. With domestic energy markets undergoing liberalisation, and reforms to the FDI regime unfolding to stimulate access to international technologies required to meet China's national needs, the time is right for investors to tap into China's 'clean(er)' energy revolution.

ELAINE GIBSON-BOLTON, PARTNER, LONDON
MARTA PINK, MANAGING ASSOCIATE, LONDON

GEORGE ZHAO
PARTNER, BEIJING

"The new Environment Protection Law demonstrates a step change in the Chinese Government's commitment to environmental protection. The days of conducting business in China without considering the environmental impacts of your activities are over. This will create new markets for cleantech, particularly in the energy sector as enterprises are forced to invest in new plant and equipment to reduce their emissions and improve their operating efficiency."

Energy

The Chinese energy sector is difficult to navigate. With sub-sectors falling into different categories in the CGFII, significant challenges confront foreign investors. For example, while upstream oil and gas remains largely the domain of the Chinese state-owned enterprises, China's current Five Year Plan has identified clean energy, energy efficiency and low emission vehicles as three key channels for foreign investment.

The government has committed to 'green growth' and opening up of the energy sector. Further to the Five Year Plan, Chinese authorities have implemented the 2009 Renewable Energy Law and 2013 Third Communique. These objectives and commitments are reflected in FDI projections for the sector, with FDI stock set to increase from £9.8 billion (¥97 billion) in 2014 to £19.3 billion (¥191 billion) in 2020.

With domestic and industrial demand for energy growing, the government has identified the energy sector as high in strategic importance. As a result, certain sections of the sector have become highly politicised and remain tightly regulated. However, the government has embarked on a liberalisation programme to unlock the sector's strategic potential – a process marked by the dismantling of the dominance of large state-owned enterprises.

Within the current regulatory environment, some inward investors in the energy industry may face the problem of price sensitivities and the subsequent constraint on profits. The state currently subsidises energy prices for business and private consumers – changing these pricing systems will prove difficult.

However, investors can mitigate against price risks: for example, by locking in a favourable energy price under long-term supply contracts or by allocating change of law risk. Identifying a transaction structure that would mean that the counterparty, which is best placed to manage the risk, would be responsible for the costs of any government-mandated price adjustment could also be favourable for foreign investors.

Notwithstanding these risks, the long-term outlook for inward investment is positive in light of the proposed changes to pricing systems, as government policies designed to shift energy pricing to a market-based model are likely to exert upward pressure on pricing.

Further complications come from regional differences in energy policies and priorities. China's provincial governments set their own targets, which may conflict with the overall national strategy. Further, depending on the scale and nature of a proposed inward investment, either national or provincial branches of key regulators such as the National Development Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) will have jurisdiction. A local knowledge of compliance and dialogue with regulatory officials is therefore key to securing investment approvals.

Despite these obstacles, almost all of the major energy firms, and many independents, have an active presence in China.

For foreign investors looking to identify routes into China, alternative and renewable energy firms offer the best prospects. In line with its 'green growth' objectives, China is already partnering with US firms to exploit recently discovered shale gas reserves, with French and German energy firms also active in the nuclear and solar sub-sectors respectively.

ANGUS EVERS
PARTNER, LONDON

"We know from experience in Europe and the US how environmental regulation can stimulate technological innovation and even create whole new industries, such as renewable energy. We are likely to see this repeated in China as a result of the introduction of the new Environment Protection Law, for example in the development of new technologies for reducing emissions from power plants."

OUR VIEW

Opportunities in Cleantech

China's policy of promoting economic growth at the expense of the environment has led to extensive environmental degradation. In recognition of this, in April 2014 the National People's Congress amended China's environmental law framework and adopted a new Environment Protection Law (EPL), which came into force on 1 January 2015.

The new EPL has completely overhauled the former environmental law framework, treating cleantech as critical to environmental protection in China and to future development. In particular:

- Enterprises will be subject to enhanced obligations to use cleantech and clean energy in order to reduce emissions and pollution
- National and local governments at all levels will be required to take measures to increase the production and use of clean energy
- Enterprises must pay fees for discharging pollutants, which will be used for the prevention and control of environmental pollution

