



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Crash Course on Doing Business in Beijing

- New Opportunities for Foreign Investors in 2021

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May 25th , 2021



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Section 1

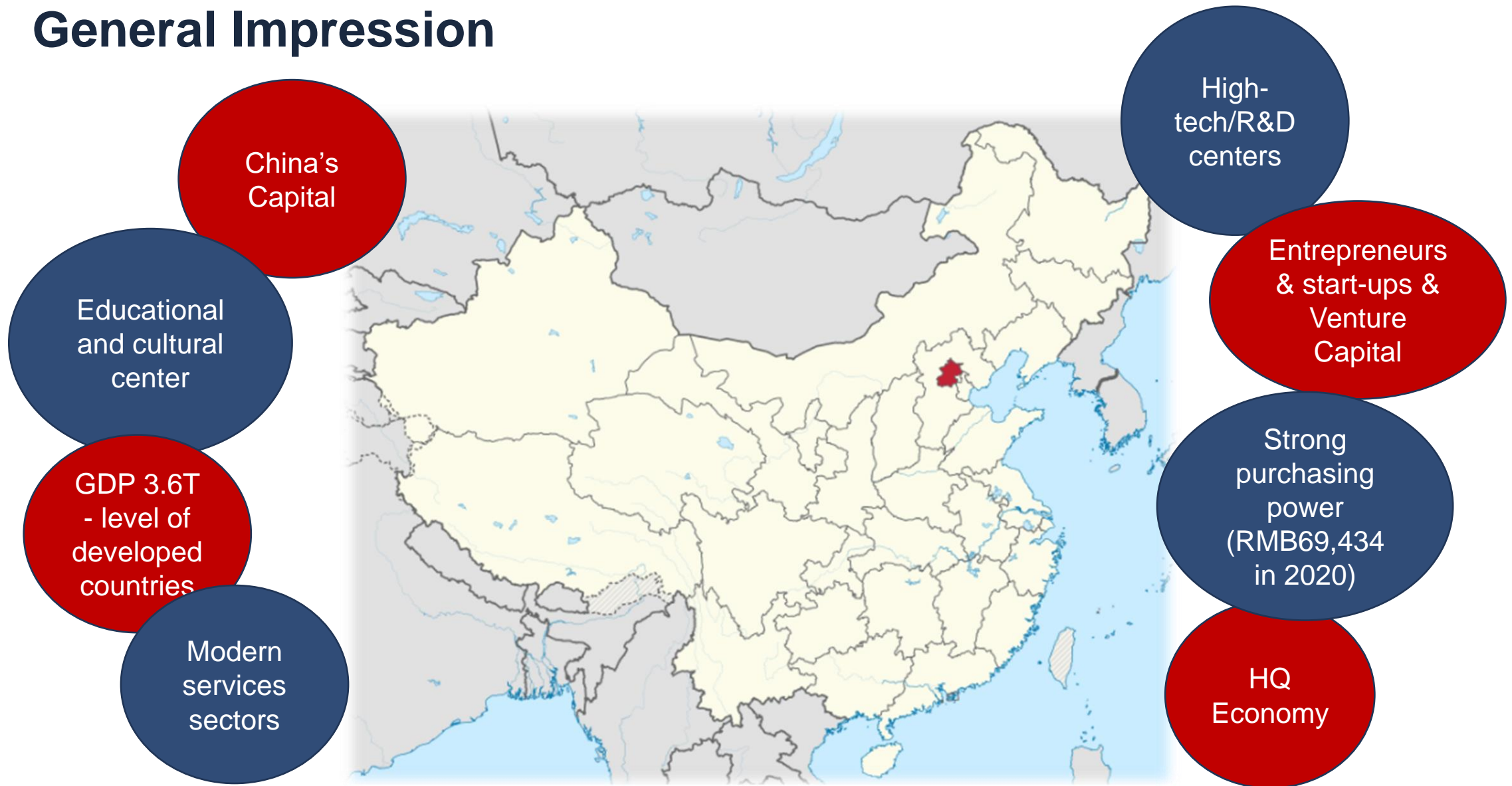
Beijing “facts” & Service Industry



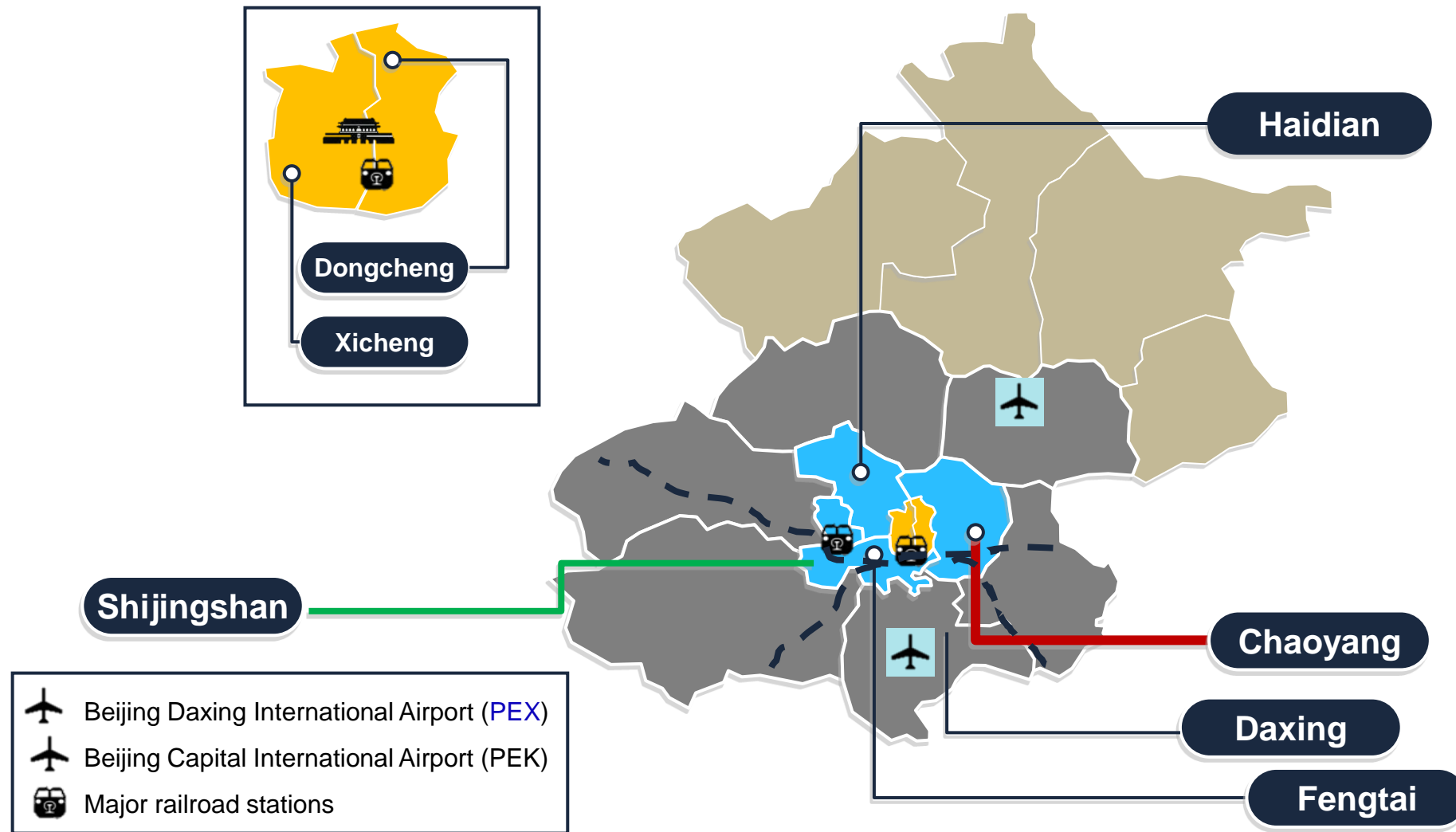


Beijing “facts”

