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China
Joint Ventures

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This country-specific Q&A provides an overview of joint ventures laws and regulations applicable in China.

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China: Joint Ventures

1. In what industries or sectors are joint ventures most commonly used in your jurisdiction?

In China, joint venture is a well-established approach in industries shaped by regulatory requirements and market dynamics. Partnering with local enterprises enables foreign companies to gain the necessary market access qualifications and local knowledge. The joint venture structure is widely adopted particularly in sectors such as automotive, technology, telecommunications, energy, healthcare, real estate, retail and financial services. The automotive industry, for example, has seen foreign automakers rely on joint ventures to comply with regulations while launching their operations in the Chinese market.

2. What are the main types of joint venture in your jurisdiction?

In China, the main type of joint venture is the equity joint venture in the form of either a limited liability company or a joint stock company. In an equity joint venture, both foreign and domestic partners contribute capital and share profits and risks. Other than equity joint venture, Sino-foreign partnership is also adopted in certain sectors, such as financial or investment business.

3. What types of corporate vehicle are most frequently used for equity joint ventures?

Existing options for equity joint venture include limited liability company ("**LLC**"), joint stock company, and partnership. Among these, LLC is the most commonly chosen due to its straightforward registration process, flexible arrangements for shareholder rights and obligations, well-developed legal framework, and limited liability for shareholders. This structure allows shareholders to manage operations independently, share profits, and allocate risks according to their equity interests.

4. What are the key factors which influence the structure of the joint venture and the choice of joint venture vehicle?

Several factors influence the structure of a joint venture and the choice of joint venture vehicle in China. Based on our observations, the primary considerations include the following:

- **Regulatory Compliance**. The *PRC Foreign Investment Law* and its accompanying regulations classify industries into encouraged, restricted and prohibited categories in terms of foreign investments. For certain restricted sectors, the *Special Administrative Measures for Foreign Investment Access* ("**Negative List**") requires that the Chinese shareholders shall hold majority shares in the joint venture.
- **Business Objectives**. Foreign investors frequently use joint ventures to access the Chinese market, leveraging local partners' resources, such as funding, technology, land use rights, raw materials, and distribution networks, to minimize initial investment and operational risks.
- **Governance and Control**. The degree of control desired by each party dictates governance arrangements, including board composition, voting rights, and decision-making mechanisms. This influences the choice of corporate vehicles, with LLCs being the most flexible and widely used.
- **Tax Considerations.** Tax implications, particularly those related to the distribution of dividends to foreign joint venture partners, play a significant role in structuring the venture.
- **Termination of the Joint Venture**. The level of ease for disposing of the shares of or termination and distribution of assets of the joint venture also affect the choice of vehicle.

5. What are the principal legal documents which set out the terms of a joint venture and how does the constitution of the joint venture vehicle interact with the joint venture agreement?

The principal legal documents for establishing a joint venture in PRC are the joint venture agreement or shareholders agreement ("**JVA**") and the articles of association ("**AoA**"). The JVA outlines the commercial terms agreed upon by the parties, such as capital contributions, governance mechanisms, profit sharing, and dispute resolution. It serves as a comprehensive reflection of the joint venture partners' intentions and commitments.

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The AoA, required for corporate registration, governs the internal operations of the joint venture vehicle in accordance with the *PRC Company Law* ("**Company Law**"). It is common practice to include a provision in the AoA stating that, in the event of any inconsistency between the JVA and the AoA, the terms of the JVA shall prevail. This approach minimizes the risk of conflicts arising from discrepancies between the two documents.

6. How long does it typically take to form a joint venture in your jurisdiction?

Forming a joint venture in China usually takes about two weeks, though the timeline may vary depending on the specific location and the requirements of local authority of State Market Regulation ("**SAMR**"). The process involves several steps, including online approval of the company name, pre-filing company registration information in the registration system, submitting written application materials for registration to the local SAMR to obtain a business license, filing the initial foreign investment information report online with the Ministry of Commerce, and registering the new company's basic information with a bank to open an RMB basic account and a capital account. Specifically, foreign investors will usually be required to provide their incorporation documents and have such documents notarized and legalized, which may extend the timeline.

