

# CONTENTS

## I. RELEVANT LAWS AND REGULATIONS PROMULGATED BY THE PEOPLE'S REPUBLIC OF CHINA

### EXTERNAL ECONOMIC RELATIONS

1. The law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment..... 1
2. Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment..... 7
  - The Introduction by Yuan Mu, State Council Spokesman, to Chinese and Foreign Correspondents to the Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment ..... 41
  - Some Key Terms Used in the Regulations for the Implementation of the Law on Joint Ventures Using Chinese and Foreign Investment..... 47
  - Amendment to Article 100 of the "Regulations for Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment"..... 219

3. Regulations of the People's Republic of China on the Registration of Joint Ventures Using Chinese and Foreign Investment .....	52
4. Regulations of the People's Republic of China on Labour Management in Joint Ventures Using Chinese and Foreign Investment .....	55
5. The Accounting Regulations of the People's Republic of China for the Joint Ventures Using Chinese and Foreign Investment .....	59
6. Provisional Regulations for Exchange Control of the People's Republic of China.....	87
7. Rules for the Implementation of Foreign Exchange Controls Relating to Individuals.....	97
8. Rules for the Implementation of the Examination and Approval of Applications by Individuals for Foreign Exchange .....	101
9. Rules for the Implementation of Exchange Control Regulations Relating to Enterprises with Overseas Chinese Capital, Enterprises with Foreign Capital and Chinese-Foreign Joint Ventures .....	104

## **TAXES AND TAX ADMINISTRATION**

10. The Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment .....	111
Appendix: Revision of "The Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment" on Articles	

5, 8 and 9.....	115
11. Detailed Rules and Regulations for the Implementation of the Income Tax Law of the People's Republic of China Concerning Joint Ventures with Chinese and Foreign Investment .....	116
12. Comparison of Income Tax Between Joint Venture and Foreign Enterprises in China .....	125
13. Interim Provisions of the Ministry of Finance Concerning the Reduction of or Exemption from Income Tax on Interest Derived from China by Foreign Businesses .....	127
14. Interim Provisions of the Ministry of Finance Concerning the Reduction of or Exemption from Income Tax on Royalties for Proprietary Technology..... Talk of a Leader of the General Tax Bureau on the Two Regulations Concerning the Reduction of or Exemption from Income Tax .....	130 134
15. Individual Income Tax Law of the People's Republic of China .....	138
16. Detailed Rules and Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China .....	142
17. The Income Tax Law of the People's Republic of China Concerning Foreign Enterprises .....	149
18. Detailed Rules and Regulations for the Implementations of the Income Tax Law of the People's Republic of China Concerning Foreign Enterprises.....	154

19. Announcement of the State Council on Taxation of Joint Ventures and Cooperative Operations with Chinese-Foreign Investment ..... 169
20. Some Provisions of the People's Republic of China Concerning the Reduction of or Exemption from Income Tax in the Absorption of Foreign Funds..... 170
21. Provisional Regulations Governing the Application of the Customs Import and Export Tariff of the People's Republic of China ..... 176
22. Interim Provisions of the State Council of the PRC on Reduction in or Exemption from Enterprise Income Tax and the Consolidated Industrial and Commercial Tax for Special Economic Zones and Fourteen Coastal Cities (unofficial text)..... 181

#### TECHNOLOGY IMPORT REGULATIONS

23. Trademark Law of the People's Republic of China... 190
24. Patent Law of the People's Republic of China..... 201
25. Detailed Regulations for the Implementation of the Trademark Law of the People's Republic of China... 220
26. Regulations on Administration of Technology Import Contracts of the People's Republic of China..... 237
27. Procedures for Examination and Approval of Technology Import Contracts ..... 242
28. Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment ..... 249
29. Provisions of the Ministry of Labor and Personnel of

the People's Republic of China on the Right of Autonomy of Enterprises with Foreign Investment in the Hiring of Personnel and on Wages, Insurance and Welfare Expenses of Staff and Workers.....	257
30. Procedures of the Customs of the People's Republic of China for the Administration of Materials and Parts that Enterprises with Foreign Investment Need to Import in Order to Perform Product Export Contracts .....	260
31. Provisional Measures of the People's Bank of China on Applying Renminbi Loans Mortgaged by Foreign Exchange of Foreign Investment Enterprises.....	268
32. Provisions on the Purchase and Export of Domestic Products by Foreign Investment Enterprises to Balance Foreign Exchange Accounts .....	269
33. The Ministry of Foreign Economic Relations and Trade(MOFERT) Rules for Foreign-Investment Enterprises Applying for Import and Export Licenses.....	272
34. Implementing Rules of the Ministry of Foreign Economic Relations and Trade for Examination and Confirmation of Export Enterprises and Technologically Advanced Enterprises with Foreign Investment...	275
35. Rules of Ministry of Finance for Implementing the Relevant Articles as Contained in the "Provisions of the State Council of the People's Republic of China for the Encouragement of Foreign Investment".....	281
36. Provisional Regulations of the People's Bank of	