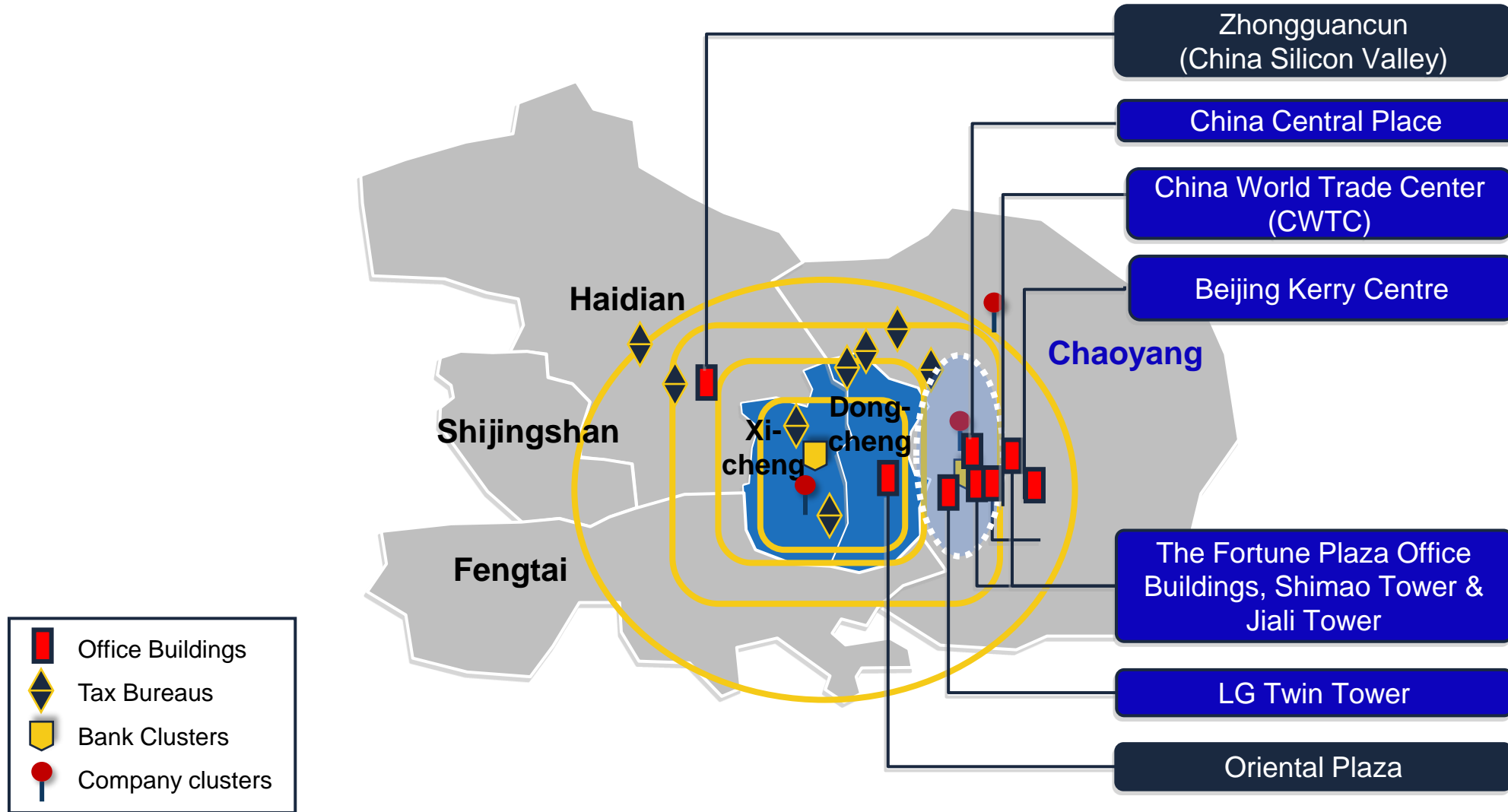
General Impression



A General Map of Beijing



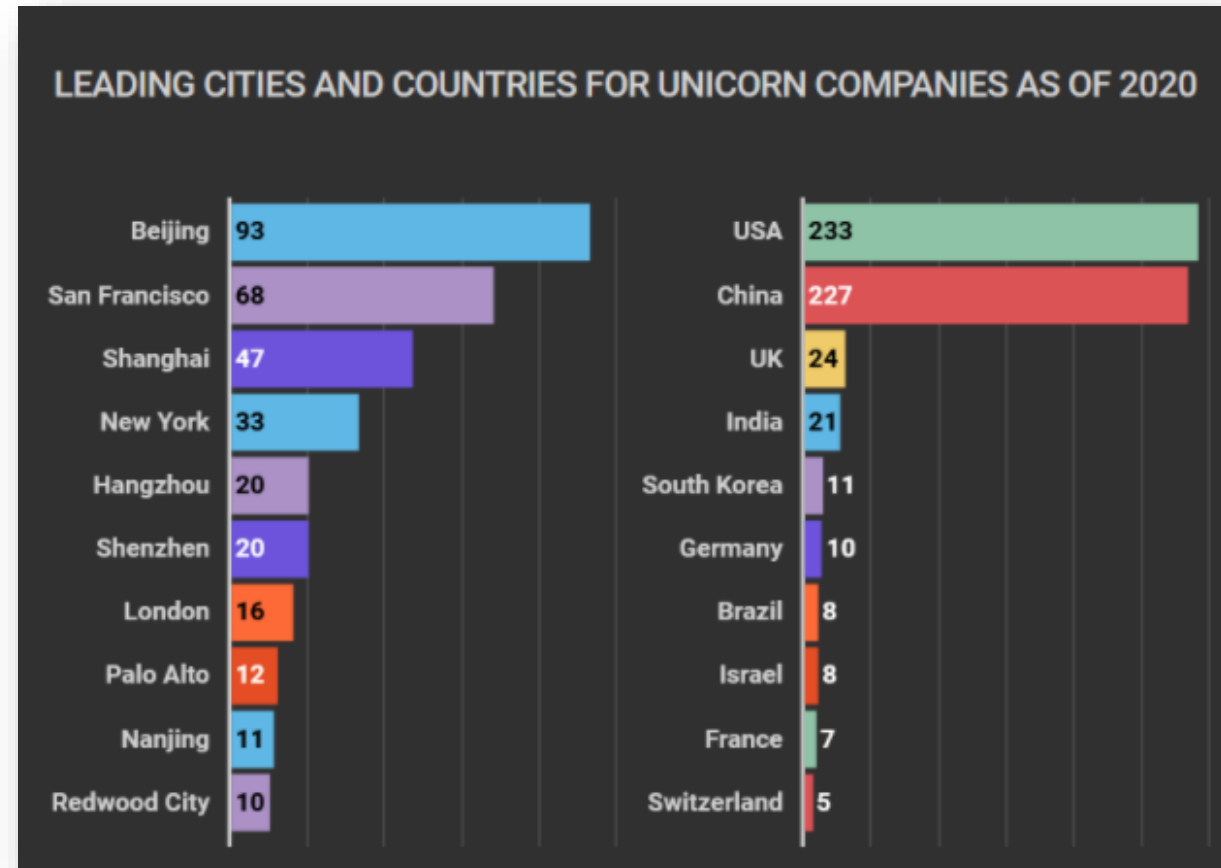
Popular Office Facilities





- Beijing is listed as the world's "unicorn capital," - Closing in almost **100 Unicorns** – Most In The World
- Beijing has 80% of Angle investors and 1/3 of equity investment institutions

The City of Unicorn



A unicorn company is a term used for a privately held startup that had reached a billion-dollar valuation



