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``Doing Business in China``

Shaanxi Province

General Economic Review of Shaanxi Province

Infrastructure

Investment Climate

Development Zones

FDI in Shaanxi and Investment Policy Incentives

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Shaanxi Province



General Economic Review

Economic Indicators of 2008	Value	Growth (y-o-y)
GDP (RMB bn)	685.13	15.6%
Per Capita GDP (RMB)	18246	15.2%
Added Value Output (RMB bn)		
- Primary industry	75.37	7.6%
- Secondary industry	384.21	18.8%
- Tertiary industry	225.55	13%
Value-added Industrial Output (RMB bn)	298.81	21%
Fixed-assets Investment (RMB bn)	483.52	32.8%
Retail Sales (RMB bn)	225.61	25.3%
Inflation (CPI, %)	-	6.4%
Exports (US\$ mn)	5407	15.7%
Imports (US\$ mn)	2961	33.6%
Utilized Foreign Direct Investment (US\$ mn)	1370	14.6%



- Shaanxi's annual economy growth rate reaches consecutively over 12% in the past 10 years. In the first nine month of 2008, Shaanxi's GDP totalled RMB460.6billion, increased by 16.1% than the same period last year, ranking the fourth fastest economy in China.

Six featured industries including equipment manufacturing, high-technology, energy and chemicals, tourism, fruits and animal husbandry have been formed. High-tech industry, taking five State-level development zones as carriers, includes software, integrated circuit, electronic appliances, equipment manufacturing and bi-pharmaceuticals etc. Equipment manufacturing is thriving in scientific areas such as aerospace, aviation and thus forms the manufacturing clusters, where pooling 1/3 of China's talents and capital input. The industrial chain made up by heavy trucks, automobile parts, transmission and substation equipment, engineering machinery, precision machine tool expands to a wide range and takes higher market volume both inside and outside China. Shaanxi base for energy chemicals has taken shape. In 2007, the total output value of energy chemicals reached RMB263billion, increased by 22%. Fruits industry developed quickly. Shaanxi is the biggest quality apple production base and concentrated juice export base.

Shaanxi's foreign trade maintains a strong and growing momentum. Its growing rate reaches 20% annually in the past several years. Shaanxi's trade partners spread all over 180 countries and regions. By the end of 2007, companies from 74 countries and regions invested in Shaanxi, among these there are 44 transnational companies from Fortunes 500. The province has approved 4806 FDI projects with a contractual value of over USD 15 billion. These projects involve the areas of agriculture, mining, manufacturing, communication and transportation, post and telecommunication, hotels, tertiary industry, real estate development, electrical power and energy, restaurants, amusement, culture, education, science and research, information and consultancy, finance and retailing, etc.

Shaanxi's mechanical and electrical products have strong international competitiveness; the major export products are heavy vehicles, engineering machinery and equipment, power transmission equipment, oil exploration equipment, bridges and road construction equipment, civilian aircraft and unmanned aircraft. Those products have been exported to more than 150 countries including Turkey. The major products that Shaanxi exports to Turkey are CTT, machine tools and fruit juice, while construction machinery products is promoted to enter the Turkish market. Shaanxi' overseas investment are mainly focus in mining and engineering contract in Australia, Canada, Mexico, Romania, Russia, Indonesia, Philippines and Africa. In 2008, the completed contract of Shaanxi's engineering contract revenues 800 million U.S. dollars, while contract amount reached 1.2 billion U.S. dollars.

Shaanxi Province takes Turkey as the entrance of the European market, while it also welcomes Turkish companies to invest in Shaanxi. There're many sectors are open to foreign investment such as energy extraction processing, IT, electronics, biotechnology and tourism

Infrastructure

- Its expressway mileage reached 2064 km. Xi'an has been one of the six largest railway hubs and air traffic hubs in China at present. Five railway trunk lines from all directions of China's mainland are cross in Xi'an. One can arrive in any big city in China utmost 3 hours from Xi'an International Airport. The airport is leading the first in the western China to open several international flight routes such as to Japan, Korea, Thailand, Malaysia, Singapore and Chinese Hong Kong etc.

