



Economic Development Policies for Central and Western China

December 2010

China launched two strategies to develop its central and western regions in the last decade. The PRC State Council launched the Western Development Strategy, China's first comprehensive regional development plan to boost the economies of western provinces, in 2000. Premier Wen Jiabao announced the Rise of Central China Plan, a development strategy to coordinate regional growth in six central provinces, in 2004. To achieve the broad goals outlined in the plans, the PRC government has implemented strategic programs, developed industry-specific plans, created industry-specific catalogues of preferred technologies, and announced new incentives to attract investment to the central and western regions. Though both plans have limitations, they provide important guidance—and specific incentives—for foreign companies looking to expand in China and gain access to potential customers in untapped regions.

Push for Regional Development Plans

Economic development in China's central and western provinces has lagged far behind progress on the booming coast. PRC data show that China's gross domestic product (GDP) increased nearly 17 times, and GDP per capita rose 12-fold between 1978 and 2008. Most of this growth was generated by a handful of eastern and southern provinces, however. The average income in central and western China was roughly 77 percent of the national average in 1999, and increased only slightly to 80 percent of the national average by 2008.

The push to develop China's hinterland has gained more traction within the PRC government

in recent years. The composition of China's industrial structure is undergoing a major transformation in which traditional industries, such as low-end or energy-intensive manufacturing, are losing policy support from the coastal provinces. As a result, central government officials have adopted a different development model that seeks to direct foreign investment to meet specific needs. The PRC government is thus now more focused on promoting the central and western regions. For example, the National Development and Reform Commission (NDRC) in 2008 revised the Catalogue of Encouraged Industries for Foreign Investment in Central and Western China to guide foreign investors to sectors that the government intends to develop: high value-added, environment-friendly, energy-efficient industries that take advantage of local resources, as well as areas in which China lacks the capabilities necessary for development (Appendix I). The revised catalogue opened to foreign investment sectors that had been previously restricted or prohibited, or that had been restricted in the more developed coastal regions. Examples include auto components manufacturing, value-added telecom services, and natural resource exploration.

Western Development Strategy

Passed in March 1999, the Western Development Strategy was the first central government-directed development program for China's western region. The strategy calls for the central government to invest in infrastructure development and natural resource exploitation, and set market liberalization policies to create regional economic development centers.

With the first 10-year phase of the Western Development Strategy coming to a close—along with concerns about the damaging effects of the global recession—the central government began to call for a new round of regional development in 2008. The purpose was not only to support ongoing efforts to build basic infrastructure, but also to call attention to the broad industries the central government wanted to prioritize for development. The government added new energy, equipment manufacturing, new materials, biotechnology, pharmaceuticals, aerospace and defense, and information technology (IT) to the list of encouraged industries. These additions joined traditional sectors that had previously dominated economic activity in the western region, such as petrochemicals, energy, mining, and minerals processing.

In addition to revising the catalogue, the PRC government has also designated three economic clusters in western China to spur regional development: the Chengdu-Chongqing Economic Zone, Guangxi-Beibu Gulf Economic Zone, and Guanzhong-Tianshui Economic Zone. Regional plans have been released for two zones—Guangxi-Beibu (2008) and Guanzhong-Tianshui (2009)—and media reports indicate the plan for the Chengdu-Chongqing Economic Zone will be released in late 2010, though no official confirmation has been made. The clusters will encourage economic development in surrounding areas and, over time, will connect to create widespread growth across the western region.

Policymakers intend to allocate certain industries to core areas to match industries with local capabilities and resources. For example, under the Guanzhong-Tianshui plan, Xi'an, Shaanxi, aims to become a national center for science and technology research and development (R&D), as well as a base for high- and new-tech industries and advanced manufacturing. Baoji, Shaanxi, is slated for development as a base for new-materials R&D and production, and as a center for machine-tool manufacturing, heavy-auto manufacturing, non-ferrous metal processing, and retail industries. Shaanxi's resource-rich cities of Tongchuan and Weinan encourage investment in the energy, coal-to-chemical, and agricultural processing industries. For the province's remaining areas that are largely rural, government efforts will still focus on basic infrastructure construction to foster urbanization.

From 2000 to 2008, the western region's GDP grew by an average of 11.7 percent annually. But these robust numbers mask the shortcomings of the Western Development Strategy. From 1999 to 2009, high-volume growth in western China was limited to just three major cities: Chengdu, Sichuan; Chongqing; and Xi'an. Average annual incomes in the western region remain below the national average.

The Rise of Central China Plan

In 2009, the State Council released the Rise of Central China Plan with the clear goal of transforming central China into a production base for four major industrial areas: grain production, energy and raw materials, equipment manufacturing, and high technology. The plan also aims to develop the region into a major transport hub.

To support the 2009 plan, the PRC Ministry of Commerce (MOFCOM) in May 2010 issued the Central China Foreign Investment Promotion Plan (2009-14) and six related provincial sub-plans that cover Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi (see Box). Each provincial plan contains a foreign-investment promotion strategy that focuses on specific industries. For example, the Henan Promotion Plan encourages foreign investment in chemicals, electronic equipment, equipment manufacturing, high technology—especially IT—and mining.

Industries encouraged in the Central China Foreign Investment Promotion Plan include a mix of traditional and emerging industries, including

- Agricultural products and food production;
- Clothing, food, light industry, electronics, and other labor-intensive industries;
- Electronic information, biotechnology, new energy, new materials, and other high-tech industries;
- Energy and raw materials;
- Farm machinery, vehicles, and shipbuilding;
- Logistics, transportation, and other modern services; and
- Mining, metallurgical, and petrochemical equipment.

The Rise of Central China Plan has a few characteristics that set it apart from the Western Development Strategy. Notably, central China development policies seek to exploit the region's agricultural advantages and develop industries such as agriculture machinery, food processing, logistics, and petrochemicals.

The Rise of Central China Plan has already shown some positive results. In 2009, the average GDP growth rate of the six central provinces reached 11.6 percent, exceeding the 11.1 percent growth rate of coastal provinces. Industrial value-added and fixed-asset investment in the region also demonstrated robust growth in 2009. Indeed, impressive economic growth in the central region appears to be generating domestic demand and driving policymaking toward the region.