7. Is using a corporate joint venture structure effective in shielding the joint venture parties from liabilities for the operations of the joint venture entity under local law?

Adopting a corporate joint venture structure in China is generally effective in limiting the liabilities of the joint venture parties. Under the *Company Law*, if the joint venture is established as an LLC or a joint stock company, the shareholders' liability is limited to the amount of registered capital such shareholder has promised to contribute to the company pursuant to its AoA. This structure protects the joint venture partners from direct exposure to the debts or obligations of the joint venture entity. However, shareholders may still be held liable in certain situations, such as when they fail to fully contribute their subscribed capital. In addition, shareholders can be held jointly responsible if they engage in improper conduct, such as commingling personal funds with the joint venture's finances or using the joint venture in a manner that severely damages the interests of the joint venture's creditors.

8. Are there any legal considerations which apply to the financing of the joint venture or the contribution of assets to it?

There are several important legal considerations regarding the financing and asset contributions to a joint venture in China. Under the *Company Law*, contributions may be made in cash or in-kind. For contributions made in cash, the shareholders shall fully pay up all contributions within five years from their subscription of the equity. In-kind contributions must be legally transferable and properly valued, which requires third-party asset appraisal to ensure that the value is neither overestimated nor underestimated. Additionally, the ownership of contributed assets must be clearly defined, and the appropriate registration procedures must be followed, particularly for real estate and intellectual property contributions. These contributions must also align with the timeline and method agreed upon in the JVA and the AoA.

For the debt financing of joint ventures, if the debt is provided by an offshore entity, the joint venture must adhere to the foreign debt limit. The joint venture can choose between two models to calculate the limit on foreign loans: (a) The Debt-Equity Borrowing Gap Model, which limits foreign loans based on the difference between total investment amount and registered capital, and (b) the Full Coverage Model, which calculates the foreign loan limit based on risk-weighted assets. Additionally, if the joint venture borrows foreign loans with a term exceeding one year, it is required to file with the National Development and Reform Commission.

9. What protections under local law apply to minority shareholders and what additional or enhanced minority protection mechanisms are typically agreed between the joint venture parties?

Minority shareholders are granted several legal protections under the *Company Law*, particularly concerning information rights, the right to challenge the resolutions, and mechanisms for safeguarding their interests. Shareholders of LLCs or shareholders of joint-stock companies holding more than 3% of shares for at least 180 days are entitled to review financial records. They may also challenge resolutions that breach laws or procedures and seek invalidation or annulment as necessary. The *Company Law* further empowers minority shareholders to request the company to repurchase their equity at a fair price if the controlling shareholder abuses its power, causing significant harm to other shareholders

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or the company.

Moreover, shareholders are entitled to file derivative lawsuits on behalf of the company when directors, supervisors, senior management, or other parties breach their duties by violating laws, regulations, or the company's articles of association, causing harm to the company. If the board of directors or supervisors fails to take legal action to address these violations, shareholders may initiate litigation in the company's interest. Furthermore, when the rights of a wholly-owned subsidiary of the joint venture are infringed and its board or supervisors neglect their responsibilities, shareholders can directly file a lawsuit in their own name to protect the subsidiary's legal interests.

The joint venture parties may also agree on the following minority protection mechanisms under the JVC:

1. Board representation: Minority shareholders often negotiate for the right to appoint at least one or more members to the board of directors, ensuring that they have a say in key decisions;
2. Veto power: Minority shareholders may seek veto rights or approval rights for specific corporate actions, such as the sale of major assets, changes in corporate structure, or decisions that would affect the minority's financial interests.
3. Exit mechanisms: Minority shareholders may be granted right of first refusal and tag-along rights, and may negotiate a put option that allows them to sell their shares back to the major shareholder or the joint venture entity at a predetermined price or formula.

