

Shanghai Pudong New Area Handbook

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PART ONE

SURVEY

OF

SHANGHAI PUDONG

NEW AREA

I INVESTMENT CONDITIONS

I. GENERAL INFORMATION

Shanghai's Pudong New Area, located to the east of the Huangpu River and southwest of the Yangtze River mouth, is adjacent to the present city proper of Shanghai. The planned area covers 522 square kilometres. The area, which borders East China Sea in the east and the Yangtze River in the north, occupies a position which is the intersection of China's golden coast and golden waters. Across from the Huangpu River, it is opposite to the downtown area of Shanghai and the famous "Bund". Pudong New Area has a plain terrain and a coast line of 65 kilometres.

With a northern subtropical climate, Pudong New Area has four distinct seasons and a pleasant, mild and moist weather, with an annual mean temperature of 16 degrees centigrade. The frost-free period is about 230 days a year. Pudong is sunny, with appropriate rainfall. It enjoys a felicitous ecological environment. It has a population of 1.38 million. Pudong, facing the city's centre — Puxi, is situated on the east bank of the Huangpu River. The name of "Pudong" appeared as early as the Jiajing period of the Ming Dynasty in "History of Shanghai County". After hundreds of years' development, especially that of recent decades development, Pudong has become a piece of rare treasure land with considerable basis for further large-scale development in coastal areas of

east China.

2. INDUSTRY

There are now around 2,000 enterprises and about 400,000 employees in Pudong New Area. The annual output value is about RMB 15 billion, accounting for 10% of the city's total. The major industries include petrochemicals, ship-building, iron and steel and building materials. The machine-building, light and textile industries in the area have also reached a moderate scale. The major enterprises are Shanghai Gaoqiao Petrochemical Corporation, Hudong Shipyard, Shanghai No. 3 Iron and Steel Plant and Shanghai Yaohua Glass Plant.

3. FINANCE AND COMMERCE

There are now 180 financial institutions at different levels subordinated to Agricultural Bank and Industrial and Commercial Bank in Pudong New Area. In 1990 the credit balance is RMB 2.8 billion, and the balance of deposits amounted to RMB 47 billion. To the end of 1992, the total sum of deposits amounted to RMB 23.876 billion in the domestic financial organizations in Pudong New Area. There are over 30 domestic financial organizations. There are over 2,600 shops in Pudong for commercial retail. In 1992, retail sale totalled RMB 2.2 billion. The commercial units of all

levels have a considerable storage capacity in Pudong.

4. AGRICULTURE, ANIMAL HUSBANDRY, NON-STAPLE FOOD AND FISHERY

Agricultural area covering over 348,000 mu in Pudong New Area is one of the major production bases in supply of agricultural products and non-staple food in Shanghai. There are nearly 200 production bases of non-staple food with livestock and vegetable sheds of 820,000 square meters and fish farms of 2495 mu. The agricultural output value in 1990 accounted for 7.8% of the city's total, among which the grain yield accounted for 7% of the city's total, the vegetables sold accounted for 8.8%, and the varieties of non-staple foods (meat, poultry, eggs, fish and milk) accounted for 10.8%, 3.7%, 9.3%, 20% and 14.9% respectively of the total supply by the city's suburban counties.

5. TRANSPORTATION

Along the east bank of the Huangpu River, there are now 186 berths, of which 35 are of 10,000-ton class, and there are 5 ports for loading and unloading; total area of warehouses is 261,000 square metres. They handled over 60 million tons of cargoes in 1990, accounting for 48.9% of the city's total cargo handling volume. For inland river transportation, there are 11 navigation channels for 20-ton-class ships and 160 berths with a freight handling capacity of 4.6 million tons. The total length of existing roads in Pudong is 411 kilometres; the artery road is Yanggao Lu, with six lanes and 24.5 kilometres long from north to south, and other roads are Pudong Nanlu, Pudong Dadao and Longdong Lu, etc.