Yet companies have expressed doubts about the business operating environment in central China. Many complain about the region's poor infrastructure and fragmented logistics networks relative to the coast. Higher transport costs and relative isolation from supply chains may

Six Provincial Sub-Plans for Promoting Foreign Investment

Anhui Investment Promotion Plan

www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zxgg/P020100512527636566881.doc

Henan Investment Promotion Plan

www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zxgg/P020100512527636877797.doc

Hubei Investment Promotion Plan

www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zxgg/P020100512527637189052.doc

Hunan Investment Promotion Plan

www.shandongbusiness.gov.cn/index/content/sid/102570.html

Jiangxi Investment Promotion Plan

www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zxgg/P020100514477667038047.doc

Shanxi Investment Promotion Plan

www.fdi.gov.cn/pub/FDI/tzdt/zt/ztmc/zxgg/P020100512527638435437.doc

outweigh the benefits of tax breaks and other financial incentives available to foreign-invested enterprises (FIEs) that relocate to central China.

More Policies on the Horizon

Signs indicate that the PRC government is pushing for further development in the country's central and western regions. China's 12th Five-Year Plan (2011-15), which is currently being drafted and is scheduled to be finalized in March 2011, will devote significant attention to developing central and western China. Though details of specific policy initiatives are not yet public, the policies will likely emphasize balanced regional economic growth instead of focusing on generating rapid economic development.

As an indication of a renewed commitment to development in central and western China, the State Council approved in June 2010 a plan to establish the Liangjiang New District in Chongqing. The district was modeled after Shanghai's Pudong New District and Tianjin's Binhai Development Zone, offering all the same incentives, including a reduced enterprise income tax (EIT) rate of 15 percent through 2020 to companies that operate in encouraged industries. NDRC Vice Minister Du Ying announced in July that regulators are currently developing the Catalogue of Encouraged Industries in Western China.

Regional Development Incentives

By offering incentives to foreign companies, the PRC government has emphasized that foreign investment is key to developing the central and western regions. Under current investment schemes, foreign companies that invest in priority industries in these regions can enjoy the same preferences that are offered to industries in the encouraged list of the Catalogue Guiding Foreign Investment in Industry. Incentives are mainly tax related, such as a 10 percent reduction in EIT payments. Current policy allows exemptions until the end of 2010, but the exemption may be extended for emerging industries such as biosciences, IT, pharmaceuticals, and renewable energy. The State Council is urging localities to streamline or liberalize investment processes and technology funding to encourage FIEs in eastern

China to relocate to the central and western regions.

Incentives in Central China

Many tax incentives are available to investors in central China, with the bulk of them offered at the county and city levels. County and city tax incentives include exemptions or reductions in payments of value-added tax (VAT), EIT, import tax, urban land tax, and other tax liabilities. Local governments also offer preferential land-use policies, such as discounted rental fees, rebates, and accelerated approvals for land use. Eligibility for preferential policies depends on the location, industry, and nature of the applying company's operational activities.

According to a 2007 State Council General Office notice, companies in 26 central China cities are eligible for incentives that were once applied to companies under the Plan for Revitalizing the Old Industrial Base in the Northeast Region. More than 200 counties offer incentives to companies under the Western China Development Strategy. Incentives are primarily related to tax and land use in the following 26 cities:

- **Anhui Province** Bengbu, Hefei, Huainan, Ma'anshan, and Wuhu;
- **Henan Province** Jiaozuo, Kaifeng, Luoyang, Pingdingshan, and Zhengzhou;
- **Hubei Province** Huangshi, Shiyan, Wuhan, and Xiangfan;
- **Hunan Province** Changsha, Hengyang, Xiangtan, and Zhuzhou;
- **Jiangxi Province** Jingdezhen, Jiujiang, Nanchang, and Pingxiang; and
- **Shanxi Province** Changzhi, Datong, Taiyuan, and Yangquan.

Companies operating in the agricultural products and processing, auto, defense, equipment manufacturing, high- and new-technology, metallurgy, petrochemical, and shipping industries may be eligible for rebates on their VAT payments for fixed assets. The rules also apply to organizations that have head offices (*zong ji gou*) in central China and have purchased fixed assets through their head office. Industrial enterprises can write off 40 percent of the purchase value of fixed assets or intangible assets from their income taxes.

The rules also provide incentives for land use. Any land that is deemed by the land utilization plan as a "transformational project" and that is used for urban construction can be regarded as priority. Transformational projects are those that use land for a different purpose than what it had been used for in the past. Land applications for key infrastructure projects will be given additional priority status.

Incentives in Western China

Despite reforms to China's enterprise tax regime in 2008, preferential tax policies listed in the Circular on Issues Regarding Tax-Related Preferential Policies for Western Development (1999) remain effective, and most of them are likely to be extended past 2010. Tax benefits listed in the circular include:

- Reduced EIT rate of 15 percent for investment that falls under the encouraged category in the Catalogue Guiding Foreign Investment in Industry or the 2008 Catalogue of Priority Industries for Foreign Investment in Central and Western China.
- Local tax deductions or exemptions approved by the provincial government.
- 2+3 tax holidays for new enterprises in the transportation, grid power operation, irrigation works, postal services, and broadcasting industries. Eligible companies receive a two-year exemption on their EIT payments beginning from their first profitable year, and pay a 12.5 percent EIT rate from the third to fifth year. To qualify, companies must derive 70 percent of their annual revenue from services related to their core business and must have been operational for 10 years or more.
- Duty-free imports and exemptions on VAT payments on imported products that are used directly by the importing company, according to the product types listed in the Import Commodities Not Exempt from Duty and Tax for Foreign Investment Projects Catalogue.

Media reports indicate that the State Administration of Taxation has already begun internal discussions on updating the circular, and may include a 3+3 tax holiday for companies that invest in key public infrastructure projects. (A 3+3

tax holiday would be similar to a 2+3 holiday, but would allow an additional year of exemptions on EIT payments.) Statements from the PRC leadership also suggest it will extend the 10-percent reduction in EIT rates.