Minority shareholders may negotiate for provisions that allow them to exit the joint venture under specific circumstances, such as a change of control, a significant decline in the business, or strategic shifts.

4. Information right and inspection right: Minority shareholders often secure the right to receive regular financial statements, business performance reports, and information on key business activities, as well as the right to inspect the assets and operations of the joint ventures. Sometimes, they may negotiate for audit rights, allowing them to independently verify the financial records, ensuring transparency and accountability in the management of the business.

10. What are the duties of directors of an equity joint venture, including in relation to conflicts of interest?

Pursuant to the *Company Law*, the duties of directors in an equity joint venture include the following:

1. **Compliance with Laws and Regulations**. Directors are obligated to strictly comply with applicable laws, administrative regulations, and the AoA of the equity joint venture.
2. **Fiduciary Duty**. Directors have a fiduciary duty to act in the best interests of the company and must take measures to avoid any conflicts between their personal interests and those of the company. They are prohibited from using their authority to gain improper benefits, such as embezzling company funds, misappropriating company assets, or opening personal accounts in the company's name. Directors must not accept bribes, receive unlawful income, or take commissions from transactions between third parties and the company. They are also forbidden from disclosing company secrets without authorization. Additionally, directors and their affiliates are prohibited from engaging in transactions that may harm the company's interests. If a director and/or his or her affiliate enters into a contract or transaction with the company, the director must disclose it to the board or shareholders and obtain approval as per board or shareholder resolutions.
3. **Duty of Care**. Directors have a duty of care to the company, and in performing their duties, they must exercise the reasonable attention that a prudent manager would typically demonstrate, always acting in the best interests of the company. Specifically, directors are obliged to urge the shareholders to pay their capital contribution to the company in a timely manner, otherwise the directors will be held liable for the company's losses sustained therefrom. Additionally, directors are also responsible for preventing the illegal withdrawal of capital contributions or the illegal profit distribution.
4. **Supervisory Collaboration**. Directors are responsible for cooperating with the supervisory board, which monitors the management's performance to safeguard the company's interests. This includes ensuring the accuracy and completeness of information provided upon request, promptly addressing inquiries related to irregularities, and taking appropriate action to prevent or mitigate potential harm to the company.
5. **Liquidation and Dissolution Duties**. In the event of the company's dissolution, directors are required to establish a liquidation team within 15 days and initiate the liquidation process, which includes notifying creditors, settling debts, and distributing remaining assets in accordance with the law. Failure to fulfill these obligations may result in liability for damages caused to the company or creditors.

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11. What is the typical structure of a joint venture's management body/board?

The typical structure of a joint venture's management body or board consists of several key components designed to ensure effective governance and decision-making. These include:

1. **Shareholders' Meeting**. The shareholders' meeting serves as the highest decision-making authority in a China-registered company. It holds the power to decide on significant corporate matters, including electing and replacing directors and supervisors, approving reports from the board and supervisory board, deciding on profit distribution and loss recovery plans, making decisions on capital increases or reductions, issuing company bonds, and addressing matters related to mergers, divisions, dissolution, liquidation, or company transformation. Additionally, it has the authority to modify the company's articles of association and exercise other powers as stipulated in the company's governing documents.
2. **Director or Board of Directors**. Given the strong collaboration and complementary relationship between the joint venture partners, the board typically consists of representatives from both parties. A joint venture may have one or two directors, or a board of directors consists of no less than 3 directors. The director/board's responsibilities include convening shareholders' meetings and implementing resolutions from those meetings. It is also tasked with developing plans related to business operations, investment, profit distribution, and any changes to the company's capital structure, as well as the plans concerning mergers, demergers, dissolution, liquidation, or company transformation. The board also holds the authority to appoint and dismiss senior management, determine their compensation, and establish the company's internal management framework and key policies.
3. **Supervisor or Supervisory Board.** The supervisory board is another important body within a joint venture. Though not mandatory for LLCs, it is typically established in joint ventures to ensure a balance of power and accountability in governance. Its primary functions include overseeing the company's financial matters, monitoring the actions of directors and senior managers, and ensuring compliance with laws, regulations, and the AoA of the company. A joint venture may have one or two supervisors or a supervisory board consists of no less than 3 supervisors. If directors or senior management engage in actions detrimental to the company, the supervisor or supervisory board can propose their dismissal or request corrective actions. The supervisor /supervisory board also has the power to call for shareholders' meetings and propose matters for consideration.
4. **Senior Management**. Senior management is responsible for the day-to-day operations of the joint venture. Appointed by the board of directors, the senior management includes executives from both joint venture partners and oversees key functional areas such as finance, marketing, human resources, and production.