China's Service Sector

Investment outlook of China's services sector

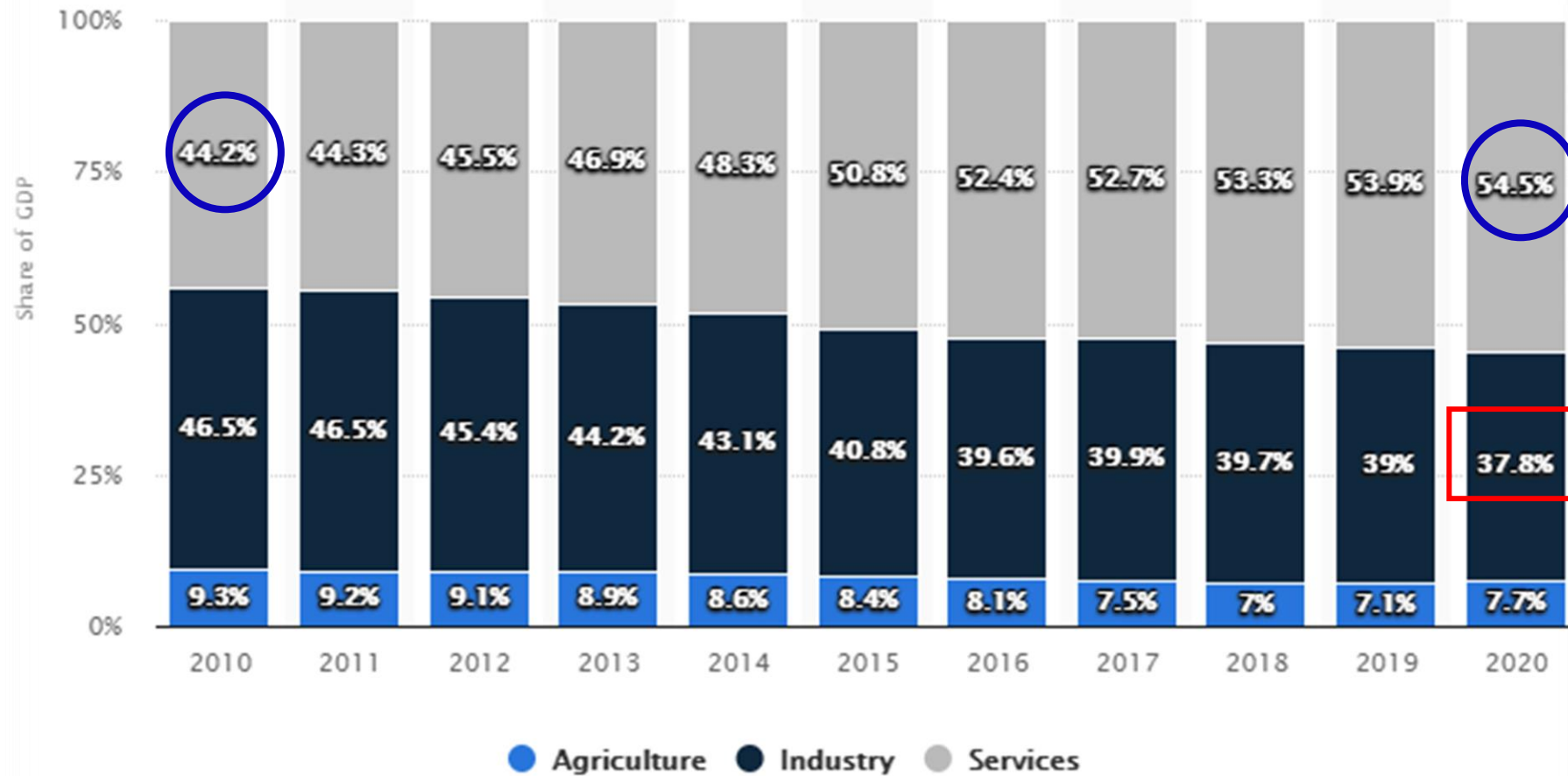
- China's service industry already outsizes manufacturing as a proportion of the country's GDP, with services trade growing at an average annual rate of 4.7 percent in the last five years
- Wealthier regions tend to have stronger services sectors because these industries provide more value-added production than manufacturing and resource extraction.
- The service industry is unique in that it depends on many soft factors of labor input (such as expertise and innovation) for its production → Services industries need highly educated and specialized workers

↪ an open and transparent business environment ↪ cross-border connectivity of information, data, capital, and personnel.

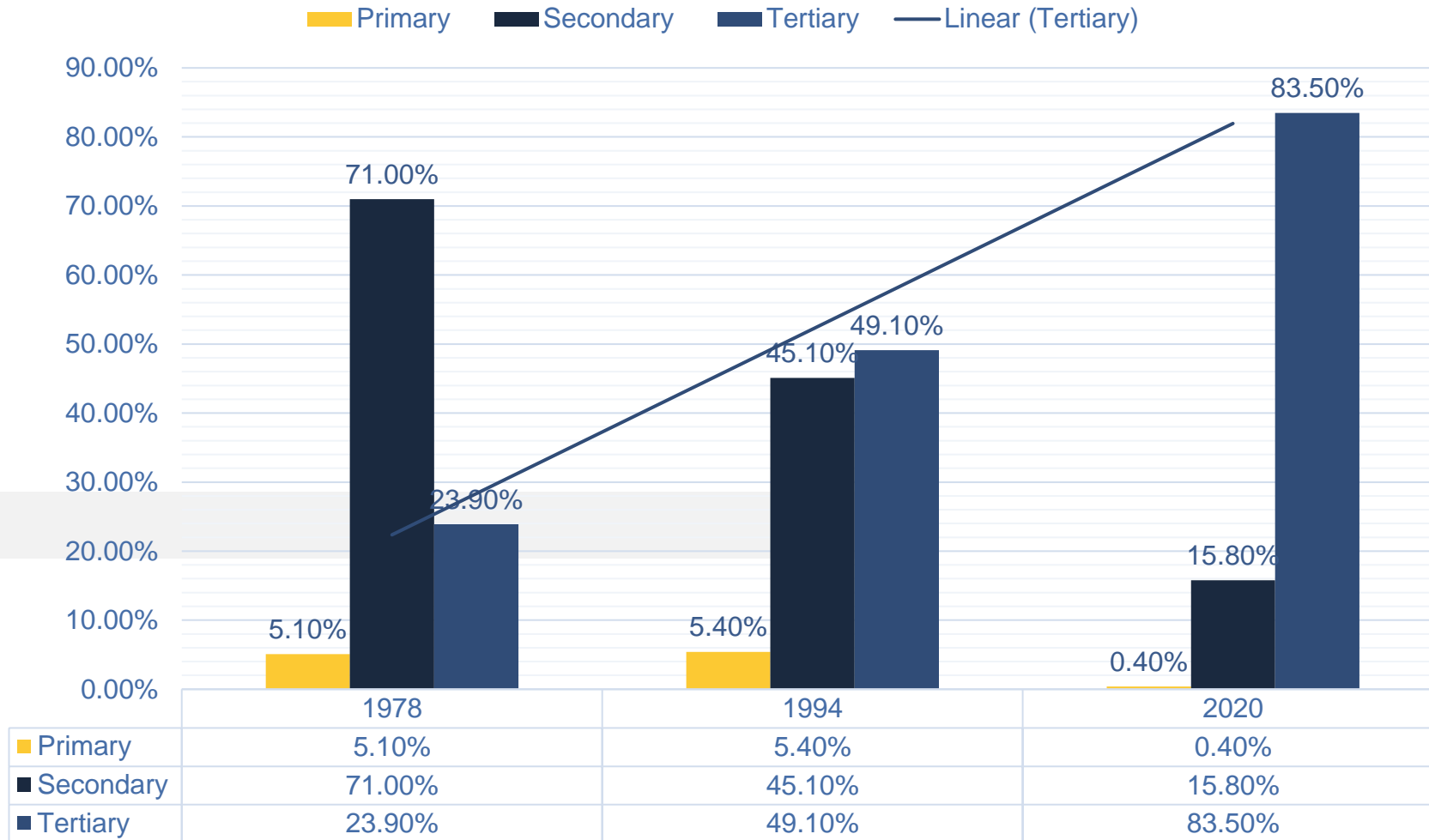
Conclusion: The service sector will continue to play a dominant part in the Chinese economy, as it sees this as not only being key to sustainable economic growth, but also a way to increase competitiveness and cooperation on the international stage.