More Options for Foreign Investors

The push to develop China's central and western regions will open market segments to foreign investment for years to come. Companies will find greater investment options as previously restricted industries in the interior open to foreign investment and favorable policy incentives become available.

Despite the growing attractiveness of China's interior as a destination for investment, establishing operations in central and western China brings distinct challenges that companies must account for in their planning. Local officials'

relative lack of experience in facilitating foreign investment may require companies to educate government officials about how their operation supports government policy objectives. Companies should also be aware of the risk of local protectionism, particularly favoritism toward state-owned enterprises.

Policy is just one component of the decision to embark on a major investment. Companies must consider other factors – such as the operating environment, access to a talented labor pool, ease of transportation and logistics, and access to the supply chain – before entering a new market. For now, most cities in central and western China are underdeveloped. But given the speed with which the PRC government aims to grow the economies of interior China, conditions for investment may improve quickly.

Appendix I: Encouraged Industries and Projects in Central and Western China

Part I: Catalogue of Encouraged Industries for Foreign Investment in the Central and Western Regions (2008)

www.ndrc.gov.cn/zcfb/zcfbl/2008ling/t20081224_253113.htm

Released in 2008, the Catalogue of Encouraged Industries for Foreign Investment in the Central and Western Regions lists all the industries in which foreign investors are encouraged to invest in central and western China. (Central and western China covers 18 provinces, autonomous regions, and centrally administered municipalities.) In addition, the catalogue identifies the provinces, autonomous regions, and centrally administered municipalities that encourage investment in a specific industry. For some industries, investment is encouraged in multiple provinces, while investment in other industries may be encouraged in only one province.

Industries Encouraged for Investment in Multiple Locations

Industry	Encouraged product, project, or technology	Province
Agriculture	Development and application of water-saving irrigation technologies	Chongqing, Gansu, Guizhou, Henan, Inner Mongolia, Ningxia, Shanxi, Sichuan, Tibet, Xinjiang, Yunnan
Autos	Production of spare auto parts (clutches, connecting rods, cylinder bodies, cylinder covers, engine crankshafts, engine electronic spraying systems, engine timing chains, gear boxes, instruments, lamps, and shock absorbers)	Anhui, Chongqing, Guangxi, Guizhou, Hubei, Jiangxi, Sichuan
Education	Medical institutions (limited to equity and cooperative joint ventures [JVs]) Vocational educational institutions (limited to cooperative JVs)	Anhui, Jiangxi, Qinghai, Shaanxi Anhui, Jiangxi, Hubei, Hunan, Qinghai
Environmental protection	Restoration of farmland to forests and grasslands and restoration of pastures to grasslands; protection of natural forests; and development of other national key ecological projects	Chongqing, Guangxi, Guizhou, Henan, Inner Mongolia, Qinghai, Shaanxi, Shanxi, Sichuan, Tibet, Xinjiang, Yunnan
Industrial products	Technical development and deep processing of special varieties of superior float glass (super white, super thin, and online Low-E) Production of new dry-processing cement by using cement clinker with a daily production of 4,000 tons or more	Anhui, Chongqing, Guangxi, Guizhou, Henan, Hubei, Jiangxi, Qinghai, Shaanxi, Shanxi, Sichuan, Xinjiang, Yunnan Anhui, Chongqing, Guangxi, Guizhou, Henan, Hubei, Hunan, Inner Mongolia, Jiangxi, Ningxia, Qinghai, Shaanxi, Shanxi, Sichuan, Xinjiang, Yunnan
Light industry	Deep processing of silk products	Guangxi, Guizhou, Henan, Hubei, Shaanxi, Shanxi, Sichuan, Xinjiang, Yunnan

Natural resources	Development of applied technologies for coal processing and production of coal-to-chemical products (requires Chinese majority control)	Guizhou, Henan, Inner Mongolia, Shaanxi, Shanxi, Xinjiang
	Deep processing of rare earths and production of applied products	Gansu, Jiangxi, Sichuan
	Production and development of downstream chemical products of natural gas (excluding those restricted or prohibited by the Policies on Utilization of Natural Gas)	Chongqing, Gansu, Inner Mongolia, Qinghai, Shaanxi, Sichuan,
New energy	Production of power-generation equipment by using solar, wind, and other new energy resources, and parts and components (limited to equity and cooperative JVs)	Chongqing, Gansu, Ningxia, Xinjiang
Pharmacy	Deep processing of natural and raw material and Chinese patent medicines, as well as the production of their derivatives (excluding those restricted or prohibited by the Catalogue Guiding Foreign Investment in Industry)	Henan, Jiangxi
	Processing and production of Chinese medicinal plants, extracts of Chinese traditional medicine, and Chinese patent medicine (excluding those restricted or prohibited by the Catalogue Guiding Foreign Investment in Industry)	Anhui, Chongqing, Tibet
	Development and production of animal and plant medicine resources (excluding those restricted or prohibited by the Catalogue Guiding Foreign Investment in Industry)	Guangxi, Guizhou, Hubei, Shaanxi, Sichuan, Yunnan
Printing	Package and decoration printing	Anhui, Henan, Hubei, Hunan, Jiangxi, Shanxi, Yunnan
Public services	Passenger road transportation (requires Chinese majority control)	All provinces
	Construction and operation of urban gas, heat, and water supply and drainage systems (requires Chinese majority control in large cities)	All provinces
Telecom	Value-added telecom services (according to China's World Trade Organization commitments)	All provinces
Tourism	Protection, development, and operation of tourist areas and supporting facilities	All provinces

Source: PRC National Development and Reform Commission (NDRC)

Industries Encouraged for Investment in One Location

Anhui

- Development and application of protective cultivation technologies
- Deep processing and comprehensive use of sorghum and silkworm cocoons
- Comprehensive use of coal resources, including kaolin, coal bed gas, mine water, and natural coke (excluding exploration and exploitation)
- Comprehensive use of nonmetal minerals, including calcite, bentonite, kaolin, attapulgitic clay, limestone, and quartz (excluding exploration and exploitation)
- Spinning, knitting, and garment processing of high-grade cotton, fir, hemp, silk, and chemical fiber
- Large integrated coking, salification, and comprehensive use of coal (requires Chinese majority control)