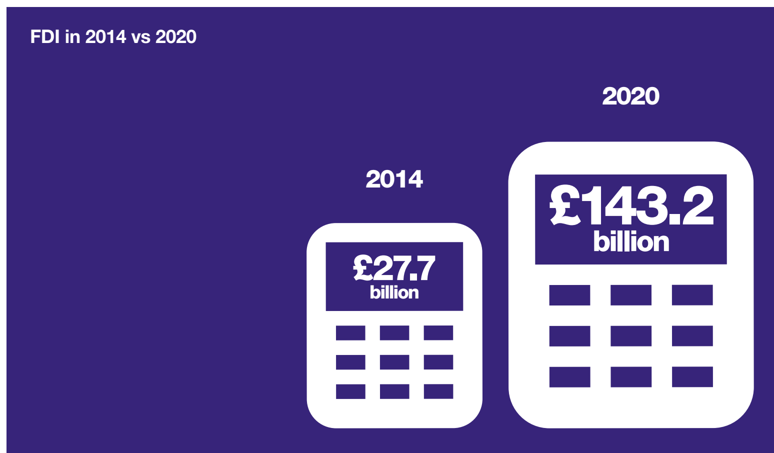
The strong policy stimulus provided by the EPL is likely to create extensive opportunities for investing in cleantech in the energy sector in China, including:

- Coal mining enterprises will be encouraged to use more energy efficient and clean production technology to achieve better local environmental protection
- The oil and gas industry will be encouraged to adopt technologies to reduce and minimise water pollution and emissions to air during operations

While greening the energy sector in China is a daunting task, it will create many opportunities for foreign investors, such as those developing and supplying new technologies and providing services such as environmental consultancy advice.

GEORGE ZHAO, PARTNER, BEIJING
ANGUS EVERS, PARTNER, LONDON

Financial Services



‘Financial liberalisation’ announced as an explicit government policy

JACK WANG
PARTNER, SHANGHAI

“The move away from a reliance on bank deposits and associated support for wealth-management products is allowing foreign participants – who have experience in product development and skills in critical areas such as fee income generation, credit risk assessment and cross-selling of products and asset management – to take advantage of the new opportunities.”

36

liberalising reforms unveiled in 12th

year plan

OUR VIEW

Liberalisation of the Renminbi: The New Global Currency

The liberalisation of the RMB and its rise to global reserve currency status are clear policy goals for China.

The pilot scheme for cross-border RMB trade settlement, which commenced in 2009, was the start of the internationalisation process. The scheme has expanded rapidly with continuous easing of regulations and now all cross-border trades on current accounts can be settled in RMB.

In 2010, the offshore RMB market was introduced, which set the basis for the development of products enabling market participants to engage in hedging, financing and investing.

This offshore market first emerged in Hong Kong – which is still the main offshore centre – but the recent appointment by China's central bank of official RMB clearing banks in Frankfurt, London, Luxembourg, Paris, Singapore, Sydney and several other international financial centres, highlights the increasing global demand for RMB denominated products and services.

Through a range of policies and programmes – for example, the expansion of the Renminbi Qualified Foreign Institutional Investor (RQFII) programme and the launch of the Shanghai-Hong Kong Stock Connect scheme – the Chinese government is actively putting in place mechanisms which encourage the controlled two-way flow of capital across its borders.

The relaxation of restrictions on China's capital account is being undertaken in tandem with the ongoing work to develop the domestic markets. The move to more market-determined interest rates and currency exchange rates as well as the development of a strong institutional framework are important parts of this process.

The RQFII programme is one of the most significant new schemes offering international financial institutions, funds and asset managers a wide range of investment options into China's bond, equities and securities markets. RQFII quotas of £8.2 billion (¥80 billion) are now available for qualified institutions in each of France, Germany and the United Kingdom.

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Financial Services

Since China's new leadership took office in March 2013, it has demonstrated a strong commitment to financial market reform. The progressive development and liberalisation of the domestic markets are central components of the reform agenda.

Changes announced at the Third Plenum in November 2013 are aimed at facilitating private sector investment (including FDI) in order to move towards a more market-driven economy. Underpinning this is a shift away from a restrictive list of approved investments towards a new type of foreign investment regime based on openness.

These developments point to new and wider opportunities in sectors such as securities markets, insurance (including life and motor vehicle), consumer finance, car finance, credit cards, e-finance, payment platforms and innovative finance products such as securitisations, derivatives and commodity trading exchanges.

As a result of the changes total FDI stock in Financial Services in 2014 is set to rise from £27.7 billion (¥273.8 billion) to £143.2 billion (¥1.418 trillion) in 2020. This significant increase represents a cumulative annual growth rate of 32% – the highest of any sector studied in this report.