China on Providing Foreign Exchange Guarantees by Institutions inside China .....	285
37. Provisional Regulations of the State Administration for Industry and Commerce Concerning the Propor- tion of Registered Capital to Total Investment of Sino-Foreign Joint Ventures .....	289
38. Bank of China Regulations of Providing Loans to Foreign Investment Enterprises.....	291
39. Foreign Economic Contract Law of the People's Republic of China Appendix: Answers to Questions on Foreign Economic Contracts.....	300
40. The Law of the People's Republic of China on Enter- prises Operated Exclusively with Foreign Capital.....	333
41. Provisional Rules of Procedure of the Foreign Trade Arbitration Commission of the China Council for the Promotion of International Trade.....	339
42. Measures Relating to the Substitution of Importation by Products Manufactured by Sino-foreign Joint and Cooperative Ventures.....	348

## II. REGULATIONS CONCERNING SHANGHAI EXTERNAL ECONOMIC RELATIONS

1. Provisions of Shanghai Municipality on Application and  
Approval of Chinese-Foreign Equity Joint Ventures,  
Chinese-Foreign Cooperative Ventures and Enterprises  
Operated Exclusively with Foreign Capital ..... 355
2. Procedures of Shanghai Municipality for Trial Implementa-

tion of Labour Management in Chinese-Foreign Joint Ventures .....	361
3. Provisions of Shanghai Municipality on Supply and Marketing of Materials and Price Control of Chinese-Foreign Joint Ventures (For Trial Implementation)...	378
4. Procedures of Shanghai Municipality for Implementation of Inspection of Import and Export Commodities...	383
5. Procedures of Shanghai Municipality on Inspection of Commodities Imported and Exported by Means of Foreign Funds (For Trial Implementation).....	394
6. Procedures of Shanghai Municipality for Endowment Insurance for Chinese employees in Chinese-Foreign Joint Ventures (For Trial Implementation).....	399
7. Procedures of Shanghai Municipality for the Administration of the Use of Land in Chinese-Foreign Joint Ventures .....	402
8. Provisions of the Shanghai Municipality for the Encouragement of Foreign Investment.....	411
9. Regulations of Shanghai Labour Bureau and Shanghai Personnel Bureau Concerning Staff and Workers Employment .....	415
10. Measures of Shanghai Municipal Electric Power Bureau Concerning Some Priorities in Electricity Supplying ...	419
11. Measures of Shanghai Administration of Post and Telecommunication Concerning Some Priorities in Supplying Communication Services .....	422
12. Rules of Shanghai Taxation Bureau Concerning Some	

Preferential Treatments in Taxation.....	429
13. Regulations of Shanghai Utilities Bureau Concerning Priorities in Supplying Water and Gas .....	433
14. Regulations of the People's Bank of China Shanghai Branch Concerning Some Priorities in Loans-granting...	435
15. Provisions on Preferences for Enterprises with Foreign Investment in Minhang, Hongqiao Economic and Tech- nological Development Zones of Shanghai (Promulgated by Shanghai Municipal People's Government on March 23, 1987).....	437
16. Provisions of Shanghai Municipality for the Control of Resident Representative offices of Foreign Enterprises (For Trial Implementation) .....	440
17. Regulations of Shanghai Municipality on Management of Construction Projects Contracted to Foreign Designing and Building Enterprises .....	447

### III. A GUIDE TO INVESTMENT IN SHANGHAI

A Brief Introduction to Investment in Shanghai .....	458
Channels and Procedures for Making Investment in Shanghai .....	461
Sample contract and Articles of Association for Joint Ventures Using Chinese and Foreign Investment .....	467
1. Sample Contract for Joint Ventures Using Chinese and Foreign Investment .....	467
2. Sample Articles of Association for Joint Ventures Using Chinese and Foreign Investment .....	486



Contents Requirements of the Project Proposal for a Joint Venture Using Chinese and Foreign Investment.....	503
Contents Requirements for the Feasibility Study Report of a Joint Venture Using Chinese and Foreign Investment.....	504
Foreign Economic Agencies and Consultant Agencies .....	507
Shanghai Foreign Investment Development Agency .....	512
Shanghai Foreign Exchange Adjustment Center for Foreign Investment Enterprises .....	513
Shanghai Foreign Capital Enterprise Materials Service Co.....	514
<b>IV. FEES AND CHARGES IN SHANGHAI.....</b>	<b>516</b>