- Deep processing and comprehensive use of nonferrous metals, including copper, lead, and zinc (limited to equity and cooperative JVs)
- High-performance radial tire production
- Production of complete sets of equipment for dry-process cement production
- Production of large oxygen-producing machines, coke ovens, and heavy-cast steel machines
- Development and production of large digital-forging and pressing equipment and components
- Development and production of fork-lift trucks, special excavators and components and spare parts
- Production of high-efficiency compressors and enameled wire for refrigerators and air-conditioning units
- Technical development and production of high-performance magnetic materials and devices

Chongqing

- Planting of oranges and breeding of pigs
- Spinning, knitting, and processing of high-grade cotton, fir, ramie, silk, bamboo fibers, and chemical fibers
- Production of polyurethanes, raw materials, and new engineering plastics
- Production of biomaterials, synthetic macromolecule biomaterials, natural macromolecule biomaterials, and bio-based intermediate compounds
- Finishing and deep processing of aluminum (limited to equity and contractual JVs)
- Production of complete motorcycles (foreign shares capped at 50 percent) and motorcycle components and parts
- Development and production of new medical equipment
- Production of large, digital integrated circuits with wire width less than 0.25 μm

Gansu

- Development and production of melon, fruit, vegetable, and flower seeds (requires Chinese majority control)
- Establishment of bases for growing high-quality wine grapes
- Cultivation and processing of high-quality ingredients for beer production
- Establishment of "good agricultural production" bases for Chinese traditional medicinal plants (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Finishing and deep processing of nonferrous metals, including aluminum, copper, and nickel (requires Chinese majority control)
- Production of petroleum drilling and refining equipment
- Processing of oil and gas pipelines
- Production of Mono pumps (single-screw pumps), water pumps, and fine-grinding machines
- Production of precise, numerically controlled machines and tools

Guangxi

- Deep processing of cane sugar and comprehensive use of cane-sugar byproducts
- Deep processing of rosin
- Deep processing of barite
- Production of special-use ethnic products, handicraft articles with ethical characteristics, and materials for packing containers
- Production of ceramics for daily use
- Production of high-performance radial tires
- Technical development and production of key, large engineering machinery components

Guizhou

- Deep processing of potatoes and taro products
- Deep processing of meats (beef, pork, mutton, and poultry), capsicum, buckwheat, yams, and walnuts
- Deep processing of ramie products

- Smelting of titanium (requires Chinese majority control)
- Production of phosphor and sulfur chemical and industrial products
- Finishing and deep processing of aluminum and other nonferrous metals (limited to equity and contractual JVs)
- Production of abrasive materials and tools

Henan

- Exploitation and processing of iron (requires Chinese majority control)
- Deep processing of aluminum, lead, and zinc (excluding exploration, exploitation, and smelting)
- High-grade cotton textile and garment processing
- Production of super-hard material products
- Production of spiramycin and antihypertensive products
- Development and production of large agricultural machines
- Development and production of complete sets of large-scale coal production, oil drilling, nonferrous metal rolling, and new dry-process cement production equipment
- Production of comprehensive management automation equipment for electric energy
- Development and production of liquid crystal on silicon (LCos), digital light processing (DLP), and liquid crystal display (LCD) products

Hubei

- Development and application of protective cultivation technologies
- High-grade cotton textile and garment processing
- Production of non-woven fabrics and medical textiles
- Production of high-efficiency compressors and special enameled wires for refrigerators and air-conditioning units
- Key parts of numerically controlled machine tools
- Production of special steel cables and ropes (average tensile strength of more than 2,200 MPa)
- Development and production of laser medical equipment
- Development of photoelectron technologies and products, including optical fiber perform and light emitting diode products
- Construction of auto liquid petroleum gas and compressed natural gas filling stations

Hunan

- Finishing and deep processing of lead and zinc resources (excluding exploration, exploitation, and smelting)
- Production of bismuth compounds (requires Chinese majority control)
- Development of hormones (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Processing of large-caliber steel tubes
- Production of concrete pumps, pump trucks, spreaders, and mixing and transporting vehicles
- Production of tower cranes, construction lifters, and crane trucks
- Production of road construction machinery, including asphalt spreaders, cold milling machines, rollers (with 220 hp or more), asphalt concrete mixing machines, graders, and heaters
- Production of sanitation machinery, including road sweepers and road-cleaning vehicles
- Production of earthmoving equipment, including rotary drilling machines and excavators (above 30 tons)
- Development and production of engineering machinery, including hydraulic valves, hydraulic rams and gears, and other key components and parts
- Production of high-efficiency vane pumps and water conservancy machinery
- High-speed bimetallic cutting tools
- Production of complete sets of new-rubber machines
- Production of radio and TV programs and films

Inner Mongolia

- Finishing and deep processing of beet saccharine and comprehensive use of byproducts
- Finishing and deep processing of copper, lead, zinc, and aluminum (excluding exploration, exploitation, and smelting)
- Comprehensive use, finishing, and deep processing of nonmetal minerals, including andalusite, bentonite, crystalline graphite, dolomite, perlite, and zeolite (excluding exploration and exploitation)
- Development of high-tech products of wool textile and knit goods
- Processing of Mongolian medicines (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Development and use of biological pharmacy products by using the viscera of cattle and sheep (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Production of special-use ethnic products, handicraft articles, and materials of packing containers and glass products for daily use
- Electricity generation, heat supply, and other use of remaining middling coal and coking coal energy
- Development, construction, and operation of ecological tourist attractions such as snow areas, forests, and pastures

Jiangxi

- Dressing of copper resources and extracts and finishing and deep processing of associated elements
- Dressing, smelting, application, and deep processing of nonmetal minerals, including kaolin, power quartz, wollastonite, sepiolite, and dolomite the chemical industry's use
- Spinning, knitting, and production of high-grade cotton, fir, hemp, tussah silk, and chemical fiber garments
- Production of fine chemical products such as inorganic and organic chlorines (excluding organic chlorines with high residues)
- Production of high-performance radial tire
- Development and production of equipment in medical electronic and biomedical material categories
- Production of high-efficiency compressors and special enameled wires for refrigerators and air-conditioning units
- Development and production LCos, DLP, and LCD products