Infrastructure in Shaanxi has been great improved and could meet demand of economic development, particularly in water, gas and heating supply, transportation and roads building, public appliance, polluted water and trash treatment,



communications, urban power grid etc. The year-round green Qinling Mountain, with an area of 55,000 km², is the so-called natural oxygen bar for Xi'an. Forest covering rate of Shaanxi reaches 37% and fine weather in 2007 amounts to over 290 days. Xi'an has a good ecological environment and human settlement which is the basis for the healthy and steady economic development.

Investment Climate

- Xi'an is financial centre in North-west China. Overseas banks such as Bank of East Asia, HSBC etc. set their branches in the city to meet needs of investors. Intermediary bodies like law firms and for accounting and assessing etc could provide services for enterprises and their operation. Shaanxi is one important base for many scientific research institutes and human resources training.
- Shaanxi is an important industrial base in China. It has a complete industrial system and strong processing capability in machinery, electronics, textiles, pharmaceuticals and energy chemicals etc. Its industries in electronic information, aviation and aerospace have quite strong competitiveness. Xi'an Software Park is the only state-level software industrial base and software export base in China's mainland. Business processing outsource (BPO) has experienced a rapid growth in the park.

Development Zones

- Guanzhong Advanced Manufacturing Base:

Focused on the two major industries: high-technology industry and modern equipment and machine building industry, with electronic information, software and its export, biomedicine, aircraft manufacturing as the main

sectors, Shaanxi will build an industrial cluster characterized by a clear division of specialization, close coordination and remarkable scale beneficial result.

- North Shaanxi Energy and Chemistry Base:

Based on the views of converting coal into power, coal-fuelled power into energy-carrying industrial products, converting coal, oil, gas and salt into chemical products, Shaanxi will try to build the four industrial chains of coal-fuelled power energy carrying industry, coal to oil, coal and salt chemistry, oil and gas chemistry and to build the Base into an ecological environment protection pilot zone.

- South Shaanxi Green Industry Base:

To fully utilize the rich natural resources and to be market oriented, Shaanxi will accelerate the construction of a modernized Chinese medicine base, speed up the development of eco-tourism, and develop the green industries like animal husbandry, tea, silkworm and fruit.

- Weibei Fruit Production Base:

Shaanxi will make continuous improvement of apple quality as the core to carry out the principle of standardization, industrialization, marketization, modernization and to turn Shaanxi apple into the internationally popular brand.

FDI in Shaanxi

Shaanxi began to utilize foreign direct investment (FDI) since China's implementation of its reform and opening-up policy in 1980s. The government authorities of the province have been attaching great importance to the FDI utilization in Shaanxi, which plays a very important role in the province's opening-up affairs. The province has been adhering to the principles of utilizing FDI actively, efficiently and rationally, and also making efforts to attract more FDI with high quality and standards. In recent years, besides the efforts in promoting the image of Shaanxi, the province has taken effective



measures to improve its investment environment and optimize its industry structures, which resulted in continuous increasing FDI with high qualities.

All the above-mentioned unique advantages in Shaanxi provide good conditions for overseas investors. In 1983, for the first time FDI was involved with a Shaanxi company called Shangri-la Golden Flower Hotel. By the end of 2007, companies from 74 countries and regions invested in Shaanxi, among these there are 44 transnational companies from Fortunes 500. The province has approved 4806 FDI projects with a contractual value of over USD 15 billion. These projects involve the areas of agriculture, mining, manufacturing, communication and transportation, post and telecommunication, hotels, tertiary industry, real estate development, electrical power and energy, restaurants, amusement, culture, education, science and research, information and consultancy, finance and retailing, etc.

