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## **New Rules Set to Promote Pudong as Model Area**

The Central Committee of the Chinese Communist Party (**CCP**) and the State Council released today certain Mandates on Supportive Measures to Promote [Shanghai's] Pudong New Area to become a Model Area for Modernization Development (the ***Pudong Initiatives***) which was dated April 23, 2021 but was just published by the state news press on July 15.

The Pudong Initiatives set out a number of ambitions to make Pudong a *hub connecting China mainland and the world*, to make Shanghai an *international innovation center, international financial center, trade center and shipping center*, and to make Pudong/Shanghai a place embracing international rules and systems.

## **HIGHLIGHTS**

One key highlight of the Pudong Initiatives, in addition to the routine China tax incentives offered to business sectors liked by the authorities, is a bold grant of legislation powers to Pudong/Shanghai.

The Pudong Initiatives also reiterated that (a) the reforms should be continued to improve the system by tackling the system related issues, and (b) an *open economy embracing internationally recognized rules* should first be tested in Pudong.

## **SOME SPECIFICS**

(i) *Legislation Powers granted to Shanghai Municipality*

Shanghai People's Congress and its standing committee are authorized

- to make *regulations applicable in Pudong only*, which may have provisions different from the existing national laws, as long as such deviations are considered necessary to serve the general purposes of the Pudong Initiatives; and
- to make legislations covering matters which are not covered by existing national laws.

(ii) *measures to encourage innovation, key technology related R&D and further deregulation of the financial sector*

(iii) *identifies IC, life science, biopharmaceuticals, AI, civil aviation, auto-driving, algorithm as key development focus*

- (iv) measures to enhance *punitive damages for IP infringements*
- (v) measures to *ensure government supports*

## MEASURES

### 1 Tax Incentives

- For certain business establishments (including *IC, biopharmaceuticals, AI and civil aviation*, companies having production and/or R&D functions in Pudong will be eligible for enjoying 15% corporate income tax rate, for 5 years starting from its formation;
- R&D establishments certified by Pudong will be eligible for *import duty free* treatment for its imported equipment, and will be eligible for certain *VAT refund* for its locally sourced equipment;
- import of clinical research use medicine will be eligible for import duty exemption;
- VC companies will be eligible for corporate income reduction;
- preferential tax policies will be made available to activities involving China purpose outbound investment and offshore activities;
- preferential VAT policies will be made available to Pudong companies providing services to foreign companies outside China; and
- special tax treatment will be considered in connection with “free trade account(s)”.

### 2 IP Protection

The Pudong Initiatives call for

- formation of a sophisticated IP protection system and enhancement of punitive damages for infringement activities; and
- enforcement of the Anti-unfair Competition Law and protection of trade secret.

### 3 Free Trade

- Certain privileges within the free trade zone will be made available to some bonded areas within Pudong.
- Vessels registered at Shanghai’s Yangshan port and owned by international companies, will be permitted to ship domestic cargo as long as Yangshan port

is designated as the hub.

- Air space in Pudong airport area will be further deregulated.
- Loosen the investment restrictions over the industries of telecommunication and medical services

#### **4 Pharmaceutical and Medical Service**

In connection with the pharmaceutical and medical service sectors, the Pudong Initiatives specifically provide

- import of clinical research use medicine will be eligible for import duty exemption;
- R&D of IVD reagents will be permitted on a conditional basis;
- Biopharmaceutical companies having production and/or R&D functions in Pudong will be eligible for enjoying 15% corporate income tax rate, for 5 years starting from its formation; and
- government supports will be made available in connection with import permitting, Customs clearance efficiency and distribution channels of imported consumables used for R&D functions.

#### **5 Financial Sector**

It is clearly mentioned that Pudong will be used as a pilot to test “[limited] convertible of capital account funds”. As a part of this particular initiative,

- banks in Pudong will have certain autonomy to make cross border payments easier;
- (convertible) RMB futures may be traded at China Foreign Exchange Trade System;
- establishment of certain offshore financial center functions covering offshore RMB trading activities;
- qualified foreign institutional investors will be allowed to use RMB to participate in share offering at the [STAR Market] of Shanghai Stock Exchange, and will be provided certain access to China’s bond market;
- promote the secondary market for private equity and venture capitals;
- foreign debt registration will be simplified; and
- aim to make Shanghai an international re-insurance center.

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