Ningxia

- Cultivation and deep processing of medlar fruit and grapes
- Development and production of special-use ethnic products and Islamic foods
- Fermentation of chemical raw materials for drugs and development and production of intermediate and amino-acid products
- Development and production of carbon-based materials
- Deep processing of gypsum and ceramic raw clays
- Finishing and deep processing of metals, including tantalum and niobium (requires Chinese majority control)
- Production of high-performance radial-tires
- Production and processing of numerically controlled machines, large precise bearings, mining equipment, automatic instruments, and large precise castings
- Production and processing of large comprehensive mining equipment and fireproof electric machinery

Qinghai

- Protection, plantation, breeding, processing, and use of high-plains animal and plant resources (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Construction of bases for and deep processing of organic crops and livestock products
- Deep processing of yak-fur products

- Production of new kinds and formulations of Chinese traditional and Tibetan medicines (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)

Shaanxi

- Development and production of potato and cotton seeds and seedlings (requires Chinese majority control)
- Spinning, knitting, and garment processing of high-grade cotton, fir, and chemical fiber
- Finishing and deep processing of titanium resources (requires Chinese majority control)
- Design and production of blast-furnace gas-energy recovery turbine units

Shanxi

- Cultivation and deep processing of forage grass, feedstuff, and crops
- Restoration and reconstruction of ecological systems in mining areas
- Comprehensive use of silica resources (excluding exploration and exploitation)
- Comprehensive use of kaolin (excluding exploration and exploitation)
- Production and development of downstream coal-bed gas chemical products
- Comprehensive use of coke byproducts
- Technical development and production of high-grade glass products and high-tech ceramics, including ceramic for industrial use
- Production of stainless steel products
- Technical development and production of precise castings and forgings
- Production of rubber conveyer belts with steel cable as the core
- Production of hydraulic-pressure technical systems and molds
- Production of small and medium-sized dry-land and mountain agricultural machinery and supporting tools
- Electricity generation, heat supply, and other comprehensive use of middling and coking coal heat

Sichuan

- Development and production of vegetable and fruit seeds and seedlings (excluding transgenic seeds; requires Chinese majority control)
- Breeding of pigs, cattle, sheep, and poultry and deep processing of meat products
- Development of new vanadium titanium-magnetite technologies and products (requires Chinese majority control)
- Production of high-performance inorganic fluorine chemical products (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- High-performance radial tire production
- Production of engineering machinery such as bulldozers, concrete machinery, cranes, excavators, forklift trucks, graders, hydraulic presses, loaders, and road rollers (requires Chinese majority control)
- Development and production of numerically controlled medical equipment and key components and parts
- Production of natural gas compressors (including coal-bed gas compressors)

Tibet

- Development and use of saline resources (requires Chinese majority control)
- Production of natural mineral drinking water (requires Chinese majority control)
- Deep processing of yak-fur products and production of Tibetan carpets
- Processing and production of woolen products
- Production of new types of Tibetan medicines (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Production of special-use ethnic products, handicraft articles, packing container materials, and glass products

Xinjiang

- Cultivation and deep processing of high-quality tomatoes, pears, grapes, melons, Chinese dates, and medlars
- Construction of bases for growing high-quality wine grapes
- Cultivation and processing of natural spices
- Processing of beet sugar and comprehensive use of beet byproducts
- Cultivation of flax and production of flax products
- Upgrade top-grade cotton and wool products
- Comprehensive use of vermiculite, mica, asbestos, magnesite, graphite, limestone, andalusite, dimension stones, and other nonmetal ores (excluding exploration and exploitation)
- Production and development of downstream products (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Comprehensive use of oil-gas resources
- Recovery and use of blowdown gas
- Plantation and processing of medicinal plants from Xinjiang and development of new pharmaceutical techniques (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Development and use of biological pharmacy products derived from cattle and sheep viscera (excluding those restricted and prohibited by the Catalogue Guiding Foreign Investment in Industry)
- Production of special-use ethnic products, handicraft articles, packing containers, and glass products

Yunnan

- Development and production of superior mulberry and silkworm products
- Finishing and deep processing of nonferrous metals, including copper, lead, and zinc (excluding exploration, exploitation, and smelting (requires Chinese majority control)
- Development and application of special edible resources
- Processing and development of flax and comprehensive use of flax byproducts
- Development and production of applied technologies in phosphorus fine chemical industry (requires Chinese majority control)
- Production of diesel engines, components, and parts for light vehicles

Part II: Regional and Provincial Plans

The Rise of Central China Plan

www.china.com.cn/policy/txt/2010-01/12/content_19218531.htm

Released in 2009, the Rise of Central China Plan covers six provinces: Anhui, Henan, Hubei, Hunan, Jiangxi, and Shanxi. Similar to the Catalogue of Encouraged Industries for Foreign Investment in the Central and Western Regions, the plan lists projects and industries that provincial and central regulators seek to promote in central provinces. The Rise of the Central China Plan does not list incentives for companies that invest in the promoted industries. Rather, individual provinces and municipalities have been tasked with forming specific incentives. According to conversations with local officials, incentives will depend on industry, the amount of investment, and other factors.