FDI policies in Shaanxi

Special Preferential Policy of the Development of Western China (term of validity: 2001-2010)

➤ Taxation

1. The category of encouragement enterprises, domestic-funded and foreign-funded, is eligible for a reduced corporate income tax rate of 15%.

2. Enterprises that start operations in such industries as transportation, power, water conservancy, postal service, radio and television are eligible for a preferential policy of reduction or exemption from corporate income tax. Specially, domestic-funded enterprises of the above-mentioned enterprises may be exempt from enterprise income tax in the first two profit-making years and be granted a 50% enterprise income tax reduction from the third to the fifth year.

3. Foreign investment in the infrastructure construction or in the basic industry of agriculture, forest industry, water conservancy, transportation, energy, municipal utilities, environmental protection, etc. in the resource development of mineral and tourism and in the

establishment of technology research and development centres may enjoy various preferential policies for the category of encouragement industry with foreign investment.

4. Foreign-funded projects in accordance with The Catalogue of Advantageous Foreign Investment Industries in Middle and Western China and the imported technical equipment within the total volume of investment, except for those which may not be tax-free in accordance with the relevant regulations of the State, are eligible for the exemption from Customs duties and the import VAT (Value Added Tax).

➤ Land Utilization

Units and individuals that are capable to be assigned with unused land, such as waste hillsides and unreclaimed land, owned by the State assigned in accordance with the laws of the State, and that proceed with the ecological construction of forest and grass planting may be reduced or exempt from the assignment fee, and enjoy a 50-year term of land tenure. The land user, who has met the volume of investment requires by the Grant Contract, and who has the qualifications for ecological construction, may transfer, lease, or mortgage the land tenure. Upon expiration of the term of use, the land user may apply for its renewal.

➤ Exploitation of Mineral Resources

1. The exploration and exploitation of the mineral resources, such as oil, gas, coal-bed methane, uranium, high-grade iron ore, high-quality manganese ore, chromate, copper, potassium, platinum-group metals, and ground water, may be eligible by application for reduction or exemption from mineral exploration and mining right user's fee: as for mineral exploration right user's fee, from which the exemption may be enjoyed for the first year when exploration has already been conducted, of which the reduction of 50% may be enjoyed from the second to the third year, and of which the reduction of 25% may be enjoyed from the fourth to the seventh year; as for mining right user's fee, from which the exemption may be enjoyed for the first year when the mine is in capital construction and when it is put into

mining production, of which the reduction of 50% may be enjoyed from the second to the third year when the mine is put into mining production, of which the reduction of 25% may be enjoyed from the fourth to the seventh year, and from which the exemption may be enjoyed throughout the exact year when the mine pit is closed down.

2. Exploration and exploitation of non-oil/gas mineral resources with foreign investment may enjoy the policy of the exemption from the mineral exploration and mining right user's fee for one year and the reduction of 50% of the mineral exploration and mining right user's fee for two years. The exploitation of non-oil/gas mineral resources within the category of encouragement in the Catalogue of Guidance for Foreign Investment Industries may enjoy the policy of the exemption from the mineral resources compensation fee for five years.¹

Foreign Investment incentives in Shaanxi

➤ Corporate Income Tax

1. The tax rate of corporate income tax is 25%.

2. Losses incurred in a tax calendar year by any enterprise are granted to be carried over to the Budget for the following tax year, and to be made up for from the income of next year, however, this process shall not be last for more than five years.

3. Proceeds of enterprises from planting of flowers, tea bushes and other beverage crops and spice crops, sea culture and inland freshwater aquaculture, may be taxed at half of the required corporate income tax rate.

