

China Newsletter | 2025 Q3/Issue No. 65



In This Issue:

**Foreign Investment | Labor & Employment | Compliance | Data Privacy & Cybersecurity |
Healthcare & Life Sciences**

This China Newsletter provides an overview of key developments in the following areas:

1. Foreign Investment

- *New Measures to Encourage Reinvestment by Foreign-Invested Enterprises*
- *Implementation Rules for Hainan Free Trade Port Cross-Border Asset Management Pilot*

2. Labor & Employment

- *Judicial Interpretation (II) on Application of Law in Labor Dispute Cases*

3. Compliance

- *Compliance Guidelines for Charging Behaviors of Online Trading Platforms*

4. Data Privacy & Cybersecurity

- *Measures for the Administration of Cybersecurity Incident Reporting*

5. Healthcare & Life Sciences

- *The NMPA Issued New Measures on Importing Overseas Marketed Drugs Before Domestic Approval*

Foreign Investment & Incentives

New Measures to Encourage Reinvestment by Foreign-Invested Enterprises

国家发展和改革委员会等七部门联合发布《关于实施鼓励外商投资企业境内再投资若干措施的通知》

On July 7, 2025, China's National Development and Reform Commission (NDRC), along with other authorities, issued a notice to promote the reinvestment of profits by foreign-invested enterprises (FIEs) within China. The measures aim to attract and retain foreign capital by simplifying processes and providing incentives, aligning with broader efforts to stabilize foreign investment amid global economic uncertainties. This policy builds on prior tax deferral incentives and may benefit multinational corporations looking to expand operations in China.

Key provisions include:

1. **Project Inclusion and Support:** Eligible reinvestment projects may be added to a national library of major foreign investment initiatives, granting access to preferential policies such as land supply guarantees and expedited approvals.
2. **Flexible Land Use:** FIEs may adopt long-term leasing, lease-then-transfer, or elastic-term transfer models for industrial land to reduce upfront costs while complying with encouraged industry policies.
3. **Simplified Approvals:** For wholly owned new entities, industry access permits from parent companies may be leveraged to accelerate reviews if basic conditions are met.
4. **Tax and Import Benefits:** Reinvestments in specific industries qualify for tax incentives and duty exemptions on imported equipment.
5. **Foreign Exchange Flexibility:** Legal profits in foreign currency may be transferred domestically for reinvestment without additional restrictions.
6. **No Registration Requirement:** Reinvestments using foreign capital or converted funds bypass domestic registration if compliant with access measures.
7. **Financing Optimizations:** Related-party loans and panda bonds for qualifying projects receive green-channel treatment; NDRC encourages financial institutions to innovate products under risk controls.
8. **Information Sharing and Pilots:** Departments will pilot streamlined reporting and enhance data exchanges to facilitate policy access, with evaluations focusing on socioeconomic contributions.

Eligibility applies to FIEs using undistributed profits or foreign investors reinvesting distributed profits in new projects, acquisitions, or equity investments, provided they are genuine and compliant. Businesses may wish to assess projects for inclusion in encouraged catalogs to maximize benefits.

Cross-Border Asset Management Pilot in Hainan Free Trade Port (FTP)

《海南自由贸易港跨境资产管理试点业务实施细则》

To advance Hainan FTZ's role as a hub for high-level opening-up, five regulatory authorities—including the People's Bank of China (PBC) Hainan Branch, China Securities Regulatory Commission (CSRC) Hainan Bureau, and SAFE Hainan Branch—issued the *Detailed Rules for Cross-Border Asset Management Pilot in Hainan Free Trade Port* on July 22, 2025, with an effective date of Aug. 21, 2025. The pilot, initially capped at RMB 10 billion (adjustable by the PBC Hainan Branch), creates a regulated channel for foreign investors to access China's onshore asset management market while enabling domestic financial institutions to test cross-border RMB business innovations.