Select Industries Encouraged for Investment in the Rise of Central China Plan

Industry	Sub-industry and corresponding location
Agriculture	<ul style="list-style-type: none">• Construction of basic farmland and water conservancy facilities in Anhui, Henan, Hubei, Hunan, and Jiangxi; key production counties in central and southern Shanxi• Protective cultivation technologies in Anhui, Henan, and Hubei• Wheat logistics center in Zhengzhou, Henan, and rice logistics centers in Changsha, Hunan; Jiujiang, Jiangxi; and Wuhan, Hubei

	<ul style="list-style-type: none"> • Agriculture, animal husbandry, and aquatic products • Cotton production: eastern and northern Henan, southern Shanxi; Jiangnan Plain, Hubei; Dongting Lake, Hunan; and Poyang Lake, Anhui • Colza production: Anhui, Henan, Hubei, Hunan, and Jiangxi • Apple production: southern and central Shanxi and western Henan • Orange production: southern Jiangxi to southern Hunan, and western Hubei to western Hunan • Oil-tea production: Hunan and Jiangxi • Walnut production: Hunan and Shanxi • Tea leaf production: western and southern Anhui, central and northern Jiangxi, southern Henan, western Hubei, and northern Hunan • Silkworm production: southern Shanxi; southern Anhui; northern Jiangxi; eastern, western, southern, and northwestern Hubei; and northern and western Hunan • Tobacco leaf production: western and southern Henan and southern and northwestern Hunan
Bio-pharmaceutical	<ul style="list-style-type: none"> • Animal breeding technologies, modern Chinese medicine, and modern biomedicine
Building materials	<ul style="list-style-type: none"> • Deep-processing; Glass and china production technologies • Building materials derived from recycled waste
Civil aviation materials	<ul style="list-style-type: none"> • Develop industry bases in Nanchang, Jiangxi and Changsha, Hunan
Domestic appliances	<ul style="list-style-type: none"> • Environment friendly air conditioners, energy-saving refrigerators, and other intelligent appliances
Electronics and information technology (IT)	<ul style="list-style-type: none"> • Telecom network, electric, and computer and application equipment; large-screen light-emitting diode; thin-film transistor liquid crystal display; integrated-circuit, digital-control systems; and Chinese audio software and outsourcing services
Energy	<ul style="list-style-type: none"> • Set up large-scale energy-efficient thermal power plants in Anhui, Henan, and Shanxi • Eliminate small coal-generated power plants • Support energy restructuring in Hubei, Hunan, and Jiangxi
Equipment manufacturing (focused on indigenous innovation)	<ul style="list-style-type: none"> • Technical and communications equipment manufacturing • Heavy engineering: Mining machinery and engineering machinery • Power transmission, mining, metallurgy, power control, environmental protection equipments; parts of large-scale, high-quality, and speed digital control processing equipment • New-energy generated power equipment: Establish manufacturing bases in Changzhutan, Hunan and Wuhan, Hubei; a power control protection equipment manufacturing base in Xuchang, Henan; a high voltage switch equipment manufacturing base in Pingding Mountain, Henan; Changsha, Hunan; and Yichang, Hubei; and an energy-saving equipment manufacturing base in Wuhu, Anhui • Auto: New-energy auto research and production and safe auto production • Railway: High-power alternating current drive locomotives and control systems for urban railway trains; transmission systems for railway bases in Zhuzhou, Hunan; Datong, Shanxi; and Xiangtan, Hunan • Ship manufacturing: Multi-function ships such as work ship and dredgers

Food	<ul style="list-style-type: none"> • High-quality food and green-food processing industry (deep processing of starch, frozen fresh meat, edible oil, fruit, dairy, and frozen food)
Iron and steel	<ul style="list-style-type: none"> • Encourage technology transformation of the Wuhan Iron and Steel Group, Anshan Iron and Steel Group, and Taiyuan Iron and Steel (Group) Co., Ltd., as well as cross-region industry restructuring
Modern paper	<ul style="list-style-type: none"> • Pollution treatment technologies: Eliminate outdated capacities, and support mergers and acquisitions
National defense technology	<ul style="list-style-type: none"> • Dual-use technologies and industries
New energy	<ul style="list-style-type: none"> • Solar-generated power technologies
New materials	<ul style="list-style-type: none"> • Information material, including crystal silica material technology and super-hard material development • Deep processing: Aluminum and magnesium alloys
Nonferrous metals	<ul style="list-style-type: none"> • Deep processing: Copper, aluminum, and magnesium • Minerals exploration: Magnesium, lead, zinc, and titanium
Petrochemical	<ul style="list-style-type: none"> • Alkene, arena, and synthetic materials: Key priorities are 0.8 million tons of ethylene in Wuhan; 0.68 million tons of p-Xylene and 1 million tons of pure terephthalic acid in Luoyang; and 0.3 million tons of styrene-butadiene-styrene in Changling • Nitrogen fertilizer, phosphate compound fertilizer, and phosphate chemicals
Resources and minerals	<ul style="list-style-type: none"> • Large-scale coal base: Anhui, Henan, and Shanxi • High-quality steam coal and anthracitic coal base: Northern and eastern Shanxi • Coking coal: Central Shanxi • Coal gas resource trial projects: Shanxi's Qinshui basin; Zhengzhou, Henan; Jiaozuo, Hebei; and Anhui • Comprehensive coal gas resource trial project: Northern Huai River • Coal resources: Encourage advantaged enterprises to use coal resources and support the development of relevant industries (coal, power, transportation, and chemicals) • Uranium mine exploration: Hunan and Jiangxi • Iron mine exploration: Middle and lower reaches of the Yangtze River, and Shanxi and Henan • Non-ferrous mine exploration: Nanning, Jiangxi; middle and lower reaches of the Yangtze River; western Hunan to western Henan; and to the east of the Qingling Mountains
Textile and clothing	<ul style="list-style-type: none"> • Spinning and weaving technologies Eliminate outdated capacity • High- and new-technology textile and biomass fiber

Source: NDRC

Development Plan for the Guangxi-Beibu Gulf Economic Zone

www.gx.xinhuanet.com/dtzc/2008-02/21/content_12502698.htm

The largest of the three regional development zones in western China, the Guangxi-Beibu Gulf Economic Zone covers the administrative areas of four major cities in Guangxi--Beihai, Fangchenggang, Nanning, and Qinzhou. The zone's proximity to the Beibu Gulf lends itself to linking various regions of China and connecting China to southeast Asian countries. The development plan seeks to balance growth among heavy, light, and services industries, with a focus on high-tech, logistics, and petrochemical industries. Similar to the Rise of Central China Plan, incentives for the zone are negotiated at the local level.