12. Does local law imply any fiduciary duties or duties of good faith between the parties to a joint venture?

Under PRC law, while fiduciary duties are not explicitly codified in the same manner as in some common law jurisdictions, parties to a joint venture are generally expected to act in good faith in accordance with the *PRC Civil Code*, which explicitly requires parties to adhere to the principle of good faith in civil activities, including joint venture agreements. The scope of good faith obligations or fiduciary duties between the parties is primarily determined by the terms of the JVA.

13. Do any restrictions, such as foreign direct investment rules, apply to foreign joint venture parties?

Foreign joint venture parties are subject to restrictions primarily governed by the *PRC Foreign Investment Law* and the Negative List. The Negative List consolidates and specifies special management measures for foreign investment access, including equity requirements and senior management restrictions. For industries not listed on the Negative List, foreign investment is managed under the principle of equal treatment for domestic and foreign investors, granting foreign-invested enterprises national treatment.

14. What competition law considerations apply to the set up and operation of a joint venture?

Under the *PRC Anti-Monopoly Law* and related regulations, a joint venture may be required to file a prior notification of concentration of undertakings if it meets both of the following criteria:

1. **Joint Control**. The joint venture is jointly controlled by two or more parties. Key factors in determining joint

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control include the ownership structure, board composition, and voting rights, such as the appointment of senior management, approval of business plans, significant investment plans, and budgets.

2. **Revenue Thresholds**. A filing is triggered if the combined revenue of the joint venture participants meets either of the following thresholds: (a) the global revenue of all involved parties exceeds RMB 12 billion, with at least two of them having revenue over RMB 800 million in China, or (b) the joint venture's combined revenue in China exceeds RMB 4 billion, with at least two parties having revenue over RMB 800 million in China.

15. Are there requirements to disclose the ultimate beneficial ownership of a joint venture entity?

Joint venture entities are required to disclose their ultimate beneficial ownership ("**UBO**") information. According to the *Measures for the Administration of Beneficial Ownership Information* (effective from November 1, 2024), entities must file their UBO information through the registration systems of SAMR. New entities must complete the filing during the establishment registration or within 30 days after registration, while existing entities must comply by November 1, 2025.

The UBO is defined as the natural person who directly or indirectly owns, controls, or enjoys the ultimate economic benefits of the entity. The identification of UBOs follows the following standards:

1. A natural person who ultimately owns more than 25% of the entity's shares, stocks, or partnership interests, either directly or indirectly.
2. A natural person who, though not meeting the first standard, ultimately enjoys more than 25% of the entity's profit or voting rights.
3. A natural person who, alone or jointly, exercises actual control over the entity. "Actual control" includes, but is not limited to, decisions regarding the appointment of the legal representative, directors, supervisors, senior managers, or executive partners; the formulation and implementation of major business or management decisions; financial management decisions; and the long-term control and use of key assets or funds.

16. What issues relating to the ownership and licensing of intellectual property rights generally apply to the set up and termination of a joint venture?