4. Proceeds from agriculture, forestry, animal husbandry and fishing may be reduced or exempt from corporate income tax.

(1) Planting of the vegetable, grain, tuber crop, oil-bearing crop, legume, cotton, bast fiber plant crop, sugar-bearing crop, fruit and nut;

(2) Seed selection and cultivation of new strains of crops;

(3) Planting of Chinese Crude Drugs;

(4) Cultivation and planting of the Silva;

(5) Feeding of the livestock and poultry;

(6) Acquisition of forest products;

(7) Service industries for agriculture, forestry, animal husbandry and fishing: irrigation, primary processing of agricultural products, veterinary, promotion of agricultural technology, and agricultural machinery maintenance;

(8) Deep-sea fishing.

5. Proceeds of enterprises, which are generated from projects of establishing ports, airports, railways, highways urban public transport, power, and water conservancy in accordance with the Preferential Category of Corporate Income Tax of Public Infrastructure Construction, and which are generated from project of public sewerage disposal, public waste disposal, comprehensive exploitation and utilization of methane, technical reconstruction of energy conservation and emission reduction, sea water desalinization, energy-saving and water-saving, may be exempt from corporate income tax for the first three years, and be taxed at half of the required rate from the fourth to the sixth year since the tax calendar year when the first proceeds from production or business operation is generated.

6. The total income, less than the amount of five million Yuan, from the technical transfer of a resident enterprise within a tax calendar year may be exempt from corporate income tax; the exact income, more than the amount of five million Yuan, may be taxed at half of the required corporate income tax rate.

7. Small-sized meagre-profit enterprises, which proceed non-prohibition/restriction industries of the State satisfying the conditions below are eligible for a reduced corporate income tax rate of 20%:

(1) Industrial enterprises with a taxable income less than 300 thousand Yuan of the tax

¹ (Reference documents: Circular of the State Council on Several Policies Concerning the Implementation of the Development of the Western Regions (Promulgated by the State No. 【2000】 33); Opinion of the Western-Regions-Developing Affairs Office of the State Council on Several Policies Concerning the Implementation of the Development of the Western Regions, on August 28, 2001)



year, the number of employees less than 100, and the total assets less than 30 million Yuan;

(2) Other enterprises with a taxable income less than 300 thousand Yuan of the tax year, the number of employees less than 80, and the total assets less than 10 million Yuan.

8. High-tech enterprises, which should be supported by the State, are eligible for a reduced corporate income tax rate of 15%.

9. R&D costs (research and development costs), which are spent by enterprises to develop new technologies, new products, and new techniques, which do not develop into intangible assets eventually, and which are not accounted as current profits and losses, will be deducted further more from the taxable income as much as 50% of R&D costs on the basis of the deduction of actual expense in accordance with relevant rules and regulations; R&D costs, which develop into intangible assets eventually, will be amortized 150% of the intangible assets costs. Enterprises, which provide jobs for disabled persons, will be deducted further more from the taxable income as much as 100% of the salary paid to the disabled workers on the basis of the deduction of actual expense in accordance with the amount of salaries paid to the disabled workers.

10. Venture capital enterprise, which invests in unlisted small/medium-sized enterprises with new technology for more than two years by equity investment, may have a deduction of its taxable income in accordance with 70% of its total volume of investment in the exact year when it has held the equity investment for two years; the taxable income of the venture capital enterprise may be carried over to next tax calendar year to be further deducted in case of its insufficiency for the deduction.

11. Proceeds from production of non-prohibited/restricted products, which satisfy the relevant standard of the State and the industry with the resources in accordance with the Preferential Category of Corporate Income Tax on Income from Comprehensive Utilization of Resources as the main raw materials, will be taken as the total revenue at 90%.

12. Enterprises, which purchase and actually use special equipment for environmental conservation, energy saving and water saving, and production safety in accordance with the Preferential Category of Corporate Income Tax on Income from Special Equipment for Environmental Conservation, Preferential Category of Corporate Income Tax on Income from Special Equipment for Energy Saving and Water Saving, and Preferential Category of Corporate Income Tax on Income from Special Equipment for Production Safety, will be offset 10% of the investment on the special equipment mentioned above from the tax payable of the enterprises in next five tax calendar years.