Key Industries and Projects Promoted in the Development Plan for the Guangxi-Beibu Gulf Economic Zone

Industry	Sub-industries and corresponding locations
High technology	<ul style="list-style-type: none"> • Develop electronics and IT, biology engineering, new materials, energy-saving, and environment protection-related high-tech industries • Software development, new electronic components, biology materials, rare earth, high-efficiency materials, bio-energy, and energy-efficient materials and products • Improve creativity and capacity of Nanning and Beihai High- and New-Tech Industrial Zones • Construct a Nanning biology industry base
Light industry and food	<ul style="list-style-type: none"> • Develop grain and oil processing industries, particularly sugar production • Develop agricultural products processing base, including fruits and vegetables, sisal, anise, scented tea, bamboo shoot, and tobacco • Develop the textile and clothing industry
Logistics	<ul style="list-style-type: none"> • Construct coastal and urban logistics systems and a regional and international logistics base in Nanning
Marine	<ul style="list-style-type: none"> • Develop sea products deep processing; oceanic biology and pharmacy industry, oceanic chemicals, and mineral exploration
Metallurgy	<ul style="list-style-type: none"> • Adjust product structures • Consolidate steel and iron companies • Construct an aluminum deep-processing base in Nanning • Manufacture aluminum sheets to supply the transportation, aviation, and packaging industries
Paper-making	<ul style="list-style-type: none"> • Construct large-scale forestry-pulp-paper bases in Qinzhou and Tieshan ports in Guangxi • Develop high-quality paper • Develop the wood processing industry
Petrochemical	<ul style="list-style-type: none"> • Construct a large-scale oil refinery base in Qinzhou to develop crude-oil processing and related industries • During the 12th Five-Year Plan period, develop petrochemical industry chain projects to form coastal petrochemical industry concentrations • Develop a chemical base in Nanning

Source: NDRC

Guangzhong-Tianshui Economic Zone (2009)

www.gov.cn/gzdt/2009-07/04/content_1356937.htm

This plan covers the cities of Baoji, Shangluo, Tongchuan, Weinan, Xi'an, Xianyang, and Yangling in Shaanxi Province, and Tianshui in Gansu Province. It calls for the development of concentrations of advanced manufacturing and focuses growth around several core industries: aviation and aerospace, equipment manufacturing, financial services, logistics, and resources processing.

Highlights of the Guangzhong-Tianshui Economic Zone Development Plan

Industry	Specific field and corresponding locations
Aviation and aerospace	<ul style="list-style-type: none"> • Depend on the Xi'an Yanliang National Aerospace High-Tech Industry Base to develop large-scale transport planes, turbo propeller aircraft, utility aircraft, aviation engines, and related industries • Develop airborne systems, aviation components, special devices, and maintenance services

	<ul style="list-style-type: none"> Commercialize Xizou aircrafts, large-scale aircraft components production, and service outsourcing
Equipment manufacturing	<ul style="list-style-type: none"> Centered in Baoji, Tianshui, Xi'an, and Xianyang: Develop digital control machines, auto, transformer apparatus, electronics and IT, engineering machinery, energy and petrochemical equipment, nonferrous metal, heavy equipment, petroleum drilling equipment, and wind and solar power generation devices.
Finance	<ul style="list-style-type: none"> Develop Xi'an into a regional financial center
Logistics	<ul style="list-style-type: none"> Build and upgrade logistics infrastructure by constructing logistic parks in the Xi'an International Port Zone, Xianyang International Airport Industrial Park, and Baoji and Shangluo, Shaanxi; and Tianshui, Gansu Build an inland comprehensive bonded zone in Xi'an as an important hub connecting inland ports in Eurasia Develop logistics networks, including distribution systems, infrastructure, and supply chains.
Resources processing	<ul style="list-style-type: none"> Centered in Baoji, Shangluo, Tongchuan, and Weinan, Shaanxi, and Tianshui, Gansu Baoji: Encourage mineral exploration and intensive processing in lead, zinc, and titanium industries, and construct a titanium material production and assembly base Shangluo: Develop molybdenum and vanadium metallurgic processing and poly silicon and new-mode materials Tianshui: Develop non-metal minerals and promote the development of energy resources in the chemical industry Tongchuan: Develop aluminum processing, construction materials, and porcelain industries to construct a building materials base Weinan: Develop coal, fertilizer, molybdenum concentrate processing and construct a molybdenum production and research base

Source: NDRC

Appendix II: Preferential Incentives for Foreign Investment

Tax Incentives

Tax incentives for foreign investment are offered at the national and local levels. In addition to the reduced 15-percent Enterprise Income Tax (EIT) rate, companies may qualify for additional provincial and municipal tax incentives—including exemptions, reductions, and rebates on value-added tax (VAT), business tax, and import duties—depending on the company’s industry and commercial activities. The list below is not comprehensive, and companies may be able to negotiate additional tax benefits with local regulators.

Enterprise income tax

- A 15 percent EIT rate from 2001 to 2010 for investment that falls under the encouraged category of the Catalogue Guiding Foreign Investment in Industry or the 2008 Catalogue of Priority Industries for Foreign Investment in Central and West China. (Available in all 12 provinces in western China and 243 counties in central China.)
- A 15 percent EIT rate through 2020 for investment that falls under the encouraged category of the Catalogue Guiding Foreign Investment in Industry or the 2008 Catalogue of Priority Industries for Foreign Investment in Central and West China. (Available in the Liang Jiang New District.)
- A 15 percent EIT rate until 2020 for companies that earn at least 60 percent of their revenue by selling high technologies and technology-related services. (Available in the Two River Regions only.)
- Unspecified local tax deductions or exemptions approved by the relevant provincial government (available in all 12 provinces in western China and 243 counties in central China).
- Foreign-invested services outsourcing enterprises are eligible to receive a one-year exemption from EIT payments on technology transfers valued at less than RMB 5 million (\$747,000); technology transfers that are valued above RMB 5 million are eligible to receive a 50 percent reduction in EIT payments. (Available in Hunan only.)
- 2+3 tax holidays for new enterprises in the transportation, grid power operation, irrigation works, postal services, and broadcasting industries. Eligible companies receive a two-year exemption on their EIT payments beginning from their first profitable year, and pay a 12.5 percent EIT rate from the third to fifth year. To qualify, companies must derive 70 percent of their annual revenue from services related to their core business, and must have been operational for 10 years or more. (Available in all 12 provinces western China and 243 counties in central China.)

