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## Relaxation of Foreign Exchange Control for Multinational Companies

The State Administration of Foreign Exchange (SAFE) has recently announced a new measure to relax outward remittance control on selected multinational companies in Beijing, Shanghai and Shenzhen on a trial basis.

Under the new measure, selected multinational companies and their affiliated companies may arrange outward remittance of foreign exchange under certain non-trade items for payments to overseas affiliates without going through the usual application procedures with SAFE.

Eligible multinational companies can remit the following types of non-trade items:

- Salaries and allowances of expatriate staff in China paid by overseas headquarters on behalf of the multinational company in China
- Overseas social securities, medical insurance and pension paid to expatriate staff in China paid by overseas headquarters on behalf of the multinational company in China
- Overseas business trip allowance and overseas training fees that have been paid by overseas headquarters on behalf of the multinational company in China

- Shared patent fee, royalties and fees for imported technologies that are allocated by overseas to the multinational company in China
- Shared management fees and other allocated expenses that are allocated by overseas to the multinational company in China

The measure does not apply to every multinational company in the above-mentioned three cities. Companies that qualify for the provisions must have either established foreign investment holding companies in China or be a Chinese group company granted with foreign operating rights. It is up to SAFE to determine which companies are eligible and the local SAFE branch in Beijing has already published a list of fifty-two multinational companies that fit the criteria.

It's important to stress however that it is not impossible for other companies to enjoy the special treatment afforded by the measure as SAFE has delegated discretionary authority to SAFE at the local level. If a particular multinational company can prove its importance in a particular locality, it may be entitled to the same special elevated treatment.

Therefore, application strategy and the completion of the required documentation is of key importance. Once a multinational company has been approved for the special treatment the appropriate supporting documentation should be presented to a designated foreign exchange bank for the purchase and remittance of foreign exchange.

### Plans to Lift the Ceiling on Foreign Bank Ownership of Local Banks

China's banking regulatory commission has confirmed the government plans to lift the ceiling on foreign bank ownership of local banks from 15% at present to 25% in a bid to bolster the performance of medium-sized institutions.

Citigroup's Citibank is expected to be the first bank to benefit from the relaxed investment rules, with the banking regulator tipped to approve a gradual increase in its stake in Shanghai Pudong Development Bank to 24.9% by 2008 from the current 4.6% at present.

Canada's Bank of Nova Scotia and the World Bank's investment arm, International Finance Corporation, are waiting for central bank approval to take a stake in Xi'an City Commercial Bank with an option to increase their combined holding to 25% once the investment cap is lifted.

The plans suggest that the new regulatory commission is preparing to expand its emphasis on improving governance and tackling bad debt ratios in China's first tier, large state-owned commercial banks to the third tier city commercial bank sector.

The China Banking Regulatory Commission will continue to support city commercial banks to improve their risk control measures, attract domestic and foreign investors and prepare for possible public listings.

*Taxation Terms*

## 增值税

"Zeng Zhi Shui"

*(Value Added Tax)*

## 营业税

"Ying Ye Shui"

*(Business Tax)*

## 消费税

"Xiao Fei Shui"

*(Consumption Tax)*

### Tianjin Aims to Become East Asia Centre for Logistics

Tianjin, the largest port city in north China, is determined to become an international centre for containers in east Asia by 2010 by pumping in investment of around 20 billion RMB. The port will be capable of handling 10 million TEUs of containers by 2010 according to the Tianjin Port Affairs Bureau.

The major investment will go toward the construction of 10 specialized container berths, a logistics centre for containers and 20 other supporting projects leading to or from outside of the port.

Tianjin now has 11 specialized modern berths for containers and handles 2.41 million TEUs of containers a year. The port operates 68 regular shipping service routes and has established business ties with over 300 ports in other parts of the world. It offers more than 300 container voyages each month.

### Chinese Firms Abroad

Despite the record amount of foreign investment that flows into China every year, little attention has been paid to another set of numbers: the amount that Chinese companies invest outside their own borders. Certainly, at \$2.9 billion last year, or 0.4% of global foreign-direct investment (FDI), the sum pales in comparison next to the predicted \$62 billion invested by foreign companies in China in 2003.

Most Chinese companies have spent the past two decades building up and consolidating their domestic market shares, and even now only a handful have the size and resources to expand abroad. Yet as the economy expands, that number is growing. According to a report published by an independent consulting firm, almost three-quarters of mainland manufacturing firms surveyed already have foreign expansion plans under way.

Intriguingly, this trend is being led by natural-resource companies still controlled by the state. They are under orders from central government to secure reserves abroad in order to meet the country's booming demand for fuel and raw materials. The big three oil firms, Sinopec, Petrochina and China National Offshore Oil Corporation (CNOOC) have invested in 14 countries overseas.

CNOOC is now Indonesia's largest offshore oil producer after the takeover for \$585m of Repsol Indonesia in 2002. Petrochina is planning a 3,000km (1,900-mile) pipeline from Kazakhstan to its refineries in the western region of Xinjiang, costing \$2 billion.

Baosteel, China's biggest steelmaker, is negotiating the largest foreign manufacturing investment ever by a Chinese firm and hopes to take a controlling stake, worth \$1.5 billion, in a huge \$8 billion steel plant in Brazil.

Of equal importance is the hunt for foreign know-how. Huawei Technologies, a telecoms supplier headquartered in Shenzhen, across the border from Hong Kong, now has research facilities in Sweden, Germany and America. Recently, it said it would invest around \$100m in India to expand its Bangalore facility, which works on mobile-phone software and broadband research. SVA, a consumer-electronics company, has taken a 75% stake in a venture with Japan's NEC to produce liquid-crystal and plasma screens.

(Adapted from *The Economist*, September 4th 2003)

## 所得税

"Suo De Shui"

(Income Tax)

## **Shanghai Wants More Foreign Investment**

Despite Shanghai's annual 12.5 per cent economy growth, local officials want to implement new policies to attract more overseas investment to combat the continued rise of neighbouring competition.

The new policies would give multinational firms more freedom and means to exchange profits into foreign currency and send the money out of the country. The district governments would have more authority to approve deals below 30 million US dollars, up from the current ceiling of US\$10 million. Procedures of foreign business registration would be simpler and the ratification of all overseas-invested projects would be completed within ten working days.

Compared to the past policy pushing Shanghai to become an international financial and trade centre, the city now puts particular emphasis on developing the manufacturing sector as fears of neighbouring provinces competition increases.

At present, 41 multinational firms' headquarters are located in the city. That number is expected to surpass 50 by the end of this year. As of July 31, contracted investment amounted to US\$70 billion, from more than 30,000 overseas companies. Foreign-invested companies account for more than 60 per cent to the city's industrial output and exports. From 2000 to 2002, foreign companies in Shanghai enjoyed annual profit growth of 40.2 per cent, one of the highest in the country, said the Shanghai Daily.

City officials announced that more overseas investment would be actively attracted into several sectors, including bio-pharmaceuticals, new materials, telecommunications equipment, automobile manufacturing, shipbuilding, petrochemicals and steel making. According to the new policy multinational companies would be encouraged to set up regional headquarters or research and development centres in Shanghai.

### ***"Providing an alternative in China"***

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LehmanBrown also provides a monthly newsletter *Peeling the Onion* which investigates certain topical issues affecting businesses in China, particularly for those companies and individuals with operations in the PRC, or looking to establish a presence in-country.



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