China's GDP Examined: A Service-Sector Surge

A more sustainable post-industrial services and consumption-driven economy.



Beijing's Industrial Structure



China's 2020 (July) Amended 'Negative List'

- The role of FTZs as a pioneer in the country's reform and opening-up will be further strengthened.

Reductions in China's Special Administrative Measures Determining Access to Foreign Investment - Changes to the Negative Lists

■ National negative list ■ FTZ negative list



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Build A Beijing Sample

National Demonstration
Zone for Opening up the
Services Sector

(Beijing) Pilot Free Trade
Zone.

echo

Central government's Priorities:

- *Relaxing foreign investment restrictions*
- *Promoting more convenient cross-border flows of capital*
- *Attracting professional talent*
- *Securing IP and data protection*
- *Digitalizing business processes*

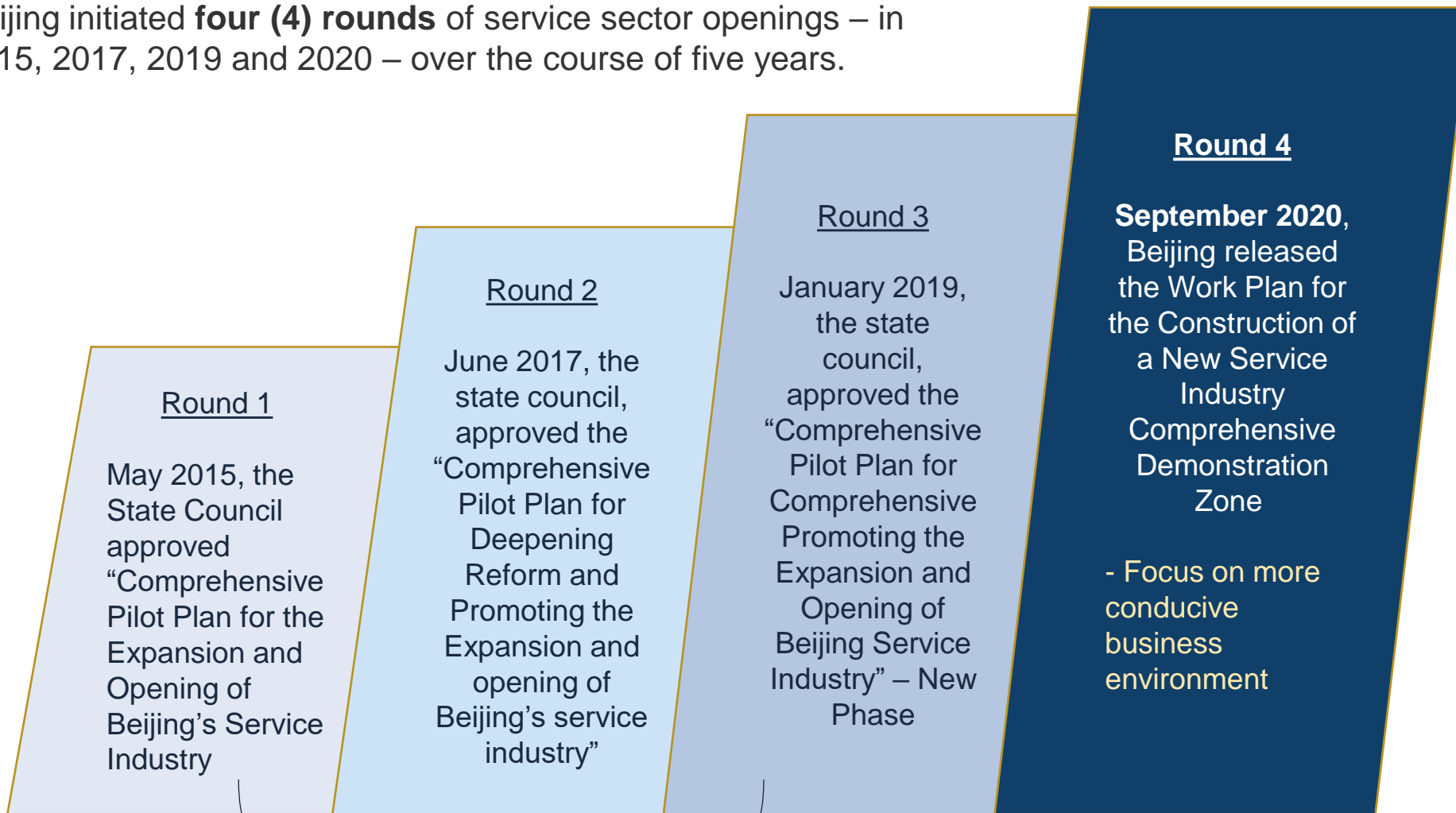
Section 2

National Comprehensive Demonstration Zones



The Service Industry Continue to Expand

- Beijing initiated **four (4) rounds** of service sector openings – in 2015, 2017, 2019 and 2020 – over the course of five years.



opening-up additional markets

Key Features: Work Plan 2020 “1+2+4”

- **One** work plan to build the comprehensive demonstration zone

- **Two** five-year development goals are:
 1. To optimize the business and policy environment for the service industry opening-up by 2025 by focusing on trade and investment convenient, marketization, and rule of law; and
 2. To establish an open system of service industry that adheres to international standards of economic and trade by 2030.

- **Four** major tasks comprised of 120 policies and measures that will make possible the gradual opening of the Beijing service sectors. These are:
 - 1) Deepening the reform and opening-up of key services industries;
 - 2) Promoting the expansion and opening-up of key parks;
 - 3) Forming institutional innovation system in line with international standards; and
 - 4) Optimizing the supply factors for the service industry

1) Deepening the Reform and Opening-up Key services industries

Science and
technology services

Digital economy and
trade

Financial services
(most attention)

Internet information
services

Business and cultural
and tourism industries

Education services

Health and medical
services

Professional services

Civil aviation services

Policies Highlights by Sectors

Sectors	Preferential Policies
Digital economy and internet sector: Virtual private network (VPN)	Foreign investors will be permitted to invest in Chinese domestic virtual private network (VPN) service enterprises, up to a 50% equity holding. Overseas telecom operators can provide domestic VPN services to foreign-invested enterprises (FIE) in Beijing via Chinese joint venture companies.
Private equity	Private equity fund managers may use WFOEs to conduct equity investment and asset management activities.
Financial Sector: Finance companies	Multinational enterprises (MNEs) may set up wholly foreign-owned enterprise (WFOE) finance companies in Beijing.
Banks	Foreign-invested banks can act as custodians of portfolio investment funds, can act as lead underwriter in the inter-bank bond market, and can obtain gold import licenses.
Professional services sector	<ul style="list-style-type: none"> • Foreign rating agencies may set up subsidiaries in Beijing, and conduct rating business in the inter-bank bond market and exchange bond market. • Foreign arbitral institutions and dispute resolution organizations may provide arbitral services.