Value-added tax

Exemptions

- Exemptions from VAT and duty payments on imported goods for internal company-use and not for resale. Products listed in the Catalogue of Imported Commodities Not Exempt from Taxes for Foreign-Funded Projects do not apply. (Available in all 12 provinces in western China and 243 counties in central China.)
- Exemptions from VAT payments on sales of building materials with a doped residue of more than 30 percent; reclaimed water; renovated tires; and rubber powder made of discarded tires. (Available in all 18 provinces in central and western China.)
- Exemptions from VAT payments on labor costs for sewage treatment. (Available in all 18 provinces in central and western China.)

Reductions

- A 50 percent reduction in VAT payments on sales of second-hand fixed assets originally purchased before July 1, 2007. For sales of second-hand fixed assets originally purchased after July 1, 2007, the standard VAT rate applies. (Available in 26 cities in central China.)

Rebates (Available in all 18 provinces in central and western China.)

- A 100 percent VAT rebate on sales of:
 - High-purity carbon dioxide made from industrial waste gas;
 - Electrical or thermal power fueled by waste material;
 - Shale oil made from shale extracted and discarded during the coal mining process;
 - Concrete made from at least 30 percent waste asphalt; and
 - Rotating kiln-produced cement (including cement clinker) made from raw materials with a waste residue content of more than 30 percent.
- A 50 percent VAT rebate on sales of products made from scrap materials, including:
 - Nitrocellulose powder made from decommissioned military-grade propellant;
 - Byproducts of desulfurization made from fumes and sulfur gas discharged from coal-fired thermal power plants and industrial enterprises;
 - Thermal power generated by fuel that includes at least 60 percent of the following materials: gangue, coal slime, stone coal, or oil shale; and
 - Wind power-generated electricity.

Business tax (BT)

Exemptions

- Exemptions from BT payments on revenue generated from technology transfer, technology product development, or technology consulting services provided by foreign-invested enterprises (FIEs), foreign-funded research and development (R&D) centers, and other foreign-invested institutions. (Available in all 18 provinces in central and western China.)

Import duties

- FIEs under the encouraged and restricted categories of the Catalogue Guiding Foreign Investment in Industry, foreign-invested R&D centers, FIEs that produce advanced technology, and export-oriented FIEs are eligible for tariff exemptions on imports of equipment for internal company-use; auxiliary technologies; and spare components for existing products that are approved to be produced in China but that cannot be sourced locally from a domestic company. (Available in all 18 provinces in central and western China.)
- FIEs under the encouraged and restricted categories of the Catalogue Guiding Foreign Investment in Industry, foreign-invested R&D centers, FIEs that produce advanced technology, and export-oriented FIEs are eligible for tariff exemptions on imports of certain commodities that receive preferential tax treatment in related policies and regulations. (Available in all 18 provinces in central and western China.)

Financial Incentives

Financial incentives available to companies that invest in central and western China are generally related to land use, fixed asset depreciation, and R&D expenses, but companies can negotiate additional financial benefits with local regulators. The incentives vary according to industry and the amount of investment, with larger investments securing more attractive incentives.

R&D expenses

- Expenses related to R&D of new technologies and products can be deducted by up to 50 percent if the technology or product becomes a tangible asset. (Available in Hunan only.)
- Purchases of environment-friendly, water- and energy-saving, and safety equipment may be written off the purchasing company's taxable base in the same year the equipment was purchased or in the subsequent five years. (Available in Hunan only.)

Fixed-asset depreciation and amortization

- Increased depreciation rate on purchases of fixed assets (except buildings) by offering a shortened depreciation period of no more than 40 percent of the base period specified in current regulations. (Available in 26 cities in central China.)

- Shortened amortization period of no more than 40 percent of the base period specified in current regulations for the purchase or sale of intangible assets. (Available in 26 cities in central China.)

Land fees, management, and approvals

- FIEs are exempt from land-use fees if the land is gained through purchase. (Available in all 18 provinces in central and western China.)
- Priority for land use will be given to foreign-invested projects that are encouraged by the central government. Land price will be valued at no less than 70 percent of a similar plot of land as prescribed in the National Standards of Minimum Transfer Prices of Land for Industrial Purposes. (Available in all 18 provinces in central and western China.)
- Approvals of land for construction use are eligible to undergo a streamlined approval process. (Available in 26 cities in central China.)
- Land for infrastructure projects can be used before receiving final approval from the central government if the applying company receives initial approval from the provincial unit of the Ministry of Land and Resources. (Available in 26 cities in central China.)
- Land deemed by the land utilization plan as a “transformation project”--a project that uses land for a different purpose than what it had been used for in the past--that is used for urban construction can be regarded as priority for application; land applications for key infrastructure projects can be submitted separately. (Available in 26 cities in central China.)
- FIEs are eligible to receive a rebate on land rental fees worth up to 70 percent of total rent within five years of signing the rental contract. (Available in Chongqing only.)
- FIEs that are among the top-50 foreign companies in Chongqing are eligible to receive a 50-100 percent rebate on their annual rent. (Available in Chongqing only.)
- Energy, transportation, telecom, and water conservation investment projects are eligible to receive a land financing plan in which land fees can be paid in installments within a fixed time period after project commencement. (Available in Shaanxi only.)
- Export-oriented manufacturers and advanced-technology enterprises are eligible to receive a 60 percent discount on land purchases; companies that do not fall into those two categories may be eligible to receive 40 percent discount on land purchases. (Available in Gansu only.)
- Individual development zones at the provincial level or above may offer additional land incentives. (Available in Gansu only.)
- Foreign investment in the education, cultural, and healthcare sectors is eligible to receive unspecified discounts on land purchases. (Available in Shanxi only.)
- Key foreign-invested projects in development zones, industrial parks, and new industrial bases are eligible to receive priority in land selection. (Available in Shanxi only.)
- Foreign investment in the animal breeding, ecotourism, forestry, and planting sectors is eligible to receive rebates on land purchases if the purchased land is uncultivated; foreign investment in the forestry industry is eligible to receive certain preferences that domestic investment in the forestry industry receives. (Available in Shanxi only.)