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Solutions for China Entry & Growth*



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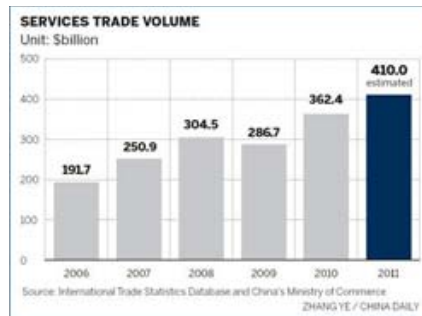
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## Market Insights

### China's 12th Five-Year Plan: Service Industries Development

*This article is the fifth in a series of articles covering several industry specific Five-year plans.*

While China's service industries have experienced strong growth in recent years, it still has a long way to go before entering the era of being a service economy (with service industry accounting for over 60 percent of GDP by definition). So far only 3 out of 36 provincial capitals and planned cities have reached this standard, namely Beijing, Guangzhou and Haikou. China's GDP per capita reached USD 4,000 in 2010 while the service industry accounted for only 43 percent of GDP, which is much lower than average service industry proportion of GDP of 55 percent for middle-income countries (USD 3,976 ~ 12,275 GDP per capita).



China's 12th Five-Year Plan (also "12th FYP") proposes a number of goals to move the economy from export-led growth towards raising domestic consumption, including 4 percent expansion of the service industry as a percentage of GDP by 2015.

The 12th FYP has laid out several key focal points for the service industry's development, such as:

- **Encourage multi-dimension development of service industry** - The 12th FYP advocates expanding new fields in service industry, developing new types of business, promoting large-scale branding and networking operation
- **Highlight key sectors open to foreign investment** - Namely production and living service sectors, including finance, logistics, tourism, high technology, and business service sectors

Significant opportunities may exist for foreign service companies considering entry into China; however the underdeveloped legal and regulatory environment and existing large number of players may pose challenges for entry.

For companies approaching the China market, it is recommended that all risks and benefits are understood before taking any significant action.

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## Tax Updates

### Policy Draft to Exempt Vegetables Distribution VAT

The Chinese government is planning to invest in public agricultural products' wholesale and exempt the vegetables distribution Value-Added Tax (VAT). This is part of an attempt to strengthen the fresh agriculture products distribution infrastructure and ease the rise of food prices. As opposed to previous acts, this one will provide benefits across the supply chain and reduce costs for both wholesale retailers and consumers.



The draft policy, published earlier this month on the government official website, is requesting the public's comments on the circulation system's reform. The main objectives are to establish an efficient and safe flow of innovative fresh agricultural products and stabilize the economic aspect of the agricultural distribution system.

Since January 2011, average agricultural products' prices climbed 26 percent to 1.76 Yuan per kilogram in July, and although there have been some price drops, prices have been climbing again by up to 28 percent since November. By waving the vegetables 17 percent VAT, the government will be supporting wholesale retailers and will decrease costs of bringing products to market.

According to the draft the government is pushing local distribution companies to speed up mergers and acquisitions, increase shares investments, develop the online retail commerce and build more refrigeration and storage facilities around the mainland.

In the proposed policy it has been made clear that there is also a need to strengthen coordination among departments, improve production and distribution supervision, and improve the market's warning and information system.

To learn more about the upcoming pilot reforms, contact [vicky.xu@iljigroup.com](mailto:vicky.xu@iljigroup.com).

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## Human Resources

### New Draft Regulation for China Social Insurance



Draft measures related to the new China Social Insurance Law were released for public comments on November 15, 2011. The Provisions for the Administrative Measures for the Filing and Payment of Social Insurance Contributions reinforces the Social Insurance Law by requiring employers to contribute to all five insurance schemes for their employees, including maternity and work related injury insurance.

Foreign employees have already been required to join in the social insurance schemes according to the Provisional Measures on Social Insurance for Foreigners Working in China released on September 6, 2011. However, the mandatory social insurance in China now would include all five schemes, for both Chinese and foreign employees. This change is a benefit for many workers who currently do not receive all 5 insurance schemes, such as in certain cities where employees who do not hold local hukou are not eligible. This does not apply to the housing fund.