A major contribution to this substantial opportunity in FDI is made by the introduction of measures to internationalise the use of the Renminbi (RMB), which is a critical part of China's plans to develop its domestic financial markets and expand its bond market.

To date, China has focused on equity markets and bank loans at the expense of the bond market. The lack of reliable alternative sources of funding in the financial sector currently restrains private enterprises – especially

STANLEY ZHOU
PARTNER, SHANGHAI

"Policy reform is encouraging the development of 'innovative' funding techniques. The recently re-invigorated pilot programme for asset securitisation is proving highly successful. Foreign players with expertise in this area should be looking actively at opportunities."

OUR VIEW

Debt Funding: Off Limits?

From a funding point of view, the offshore RMB debt capital market – popularly known as the dim-sum bond market – increases in importance due to the increased relaxation of China's cross-border lending rules.

The ability to tap the dim-sum bond market provides European and international borrowers with numerous funding opportunities at times of favourable cross-border swap spreads.

In Europe, Caterpillar, China Construction Bank, Deutsche Bank and KfW, among others, have each issued dim-sum bonds. RMB-denominated bonds issued in Germany are also referred to as 'Goethe' bonds.

In contrast to the dim-sum bond market, issuing domestic bonds in Mainland China by a foreign issuer (a so-called 'panda bond') remains an onerous and time-consuming process. Germany's Daimler AG was the first western company to issue a panda bond in March 2014.

Longer term, China's huge pool of capital represents an increasingly attractive and importance source of potential funding for foreign companies – particularly those that have operations in mainland China or that carry out transactions with Chinese enterprises. And on the demand side, Chinese investors are increasingly seeking diversification and higher yields.

As with many reforms it is likely that there will be a pilot programme to test new policies. Well-known brand names of the corporate and financial world are likely to receive early attention, as well as those firms that have already shown a commitment to building a business in China.

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"The close trade ties between Germany and China are of high importance for the Frankfurt RMB clearing hub. As Germany is the largest national economy in Europe, there is going to be an increasing acceptance and usage of the German RMB clearing. These clearing arrangements make commercial sense – they are cheaper, faster and build relationships."

small and medium-sized enterprises (SME) – from getting bank credit. The opening up and development of China's debt capital markets holds the key to unlocking the next key driver of China's economy.

The government's support for a new free trade zone in Shanghai (SHFTZ) is also serving as a test case for more liberal rules for FDI nationwide, and more importantly, for further opening up of China's capital account and RMB internationalisation. The SHFTZ is a pilot project to explore new models for regulating cross-border capital and trade flows and for encouraging greater foreign financial institution participation.

The recent launch of the Shanghai International Gold Exchange was a milestone in opening up China's financial markets to foreign participation. It underscores the SHFTZ's role in bringing on-shore and off-shore markets together, while pricing in RMB further enhances the currency's use in cross-border investment.

As China moves steadily ahead with its RMB internationalisation agenda and its relations with the rest of the world grow, the RMB should be on the agenda of every internationally operating company. China has made significant steps to successfully making the RMB a trading currency and it is now pushing hard to become an investment currency.

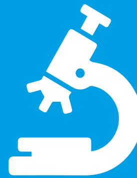
The major reforms of the Chinese financial markets currently in progress or anticipated mean that the timing of the elevation of the RMB to reserve status remains a future scenario. The speed of regulatory change poses both risks and opportunities for companies worldwide. Their ability to respond to these changes can become a competitive advantage in a highly competitive market.

Life Sciences

US$250bn

Estimated value of pharmaceutical market by 2020

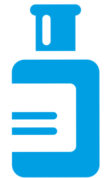
Source: Oxford Analytica



US$43bn

Medical devices industry expected growth by 2016

Source: MDDI Online



US$125bn

Pharmaceutical sales 2015 estimate

Source: Deloitte

JIANWEN HUANG
PARTNER, BEIJING

"Mergers and reorganization of domestic pharmaceuticals will be the main focus in China's pharmaceutical industry. The Chinese government has indicated its support of co-operation between multinational and domestic enterprises, and the fostering of pharmaceutical R&D and encouragement of foreign pharmaceuticals entering the distribution sector. It has also made it a priority to establish a sound legal system and strengthen supervisions efforts."