For cross-river transportation, there are now 16 ferry lines for passengers and 4 ferry lines for motor vehicles and 2 tunnels, with a daily volume of 1.1 million passengers and 17,000 motor vehicles. The Yan'an Donglu Tunnel, with passenger transportation as its major function while cargoes transportation is subsidiary, is 2261 metres long, 7.5 metres wide for lanes and 4.7 metres high.

The Nanpu Bridge across the river in the city's downtown was open to traffic in 1991. It is 8346

metres long and 46 metres high for river transportation, with 6 lanes for motor vehicles and two pavements on both sides for sightseeing. Its capacity of a daily volume for motor vehicles is 50,000.

6. URBAN INFRASTRUCTURE

Water: The current capacity of daily water supply in Pudong is 427,000 tons, and the pipes are 390 km long.

Electricity: The supply of electricity, with a maximum load of 600,000kw, is mainly dependent on the East China electricity network, and the maximum consumption of electricity is 380,000 kw. The generating units with a capacity of 1.2 million kw of Shidongkou Power Plant and the generating units with a capacity of 600,000 kw in Wujing Power Plant was completed respectively in 1991 and 1992 and the electricity transmission and transformation projects for Pudong New Area are almost completed.

Gas: The first phase project of the Pudong Gasworks with a daily capacity of producing 1 million cubic metres has been put into operation. Pudong New Area will be supplied 14.38 million cubic metres annually. The second phase project of the Pudong Gasworks with a daily capacity of producing 1 million cubic metres was completed and put into production in 1991.

Post and Telecommunications: There are now 39 post offices and stations and 26 telephone bureaux and stations in Pudong. The capacity of telephone exchange system is 24,100 lines, telephones installed totalled 20,000 sets.

From 1980 to 1990, apartment buildings with a total floor space of 31.06 million square metres have been built in Pudong New Area, which form a dozen residential districts.

7. SOCIAL UNDERTAKINGS

There are now 330 colleges and schools of all sorts in Pudong New Area, among which one is university, 18 are professional and technical schools and 311 are primary and middle schools, and there are 34 scientific research institutions and 50 hospitals equipped. Cultural and sports facilities are under development. There are now 27 cinemas, 5 cultural centres and 7 spots for football, basketball and swimming.

II PROSPECTS OF DEVELOPMENT

I ABSTRACTS OF OVERALL PLANNING

(1) Objective of Overall Planning

According to the strategy of "Facing the world, facing the 21st century and facing modernization" to build a modern socialist international city, and according to the experience of new area development at home and abroad, Pudong New Area will be built, through efforts of several decades, into a modern city with rational development structure, advanced comprehensive transportation networks, perfect public facilities, convenient telecommunication system and sound ecological environment.

Pudong development will promote the regeneration and development of west Shanghai, restore Shanghai's function as a national economic centre, and lay foundation for Shanghai to become one of the economic, financial and trade centres in the Far East.

(2) General Layout

From the layout, the new area is framed on the north-south and east-west lines with five relatively independent comprehensive zones:

Lujiazui — Huamu, Gaoqiao — Waigaoqiao, Qingshi — Jinqiao, Zhoujiadu — Lilu, Beicai — Zhangjiang. Each

of them has its own functions, development mode and industry structure. Lujiazui is the finance and trade zone; Waigaoqiao, the free trade zone; Jinqiao, the export processing zone; Zhangjiang, the hi-tech park and Zhoujiadu, the industrial zone.

(3) Three Stages for Pudong Development

The first stage is the starting stage (1991-1995). The focus is planning, improving environment and completing river-crossing and avenue-building projects to pave the way for foreign investors while starting initial construction of the Waigaoqiao, Jinqiao, Lujiazui and Zhangjiang zones so as to attract both domestic and foreign investment and to exploit the functions and the advantage of the policies as much and as early as possible.

The second stage is the development stage (1996-2000) with a focus on urban infrastructure projects concerning avenues and public utilities to form a fundamentally complete structure in Pudong New Area. And the initial construction of the zones is expected to lead to a healthy cycle. Efforts will be focused on some zones to promote development and attract foreign investment.