According to the provision, any missed or inadequate contributions could lead to serious repercussions. The social insurance authority will issue an enforcement payment notice letter with overdue fine 10 days after the deadline; if the company still fails to pay the full amount within the grace period (15 days after the notice letter issued), the Social Security Department will be authorized to transfer the unpaid amount and up to 3 times the amount as a fine deducted directly from the company bank account.

The new regulation will take effect from January 2012.

For more information on the new regulations or other China HR matters, please contact Elaine Yu at [Elaine.yu@HROneOnline.com](mailto:Elaine.yu@HROneOnline.com).

## China FDI

### China's Organic Food Industry Ripe for Investment

Organic farming has been an increasing trend around the world since the 1990s. However, in China the sector has only recently been showing signs of significant growth.

According to organic.org, Organic food is "*organic produce and other ingredients...grown without the use of pesticides, synthetic fertilizers, sewage sludge, genetically modified organisms, or ionizing radiation. Animals that produce meat, poultry, eggs, and dairy products do not take antibiotics or growth hormones.*"



Up until the past few years Organic farming in China has been more of a concept that did not go hand in hand with many of the local traditional farming techniques. Moreover, the demand was very low due to the highly priced products. However, as a result of a series of food safety issues in different agricultural products in the past few years, the demand for high quality products in China has grown considerably. At the same time, the Chinese socio-economic state is rapidly improving and therefore more consumers can afford organic products, which may cost more than 3 times that of traditionally grown products.

Last year, the China Organic Food Certification Center reported that 345 new companies were granted organic certification, an 18 percent increase year on year. In addition to more companies entering the market, organic sales have been very positive with some stores seeing 35 percent annual growth.

In addition to consumer demand, government policies supporting agriculture-related companies are a driver for enterprises to invest (see [China Focus, October issue](#)). Nevertheless, one hurdle remains since most farming companies must rely on local governments for land acquisition.

Experts forecast a good future for the organic food industry, and see great opportunity for private companies, including foreign - to invest. Statistics show that 47 venture capital and private equity firms invested into modern Chinese agriculture in the past year and 8 new agricultural investment funds were founded.

Consumers are thankful for the larger and more varied choices of quality food. However, there were a few Organic food related scandals in the past year that weakened people's trust in the labels. To overcome the loss of trust, some retailers say they will be more proactive, pay visits to the farms and inspect the products, in order to ensure their qualification as organic food suppliers.

For more information about China's Organic Food Industry, contact Tim Lamb [tim.lamb@jljgroup.com](mailto:tim.lamb@jljgroup.com).

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#### China Offices

**Shanghai**  
Suite 603-605  
Oriental Center  
699 Nanjing West Rd. / Wujiang Rd, 200041  
T: +86 21 5211 0068 | F: +86 21 5211 0069

**Beijing**  
Suite 2002, Building 1  
Blue Castle International Centre  
3 Xi Dawang Rd., Chaoyang District 100026  
T: +86 10 6582 0268 | F: +86 10 6582 0251

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a Happy New Year!

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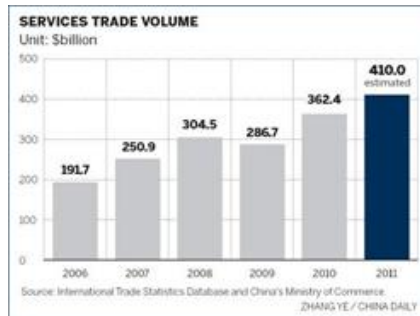
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In the proposed policy it has been made clear that there is also a need to strengthen coordination among departments, improve production and distribution supervision, and improve the market's warning and information system.

To learn more about the vegetables distribution VAT exemption draft policy, contact [vicky.xu@ijlgroup.com](mailto:vicky.xu@ijlgroup.com).

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#### China Offices

**Shanghai**  
Suite 603-605  
Oriental Center  
699 Nanjing West Rd. / Wujiang Rd, 200041  
T: +86 21 5211 0068 | F: +86 21 5211 0069

**Beijing**  
Suite 2002, Building 1  
Blue Castle International Centre  
3 Xi Dawang Rd., Chaoyang District 100026  
T: +86 10 6582 0268 | F: +86 10 6582 0251

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