When establishing a joint venture, intellectual property rights can play a pivotal role in structuring contributions and operations. Joint venture parties may contribute intellectual property rights as subscribed capital or license their technologies to the joint venture, with licensing becoming a more popular approach due to its flexibility and control. Contributions of intellectual property rights as capital are subject to specific procedures and requirements. The contributing party is required to provide documentation on ownership, validity, technical features, and valuation of the IP, and is required the transfer the IP to the joint venture. This documentation shall be supported by an asset evaluation report from a certified appraisal institution, ensuring that the IP is accurately valued.

Upon the termination of the joint venture, the handling of intellectual property rights largely depends on the agreements made during its formation. Typically, the JVA specifies the ownership of intellectual property assets, such as patents or trademarks, developed during the collaboration. For example, the agreement might state that jointly developed intellectual property rights belong to the joint venture itself or are shared among the parties based on their contributions. In the absence of clear contractual terms, statutory principles apply. For instance, inventions created by employees of the joint venture using its resources are generally deemed the property of the joint venture. During liquidation, intellectual property rights are professionally valued to determine their fair market value. Depending on the situation, these rights may be transferred to third parties, allocated among the joint venture parties based on mutual agreement, or, in some cases, canceled if they lack further value.

17. What legal considerations apply when transferring employees into a joint venture?

When transferring employees into a joint venture in the PRC, multiple legal considerations must be addressed to ensure compliance and minimize disputes:

1. **Employee Consent**. Under *PRC Labor Contract Law*, employment relationships do not automatically transfer when assets or business operations are transferred. Instead, employees must consent to terminate their employment agreement with the original employer and enter into a new agreement with the joint venture. If an employee refuses, the original employment relationship remains in effect.

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2. **Severance or Continuity of Service**. Employers typically handle service years in one of two ways: (a) the original employer terminates the employment agreement and compensates the employees based on their service years. The joint venture then establishes a new employment relationship, without recognizing the employee's prior service; (b) the joint venture recognizes prior service years, avoiding immediate severance costs but potentially incurring higher costs in the future if termination occurs.
3. **Employment Agreement and Timing**. A seamless transition requires the drafting of clear transfer agreements and new employment agreements, which shall specify the termination dates of the previous employment, the terms for recognizing prior service years or conditions for severance payments, the number of times the employment agreement has been signed, and any release of claims, as applicable. The effective date of the new employment agreement typically aligns with the termination of the old agreement.
4. **Liabilities and Disputes**. It is essential to clarify, within the transfer agreements, which entity, the original employer or the joint venture, will bear responsibility for existing disputes, unpaid wages, or benefits.

18. Do any additional requirements apply to joint ventures when a joint venture party is a publicly listed company?

When a joint venture party is a publicly listed company in the PRC, additional legal and regulatory requirements apply. These are primarily designed to ensure transparency, protect minority shareholders, and maintain market integrity. Under such circumstances, the following aspects require particular attention:

1. **Disclosure Requirements**. Publicly listed companies are subject to strict disclosure obligations under the *PRC Securities Law* and regulations by the China Securities Regulatory Commission and the relevant stock exchanges. If the joint venture involves significant transactions, the listed company must disclose details to the public and shareholders in a timely manner.
2. **Shareholder or Board Approval**. The formation of a joint venture may require approval from the company's board of directors or shareholders, depending on the nature and scale of the transaction. Specific thresholds are typically outlined in the publicly listed company's articles of association or rules issued by the Shanghai Stock Exchange or Shenzhen Stock Exchange (as the case may be). Compliance with these requirements often involves a formal vote at a board meeting or general assembly.