FDI in 2014 vs 2020

2014

billion

2020

billion

OUR VIEW

Under Construction: Emerging Demand & Regulation

China's increasingly ageing population, urbanisation, westernisation and associated lifestyle changes have changed the prevalence of disease, significantly increasing the demand for life sciences products, particularly for chronic conditions. Similarly, improving healthcare is expected to lead to higher levels of diagnosis and greater treatment of conditions such as cancer and respiratory diseases, which again will result in greater demand.

The lifting of restrictions on foreign investment in the healthcare sector means conditions are ripe for private investment in private hospitals and clinics. Estimated spend on healthcare is approximately 5% of gross domestic product, compared with significantly higher figures in the US and Western Europe. Nonetheless, a variety of challenges remain to ensure a return on investment as China's life sciences and healthcare sector is still under development as the market grows, including in relation to price regulation and drug registration.

Like many countries, China has systems for price regulation – at both central level through the National Development and Reform Commission (NDRC) and local level. For drug pricing, China has a system under which: 1) for drugs listed in the Directory of Drugs for National Basic Medical Insurance and drugs not listed in the Directory but monopolistically manufactured and distributed, prices are fixed or guided by the Government; and 2) for other drugs, prices are regulated by the market. In terms of reimbursement through the medical insurance system, China has adopted a policy of "Expenditure Control for Medical Insurance" which may have an impact on drug demands and drug prices as well as profits generated which may also put pressure on pricing for drug companies, particularly for multinationals.

Drug registration includes registrations for new drugs, generic drugs and imported drugs and requirements are strict with high standards. The drug administration authorities at provincial level and central level are responsible for drug registration and all drug registration certificates are subject to the final approval of the China Food and Drug Administration at central level. Procedures are time-consuming and domestic clinical trials for new drugs are mandatory.

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SUSAN NING, PARTNER, BEIJING
JIANWEN HUANG, PARTNER, BEIJING

CAMERON FIRTH
PARTNER, LONDON

"Antitrust scrutiny has been significant in the pharmaceutical sector in the EU and the USA with significant developments in patent settlement agreements and alleged abuses of monopoly power. China will be no exception and it is fully expected that the NDRC and SAIC will become increasingly active in the enforcement of competition laws in the sector."

Life Sciences

Life Sciences is a particularly complex sector for inward foreign investment. However, our economic analysis reveals significant opportunities for FDI – with total FDI in 2014 set to rise from £46.3 billion (¥458.4 billion) to £128.2 billion (¥1.269 trillion) in 2020. This increase represents a cumulative annual growth rate of 19%.

Market complexity stems largely from the diverse healthcare needs of China's rapidly ageing population. China's healthcare system is fragmented across provinces, manifesting in varying business conditions and increasing labour costs as well as a shortage of high-skilled workers.

The intricacies of investing into the Chinese Life Sciences industry is compounded further by the country's industrial policy, which generally favours domestic firms. Foreign-owned businesses are subject to more stringent operational conditions, such as data disclosure, and issues such as pricing control can have a negative impact on FDI returns.

For example, the Essential Drugs List consists of 520 items with capped prices and 20 categories of drugs (totaling 400 varieties) that are subject to price cuts of an average of 15%. The level of certain state regulation of prices is set to increase further, with proposals for a National Development and Reforms Commission to oversee the cost of medical devices.

The Life Sciences industry has also been subject to intensified anti-corruption and anti-monopoly investigations, with the Chinese government pursuing foreign pharmaceutical companies in this regard. It was

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"The government's reform of the pharmaceutical pricing mechanism would make competition within the pharmaceutical industry even fiercer. Pharmaceutical enterprises may thus want to enhance their strength and extend their capability through mergers with and acquisitions of other entities. With this trend we anticipate more merger filings involving pharmaceutical companies in the near future."

recently widely reported that a major international drugs company was fined $490 million for paying bribes to doctors and hospitals in order to promote their products.

But foreign investors cannot afford to dismiss Life Sciences as a destination for investment. According to Deloitte, China is set to become the world's largest pharmaceutical market by 2020 – with a value of $250 billion – and by 2015 pharmaceutical sales are estimated to reach $125 billion.

We are beginning to hear success stories. In 2014 Artemed Group, the German hospital operator, established China's first fully-foreign owned and operated hospital. The announcement coincided with the Chinese government's decision to allow foreign investors to own and operate hospitals in seven cities and provinces across the country. In addition, amongst those successfully operating in China are Pfizer, AstraZeneca, Bayer Healthcare, Sanofi, Roche, Johnson & Johnson and GE Healthcare (among others).

