



How does global monetary and taxation policy influence foreign investment in China?

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Agenda

Impact on FDI of

- China's tax rules & regulations
- International monetary policies
- Trade balances

China's vision and ambitions

- Low cost manufacturing is ending
- One of the world largest consumer market
- Changing FDI objectives

Conclusion

Steady FDI into China – by large unaffected by China’s tax policies



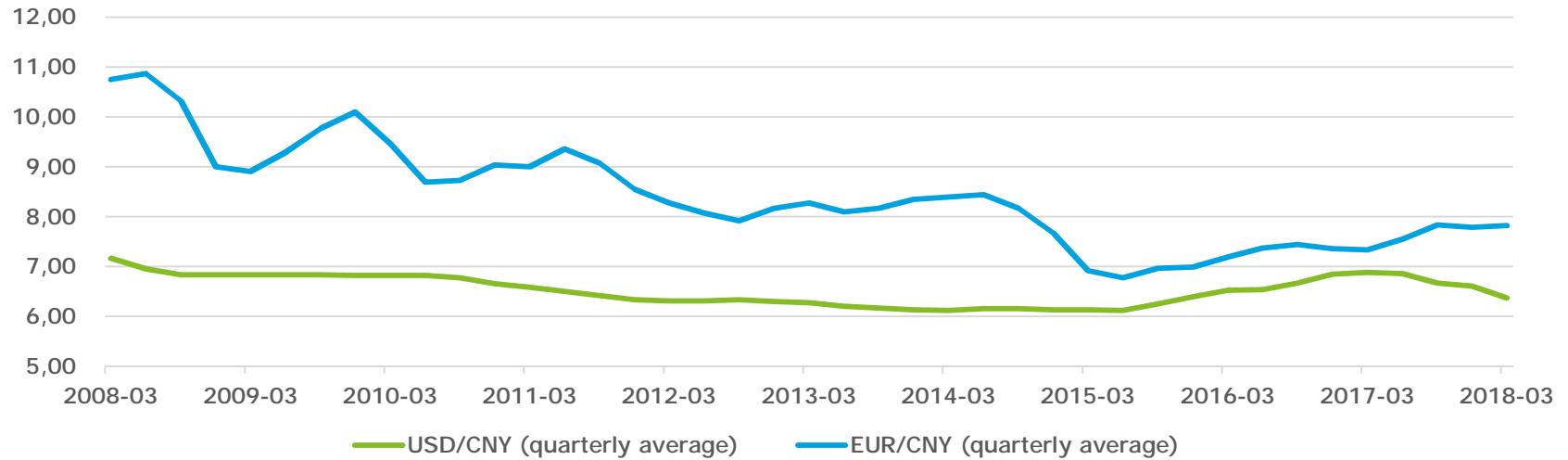
- Over the 10 years period: growth was on aggregate 4% per annum
- China has been ranked among the top 2 countries attracting FDI (by UNCTAD)
- Alignment of enterprise tax rates: Domestic & Foreign invested (Jan 2008)
- Introduction of VAT systems and extinguish of Business Tax systems (May 2016)
- Implementation of BEPS (Chinese characteristics) at large in line with OECD guidelines

Source: Wind

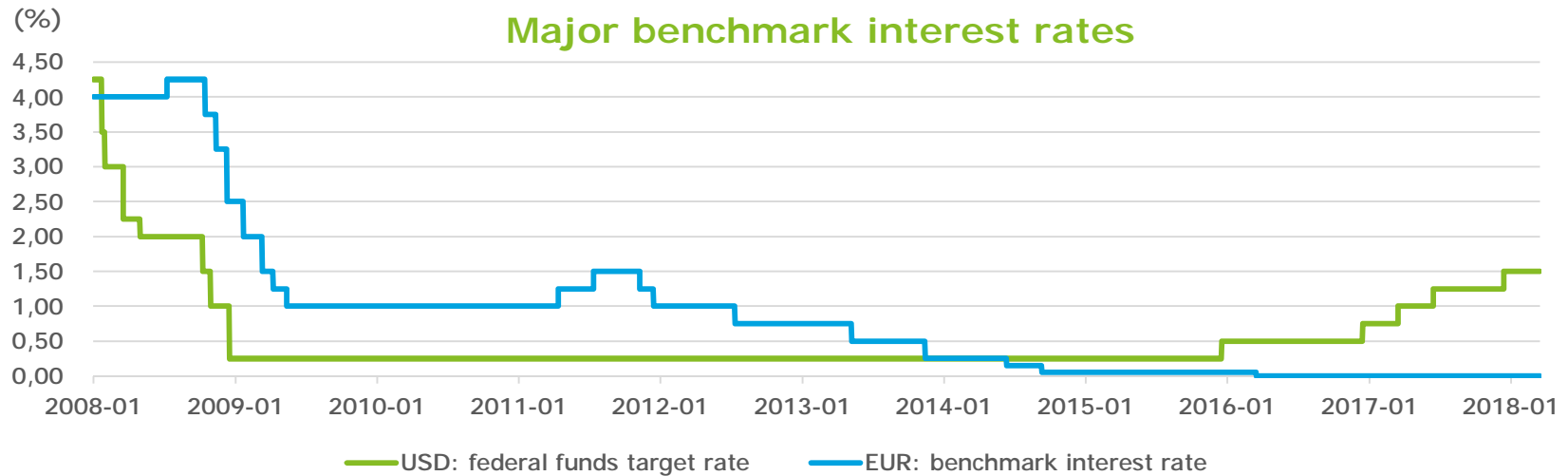
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Is FDI to China linked with international monetary policies?