19. What are the key tax considerations for both the joint venture parties and the joint venture vehicle itself?

There are certain tax issues to consider with respect to the establishment, operation and termination of joint ventures as follows:

1. **Enterprise Income Tax**. The joint venture will be subject to PRC's enterprise income tax at the standard rate of 25%. However, certain industries or regions may offer tax incentives. For example, high-tech or environmentally friendly sectors may qualify for reduced rates. It's important for the parties to consider these incentives when structuring the joint venture to optimize tax liabilities. A domestic joint venture partner must also assess the tax implications if it contributes non-cash assets, such as fixed assets or intellectual property, to the joint venture. In such cases, the partner may be subject to enterprise income tax on any gains derived from the contribution, unless the transaction is classified as a reorganization and qualifies for special tax treatment. If this is the case, the joint venture partner may be able to defer the payment of the enterprise income tax over a five-year period.
2. **Value-Added Tax** ("**VAT**"). If the joint venture is involved in selling goods or providing services, it will be required to comply with PRC's VAT system. The VAT rate varies depending on the type of goods or services offered. Understanding the applicable VAT rate and potential exemptions is crucial for managing operating costs and pricing strategies.
3. **Withholding Tax**. If the joint venture pays dividends, interest, or royalties to foreign investors, withholding tax will apply. PRC generally imposes a 10% withholding tax on these payments, but this rate can be reduced if a tax treaty exists between China and the foreign investor's home country. Joint venture parties should carefully review relevant tax treaties to avoid unnecessary tax burdens.
4. **Transfer Pricing**. It's important to ensure that pricing for goods or services between joint venture parties or the joint venture is aligned with market conditions. For example, if the tax authority believes that transactions between the joint venture parties or the joint venture are not on an arm's-length basis and as a result the taxable income of the joint venture or the joint venture parties is unreasonably reduced, the tax authority is authorised to step in and adjust the taxable income.
5. **Double Taxation Agreements**. China has signed double taxation agreements with many countries to

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avoid double taxation. These agreements help reduce the tax burden on foreign investors by ensuring that the same income is not taxed twice. Joint venture parties shall review the relevant double taxation agreement to optimize tax arrangements, particularly for cross-border transactions and profit repatriation.

20. Are there any legal restrictions on the distribution of profits by a joint venture entity?

Under the *Company Law*, a joint venture may distribute profits only after covering previous losses and allocating funds to statutory reserves. For LLCs, profits are generally distributed in proportion to shareholders' capital contributions unless all shareholders agree otherwise. For joint stock companies, profits are distributed based on shareholding proportions unless otherwise specified in the company's AoA.

21. How are deadlocks in decision making usually dealt with in a joint venture agreement?

In a JVA, deadlock-breaking mechanisms are essential to resolve situations where the parties cannot reach a decision, either at a shareholders' meeting or a board of directors meeting. Several approaches are commonly used to address deadlocks:

1. **Escalation to Higher Decision-Makers**. The dispute can be escalated to the senior decision-makers of the shareholders for a final resolution.
2. **Unilateral Decision-Making**. A pre-agreed mechanism may allow one party to make the final decision unilaterally, usually in specific situations outlined in the JVA. This provides clarity on who holds the authority in critical situations.
3. **Buyout Option**. If the deadlock persists, one party may have the option to buy out the other party or parties. This mechanism often involves a pre-determined pricing formula to avoid further disputes.
4. **Dissolution**. As a last resort, the JVA may provide for the dissolution of the company if a resolution cannot be reached.

22. What exit or termination provisions are typically included in a joint venture agreement?

Exit and termination provisions in a joint venture agreement typically address several key aspects to manage the exit of a party or the dissolution of the venture. One common provision is the right of first refusal, which allows existing joint venture parties to purchase shares before they are offered to third parties. This is often accompanied by tag-along and drag-along rights, ensuring minority shareholders have the opportunity to sell their shares alongside a major shareholder or can compel others to sell if a sale is agreed.

Additionally, put and call options may be included, granting parties the right to sell or buy shares under specified conditions. In cases of deadlock or other pre-defined events, buy-out clauses can trigger the forced sale or liquidation of the joint venture. These provisions are particularly important for addressing shareholder disputes and ensuring an orderly exit.

23. What restrictions under local law apply when joint venture parties agree to restrictive covenants eg non-compete or non-solicitation obligations?