Eligible participants in the pilot include pilot banks (providing account services), product issuers (licensed financial institutions in Hainan), and distributors (licensed financial entities), all of which must submit internal control frameworks, risk prevention plans, and investor protection measures to regulators—with non-compliant institutions subject to exit mechanisms. Qualified products are limited to RMB-denominated offerings with risk ratings R1-R4 (low to medium-high) covering wealth management products, private asset management products (securities/futures funds), public funds, and insurance asset management products, all of which must invest in China's onshore market.

Foreign investor eligibility is clearly defined: during the initial 180-day pilot phase, institutional investors include overseas licensed financial institutions and overseas branches of legal Chinese enterprises (with broader access expected later), while individual investors are restricted to overseas individuals studying, working, or living in Hainan for at least one year (who must provide proof of RMB income sources in China). Account and fund management rules emphasize safety and transparency: investors must use dedicated “investment accounts” for all transactions, with funds required to be returned via the original route, and no daily remittance limit applies to Hong Kong, Macau, and Taiwan residents. The pilot prioritizes risk control and investor protection: China's domestic laws govern investor rights, distributors must provide clear complaint and arbitration channels, and regulators will closely monitor for abnormal activities such as money laundering or investment with non-equity capital.

For foreign financial institutions, the pilot may offer a valuable testing ground to explore cross-border RMB asset management business in a controlled environment, while foreign investors might gain a regulated pathway to allocate capital to China's onshore markets—leveraging Hainan FTZ's preferential policies and streamlined procedures. The initiative underscores China's commitment to gradual financial opening-up and positions Hainan as a key gateway for cross-border capital flows.

Labor & Employment

Supreme People's Court Issues Judicial Interpretation (II) on Labor Dispute Cases

《关于审理劳动争议案件适用法律问题的解释（二）》

On July 31, 2025, the Supreme People's Court (SPC) issued *Interpretation on Several Issues Concerning the Application of Law in the Trial of Labor Dispute Cases (II) (Judicial Interpretation)*, which took effect on Sept. 1, 2025. The Interpretation addresses long-standing contentious issues, including noncompete clauses, mixed employment arrangements, and social insurance obligations.

Key updates include:

1. **Employer Liability in Subcontracting Arrangements:** Where a legally qualified contractor subcontracts or assigns business to unqualified organizations or individuals, and such organization or individual hires workers, the court will support workers' claims holding the original contractor responsible for employment obligations, including wage payment and work-related injury compensation.
2. **Noncompete Clause Restrictions:** Noncompete restrictions are limited only to employees with access to trade secrets. The scope and duration must match the level of confidentiality involved. The Interpretation confirms the legal validity of non-compete obligations during employment and clarifies compensation rules for employees who breach these obligations.
3. **Prevention of Circumventing Open-Ended Contracts:** The Interpretation enumerates four scenarios qualifying as "consecutively signing two fixed-term labor contracts" to prevent employers from using "automatic renewal" or "changing contracting entities" to avoid signing open-ended contracts. If an employer continues using an employee for over one month after contract expiration without renewal, the employee may demand contract renewal under original or open-ended terms, and employers bear legal liability for termination under such circumstances.
4. **Mandatory Social Insurance Contributions:** Any agreement to voluntarily waive or exempt social insurance obligations is deemed void. Employees may terminate contracts and claim economic compensation on this basis. After legally making up (补缴) social insurance contributions, employers may demand employees return any compensation previously paid in lieu of social insurance.
5. **Standard for Continued Performance:** When an employer illegally terminates a labor contract and the employee demands continued performance, courts will strictly limit "inability to continue performance" to situations where objective performance is impossible. The Interpretation clarifies compensation standards during the continued performance period.

Foreign employers in China may wish to review their labor contracts (particularly non-compete and fixed-term agreements) and social insurance practices to enhance compliance with the new interpretation. The regulation aims to strengthen employee protections against unfair practices, such as social insurance waivers and arbitrary refusal to sign unfixed-term contracts, while providing greater legal certainty for both parties—reducing the risk of litigation and promoting stable labor relations.