Beijing's Service Industry Reform Work Plan – Opening-Up Policies in 9 Key Service Industries

Key sectors of the service industry	Key opening-up policies
Science and technology	<ul style="list-style-type: none"> Support the development of crowd-creation spaces and entrepreneurial bases through various methods, such as free funding, business rewards, and subsidies; Deepen the reform of the right to use, dispose of, and the right to income from scientific and technological achievements and carry out pilot projects for granting scientific research personnel the right to own or use long-term scientific and technological achievements.
Digital economy and trade	<ul style="list-style-type: none"> Accelerate the promotion of public data system: guide social institutions to open their data according to the law and support central-district data cooperation in specific areas; Create a digital trade statistics system that combines statistical data and business cases; and Improve the system of digital trade IP rights.
Financial services	<ul style="list-style-type: none"> Support wholly foreign-owned enterprises to apply to become private equity fund managers to carry out equity investment and asset management businesses; Support qualified financial companies to obtain qualifications for foreign exchange settlement and sales; Support foreign banks in obtaining securities investment fund custody qualification and participating in domestic gold and silver futures transactions; Support relevant third-party payment services through market-oriented operations, such as acquisitions and equity participations; Further promote the reform of the NEEQ, fully implement the registration system, and effectively improve the liquidity of the NEEQ market, and create a platform for SMEs; Establish a domestic listing service platform for foreign-invested enterprises and provide related services; Promote the separation of licenses reform in financial sector; and Spur on the operation of RMB international investment and loan funds in Beijing.
Internet information services	<ul style="list-style-type: none"> Open domestic internet virtual private network (VPN) services to foreign investment (not exceeding 50 percent of shares); Support the development of Internet of Vehicles and autonomous driving map applications; Build Beijing-Shanghai Internet of Vehicles highways; and Establish a website-filing system that meets the needs of overseas customers.
Business, cultural, and tourism industries	<ul style="list-style-type: none"> Support Wangfujing Pedestrian Street in taking the lead to create an international consumption environment; and Optimize the layout, logistics, and policies for duty-free shops in the city.
Education services	<ul style="list-style-type: none"> Encourage foreign businesses to invest in adult education and training institutions; Encourage foreign businesses to operate vocational skills training institutions and promote a number of new international cooperation demonstration projects; Increase the supply of international education; and Explore the introduction of examination institutions and international textbooks for science and engineering subjects.
Health and medical services	<ul style="list-style-type: none"> Support the establishment of international research hospitals for the purposes of boosting pharmaceutical R&D; Improve efficiency of approval for medical device innovation; Support national Chinese medicine key institutions and service export base to explore the international market; and Explore land study supply policies that guarantee the smart-city construction of elderly care service system.
Professional services	<ul style="list-style-type: none"> Implement pilot projects for accounting firms to set up branches in pilot free trade zones; Establish a mechanism of "past qualifications" to better allow qualified professionals in finance, architecture, and other fields to apply for work and residence in Beijing; and Allow well-known arbitration institutions and dispute resolution institutions to be in specific areas of Beijing.
Civil aviation services	<ul style="list-style-type: none"> Support enterprises to enhance their competitiveness in the international aviation equipment maintenance market; Encourage Chinese and foreign airlines to operate international routes; Build an international air cargo system, and support the expansion of cargo rights; and Improve the functions of airports, enhance high-end logistics capabilities, and expand import functions such as complete vehicles and parallel imported vehicles.

Beijing's Service Industry Reform Work Plan – Expansion and Opening up of Key Service Industry Parks

2) Key Industrial Parks



Venture capital cluster:

- 1 Zhongguancun National Independent Innovation Demonstration Zone (中关村国家自主创新示范区)

Digital trade development:

- 2 Zhongguancun Software Park (中关村软件园)
- 3 Beijing Daxing International Airport Economic Zone (北京大兴国际机场)

Scientific and technological innovation and development:

- 4 Future Science City (未来科学城)
- 5 Hualou Science City (怀柔科学城)

Cloud application and open-source software development:

- 6 Haidian Park in Zhongguancun (海淀园)

Financial technology innovation:

- 7 Financial Street (金融街)
- 8 Lize Financial Business District (丽泽金融商务区)

Cultural innovation:

- 9 National Cultural Industry Experimental Zone (国家文化产业创新实验区)

Integration and development of culture, sports and tourism:

- 10 Tongzhou Cultural Tourism Zone (州文化旅游区)

3) Institutional Innovation System

4) Supply Side Reform

Beijing's Service Industry Reform Work Plan – Institutional Innovation and Supply Factor Optimization Measures		
	Forming an institutional innovation system	Optimizing supply factors
Types of policy measures	<ol style="list-style-type: none"> 1. Liberalize and facilitate trade and investment 2. Improve fiscal and taxation support policies 3. Optimize supervision and service levels 4. Strengthen protection of IP rights 5. Promote the coordinated development of the industrial chain and supply chain 6. Carry out policy linkage Innovation 	<ol style="list-style-type: none"> 1. Facilitate the cross-border flow of funds 2. Regulate the safe and orderly flow of data across the borders 3. Provide convenient pathways for travel and residence of international talents 4. Improve land support and technical guarantees
Examples	<ol style="list-style-type: none"> 1. Support the trial implementation of a "cross-border service trade negative list management model" in specific regions and relax service trade market access restrictions 2. Streamline business administrative services to a "single window" service and increase business application rate 3. Use blockchain technology to build Beijing-Tianjin-Hebei customs clearance and logistics data sharing platform 4. Promote coordinated development of industrial chain and supply and strengthen IP rights 	<ol style="list-style-type: none"> 1. Launch pilot program for the integration of domestic and foreign currencies 2. Support qualified foreign trade services enterprises in providing foreign exchange services for trade in goods for cross-border e-commerce 3. Allow exporters to make cross-border settlement in RMB for sales on overseas e-commerce platforms 4. Provide convenience for entry and exit of overseas high-end talents



**Tax Measures to Enhance
Beijing as A Services Hub**

IIT Rebates for Overseas High-End Talents *(Pending)*

- The foreign employees who hold foreigner work permit (Class A) would enjoy the IIT rebates if they meet the following basic requirements:
 - A permanent resident of Hong Kong or Macao, or individuals who have obtained Hong Kong residency through the Quality Admission Scheme, Taiwan residents, individual with foreign nationalities, or Chinese students or overseas Chinese who obtain long term residency in foreign countries
 - Individuals who work and pay taxes in the designated areas of Beijing (such as Core Area of the Capital (Dongcheng and Xicheng District), Beijing sub-center (Tongzhou District), Beijing Pilot FTZs, Zhongguancun Science City, Huairou Science City, Future Science City, Innovation Industry Cluster Zone, etc.) and work for a minimum of 90 days during the tax year
 - Individuals who comply with laws and regulations, ethics and integrity of scientific research

Note:

- The relevant implementation rules, including talents determination and rebates procedures, are still waiting for clarification in the follow up regulations.
- Beijing's IIT rebate policy for eligible overseas high-tend talents are very similar to that in the GBA.

Preferential Corporate Income Tax for Technology Transfer


- Chinese CIT rules provided an exemption for income from technology transfers between domestic enterprises, so long as transfer gains in a tax year did not exceed RMB 5 million (\$743,450).
- This has been raised to RMB 20 million, and the range of technology areas covered has expanded, for enterprises in the Zhongguancun technology hub.

Incentives for Corporate Venture Capital Enterprises (CVCEs)

Announcement No.63 (2020) setting out specific detail on the new incentives and applicable conditions.

Two conditions
(Must be met)

- Registration in the D-zone and is subject to taxation based on audited financial statements.
- comply with 1) the interim measures for the administration of venture capital enterprises (Decree No. 39) or 2) the interim measures for the supervision and administration of private investment funds (Decree No. 105) and should meet the filing and operational requirements of the regulations.



Period of shareholding	Preferential CIT policies	CIT Exemption
> 3 years	50% reduction	Shareholding ratio of individual shareholders at year-end] x [CIT liability for the year] ÷ 2
> 5 years	100% exemption	Shareholding ratio of individual shareholders at year-end] x [CIT liability for year]

Note:

Dividend derived from CVCEs by individual shareholders shall be subject to individual income tax (IIT)

Science and Technology sector:

High and new technology enterprise (HNTE)

Incentives

- Reduced CIT rate of 15% (standard CIT rate is 25%)
- Staff training deduction of 8% (special industries may qualify for 100% deduction)

Beijing is to simplify the HNTE status application process

- Integrated circuit
- Artificial intelligence
- Medicine, and
- Critical materials sectors.