The third stage is the full-scale stage (the first two or three or more decades of the next century). Full-scale construction will make Pudong a modern symbol of 21st-century export-oriented international metropolitan Shanghai.

(4) Plan for Urban Infrastructure

	Development Plan
Metro	As part of the city's metro system, the east-west line which links the city centre and which may extend to the airport will be given top priority; a south-north line will reach the centres of the five zones.
Harbour	Four quayside berths will be built first in Waigaoqiao Free Trade Zone. Dig-in berths will be designed and 30 to 40 deep-water berths will be built. The handling capacity will be 6 million tons a year in year 2000 and 22.4 million tons a year in 2020.
Airport	Shanghai's second international airport will be built somewhere by the Yangtze River.
Railway	A north-south railway will be built starting from Jinshan Subline to Waigaoqiao Harbour alongside the city's outer ring road. Stations for freight and passengers are planned to be built in the north and south, before the harbour and right at the centre of Pudong.
Inland River Transportation	The north-south Pudong Canal and the New Canal and the east-west Chuanyang River and Zhaoliagou Creek will form a transportation network with a capacity of 100 tons.
Telecommunications	Density 25 per cent by year 2000; density 40 per cent by 2020. Telephones computerised, network of telecommunications, cable, telex, television, micro-wave communications, and optical fibre communications; a network in Pudong, connected with the city network and the international network.
Power	Load density in urban areas 15,000-35,000 kw per square kilometre and 5,000-10,000 kw per square kilometre in other areas. A power plant in Waigaoqiao with an installation capacity of 1.2 million kw at the first stage and 3.6 million kw in the future, a circulation network of 500 kv and relevant 220 kv and 35 kv substations in other areas.
Gas	Civil gas utility 100 per cent, standard consumption 5-8 cubic metres per day per household. Gas utility 100 per cent in Pudong New Area, provided by Pudong Gasworks (2 million cubic metres per day), natural gas from the East China Sea and Yellow Sea will be the new gas sources for the city.
Water	700 litres per day per household in the near future and 900 litres in the distant future. One new water plant to be built in Lingqiao and Yangqiao areas respectively; the Lingqiao water plant will be built in the Eighth Five-Year-Plan period with a supply of 200,000 tons at the first stage and 400,000 tons at the second stage.
Heating	Centralized heating in various areas; standard for household heating is 35-45 watts per square metre; for public areas, 45-60 watts; daily hot water load index is 5-10 watts. Supply centralized heating in areas as demanded; co-production of heating and regional networks will be constructed.

Rain	Control of the storm according to the standard of once every year in general areas and once every three years in key areas. Pipes in the east of the Yanggao Lu via main waterways leading finally to the Yangtze River; pipes in the west of the Yanggao Lu leading to the Huangpu River.
Sewage	300,000 tons per day in Gaoqiao area led by the sewage project underway to the Yangtze River, sewage in Pudong mostly gathered by regional pipes; a second pipeline is built along Longdong Lu, releasing the sewage in the vicinity of Bailong Port in deep water after dilution; leaving space for two large sewage treatment plants.
Irrigation	Preventing the biggest flood according to the standard of once every 1,000 years along the Huangpu River, for the seawall of the Yangtze River, in the north of No. 5 Channel according to the standard of once every 100 years and 12th scale winds; in the south of No. 5 Channel once every 50 years and 11th scale winds; as to the drainage standard, once every 20 years. Waterway network expanding 17 major waterways, 10 west-eastward and 7 north-southward; 5 new drainage outlets, pump stations with installation capacity of 240 cubic metres per second.