Compliance

SAMR Issues Compliance Guidelines for Network Trading Platform Fee Practices

市场监管总局发布《网络交易平台收费行为合规指南》

On July 31, 2025, the State Administration for Market Regulation (SAMR) officially released the Compliance Guidelines for Charging Practices of Network Trading Platforms (Guidelines), following a public comment period in May 2025. The Guidelines aim to standardize fee practices by platform operators, protect the legitimate rights of merchants, and promote healthy development of the platform economy.

Key requirements:

1. **Fee Transparency and Disclosure:** Platforms must prominently display on their homepage all fee items, rules, standards, and service agreements, ensuring merchants can easily access and download complete information. Fee items must correspond to services rendered, with uniform naming conventions and clear, concise descriptions.
2. **Public Consultation on Fee Modifications:** When modifying fee structures, platforms must publicly solicit opinions for at least seven days, displaying proposed changes and rationale. If merchants object and choose to exit the platform, platforms cannot prevent departure, and parties bear liability under pre-modification agreements.
3. **Historical Version Preservation:** Platforms must retain all historical versions of fee-related agreements for three years prior to each modification's effective date, ensuring merchant access.
4. **Prohibited Unreasonable Fee Practices:** The Guidelines enumerate prohibited practices, including: (i) duplicate charging; (ii) charging without or with insufficient service; (iii) shifting costs that should be platform's responsibility; (iv) charging merchants for access to their own basic business data; (v) forcing or coercing merchants to purchase services or participate in promotions; (vi) using unreasonable deposits to disguisedly increase fees; and (vii) price discrimination among merchants under equivalent conditions.
5. **Marketing Promotion Fees:** Platforms must clearly disclose calculation methods for fees based on clicks, displays, or conversions, providing detailed breakdowns to merchants in plain language. Participation in promotional activities must be voluntary.
6. **Deposit Management:** Platforms must carefully assess necessity before collecting deposits. When required for consumer protection, deposit amounts and collection methods must be reasonable. Platforms must clearly specify return procedures, ensure segregated management, and prohibit misappropriation.
7. **Compliance Management System:** Platforms must establish compliance organizations, conduct risk assessments, implement pre-approval mechanisms for fee-related business decisions, provide compliance training, and foster a culture of lawful and transparent charging.

Data Privacy & Cybersecurity

CAC Issued Measures for the Administration of Cybersecurity Incident Reporting

网信办发布《国家网络安全事件报告管理办法》

On Sept. 11, 2025, the Cyberspace Administration of China (CAC) officially promulgated the *Measures for the Administration of Cybersecurity Incident Reporting* (Measures). Effective Nov. 1, 2025, this 14-article regulation was formulated pursuant to the *Cybersecurity Law of the People's Republic of China* and the *Data Security Law of the People's Republic of China*. Its primary objective is to standardize end-to-end management of cybersecurity incident reporting, clarify reporting obligations and operational requirements for relevant entities, strengthen companies' ability to respond promptly to security incidents, mitigate escalating risks, and reinforce the national cybersecurity defense framework.

The Measures establish a hierarchical responsibility system:

- **Central CAC** coordinates and supervises nationwide incident reporting.
- **Provincial CAC authorities** promote and implement reporting requirements within their jurisdictions.

For incidents of moderate or higher severity, enterprises must comply with differentiated reporting timelines:

- **Critical information infrastructure operators (CIIOs)**: Initial report within one hour of incident; protection authorities must notify the central CAC within 30 minutes of receipt.
- **Directly affiliated units of central party and state organs**: Initial report within two hours; internal cybersecurity institutions must report to the central CAC within one hour of receipt.
- **Other network operators**: Initial report within four hours; provincial CAC authorities must forward to the central CAC within one hour of receipt.

Reporting must cover three dimensions:

- **Basic information** — enterprise name, system parameters, and operational status of affected facilities.
- **Incident details** — occurrence time, attack type, risk level, impact scope, and emergency measures taken. For ransomware, ransom related information must be specified.
- **Follow up plans** — subsequent response strategies, required resources, and on-site protection measures.

Where urgent circumstances prevent full reporting, enterprises may submit basic information first and supplement later. Within 30 days of resolution, a special summary report must be filed, detailing root cause, rectification measures, and lessons learned. In addition, network service providers are required to incorporate explicit cybersecurity incident reporting obligations and standards into their commercial contracts.