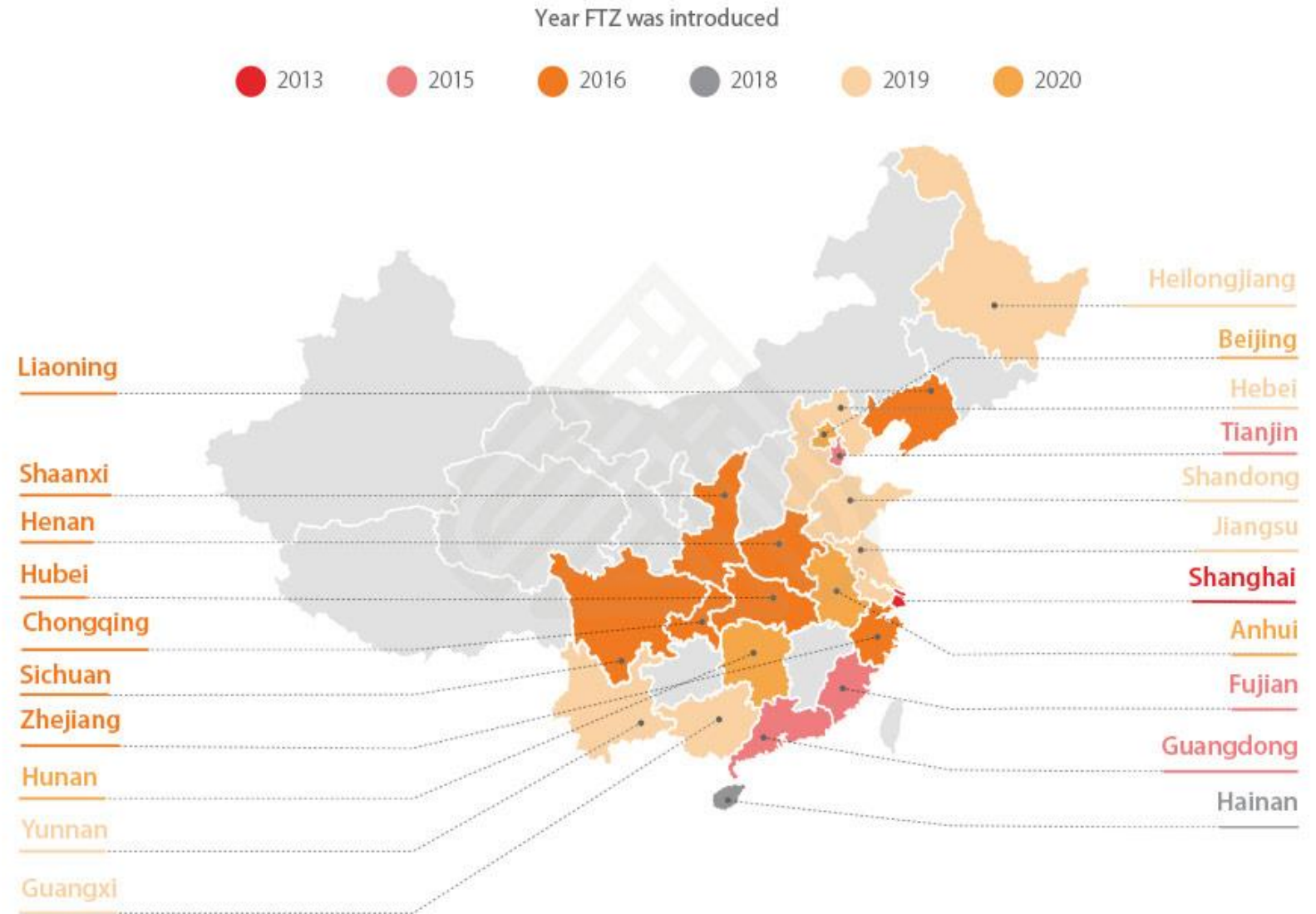
Section 3

Beijing Free Trade Zones (BFTZs)



FTZs in China

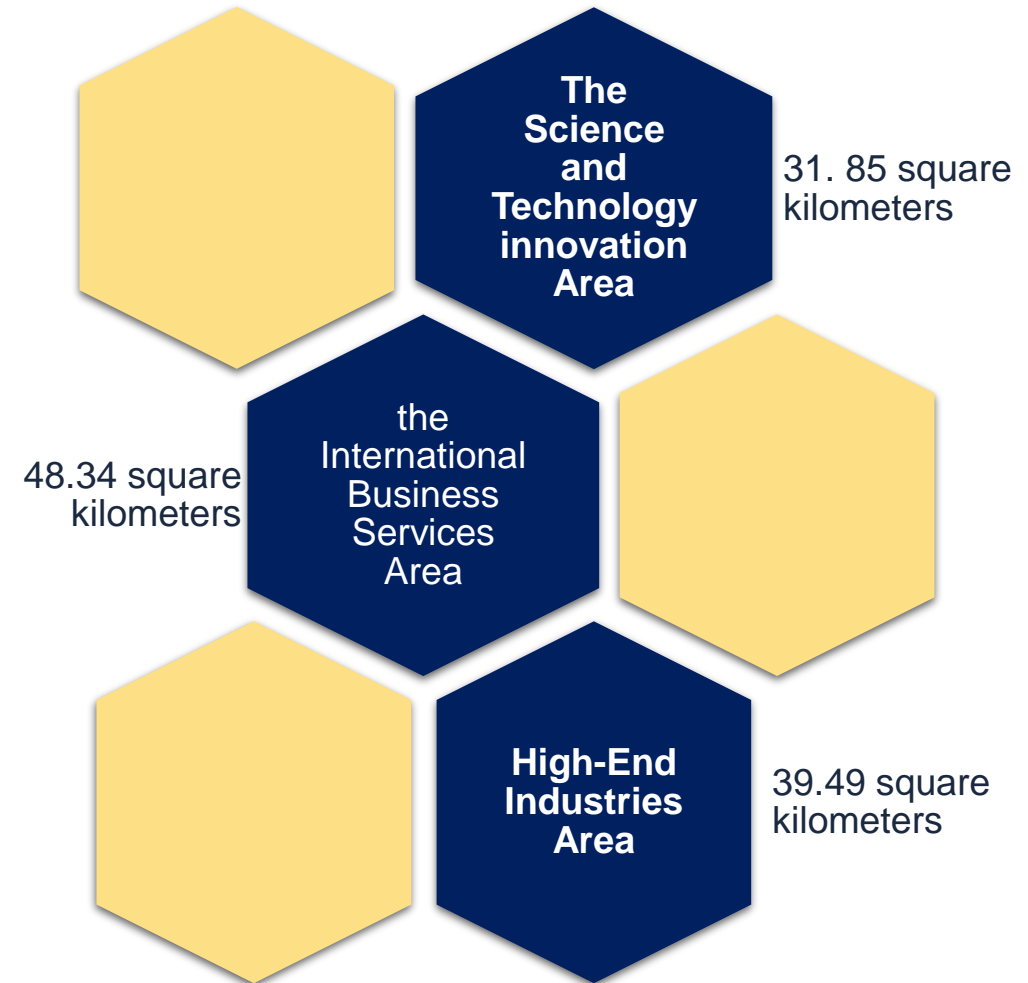
- Since the first one was established in Shanghai in 2013, China now has about 20 FTZs
- Strengthen cross-border business environment for the continued growth of the services sector



Beijing FTZs

Focus Industries:

- Service industry hub
 - Business, financial, cultural and film
 - biotech and health
 - civil aviation
- Technology Innovation Hub
 - New generation IT
 - Biology and health
 - Science and Technology
- Logistic and digital trade



Four Tasks unique to the Beijing FTZ

New service trade management models	Deepen the opening-up and innovation of the financial sector	High-quality development of advantageous Industries	Integrated development of the Beijing-Tianjin-Hebei region
<ul style="list-style-type: none"> • A negative list management model for cross-border trade in services • Innovation will be actively encouraged in tracing and supervising enterprises, transaction documents, personnel, funds, and commodities in the zone. • The FTZ will also make it easier for 'high-end talents' to obtain a visa for the purposes of research and development, training, or exhibition participation. 	<ul style="list-style-type: none"> • Establishment of a fintech center by the Digital Currency Research Institute of People's Bank of China (PBC); • Pilot zone for the legal development of digital currency and a digital financial system; • Pilot zone for scenarios of fintech application; • Formation of a standard system for trade finance blockchain based on the PBC's trade finance blockchain platform • Auto-financing companies in the region will be supported in carrying out cross-border financing. 	<ul style="list-style-type: none"> • Construction of international exchange centers • Meeting cultural and film consumer demand, • Innovations in the medical and health industry, and • The development of aviation services 	<ul style="list-style-type: none"> • Explore the pilot implementation of a more centralized administrative licensing system; • Support the establishment a national voluntary emissions reduction; • Simplify the process of introducing special talents • Standardize the system of cross-border green credit asset securitization, green bond, and green equity investments.