Government plans for private healthcare to account for 20% of the industry by 2020

Source: Oxford Analytica

OUR VIEW

Competition & Consolidation in Life Sciences

The life sciences and healthcare sector in China has traditionally been highly fragmented with thousands of businesses active in the sector. The Government's commitment to healthcare reform and investments in improving accessibility and standards of healthcare have had a significant impact with domestic players and multinationals engaging in consolidation, encouraged by the Government which is looking to promote national champions.

Although generic products have been a significant feature in China for some time, and are likely to remain so, Government policy encouraging diversification is expected to lead to increasing focus on R&D and patented products as well as the biotech sector, which is expected to strengthen China's position in healthcare both domestically and internationally.

Consolidation is expected amongst local companies, with significant investment and M&A activity being undertaken both by manufacturers and distributors such as Shanghai Pharmaceuticals, Sinopharm and Harbin Pharmaceutical Group. In addition, joint venture arrangements between multinationals and domestic players are expected to continue at all levels of the market, whether R&D, API production or distribution.

As with many other global economies, it is expected that competition law will have a significant role to play in the life sciences and healthcare sector through both merger control and regulation of monopolistic practices. The NDRC and the State Administration for Industry and Commerce (SAIC) are active in enforcing competition law. Both local and multinational companies need to ensure that their behaviour complies with legal requirements.

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Media & Entertainment

Gaming population to reach **266 million** by 2015

Source: Tech in Asia

Box Office revenues to **surpass US** by 2020

Source: Oxford Analytica

International investors that have divested

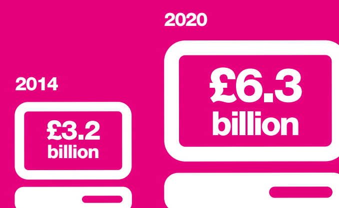
2014
News Corporation sold its 47% stake in Star China TV

2013
Fox sold its stake in Phoenix Satellite Television

RUI WANG
PARTNER, BEIJING

"The media and entertainment industry remains a highly-regulated sector in China due to the government's censorship and licensing control. However, the robust domestic demands and the growing needs for creative innovation in this country call for foreign players' increased involvement. Recent policy trends demonstrate the government's willingness to loosen foreign investment restrictions in certain areas, such as the construction and operation of large theme parks and production of audio-visual products and electronic publications."

FDI in 2014 vs 2020



OUR
VIEW

Piracy in China: Part of the Furniture?

China's reputation for failing to protect companies from counterfeiting, piracy and effectively enforcing intellectual property laws has historically discouraged foreign investment into China. In July 2014, the UK Secretary of State for Business, Innovation and Skills commented that piracy was "very much part of the business way of life" in China.

Despite understandable concerns, the legislative and legal landscape is rapidly changing and, whilst it is imperative that on entering China companies should register their intellectual property and actively monitor their rights, companies should not be discouraged from buying into the region.

The Chinese government attaches increasing importance to the protection of IP rights and has been taking measures to deter and punish counterfeiters. In practice, foreign investors can therefore protect their IP rights and find ways to enforce those rights in China.

China has been a member of the World Trade Organisation since 2001 and is therefore required to establish IP laws that conform to minimum standards. The past few years have also seen changes in consumer preferences, which have boosted demand for higher- quality media and entertainment goods and services. Furthermore, China has made significant progress in tackling piracy issues, resulting in a considerable improvement in intellectual property enforcement.

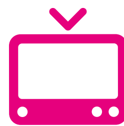
For example, in 2010, China established the Office of the National Leading Group on the Fight Against IPR Infringement and Counterfeiting to co-ordinate the implementation of actions against IPR infringement and counterfeiting nationwide. The Chinese government also launched a half-year campaign in June 2014 against online piracy, targeting websites that offer unauthorised content from traditional media.

Furthermore, on 1 May 2014, China's revised Trademark Law took effect, which included tougher penalties for trademark infringement and other measures designed to facilitate enforcement. Under the revised law, statutory damages could reach RMB 3 million and recidivists will be punished severely.

DAVID ROSE, PARTNER, LONDON
RUI WANG, PARTNER, BEIJING
HAIYING FU, PARTNER, BEIJING

DAVID ROSE
PARTNER, LONDON

"The Chinese market is currently still a price-sensitive market with piracy and counterfeiting remaining a major concern. However, these are issues that brand and content owners have to grapple with in all territories, and recent efforts by the Chinese government show that there is a growing recognition that intellectual property must be respected and enforced if China's economy is to continue to grow and develop. Although there is still a long way to go, I believe enforcement in China will continue to improve."