13. Enterprises, which had been granted to be established before the publication of Income Tax Law of People's Republic of China on Enterprises, may transfer gradually to the current taxation in five years from January 1, 2008 if they enjoyed privilege of a law taxation in accordance with the tax law and administrative regulations at that time; may still enjoy the privilege within the exact period if they enjoyed a regular tax reduction and exemption period set at that time; may enjoy the period of privilege from the year 2008 if they did not enjoy any privilege because of no profits.²

(II) Import and export tariffs

1. Export products of enterprises with foreign investment, shall be exempt from the export tax and value-added tax and shall enjoy policies of tax exemption, reduction and refund.

2. Raw materials, bulk parts, machine component parts and wrappers which enterprises with foreign investment need to import in order to produce export products shall be exempt from the export tax and value-added

² (Referential documents: Income Tax Law of People's Republic of China on Enterprises, adopted at the 5th Meeting of the Standing Committee of the Tenth National People's Congress on the date of March 16, 2007; Rules for the Implication of Income Tax Law of People's Republic of China on Enterprises (the Decree No. 242 of the State Council of the People's Republic of China), promulgated on the date of December 6, 2007)



tax. Products subject to the import license control shall be exempted from import licensing. The Customs shall exercise supervision and control.³

3. Tariffs and import link value-added tax shall be exempted with respect to import equipment for their own use within the total amount of investment in domestic investment projects the development of which is encouraged by the state and foreign business investment projects which are consistent with the category of encouragement under the Catalogue of Industries Guidance for Foreign Business Investment and the Catalogue of advantageous foreign investment industries in mid & western China, with the exception of commodities listed in the Catalogue of Import Commodities for Foreign Business Investment Projects with no Tax Exemption and the Catalogue of Import Commodities for Domestic Investment Projects with no Tax Exemption.

4. When foreign-funded enterprises purchase Chinese-made equipment that fall into the scope of the tax exemption catalogue, value-added tax on the aforesaid equipment can be refunded in full amount and the enterprise's income tax may be deducted or exempted according to relevant regulations.

5. For any established foreign investment enterprise in the encouraged category(including Catalogue of Priority Industries for Foreign Investment in the Central-Western Region), foreign-funded research and development centre, or any technical innovation of an advanced-technology-oriented or product-export-oriented foreign-funded enterprise, the import customs duties and the taxes incurred in the import link may be exempted for the import of self-used equipments as well as the technologies, fittings, spare parts attached to such equipments which are imported within the originally approved scope of production and operations but cannot be produced in China or whose performance cannot fulfil the needs.

³ (Reference document: "Provisions of the State Council for the Encouragement of Foreign Investment", Promulgated in October 1986)

6. Foreign investment enterprises produce products according to the Catalogue of the National Hi-tech products, equipment imported for self use and supporting technology, parts and spares imported with the equipment in accordance with the contract shall be exempted from tariffs and import-stage value-added tax.

7. Foreign investment enterprises introduce advanced technologies listed in the Catalogue of the National Hi-tech Products, import customs duties and the taxes incurred in the import link may be exempted for the software costs paid abroad in accordance with the terms of the contract.⁴

(III) Certain Policies on Software and Integrated Circuit

1. Until 2010, value-added tax (VAT) will be levied at the statutory rate of 17% on an ordinary VAT payer's sale of software products developed and produced by itself. The portion of the tax burden in excess of 3% shall be refunded upon collection and used by the enterprise to research and develop software products and to expand reproduction, not as the enterprise income tax which cannot be levied.

VAT payer's sale of software products after conversion and other localized renovations shall enjoy preferential tax breaks and be refunded upon collection in accordance with relevant provisions concerning software products developed and produced by itself.