To facilitate accessibility, the CAC has designated six official reporting channels: the 12387 hotline, CAC websites, WeChat official accounts, WeChat mini programs, dedicated email addresses, and fax numbers. Social organizations and individuals may also use these channels to report incidents of moderate or higher severity.

Healthcare & Life Sciences

The NMPA Issued New Measures on Importing Overseas Marketed Drugs Before Domestic Approval

关于境外已上市药品获批前商业规模批次产品进口有关事宜的公告

To implement the requirements set forth in the *Opinions of the General Office of the State Council on Comprehensively Deepening the Supervision Reform of Drugs and Medical Devices to Promote the High-Quality Development of the Pharmaceutical Industry*, the National Medical Products

Administration (NMPA) issued the *Announcement on Matters Concerning the Import of Commercial-Scale Batches of Overseas Marketed Drugs Prior to Domestic Approval* on Sept. 30, 2025. This announcement is designed to bridge the gap between the domestic review and approval of overseas marketed drugs and their commercial supply. It clarifies that eligible drugs may import commercial-scale batches for pre-stocking before obtaining official domestic approval. The measure aims to shorten supply cycles, accelerate the market availability of urgently needed products, such as innovative and orphan drugs, and prevent supply disruptions.

Scope of Application

The policy defines its scope with precision. Eligible drugs must:

- Be legally marketed overseas (including Hong Kong, Macao, and Taiwan) with valid and complete marketing certification documents;
- Have submitted domestic registration applications to the NMPA that are under normal review and approval; and
- Be imported in commercial-scale batches (distinct from laboratory-scale or pilot-scale batches used for clinical research).

Manufacturing processes and quality standards must comply with both overseas marketing requirements and domestic regulatory norms, including Good Manufacturing Practice (GMP) standards. The policy explicitly excludes drugs not marketed overseas or lacking valid certification, those whose domestic registration applications have been rejected, withdrawn, or terminated, and special-controlled categories such as narcotics and psychotropics, which remain subject to separate regulatory provisions.

Operational Procedures

Applicants are limited to domestic drug registrants or authorized agents with drug import filing qualifications. Required application materials include:

- Notarized and authenticated overseas marketing certificates (with exemptions for certain innovative drugs);
- NMPA-issued domestic registration acceptance notices;
- Product quality inspection reports;
- Letters of commitment on import purposes; and
- Traceability system documentation.

Applications must be submitted to the drug regulatory authority at one of the 18 designated ports of entry. Regulatory authorities will conduct expedited reviews under the principle of “special matters handled through special procedures and streamlined processes,” and issue Import Drug Clearance Documents to qualified applicants.

Risk Control and Compliance

Companies must implement full-cycle risk management. Violations such as unauthorized sales or submission of false materials will trigger penalties under the Drug Administration Law, including confiscation of products and illegal gains, fines of up to three times the total value of the goods, and

suspension or revocation of import qualifications. Severe violations may result in cancellation of filing eligibility and a three-year prohibition on reapplication.

Enterprises should also consider:

- Monitoring the progress of domestic registration reviews;
- Planning stock quantities based on drug validity periods;
- Notifying regulatory authorities promptly if review timelines are delayed; and
- Assigning dedicated personnel to manage traceability and accounting and maintaining detailed records of import batches and storage locations to ensure consistency between accounts and inventory.

Companies may wish to confirm material requirements and processes through advance communication with port drug regulatory authorities and customs. In cases of compliance disputes or quality concerns, companies should consult regulatory authorities promptly to avoid unilateral disposal.

Penalties for Violations

Regulatory authorities might impose tiered sanctions:

- Minor violations: warnings and entry into credit files;
- General violations: confiscation of illegal drugs and gains, plus fines;
- Severe violations: suspension or revocation of relevant qualifications;
- Particularly serious violations: inclusion in the drug safety “blacklist” for joint disciplinary action; or
- Suspected criminal cases: transfer to judicial authorities for prosecution.

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