

China Business Advisory

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China's FTZs Deepen New Era of Reform and Opening-up

Since 2013, China had introduced 12 pilot Free Trade Zones ("FTZs") as part of the strategy of encouraging further reform and opening-up. In August 2019, announcements were made for the introduction of a new FTZ in Shanghai and 6 other FTZs in different cities in China,

details as follow:

1. Shanghai FTZ Expands by Adding Lingang Area

On 6th August 2019, the State Council released Guohan [2019] No. 68 and Guofa [2019] No. 15 on the establishment and overall plan for New Lingang Area ("the New Area") to become one of the FTZs in Shanghai. Guidelines were issued immediately by the local authorities to support the development of the New Area.

The New Area will match the standards of the other FTZs and implement opening-up policies and systems to facilitate global competitiveness. The guidelines cover eight major areas including relaxed regional administrative authority, talents, fiscal and finance, land use, industrial development, housing, transportation and infrastructure. Some noteworthy points are as follow:

- Corporate Income Tax (“CIT”) at 15%: Companies specializing in key industries including integrated circuits, artificial intelligence, bio-medicine and civil aviation, will be granted a 15% CIT rate (standard rate at 25%), for five years.
- A more attractive talent development environment: Shanghai household registration will be granted to talents who worked in the New Area, overseas students who work in the New Area can apply for type B overseas residence and do not need to apply for work permit.
- A cross-border financial management system to facilitate the receipt and payment of funds. Implementation of simplified cross-border RMB business process, undertaking pilot projects on the integration of domestic and foreign currencies in free trade accounts, and encouragement of free flows and exchange of capital in the New Area. Encouragement and support to qualified financial institutions to provide cross-border financial services in the New Area.
- A high-energy level global shipping hub to be built supporting the Pudong International Airport to become a world-class aviation hub with air cargo terminal and integrated logistics, sorting and supervision, and a regional aviation headquarters base and international hub center for air express delivery.

2. Six New FTZs to help Further Opening-up

On 2nd August 2019, the State Council released Guohan [2019] No. 72 and Guofa [2019] No. 16 on the establishment of six new FTZs in Shandong, Jiangsu, Hebei, Yunnan, Heilongjiang and Guangxi province respectively.

In order to better serve the overall strategy, the six FTZs will leverage on their geographical advantages to deepen trade with neighboring countries and regions:

- Shandong FTZ aims at fostering trade with new forms and models, accelerating the

development of marine industries with special characteristic, and exploring regional economic cooperation between China, Japan and Korea.

- Jiangsu FTZ aims to raise the level of overseas investment cooperation, strengthen financial support for the economy, and support manufacturing industry innovation.
- Hebei FTZ aims to support international trade of bulk commodities, bio-medicine, and develop life and health industries.
- Yunnan FTZ aims to innovate models on cross-border economic cooperation along border areas, and increase international cooperation in science and technology.
- Heilongjiang FTZ targets accelerating the transformation and upgrading of China's economy, building transportation and logistics hubs for Russia and Northeast Asia.
- Guangxi FTZ aims to open international passageways, build pilot demonstration zones for Asian cooperation and gateway ports for sea-land connectivity in western regions.

Special customs regulation and preferential taxation policies will be applicable to these new FTZs which are expected to facilitate high-level opening-up and boost high-quality development through deeper reforms.

Bilateral Social Security Treaty with Japan Implemented

On 27th August 2019, the Ministry of Human Resources and Social Security (“MHRSS”) released Renshetingfa [2019] No. 81 (“Circular 81”) on the “Bilateral Social Security Treaty Between the Government of the PRC and the Government of Japan” (“the Treaty”) signed on 9th May 2018 which became effective from 1st September 2019. Please refer to our China Business Advisory 2018 Issue 6 for our analysis of the Treaty. The key contents in relation to the implementation of the Treaty as stated in Circular 81 are as follow:

- Certificate for Insurance Enrollment
 - Chinese individuals in Japan and Japanese individuals in China are required to obtain a Certificate for Insurance Enrollment issued by their national liaison agencies as a necessary document for mutual exemption in each other's countries
 - While the basic endowment insurance will be exempted as stipulated in the Treaty, eligible Japanese personnel in China should participate in other social insurances such as medical insurance, unemployment insurance etc. in accordance with the laws and provisions in China
 - Japanese personnel in China, who are unable to submit the Certificate for Insurance Enrollment issued by Japan authority shall participate in China's social insurance.
- Social Security Exemption Period
 - The initial period that for dispatching personnel to enjoy the exemption will be stated in the Certificate for Insurance Enrollment issued by the national agency, which could be up to five years
 - If the dispatching duration exceeds five years and further exemption is required, the extension shall be decided jointly by the competent authorities of China and Japan

In the wake of China government's gradual reduction of taxes and fees applicable to enterprises, the implementation of the Treaty is expected to further reduce social security costs payable by multinational enterprises and individuals both in China and Japan.

China Promotes Hengqin into an International Tourism Island

China aims to develop the Hengqin New Area in Zhuhai FTZ, which is close to Macau, into an international tourism island to further integrate the Guangdong-Hong Kong-Macao Greater Bay Area (“GBA”).

Based on the “Development Plan of Hengqin International Leisure and Tourism Island” approved by the State Council, on 2nd August 2019, the Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) released Caishui [2019] No. 63 (“Circular 63”) to include specific tourism-related businesses into the CIT Preferential Catalogue of Hengqin New Area, which means a lower CIT rate of 15% could be enjoyed by these encouraged businesses including:

- Operation of playgrounds, aquariums, theme parks, film and television shooting bases, exhibition halls and museums
- Operation of sea sports, low-altitude flights, cruises, yacht tours, and island tourism
- Operation of cultural and creative tourism, live performances of tourism, film and television music festivals
- Operation of folk activities and residential accommodation
- Inheritance and management of cultural heritage
- International and Guangdong, Hong Kong and Macao sports tourism events
- Operation of health medical tourism and exhibition tourism
- Operation of tourist service centers, tourist information websites, tourism mobile applications
- Tourism e-commerce platforms focus on online marketing, online booking and online payment

The development of Hengqin New Area is expected to promote economic diversification of Macao and become a demonstration zone for deeper integration of Guangdong-Hong Kong-Macao GBA.

Service Highlight

From so many new policies released, it is evident that the Chinese government has been putting strenuous effort to improve the investment environment of China in the background of current complicated international trade situation. We are more than pleased to discuss with you on how to make the most out of these reforms to enhance the competitiveness of your business. Our Marketing Executive, Ms. Rika Wong, looks forward to hearing from you at (852) 3579 8745 or rikawong@sinobridge-consulting.com for any assistance and support we could provide you with.

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