Implementation Rules for Pilot Reform of Foreign Exchange Management at FTZ (May 19th)

- Applicable to banks, domestic and foreign enterprises, non-bank financial institutions and individuals in the pilot zone
- Market entities in the zone shall have a real and legal basis for conducting foreign exchange transactions
- Must NOT use false contracts or other vouchers or fabricate transactions.
- In terms of current account business, if **a single** external payment, such as service trade, first income and secondary income, is equivalent to more than US\$50,000, the tax filing form shall be submitted according to the regulation.
- Companies registered in the zone can carry out capital account facilitation according to the JingHui (2020) No. 16 document.



**Beijing Economic and
Technological Development Area
(BDA) - E-town FTZ**

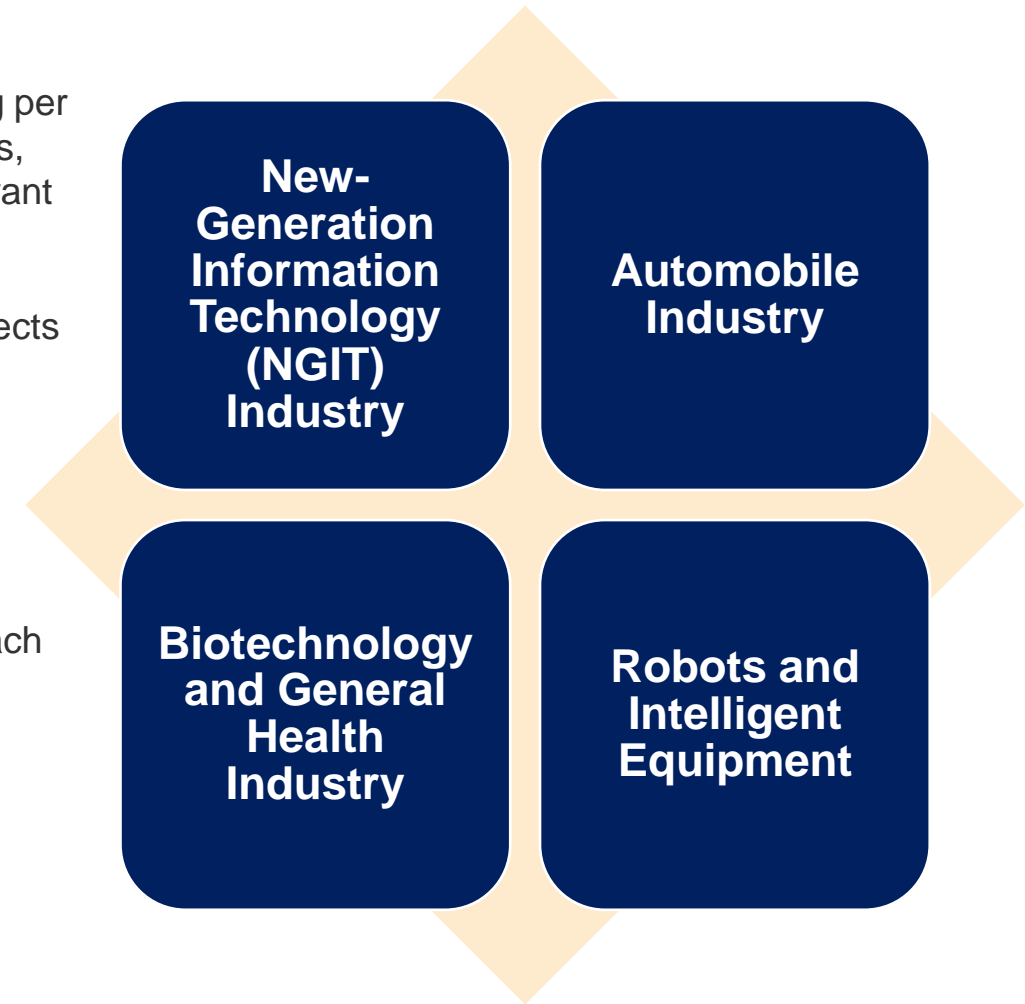
E-Town: Overview

- The Development Area has attracted over 20,000 enterprises from all over the world, and has gathered more than 90 Fortune Global 500 enterprises including Mercedes-Benz, ABB, Corning, Bayer, GE etc.



Leading High-end Industries:

- **30 specific measures + 10 million to 100 million yuan** in funding per project to support the area's leading industries, relevant R&D efforts, technological achievement transformation, and the building of relevant service platforms:
 - ❑ more than 10 advanced NGIT application demonstration projects every year, with funding support of up to RMB 100 million (US\$15.4 million) for each project
 - ❑ Capital support of no more than RMB 100 million (US\$15.4 million) for new energy or high-end automotive industries
 - ❑ A RMB 500 million (US\$76.8 million) fund will be set aside each year to attract talents for In the fields of finance and sci-tech business services
 - ❑ Encourage small and medium-sized enterprises (SMEs) to participate in sci-tech award competitions.



The Supreme People's Court (“SPC”) Backs Beijing Free Trade Zone

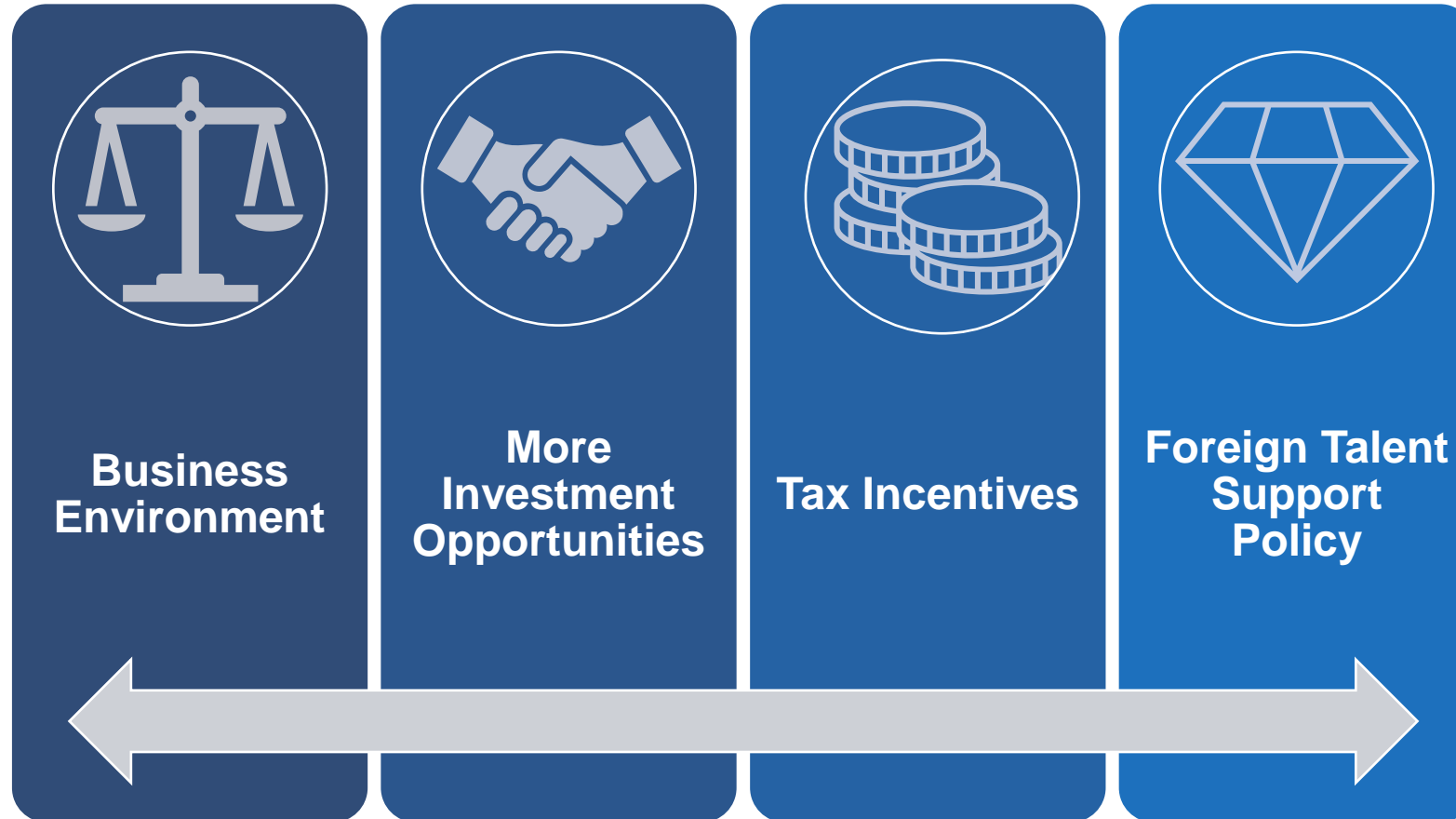
- On 26 Mar. 2021 - *the Opinions of the SPC on Peoples Courts' Providing Judicial Services and Guarantees on the Opening-up of the Comprehensive Demonstration Zone and Development of China (Beijing) Pilot Free Trade Zone for China's Services Sector in Beijing*
- Part 1 clarifies the overall plan of the courts in serving and safeguarding the development of the Two Zones in Beijing
 - Part 2 focuses on how courts safeguard technological innovation through the trial of intellectual property rights cases
 - Part 3 Three clarifies how courts facilitate the opening-up and development of **the service sector** in Beijing.
 - Part 4 demonstrates how courts support the development of **the digital economy** in Beijing.
 - Part 5 specifies how courts **improve their competency for hearing foreign-related cases** so as to build a world-class and law-based business environment in Beijing
 - Part 6 focuses on how courts participate in social governance so as to promote the coordination between Beijing and other municipalities.