Media & Entertainment

The Media & Entertainment industry is the most closely controlled of all of those investigated in this report – 15 sub-sectors fall into the 'restricted' and 'forbidden' categories within the Catalogue for the Guidance of Foreign-Invested Industries. There are other media and entertainment related categories that are 'restricted' or 'forbidden' including "printing of publications" and "distribution of audio-visual products (excluding movies)". These are dealt with under different sections of the CGFII.

Despite these restrictions total inward FDI is set to increase from £3.2 billion (¥31.9 billion) in 2014 to £6.3 billion (¥62.6 billion) in 2020. And, according to EY, the industry is expanding at a compound rate of 17% between 2010 and 2015.

Rising incomes, rapid urbanisation and the expansion of the middle classes are key to growth in the sector. For example, in the film and cinema industries, box office revenue has risen consistently and is expected to surpass the United States by 2020. Revenues will be double those of the US by 2023.

In addition, research from the China Internet Network Information Centre shows that the country has the world's largest internet market – totaling 618 million. Research from Reuters also reveals that gaming revenues reached $14 billion in 2013 and the Chinese domestic gaming population is estimated to reach 266 million by 2015 according to Tech in Asia.

But while a rapidly expanding market is fuelling growth, a lack of clear and comprehensive media laws has increased investment uncertainty for foreign investors – deterring some and causing others to divest their Chinese interests. And with the media industries controlled by multiple regulatory bodies monitoring foreign investors – including the Ministry of Industry and Information Technology (MIIT), Ministry of Culture (MOC) and Ministry of Commerce (MOFCOM) – profitable avenues for investment seem few and far between.

However, efforts are being made to offer guided routes to investment. In addition to the general roadmap set out in the CGFII regarding the foreign investment inflow, there are regulations governing the industry from different perspectives. As a result, foreign investors are capitalising on new opportunities.

Almost nine in ten (89%) of all entertainment, advertising and digital media acquisitions up to $250 million were made by US companies. And major international companies have also established footholds in the sector by using joint ventures and minority stakes to avoid regulatory constraints. For example, News Corporation reportedly acquired a 20% stake in Bona Film Group in 2012 and Twenty First Century Fox announced distribution operations with local partners. Dreamworks also owns a 45% share in Oriental Dreamworks – a joint venture. Disney has also reportedly made a deal with Shanghai Media Group.

There are certain areas where foreign investors may find opportunities to succeed. For example, although foreign investors are prohibited from directly investing in film production companies in China, they can make co-production films. These are not subject to the import quota of foreign films and are developed with qualified Chinese partners on a per project basis, sharing revenues with such partners.

Other sub-sectors in the restricted category, such as performance brokerage agencies, construction and operation of theme parks and the construction and operation of film theatres, can also be attractive to foreign investors, provided that the relevant requirements – such as the limitation on shareholding ratio – can be met. For example, the Universal Studio theme park in Beijing has recently been approved and Disney is understood to be opening a theme park in Shanghai in 2016. A Hello Kitty theme park and Lotte World are also being respectively constructed in Zhejiang province and Liaoning province.

SARAH TURNBULL
PARTNER, LONDON

"China is not unique in having restrictions on foreign investment in the media and entertainment industries. There are also commonly controls on ownership of broadcasting companies around the world, some more complicated than others. The proposed revisions to the Catalogue for the Guidance of Foreign-Investment Industries reflect a significant change in the attitude of the Chinese government and whilst complex, investors into China and worldwide can navigate the rules with the benefit of specialist advice."

OUR VIEW

State Control: Easing into Foreign Investment

China has, until recently, operated a stringent policy regarding foreign investment in the media and entertainment industry. As discussed earlier in this report, while there are still a number of areas that are not open to foreign investment, an increasing number of industries have been gradually opened up to foreign investors, subject to certain restrictions.

In November, China's National Development and Reform Commission published a revised draft of the 2011 CGFII seeking public opinion. The intention of the 2014 Revision is to further reduce the restrictions on foreign investment. Examples of the proposals include lifting the restriction on foreign companies from investing in the "construction and operation of large theme parks" and the "production of audio-visual products and electronic publications". Whilst this Revision is still at a very early stage, it reflects the increasingly open approach being adopted by the Chinese government.