Restrictive covenants such as non-compete and non-solicitation clauses in joint venture agreements are commonly used in China to ensure the joint venture's effective operation and protect its business interests. While such arrangements are generally considered commercially reasonable, they must adhere to certain legal and regulatory constraints to avoid violations of competition laws.

Under PRC law, non-compete clauses must be carefully tailored to meet the legitimate needs of the joint venture. Key considerations include the duration of the restriction, the geographical area covered, the scope of restricted business activities, and the parties subject to the restrictions. Provisions that exceed reasonable and necessary limits, such as restrictions that apply beyond the joint venture's operational scope or that aim to divide markets or clients among the parties, may pose significant compliance risks.

Although the *PRC Anti-Monopoly Law* does not specifically regulate non-compete clauses, anti-monopoly authorities often scrutinize such arrangements during the review of the concentration of undertakings. Authorities may require detailed disclosures of the joint venture's structure, operations, and agreements, including the rationale and necessity for restrictive covenants. If these clauses are found to have anti-competitive effects, such as facilitating collusion or market division, they may be deemed horizontal monopoly agreements under Article 17 of the *PRC Anti-Monopoly Law*.

To minimize risks, joint venture parties should evaluate the necessity and proportionality of restrictive covenants

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in light of the transaction's objectives. The effective duration, geographic scope, and business coverage should be aligned with the legitimate purpose of supporting the joint venture's operations. Overly broad restrictions that extend beyond this purpose could be considered anti-competitive and invite regulatory scrutiny.

24. What dispute resolution mechanisms usually apply to joint ventures and are there any legal restrictions on the parties' choice of governing law or choice of dispute resolution mechanism?

Dispute resolution mechanisms in joint ventures in China typically include litigation and arbitration, each with its own set of legal implications. Under the *PRC Civil Procedure Law*, cases involving Sino-foreign joint venture contracts fall under the exclusive jurisdiction of PRC courts, and the parties involved may not agree on the choice of jurisdiction of a foreign court. As such, the parties cannot agree to submit the dispute to a foreign court unless they explicitly choose arbitration as the dispute resolution method. It is common for JVAs to specify arbitration conducted through well-known international institutions like the China International Economic and Trade Arbitration Commission or the International Chamber of Commerce.

With regard to the governing law, the *PRC Civil Code* requires Sino-foreign joint venture agreements in China to be governed by Chinese law. As a result, Chinese courts have the authority to reject any litigation or arbitration outcomes that are based on foreign law. This is particularly relevant in cases involving the recognition or enforcement of foreign judgments or arbitral awards within China, where non-Chinese governing law may not be recognized or enforced.

25. What are the key market trends affecting joint ventures in your jurisdiction and how do you see these changing over the next year?

Key market trends affecting joint ventures in China are largely driven by evolving regulatory changes and shifting market conditions. The *PRC Foreign Investment Law*, which came into effect in 2020, has significantly reshaped the landscape, emphasis on national treatment and protection for foreign investors has made joint ventures increasingly attractive as a business model. The recent revisions to the Negative List, which took effect on November 1, 2024, further accelerate these trends. The number of restrictions has been reduced, particularly in the manufacturing sector where foreign investment restrictions have now been removed entirely. In addition, recent reforms to *Company Law* aim to enhance corporate governance and provide better protection for shareholder rights. These changes will likely make joint ventures more attractive by creating a more stable and predictable legal environment for joint venture partners.

Looking ahead, we expect these regulatory changes to lead to an increased focus on sectors that are critical for China's economic transformation, such as high-tech, renewable energy, and advanced manufacturing. Joint ventures in these areas will likely evolve to focus more on innovation and strategic collaborations, driven by the need to share technological expertise and market access. Over the next year, we may see a gradual shift towards joint ventures that prioritize high-value, specialized cooperation, particularly in industries aligned with China's long-term economic and technology development goals. The growing emphasis on digital transformation and green energy will also likely impact the nature of joint ventures, with an increasing need for foreign partners to bring in advanced technologies and sustainable practices.

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