Section 4

Opportunities for Foreign Investors: True or False?



Key Assessments:



Comparison of Investment Vehicles for Foreign Invested Enterprises (FIEs)

		Legal Status	Pros	Cons
RO Representative Office		<ul style="list-style-type: none"> - Not a legal entity, liabilities extend to parent company - Business scope limited to marketing , research, and liaison activities 	<ul style="list-style-type: none"> - Relatively short establishment process - Relatively inexpensive to register and maintain - No registered capital required - Paves way for future investment 	<ul style="list-style-type: none"> - Cannot directly sign contracts or engage in business activities - Cannot issue official VAT tax invoices (“fapiao”) - Cannot directly hire local employees (i.e. must use employment agency) and limited amount of visas - Typically taxed on a cost-plus basis
FIEs	WFOE	<ul style="list-style-type: none"> - Distinct legal entity (i.e. limited liability company), liabilities separate from parent company - Can conduct a full range of business activities within FDI restrictions and as specified in business 	<ul style="list-style-type: none"> - Can conduct a broad range of business activities - Can sign contracts and collect/disburse payments in RMB - Can issue special VAT tax invoices in RMB (“fapiao”) - Can directly employ staff 	<ul style="list-style-type: none"> - Registered capital required (minimum for selected industries) - Lengthy establishment process - Additional cash flow and funding considerations compared to RO
	JV	<ul style="list-style-type: none"> - Distinct legal entity (i.e. limited liability company), liabilities separate from parent company and limited to the registered capital amount - Can conduct a full range of business activities within FDI restrictions 	<ul style="list-style-type: none"> - <i>Some similar WFOE Advantages</i> - Can enter industries that by law require a local partner - Leverage partner’s existing facilities, workforce, sales and distribution channels 	<ul style="list-style-type: none"> - <i>Some similar WFOE Disadvantages</i> - Split profits with partner - Less management control than WFOE - Technology transfer/IP risks - Inheriting partner liabilities



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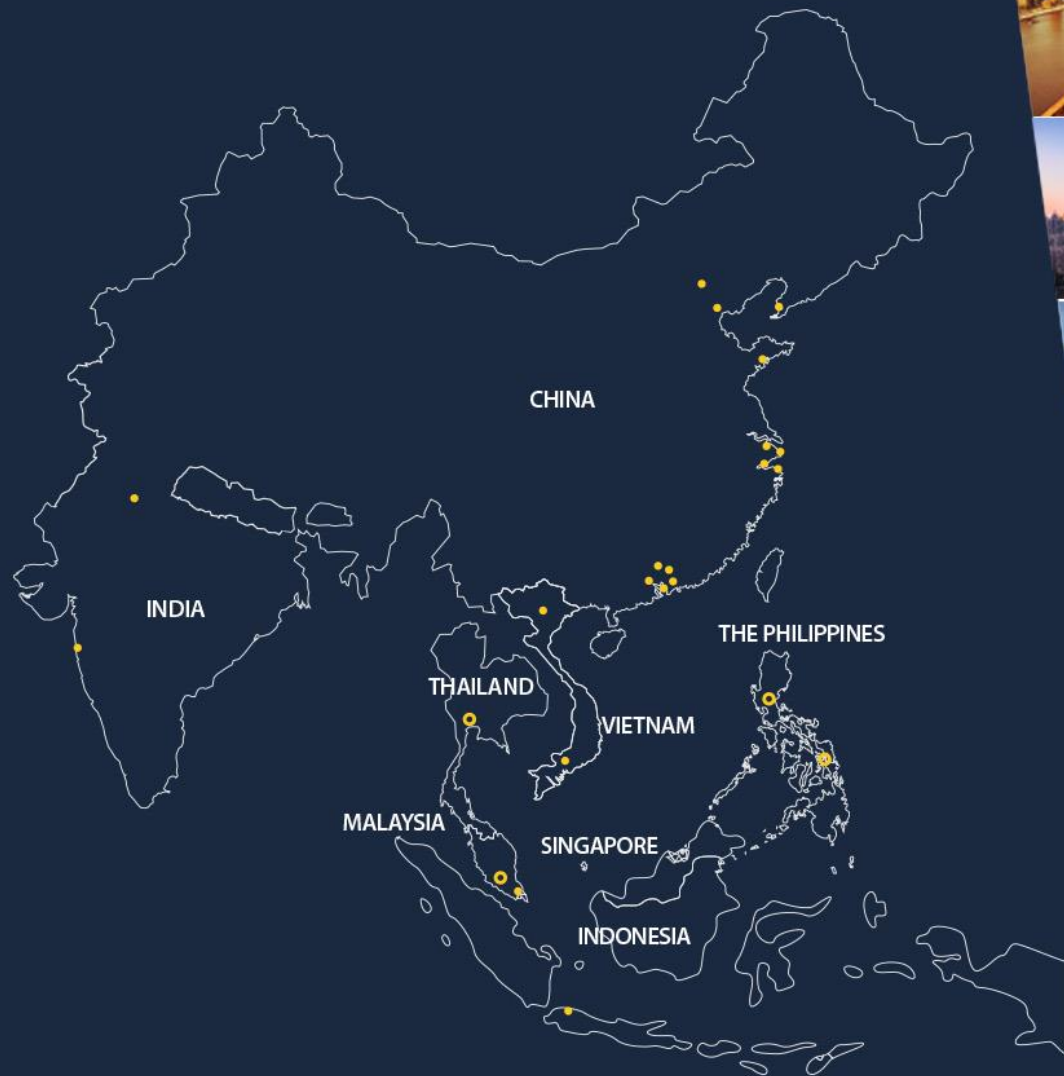
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