2. ABSTRACTS OF OUTLINES OF THE PLAN FOR ECONOMIC AND SOCIAL DEVELOPMENT IN PUDONG NEW AREA

The main targets of development and construction, of Pudong New Area in the 1990s are:

(1) Target of Development and Construction

By year 2000, the total urbanized area in Pudong shall be over 100 square kilometres, including the newly developed 60-odd square km and the already urbanized area of 38 square km. The six key development zones — Waigaoqiao Free Trade Zone, Jinqiao Export Processing Zone, Lujiazui Finance & Trade Zone, Zhangjiang Hi-Tech Park, Wangqiao Development Zone and Liuli Industrial Zone — shall be built up by then. The major infrastructures with the main works as the comprehensive transportation network and the utilities works, will be basically finished. Therefore, the forming of a sound investment environment will provide a solid foundation for the further development in an all-round way.

(2) Target of Economic Development

Relying fully on the development of science and technology and the improvement of economic efficiency, the GNP of Pudong in 2000 will be sixteen times as

much as that of 1990. Calculating by the constant-price of 1990, the GNP of Pudong in 2000 is expected to total RMB 50 billion. The average annual growth rate of GNP during that period will keep at about 2.6%. And the proportion of Pudong's GNP in Shanghai's total will reach 25% in 2000 from the 8% of 1990.

(3) Target of Social Development

This is to bring about the overall prosperity of the social undertakings as science, education, culture and public health and to improve people's living standards to a comparatively well-off level. By the year 2000, the population of Pudong will hit two million, among which about 1.35 million living in urban area. Their consumption capabilities, living conditions and working environments shall be better than in the West Shanghai.

(4) Target of the Reform of Economic System

According to the real situation and characteristics of the opening and development of Pudong, bolder exploring steps will be taken in order to make Pudong a comprehensive pilot testing area of China in 1990s. At the end of this century, Pudong will be the first in China where the socialist market economic system has been established, providing the efficient incorporation of the domestic market with the international

al market, the New Area with the old city and the planning readjustment with the market forces.

(5) Target of the Construction of Spiritual Civilization

In ten years' time, the socialist spiritual civilization will be promoted to a new level in Pudong. In the process of more opening and development, patriotism, belief in socialism and collectivism will be brought up, advocated and promoted. Efforts in keeping up the national spirit, improving the general mood of society and promoting the professional ethnics and social-morality will help to develop both spiritual civilization and material civilization coordinately.

In early next century, the modernization of Pudong New Area will play a leading role nationally in the following six aspects:

(1) Establishment of First-Class Infrastructure

The infrastructure of Pudong, such as the comprehensive transportation network, the communications network, the high-quality gas from multiple sources, the purified water and the common underground trench, will all be planned in accordance with the world advanced level. In a planned way they will be finished by several stages. After the completion of these projects, a well-supported municipal infrastructure network on land, water and in air with rational distribution will take shape.

The Infrastructures to be built from 1990 to 1995 are as follows:

the Nanpu Bridge, the Yangpu Bridge, the Inner Ring Road of Shanghai, Yanggao Lu, the Waigaoqiao Port, the Gas Works, the Waigaoqiao Power Plant, the Water Supply Project, the Communications Service Network, the Pudong part of the Sewage Discharging Project.

The Infrastructures to be built from 1996 to 2000 are as follows:

A. Transportation

No.2 Huangpu River-crossing Metro Line, the third Huangpu River-crossing Tunnel, the Pudong section of the Outer Ring Road of Shanghai, the Yangtze River-Crossing Project from Pudong to Chongming to Qidong (Jiangsu Province).

Meanwhile, construction of Shanghai's second international airport, the main railroads, and the expansion work of the Waigaoqiao Port will be started. Also, preparation work shall be done for dredging the main

channels at the Yangtze River mouth.

B. Utilities

The second phase project of the Waigaoqiao Power Plant, the second phase project of the Water Supply Project, the Pudong Pivot of Communications and the General Pipeline of the Sewage Discharging Project in Southern Pudong.

After the completion of these projects, the power supply capacity will hit four million kilowatts, the daily water supply 825,000 tons and the telephone possession rate 40 per 100 persons.