# **I. RELEVANT LAWS AND REGULATIONS PROMULGATED BY THE PEOPLE'S REPUBLIC OF CHINA EXTERNAL ECONOMIC RELATIONS**

## **1. The Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Invest- ment**

*Adopted on July 1, 1979 at the Second Session of the Fifth  
National People's Congress; Promulgated on July 8, 1979*

### **Article 1**

With a view to expanding international economic cooperation and technological exchange, the People's Republic of China permits foreign companies, enterprises, other economic entities or individuals (hereinafter referred to as foreign participants) to incorporate themselves, within the territory of the People's Republic of China, into joint ventures with Chinese companies, enterprises or other economic entities (hereinafter referred to as Chinese participants) on the principle of equality and mutual benefit and subject to authorization by the Chinese Government.

### **Article 2**

The Chinese Government protects, by the legislation in force, the resources invested by a foreign participant in a joint venture and the profits due him pursuant to the agreements, contracts and articles of association authorized by the Chinese Government as well as his other lawful rights and interests.

All the activities of a joint venture shall be governed by the laws, decrees and pertinent rules and regulations of the People's Republic of China.

### **Article 3**

A joint venture shall apply to the Foreign Investment Commission of the People's Republic of China for authorization of the agreements and contracts concluded between the parties to the venture and the articles of association of the venture formulated by them, and the commission shall authorize or reject these documents within three months. When authorized, the joint venture shall register with the General Administration for Industry and Commerce of the People's Republic of China and start operations under license.

### **Article 4**

A joint venture shall take the form of a limited liability company.

In the registered capital of a joint venture, the proportion of the investment contributed by the foreign participant(s) shall in general not be less than 25 per cent.

The profits, risks and losses of a joint venture shall be shared by the parties to the venture in proportion to their contributions to the registered capital.

The transfer of one party's share in the registered capital shall be effected only with the consent of the other parties to the venture.

### **Article 5**

Each party to a joint venture may contribute cash, capital goods, industrial property rights, etc., as its investment in the venture.

The technology or equipment contributed by any foreign participant as investment shall be truly advanced and appropriate to China's needs. In cases of losses caused by deception through the intentional provision of outdated equipment or te-

chnology, compensation shall be paid for the losses.

The investment contributed by a Chinese participant may include the right to the use of a site provided for the joint venture during the period of its operation. In case such a contribution does not constitute a part of the investment from the Chinese participant, the joint venture shall pay the Chinese Government for its use.

The various contributions referred to in the present article shall be specified in the contracts concerning the joint venture or in its articles of association, and the value of each contribution (excluding that of the site) shall be ascertained by the parties to the venture through joint assessment.

#### **Article 6**

A joint venture shall have a board of directors with a composition stipulated in the contracts and the articles of association after consultation between the parties to the venture, and each director shall be appointed or removed by his own side. The board of directors shall have a chairman appointed by the Chinese participant and one or two vice-chairmen appointed by the foreign participant(s). In handling an important problem, the board of directors shall reach decision through consultation by the participants on the principle of equality and mutual benefit.

The board of directors is empowered to discuss and take action on, pursuant to the provisions of the articles of association of the joint venture, all fundamental issues concerning the venture, namely, expansion projects, production and business programmes, the budget, distribution of profits, plans concerning manpower and pay scales, the termination of business, the appointment or hiring of the president, the vice-president(s), the chief engineer, the treasurer and the auditors as well as their functions and powers and their remuneration, etc.

The president and vice-president(s) (or the general manager and assistant general manager(s) in a factory) shall be chosen from

the various parties to the joint venture.

Procedures covering the employment and discharge of the workers and staff members of a joint venture shall be stipulated according to law in the agreement or contract concluded between the parties to the venture.

#### **Article 7**

The net profit of a joint venture shall be distributed between the parties to the venture in proportion to their respective shares in the registered capital after the payment of a joint venture income tax on its gross profit pursuant to the tax laws of the People's Republic of China and after the deductions therefrom as stipulated in the articles of association of the venture for the reserve funds, the bonus and welfare funds for the workers and staff members and the expansion funds of the venture.

A joint venture equipped with up-to-date technology by world standards may apply for a reduction of or exemption from income tax for the first two to three profit-making years.

A foreign participant who re-invests any part of his share of the net profit within Chinese territory may apply for the restitution of a part of the income taxes paid.

#### **Article 8**

A joint venture shall open an account with the Bank of China or a bank approved by the Bank of China.

A joint venture shall conduct its foreign exchange transactions in accordance with the Foreign Exchange Regulations of the People's Republic of China.

A joint venture may, in its business operations, obtain funds from foreign banks directly.