The key to investing in the media and entertainment industry in China is understanding the obligations and the regulatory infrastructure. Currently all forms of media output require government licences, and there are strict limitations on the import and distribution of foreign films in China, for example. There are also a number of investment regulatory bodies including General Administration of Press and Publication, Radio, Film and Television, Ministry of Industry and Information Technology, Ministry of Culture and Ministry of Commerce to navigate. Knowledge and experience of navigating these requirements will open significant opportunities for foreign companies.

SARAH TURNBULL, PARTNER, LONDON
RUI WANG, PARTNER, BEIJING

Conclusion: A Firm Foothold

Capitalising on New Investment Opportunities in China

As China seeks to re-balance its economy and achieve sustainable growth by expanding domestic demand, the potential for foreign investment is significant.

At the same time as offering some of the world's most exciting investment opportunities, China also presents a unique set of cultural, legal and political challenges. While European investors will therefore see a rise in their share of inward FDI, advance planning and co-ordination is necessary in order to mitigate risks and capitalise on the overall expansion of foreign investment in China.

Fortune favours the brave. As China continues to open to foreign investment, there is an unprecedented chance to establish a firm foothold across a range of different industries. This report has highlighted the sectors where the Chinese authorities are giving clear direction that significant change is afoot – pointing investors toward clean technology and 'green' supply in the energy sector, enacting a reform process to make the Renminbi an international and freely convertible currency, strengthening anti-corruption and anti-monopoly law in life sciences and promoting new opportunities in leisure and film co-production in media and entertainment.

Clearly, liberalisation and the process of transition will not develop at an even pace across all these sectors and the map of opportunities from province to province will differ, and there will no doubt be delays and occasional obstacles giving rise to asymmetries in progress. However, the expression of liberalisation intent is being matched by clear legislative and regulatory action on the ground, perhaps most notably in financial services and energy.

It is important to grasp the complexities of investing in China in order to build successful relationships with Chinese partners and companies that deliver tangible long-term business growth. In a rapidly changing and constantly moving environment, doing business has become more complex. As a result, an international perspective with deep local understanding will be crucial in connecting global businesses to local opportunities.

Methodology

Research was carried out in partnership with Oxford Analytica in October 2014. Oxford Analytica's advisory team worked with selected contributors drawn from a long-established network of 1,400 multi-disciplinary experts to forecast FDI in 2020. Both historical and comparative data was gathered and analysed in order to forecast foreign direct investment into China.

The historical data included a data set compiled since 2003 and the comparative data relied on the performance of G20 states as a benchmark.

For each forecast, models were constructed by identifying the relevant indicators for FDI projections based on a thorough literature review. Once key indicators were identified, both the relevance and statistical significance of these indicators were tested through regression analyses.

Quantitative data for the indicators was gathered from a number of official and non-official, domestic and international sources. These included the UN, UN Conference on Trade and Development, OECD, World Bank, IMF, fDi intelligence and Bloomberg.

Four key sectors have been investigated in the course of the research. The definitions for each sector combined: (i) the Chinese legal definition, (ii) global industry definitions and (iii) the definitions used by the primary sources and databases.

- Energy: defined as the production and supply of electricity, gas and water, which incorporates renewable energy production, and relies on data for the China Statistical Yearbook 2013 and OECD.
- Life Sciences: defined as greenfield investments in pharmaceuticals, medical devices, biotechnology and other healthcare services and products, as well as M&A in pharmaceuticals, medical devices and healthcare products and services. It relies on data from fDi Intelligence and Bloomberg.
- Financial Services: defined as financial intermediation, which incorporates all financial transactions, and relies on data from the China Statistical Yearbook 2013 and OECD.
- Media & Entertainment: defined as culture, leisure and entertainment, which broadly include activities ranging from broadcasting and film distribution to gaming and casinos. However, as media is listed as a 'prohibited' industry for foreign investors, broadcasting, radio and news media do not form part of the data. Data is derived from the China Statistical Yearbook 2013 and OECD.

Four distinct factors were considered when identifying the sectors to be included:

- King & Wood Mallesons' key practice areas;
- The secular trends in China's macro economy indicating sectoral demand;
- The policy shifts in China indicating new foreign investment opportunities;
- Sectors that have witnessed significant developments that bear implications for foreign investors.

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Oxford Analytica
Man Bites Dog

Unlocking Opportunity

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