(2) Establishment of the Nation's Biggest Business Centre

By the year 2000, about 150 skyscrapers such as financial buildings, trade centres, shopping centres, exhibition halls and conference centres will be built up in a 28-square-kilometre Lujiazui Finance and Trade Sub-area, providing spaces for thousands of foreign and domestic companies. Thus, China's biggest CBD network consisting of four big centres of finance, trade, distribution and information will be set up.

A. Trade

According to the requirements of greatly developing trade, market and circulation, we will avail fully of the open policy of Pudong and the productive advantage of Shanghai and the Yangtze River Delta so as to expand the scale of trade. It is expected that by the year 2000, total domestic and foreign trade volume will top RMB 7.8 billion with an annual average growth rate of 41%. While breaking down the restrictions between the administrative districts; encouraging the companies from other areas of China to come here which may bring combinations of production with trade, domestic trade with foreign trade, retail with wholesale, exposition with commerce, operation with information, and domestic investment with overseas investment; several trading centres as the domestic and international entrepot trade centre and the bonded warehouse centre in Waigaoqiao Free Trade Zone; the national and regional industrial consumption commodity centre, the wholesale market for means of production and agricultural and sideline products, the futures market and the shopping centres in Lujiazui Sub-area will all be established. Also, more commercial stores will be opened.

B. Finance and insurance

Finance and insurance will be the major industry in the 21st century in Pudong New Area. It is estimated

that the GNP will amount to RMB 5.8 billion, with annual increase of 40%. New pattern of financial business will be formed with further expansion of financial organizations, extended branches, businesses, multi-functions and independent operation. Foreign banks will be actively introduced to set up Sino-foreign invested financial organizations, and the scope of business will be expanded gradually. Different kinds of domestic financial organizations will be established to raise the ability of financing business and strengthen contract with international financial market. The securities exchange and foreign exchange centre will be established and perfected so as to form Shanghai financial district with the integration of Lujiazui area and the Bund in West Shanghai. Meanwhile, an off-shore international financial market will be set up in Waigaoqiao Free Trade Zone.

C. Information and consultancy

The business is a great potential industry in Pudong, it is also an important part of Pudong investment environment. The advanced equipment and measures will be introduced to perfect and reinforce the outwardly-oriented information network so as to provide market and economic information both at home and abroad. The objective is to build Pudong into an important information centre in China and in the Asia-Pacific region.

Moreover, the new area tourism business will be greatly developed to match the construction of commercial centre. In the triangle green area in Pudong, a tourist and recreation area of 10 square kilometres will be built. Foreign investment will be invited to participate in the development to build a world's fair, international conference centre, sports park, holiday villa, automobile race tracks and large-scale recreation facilities like the Disney Land. At the same time, a national-level holiday district will be established on the Hengsha Island. The project will enjoy the preferential treatment of Pudong New Area to build a centre of on-water activities, international night-club, yacht club and shooting range. The Hengsha Island will become a holiday resort for foreign tourists, foreign residents in Shanghai and compatriots from Hongkong, Macao and Taiwan.

(3) Establishment of the Most Advanced Hi-Tech Industry and Export Processing Base

Relying on the advantages of Shanghai's industry and technology, and applying Pudong's preferential poli-

cies, a high-tech park will be built in Zhangjiang area with four major functions of information, development, transportation and industrialization to form a development base to accommodate 100-odd organizations, 30,000 employees and over ten thousands expertise staff of all kinds. Export processing zone will be built in Jinqiao and other industrial zones with the function of market-guided and high-tech added orientation so as to play the role of "Dragon Head" to drive the industrial development in Shanghai and the Yangtze River Basin.

A. Hi-tech and new industries

The development will emphasize on modern electronic information, bio-technology, new materials, astronautics and aviation and off-shore natural gas. It is planned to build bases of super IC development and production, computer software, component production for aircraft, East China Sea natural gas development, bio-engineering for pharmaceuticals, Chinese telecommunication industry for digital and programmed exchange equipment.