Exchange rate fluctuation



Major benchmark interest rates



Source: Wind

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EUCCC Nanjing
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The US and EU act as China's key trade surplus sources

- Trade balances and FDI with US and EU seem not correlated



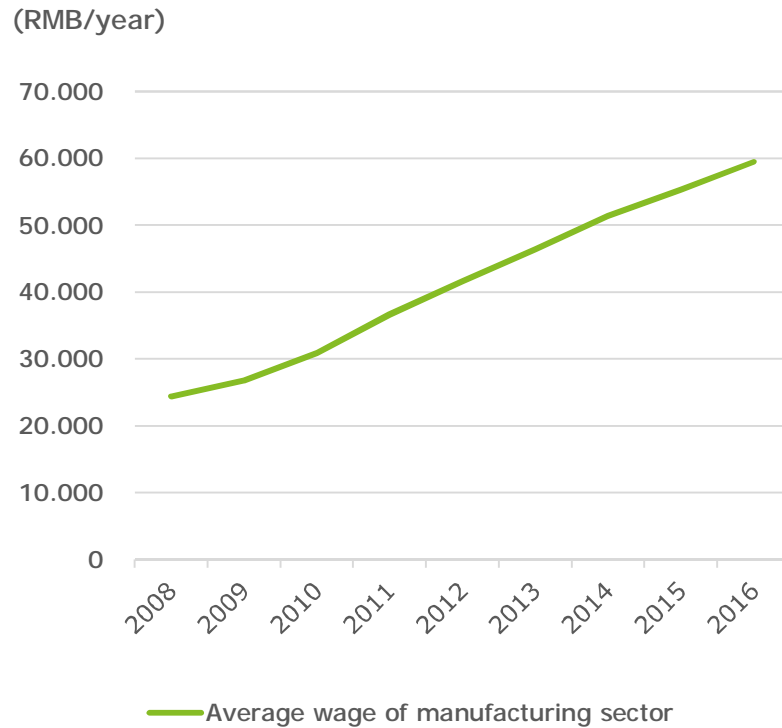
Source: Wind

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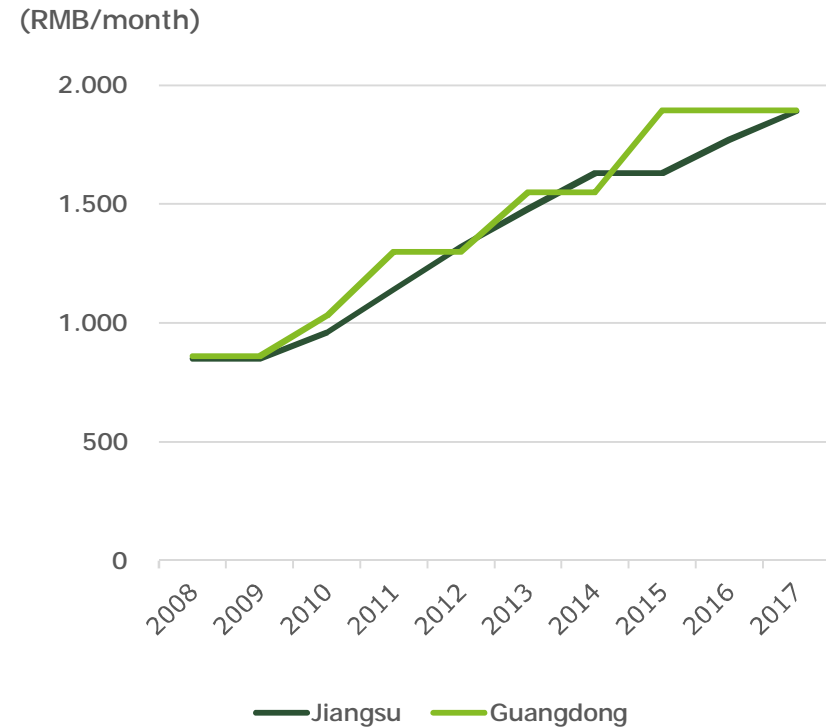
China is no longer 'the factory of the world'

- Wages have inevitably risen in line with the country's growth trajectory, and its cost advantage in manufacturing has slipped
- But the optimization of talent structure enables China to climb the value chain