⁴ (Reference document: " Circular of the State Council Concerning the Adjustment in the Taxation Policy of Import Equipment (No.37 [1997] Promulgated by the General Office of the State Council) ; Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Foreign Trade and Economic Cooperation and Other Departments on Further Encouraging Foreign Investment(No. 73 [1999] Promulgated by the General Office of the State Council); National Guideline on Medium- and Long-Term Program for Science and Technology Development (2006-2020) (No.44 [2005] Promulgated by the General Office of the State Council)

2. Value-added tax (VAT) will be levied at the statutory rate of 17% on an ordinary VAT payer's sale of integrated circuits (including mono-crystalline silicon wafers) produced by itself. The portion of the tax burden in excess of 6% shall be refunded upon collection and used by the enterprise to research and develop new integrated circuits and to expand reproduction, not as the enterprise income tax.⁵

(IV) Other Aspects

1. When foreign investors in product-for-export enterprises and technologically advanced enterprises remit abroad profits realized by them from such enterprises, the amount remitted shall be exempt from income tax.

2. Re-investment projects financed by foreign-funded enterprises in central and western regions with foreign investment exceeding 25 percent can enjoy the treatments granted to foreign-funded enterprises.⁶

Preferential Policies on encouraging foreign investment in accordance with the law

1. Foreign-funded enterprises operating in the industries encouraged or permitted by the State (with the exception of entertainment industry, tertiary industry and real estate) in the

⁵ (Reference document: "Circular of the State Council Concerning the Issue of Policies on Encouraging the Development of Software Industry and Integrated Circuit industry. (No.18 [2000] Promulgated by the General Office of the State Council on June 24, 2000) ; Circular of the Ministry of Finance and the State Administration of Taxation and the General Customs Administration on the Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries (No.25 [2000] Promulgated by the Ministry of Finance on September 22, 2000)

⁶ (Reference document: "The State Council on Encouraging Foreign Investment", Promulgated in October 1986; Circular of the General Office of the State Council on Forwarding the Opinions of the Ministry of Foreign Trade and Economic Cooperation and Other Departments on Further Encouraging Foreign Investment(No. 73 [1999] Promulgated by the General Office of the State Council on August 20,1999)

region of Shaanxi province shall be exempt from local income tax, urban real estate tax and travel tax.

2. In foreign-invested enterprises, expatriates and members of their families who need to enter and leave the territory of China for commercial activities shall apply to the public security organs for multiple entry documents within a certain period.

3. Enjoy the preferential policies enacted by city government and county government in accordance with the law.



TURKISH INDUSTRY AND BUSINESS ASSOCIATION

2008 GDP and Growth Rate of Chinese Provinces

Region	GDP (RMB 1billion)	Growth (%)
Total	30067.00	9.0
North		
Beijing	1048.80	9.0
Tianjin	635.44	16.5
Hebei	1618.86	10.1
Shanxi	700.00	10.0
Inner Mongolia	760.00	17.5
North East		
Liaoning	1102.17	14.5
Jilin	642.40	16.0
Heilongjiang	831.00	11.8
East		
Shanghai	1369.82	9.7
Jiangsu	3002.40	12.5
Zhejiang	2148.69	10.1
Anhui	887.42	12.7
Fujian	1086.30	13.0
Jiangxi	648.03	12.6
Shandong	3107.21	12.1
South East		
Henan	1505.81	14.4
Hubei	1133.00	13.4
Hunan	1115.66	12.8
Guangdong	3569.60	10.1
Guangxi	717.16	12.8
Hainan	146.60	9.8
South West		
Chongqing	509.80	14.3
Sichuan	1250.63	9.5
Guizhou	335.00	10.0
Yunnan	570.01	11.0
Tibet	39.20	10.1
North West		
Shaanxi	685.13	15.6
Gansu	269.92	12.1
Qinghai	96.00	12.5
Ningxia	107.00	12.0
Xinjiang	420.34	11.0

http://cn.chinagate.cn/economics/2009-02/04/content_17225298.htm