B. Machinery and power industry

The industry should be put in an important position. Electronic technology will be applied for renovating the industry to upgrade products' technological performance and the whole level, and to form production scale. The emphasis is on the development of digital machine, satellite ground application products and other high performance machines for light and textile industry in order to supply technological equipment for Shanghai and the country's economic development.

C. Shipbuilding industry

It is our aim to fully utilize the existing shipbuilding enterprises in Pudong for transforming the old enterprises by new technique; vigorously promote the development of the new ship models and the domestic accessory production; and to expand the businesses of export and ship-repairing. A 100,000-ton-class wharf will be built in the 1990s for further expansion of big ship export.

D. Export processing industry

Based upon the existing industrial foundation in Pudong and in light of the industrial readjustment in West Shanghai, main efforts will be made in attraction of foreign investment in the overall technological transformation of the petrochemical, chemical, building materials, machinery and electronics and light and textile industries; in the development of a range of key export products and in the development of the

export ability of Pudong.

(4) Establishment of a Comprehensive Free Trade Zone with the Most Flexible Policy in China

Learning from the successful experience gained by other countries, we are now building Waigaoqiao Free Trade Zone, which has an area of ten square kilometres. With its main emphasis on the development of entrepot trade, bonded warehousing, export processing and the absorption of foreign investments, it will be built into China's biggest regional international trading centre and off-shore financial centre.

(5) Establishment of a Most Advanced Rural Industry

In accordance with the principle of the integration of rural areas with urban areas, we'll endeavour to adjust greatly the agricultural structure and its layout, popularize and apply the advanced technologies and management. Therefore, a special production base will be set up where great efforts will be put in developing foreign exchange-earning agriculture, tourism agriculture, fine agriculture as well as the outwardly-oriented, modernized rural industry in the garden-like areas.

A. Planting

Some grain planting areas should be further used for planting vegetables, fruits, flowers and hard currency earning economic crops.

B. Rare products

Rare products with good quality and high price for hard currency-earning that serves big hotels in the city should be developed and the supply of good quality non-staple food should be increased.

(6) Build Up High-grade Residential Areas with Best Service Conditions in the Nation

The standard of the residential area in Pudong should be 100 square metres of comprehensive using land and 20 square metres of public green land for one family, one room for one person in average, telephone lines generally used by the residents, and

100% gas usage rate. Small residential areas will be built and the old areas will be rebuilt. At the same time, we will intensively manage the utilities, greatly improve the level of average medical health, education, culture and entertainment and commercial service net to form modernized high-quality residential areas with comfortable environment and convenient service.

A. Education

Up to year 2000, we will build middle schools, primary schools, kindergartens and several international schools which are the accessories of the 30 small residential areas. We will also establish several senior high schools including Jingcai Middle School, a middle school attached to a normal university, an experimental school and a foreign language school. A municipal-level training centre will be built. In every small area will be established a multi-functional training centre for both before and after employment. Several universities and colleges will also be established.

B. Culture

A batch of major construction projects such as the 450-metre-high TV tower and the entertainment centre, opera, multi-functional cinema, writing centre, movie city, technology library as accessory and several social public culture activity places and facilities will be built up as priority in order to meet with the people's increasing requirement of culture and the new requiring of opening to the world.

C. Health and sports

Six municipal hospitals and control health centres including the Sino-American Medical Centre for Children will be built. A batch of wards for foreigners will be built, and a batch of district medical and health organizations will be rebuilt or newly built. Up to year 2000, hospital bed per capita in Pudong will be more than that in Puxi. The sports facilities will be built for the need of entertainment, making profits and convalescence and for the need of international sports interchange. A sports centre and a golf course will be built to meet with the requirement of development and opening of the Pudong New Area.