The insurances appropriate to a joint venture shall be furnished by Chinese insurance companies.

#### **Article 9**

The production and business programmes of a joint venture shall be filed with the authorities concerned and shall be imple-

mented through business contracts.

In its purchase of required raw and semi-processed materials, fuels, auxiliary equipment, etc., a joint venture should give first priority to Chinese sources, but may also acquire them directly from the world market with its own foreign exchange funds.

A joint venture is encouraged to market its products outside China. It may distribute its export products on foreign markets through direct channels or its associated agencies or China's foreign trade establishments. Its products may also be distributed on the Chinese market.

Wherever necessary, a joint venture may set up affiliated agencies outside China.

#### **Article 10**

The net profit which a foreign participant receives as his share after executing his obligations under the pertinent laws and agreements and contracts, the funds he receives at the time when the joint venture terminates or winds up its operations, and his other funds may be remitted abroad through the Bank of China in accordance with the foreign exchange regulations and in the currency or currencies specified in the contracts concerning the joint venture.

A foreign participant shall receive encouragements for depositing in the Bank of China any part of foreign exchange which he is entitled to remit abroad.

#### **Article 11**

The wages, salaries or other legitimate income earned by a foreign worker or staff member of a joint venture, after payment of the personal income tax under the tax laws of the People's Republic of China, may be remitted abroad through the Bank of China in accordance with the foreign exchange regulations.

#### **Article 12**

The contract period of a joint venture may be agreed upon between the parties to the venture according to its particular line

of business and circumstances. The period may be extended upon expiration through agreement between the parties, subject to authorization by the Foreign Investment Commission of the People's Republic of China. Any application for such extension shall be made six months before the expiration of the contract.

#### **Article 13**

In cases of heavy losses, the failure of any party to a joint venture to execute its obligations under the contracts or the articles of association of the venture, force majeure, etc., prior to the expiration of the contract period of a joint ventures the contract may be terminated before the date of expiration by consultation and agreement between the parties and through authorization by the Foreign Investment Commission of the People's Republic of China and registration with the General Administration for Industry and Commerce. In cases of losses caused by breach of the contract(s) by a party to the venture, the financial responsibility shall be borne by the said party.

#### **Article 14**

Disputes arising between the parties to a joint venture which the board of directors fails to settle through consultation may be settled through conciliation or arbitration by an arbitral body of China or through arbitration by an arbitral body agreed upon by the parties.

#### **Article 15**

The present law comes into force on the date of promulgation. The power of amendment is vested in the National People's Congress.

## **2. Regulations for the Implementation of the Law of the People's Republic of China on Joint Ven- tures Using Chinese and Foreign Investment**

*Promulgated by the State Council on September 20, 1983*

### **Chapter 1 General Provisions**

#### **Article 1**

The Regulations hereunder are formulated with a view to facilitating the implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment (hereinafter referred to as the Law on Chinese-Foreign Joint Ventures).

#### **Article 2**

Joint ventures using Chinese and foreign investment (hereinafter referred to as joint ventures) established within China's territory in accordance with the Law on Chinese-Foreign Joint Ventures are Chinese legal persons and are subject to the jurisdiction and protection of Chinese law.

#### **Article 3**

Joint ventures established within China's territory shall be able to promote the development of China's economy and the raising of scientific and technological levels for the benefit of socialist modernization. Joint ventures permitted are mainly in the following industries:

(1) Energy development, the building material, chemical and metallurgical industries;

(2) Machine manufacturing, instrument and meter industries and offshore oil exploitation equipment manufacturing;



(3) Electronics and computer industries, and communication equipment manufacturing;

(4) Light, textile, foodstuffs, medicine, medical apparatus and packing industries;

(5) Agriculture, animal husbandry and fish breeding;

(6) Tourism and service trades.

#### **Article 4**

Applicants to establish joint ventures shall lay stress on economic results and shall comply with one or several of the following requirements:

(1) They shall adopt advanced technical equipment and scientific management which enable the increase of the variety of products, the raising of quality and output, and the saving of energy and materials;

(2) They shall provide benefits in terms of technical renovation of enterprises and result in less investment, quicker returns and bigger profits;

(3) They shall enable the expanded production of products for export and result in increasing income in foreign currency;

(4) They shall enable the training of technical and managerial personnel.

#### **Article 5**

Applicants to establish joint ventures shall not be granted approval if the project involves any of the following conditions:

(1) Detriment to China's sovereignty;

(2) Violation of Chinese law;

(3) Nonconformity with the requirements of the development of China's national economy;

(4) Environmental pollution;

(5) Obvious inequity in the agreements, contracts and articles of association signed, impairing the rights and interests of one party.

#### **Article 6**