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Market Insights

China's Automobile Industry 2011

Cementing its position as the world's largest automobile market, China's annual automobile sales grew to 18 million vehicles in 2010 (32% growth from 2009) due to government incentives, changing lifestyle patterns, and increasing consumer wealth.

Trends that will continue to affect foreign enterprises in 2011 include:

- **Increasing market share of domestic brands** – although foreign brands still dominate the market, domestic brands are continuing to become more competitive and growing their market share (to 46% in 2010 from 44% in 2009) due to support from local governments and improving technology
- **Government support for alternative fuel vehicles** – the development of alternative fuel vehicles is a top priority according to the government's "Automobile Industry 12th Five Year Plan," the master plan for the industry; annual alternative fuel vehicle sales are targeted to reach 1 million by 2015, with the government already offering subsidies of as high as RMB 60,000 for each electric vehicle sold
- **Shifting consumption & production toward Tier 2&3 cities in Central & Western China** – due to comparatively lower production costs, vehicle producers such as Honda are increasingly choosing to set up new factories in Central & Western China; strong demand in these areas has also led many producers to expand their sales networks (e.g. Toyota is planning to expand its sales network to 300 dealers, focusing on Tier 2 & 3 cities)



Source: JLJ analysis based on multiple sources including China Association of Automobile Manufacturers



Sales growth is expected to remain strong in 2011, reaching an estimated 20 million vehicles (~11% growth from 2010).

Foreign companies looking to capitalize on the strong potential market and preferential policies may wish to consult a professional services firm to better understand the market challenges and opportunities.

For inquiries about this article, or other work of our consulting division, please email Mark Ray at

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Tax Updates

Annual Tax Compliance for 2011



For foreign investors with a presence in China, whether it be a foreign invested enterprise (FIE) or a Representative Office (Rep. Office), it is important to note your annual tax obligations. Both FIE's and Rep. Offices must submit their annual tax clearance to the State Administration of Taxation by May 31st of this year, which requires an audit issued by a qualified CPA firm.

Furthermore, FIE's are subject to an annual examination, which includes submission of various financial statements and applications to the following government authorities: Ministry of Commerce, Administration of Industry and Commerce the

Statistics Bureau, State Administration of Taxation, State Administration of Foreign Exchange, Customs Bureau, and the Finance Bureau. The annual examination must be completed by June 30th. Also note that employees meeting the following criteria will need to submit their annual income tax filings by March 31st:

- Those with an annual income of RMB120,000 or more
- Salary or remuneration from two or more employers in China
- Generating income from abroad
- Generating taxable income without withholding agent (e.g. an employer)

Although individuals are obligated to prepare and submit these filings, many companies will assist their employees with these documents.

For more information about tax in China, please email to tim.lamb@ijigroup.com.

Human Resources

Regulations Update for Work-Related Injury Compensation

As part of China's 2011 series of policy updates, new work-related injury insurance regulations came into effect on January 1st 2011. Under the new policy, the compensation for certain work-related injuries and death is increased and it applies to a greater number of organizations.



The main change deals with injuries sustained while commuting to and from work. In addition to automotive vehicle-related accidents, employers are now required to compensate workers who are injured in other commuting vehicles such as metro, train and ferry. Compensation for an employee injured while commuting must be paid promptly, under the condition that the employee is not found responsible for the accident, otherwise it will not be treated as a work-related injury.

The new policy also specifies increased compensation to families of workers who have died on the job. In the past, the families were compensated no more than 5 times the deceased employee's salary of the previous year. Under the new rules, however, that amount will instead be 20 times the average national disposable income of urbanites.

Before, only business enterprises were required to comply, however the new rules are enforced on several other organizations including: public institutions, social groups, non-profit organizations, foundations, law firms and accounting firms. In addition, those organizations without insurance plans for their employees will be prosecuted.

For more information about the new work-related injury compensation new regulations, please email to may.bai@ijigroup.com

China FDI

China's FDI Exceeds \$100 Billion in 2010

China reported its Foreign Direct Investment (FDI) in 2010 reached \$105.5 billion USD, the first time that it exceeds \$100 billion USD level, with a 17 percent increase from 2009. It reversed a 2.6 percent dip in 2009 due to financial crisis, according to Ministry of Commerce (MOC).

During a news briefing on January 18th 2011, MOC spokesman Yao Jian said the strong trend in FDI was fueled by robust development in the service sector and the growth in the country's central and western regions. FDI in the service sector rose 28.6 percent while central and western regions saw an increase of 27.6 percent from 2009.

In December 2010 alone, \$14.03 billion USD FDI flowed into China, up 15.6 percent year on year, making it the 17th consecutive month of FDI growth since August 2009.



Source: China's National Bureau of Statistics

Mr. Yao said China's real-estate market attracted about 23 percent of FDI last year and the ministry would work on tighter regulations for this sector by cooperating with other government agencies. While improved investment environment and legal system is attributed to the increased FDI, the booming economy and huge domestic market potential are key factors of attracting foreign investment.

China reported on January 20th that its 2010 GDP grew 10.3 percent to \$5.88 trillion USD (based on an average exchange rate for 2010 of 6.768 yuan to the dollar). China will officially take over Japan as the second largest economy in the world after February 16th when Japan releases its GDP data.

For more information about China FDI news, please contact tim.lamb@jljgroup.com.

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