Labor cost



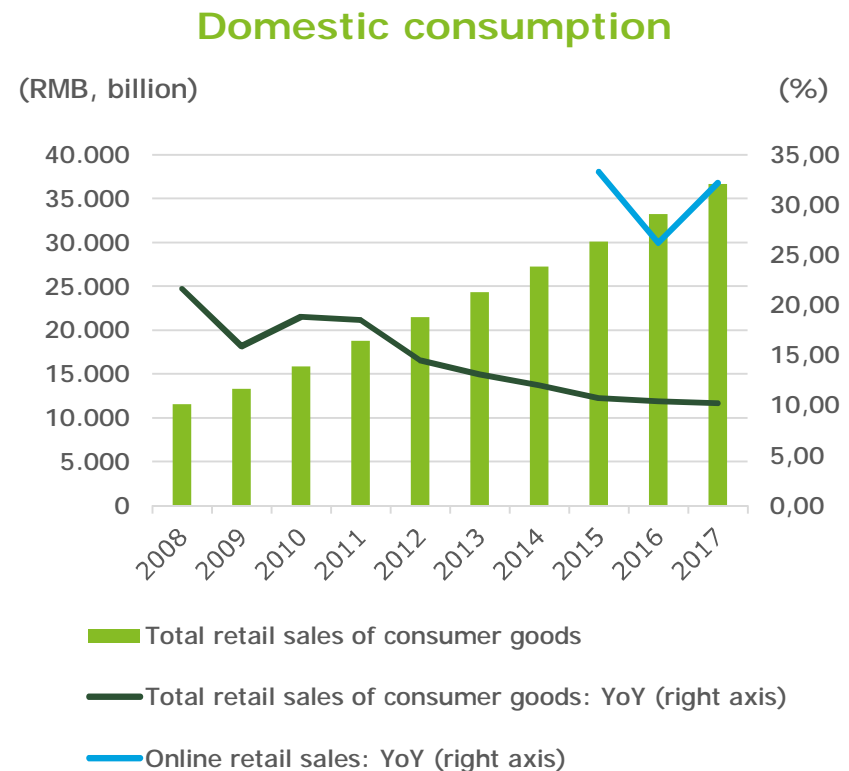
Minimum wage



Source: Wind

But it is shifting to 'the largest consumer market'

- Purchasing power in China may be about to grow at an exponential pace
- Domestic consumption growth is multinationals' major area of focus, with high-quality companies offering unique services in niche areas best positioned to succeed



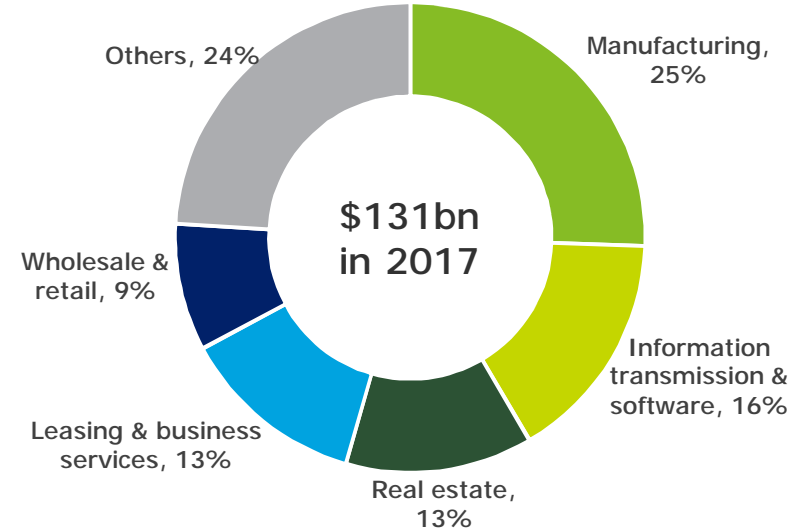
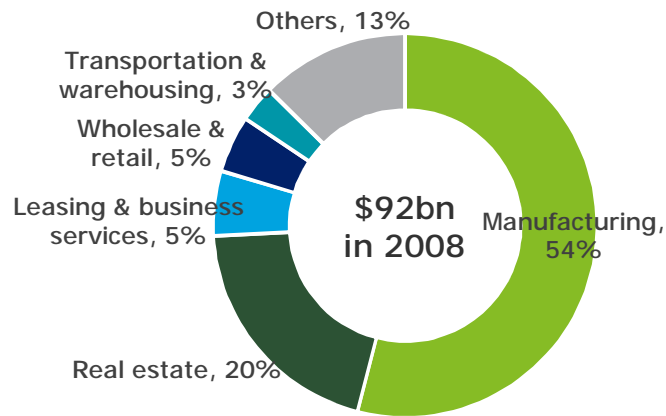
Source: Credit Suisse Global Wealth Report 2017, Wind

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FDI into China follows the shift of the economy

- FDI moves from 'tangibles' to 'intangibles'
- Manufacturing related FDI reduced from 54% to 25% - 50Bn to 33Bn (down by 34%)
- Services related FDI increased – while the capital intensity (scale, amounts) is much lower

Distribution by industry



Source: Wind

Conclusion

For policy makers &
For Multinational Companies

What would be the best response for policymakers?

1

To further ensure and expand market access

2

To ensure a level playing field in all sectors of the economy

3

To further increase intellectual property protection

4

To cut down institutional transaction costs

5

To continue providing global best class education

What impact to MNC operating & investing in China ?

1

To stay agile and flexible

2

To ensure operating model is reviewed continuously

3

To invest in the right talent

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