



PRC Law Newsflash
18 June 2009

New Regulations Issued to Encourage Foreign Multinationals to Establish Regional Headquarters in Beijing

Introduction

In January 1999, the Beijing government issued its *Provisions on Encouraging Foreign Multinational Corporations to Establish Regional Headquarters in Beijing Municipality (1999 Provisions)*. In doing so, Beijing led the way among municipalities in China in actively enticing foreign investors to set up regional headquarters within its jurisdiction. Since that time, many other municipalities have followed suit, including Shanghai, Wuhan, Xiamen, Fuzhou, Guangzhou, Nanjing and Qingdao.

Responding to the recent uncertain economic situation, on 21 May 2009 Beijing issued a new version of the 1999 Provisions, which supersedes and replaces the former version (**2009 Provisions**). The 2009 Provisions bestow preferential treatment in the form of subsidies and incentives on multinationals which establish their regional headquarters in Beijing.

Key Revisions

The major amendments contained in the 2009 Provisions include:

1. **Clearer business scope:** the new provisions have expanded the permitted business scopes of regional headquarters to include activities that were not previously specified, such as import/export and domestic distribution, financial and fund management, logistics, employee training and management, and outsourcing services for affiliated companies and other offshore entities.
2. **Clearer government subsidies and incentive policies:** newly established regional headquarters will receive subsidies upon their establishment. They will also receive separate subsidies for office leasing and office construction, as well as incentives for achieving revenue targets and for retaining senior executives and foreign personnel. These include a loosening of residence restrictions for foreigners purchasing individual real estate.
3. **Greater regulatory assistance:** the 2009 Provisions introduce expedited exit and entry visas for personnel, and simplified procedures for the administration of

foreign exchange and fund management, customs clearance and the management of bonded cargo.

Comparison with the Shanghai Provisions

In the second half of 2008, Shanghai promulgated its own incentive measures, which are similar to the 2009 Provisions and were designed to encourage multinationals to set up regional headquarters in Shanghai. The *Provisions on Encouraging the Relocation by Transnational Corporations of Their Regional Headquarters to Shanghai* and a subsequent implementation notice (collectively, the **Shanghai Provisions**) reveal significant differences between the policies offered by both cities, including the following:

1. **Establishment Incentives:** In Shanghai, only investment company regional headquarters which have registered capital of at least USD 30 million are eligible for incentives relating to the establishment of regional headquarters. By contrast, Beijing's 2009 Provisions have no restriction on company type and the minimum registered capital threshold is RMB 100 million (approximately USD 15 million).
2. **Operational Incentives:** In Beijing, incentives tied to operating revenue kick in when a regional headquarters has achieved operating revenue of more than RMB 100 million. In Shanghai, such incentives only become available when the regional headquarters has achieved operating revenues in excess of RMB 500 million in the case of entities engaged in management activities, and RMB 1 billion in the case of entities operating in the investment industry.
3. **Business Scope:** The scope of operations and management activities permitted under the 2009 Provisions are broader and more inclusive than those of Shanghai. For example, the Shanghai Provisions do not specifically permit regional headquarters to engage in marketing services, information services or management services related to production and operations.

As the above comparison indicates, the 2009 Provisions present Beijing as a more favorable investment location than Shanghai, particularly for smaller foreign multinationals. These policies seem designed to give Beijing a competitive advantage following the issuance of the Shanghai Provisions.

Conclusion

Given the current global economic downturn, Beijing's promulgation of dramatically increased preferential investment policies is plainly an effort to convince a preponderance of foreign multinationals to establish their regional headquarters in, or relocate them to, Beijing. The 2009 Provisions thus aim to bolster the city's reputation as the political, economic and cultural center of China.

As an additional advantage for Beijing municipality, the presence of regional headquarters would inevitably facilitate the rapid development and integration of

modern service sectors, including finance, insurance, trading, accounting, law, and information technology, and consequently foster Beijing's high-end knowledge-based service industry. It remains to be seen what steps other Chinese cities will take to compete with Beijing as an attractive foreign investment location.

Implementation measures for the 2009 Provisions have yet to be issued. These are generally practical provisions governing the approval criteria for regional headquarters, policies on subsidies and incentives, and policies on talent recruitment, as well as other relevant supplementary issues. The Beijing Commerce Commission has indicated that such measures are tentatively scheduled to be issued this month. Foreign companies establishing regional headquarters in China will then benefit from a comprehensive view of the various financial support packages available in major Chinese cities.

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Uploaded on 18.06.2009

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