III INVESTMENT CLIMATE

I. PREFERENTIAL POLICIES OF PUDONG NEW AREA AND THEIR CHARACTERISTICS

To encourage overseas investors to invest in Pudong New Area, the concerned departments of the Central Government and Shanghai Municipal People's Government have formulated preferential policies in accordance with the spirit of the concerned documents of the Central Government. So far, 14 documents have been issued. These documents have some noticeable characteristics focused as follows:

A. Foreign investors shall be allowed to run tertiary industries such as department stores and supermarkets in the New Area. Recently, the Shanghai First Yaohan Co. Ltd., a Sino-Japanese joint venture, has been approved to establish by the State Council. It is the first large-scale joint venture supermarket in China, and this kind of projects shall be developed continuously.

B. Shanghai is permitted to set up stock exchange and to issue A Share Stock and B Share Stock by itself for Pudong development.

C. The Waigaoqiao Free Trade Zone, which enjoys the greatest openness in the nation, will be established. The free trade zone is characterized by its exemption of duties, exemption of licenses, being permitted to establish international trade organiza-

tions by foreign or domestic investors and retain all the foreign currency earned, and the circulation of foreign currencies within the free trade zone.

D. Overseas investors are permitted to establish financial institutions such as banks, financial companies and insurance companies.

E. The central government has granted more decision-making power to Shanghai with respect to approving manufacturing and non-manufacturing projects, and granting import and export right to the enterprises in Pudong New Area.

In addition, the preferential policies for investment in Pudong are also mainly reflected in the fields of Customs duties, the consolidated industrial and commercial tax and income tax, and the practice of the "most-favoured system" in the free trade zone. Their main points are as follows:

(1) Exemption of Customs Duties and Consolidated Industrial and Commercial Tax

Domestic and overseas funded enterprises can get preferential treatment of the exemption of Customs duties and the consolidated industrial and commercial tax if they import goods as listed below:

A. Machinery, equipment, vehicles, building materials that are used in the construction of the said enterprises;

B. Equipment and spare parts, vehicles, components,

raw and auxiliary materials and office appliances that are used for the enterprises' own use;

C. Household ware and vehicles for foreign businessmen's own use in setting up home in the New Area;

D. Transit goods in the free trade zone and export goods produced or processed by enterprises in the free trade zone;

E. The goods transported into the free trade zone from non-zone area shall be treated as export. Enterprises can apply for refund of product tax and value-added tax assessed in production. The imported materials contained in the export products can be exempted from tax.

(2) Reduction of Consolidated Industrial and Commercial Tax

The consolidated industrial and commercial tax shall be reduced for overseas funded enterprises in the following list:

A. Foreign banks or branches, Sino-foreign jointly invested banks and financial companies and other financial organizations shall pay the consolidated industrial and commercial tax at the rate of 3 per cent from loan business.

B. Foreign banks and branches, Sino-foreign jointly invested banks and financial banks and other financial organizations shall pay the consolidated industrial and commercial tax at the rate of 5 per cent from other financial business.

(3) Exemption and Reduction of Income Tax

A. "Five years of tax exemption and five years of tax reduction by half" (Namely, five years of enterprise income tax exemption and five years of enterprise income tax reduction by fifty percent). Foreign investment in port, airport, railway, highway, power station and other energy or transportation construction projects shall pay at the rate of 15 per cent of the enterprise income tax. For those enterprises with an operation period of over 15 years, an exemption from enterprise income tax for five consecutive years starting from the first profit-making year shall be granted and a 50 per cent reduction is allowed from the sixth to tenth years.

B. "Two years of tax exemption and three years of tax reduction by half". Foreign investment in industrial production shall pay enterprise income tax at rate of 15 per cent. For those enterprises with an operation

period of over 10 years, an exemption from enterprise income tax for two consecutive years starting from the first profit-making year shall be granted and a 50 per cent reduction is allowed from the third to fifth years. Technologically advanced enterprises may pay the enterprise income tax at a reduced rate of ten per cent for another three years when the period of enterprise income tax exemption and reduction expires.

C. "One year of tax exemption and two years of tax reduction by half". Wholly foreign-owned banks, Sino-foreign jointly invested banks and financial companies shall be exempt from tax in the first year, and reduced of tax by 50 per cent from the second to third years. Those with paid-in capital totalling over US\$ 10 million and with business period exceeding 10 years shall pay at the reduced rate of 15 per cent of the enterprise income tax.

(4) Special Policies for Free Trade Zones

A. Foreign businessmen are allowed to set up trade organizations in the free trade zone to engage in entrepot trade or act as import agent for enterprises within the zone. Industrial production enterprises will be granted the right for import and export.

B. Upon approval from departments in charge, foreign-funded enterprises in the zone may do simple processing in warehouses; enterprises in the zone may entrust enterprises outside the zone to do manufacturing.

C. The imported goods for self use, the goods in bond and manufactured products of enterprises and organizations in the free trade zone can be transferred and sold to other enterprises in the zone or used for other purposes without prior approval from the Customs.

D. For imported materials and spare parts used for the production of export products and finished export products by enterprises in the zone, a simplified method that enterprises in the zone establish special account books to be verified by the Customs in general will be used to replace the "register hand-book".

E. After verification, foreign businessmen can directly enter the free trade zone by presenting their passports and valid documents evidencing their commercial activities.

F. The following goods are exempt from import and export license:

a. Machinery, equipment, construction materials, production use vehicles, means of transport and office appliances imported from overseas for uses in the free trade zone;

b. Imported raw materials, spare parts, components, fuels and packing materials that are used for the manufacturing of export products;

c. Imported entrepot goods that are stored in the zone;

d. Products that are manufactured in the zone and shipped out of China.

A series of special policies are implemented for the management of foreign currencies. They are mainly:

a) Enterprises in the zone can keep the foreign exchange cash for circulation and do not need to settle foreign exchange or draw extra dividends at the end of a year if there is no surplus; they may open accounts according to the variation of put-in foreign exchange, their normal business expenditures are not needed to be applied to or approved by foreign exchange administrative departments but can be handled by the bank; they can buy and sell foreign exchange in the foreign exchange transaction centre according to regulations concerning foreign exchange transaction; both Renminbi and foreign exchange can get into and out of the zone according to business needs.

b) Among enterprises in the zone that are engaged in production, storage and foreign trade business, dealings of goods in bond (buying and selling, storage, storing and transportation, etc.) are all to be priced in foreign exchange and settled through the bank; payment not included in this regulation shall be priced and settled in Renminbi.

c) Goods in bond that are supervised by the Customs (including raw materials used for manufacturing, assembling and export, spare parts, components, packing materials, finished products, sub-standard products, and leftover bits and pieces, etc.) shall be

priced and settled in foreign exchange when going in and out of the free trade zone; goods not in bond shall be priced and settled in Renminbi when going in and out of the free trade zone.

d) The foreign exchange profit and other foreign exchange income of foreign investors of enterprises in the zone shall be remitted by bank according to tax certificate and decision about distribution made by the board of directors.

e) For foreign investors of enterprises in the zone, the shift of foreign investment and remittance of foreign capital drawn out from legal liquidation could be handled after approval of application submitted to the National Foreign Exchange Administration Shanghai Branch.

f) Foreign capital borrowed from abroad by enterprises in the zone shall be supervised and controlled according to the management regulations for foreign debt by the State. Enterprises may also borrow foreign exchange or demand guarantee from local financial institutions within the territory of China.

(5) Preference for Profit Remittance and Reinvestment

A. When foreign investors remit out of the territory of China their share of profits earned from the enterprise, the remittance shall be exempt from income tax.

B. Foreign investors who reinvest their share of profits in their enterprises, or other foreign-funded (joint venture) enterprises for a business period no less than five years shall be refunded 40 per cent of the enterprise income tax paid on the reinvested amount; while those who reinvest their profits to set up or extend export enterprises or technologically advanced enterprises with a business period no less than five years shall get a full refund of the enterprise income tax paid on the reinvested amount.

2. PROCEDURES OF INVESTMENT

(1) Procedure of Transfer of Land Use Right at a Consideration

