The China Factor: 
Doing Business in China

Chinese Services Group
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Preface

In late 2001, China joined the World Trade Organization, signaling its entrance onto the global stage and participation as an emerging power in the world economy. Since then, China has achieved unprecedented levels of growth, becoming one of the most popular destinations for foreign investment. In 2011 alone, foreign direct investment reached US$116 billion, an increase of 8% from 2010, and that figure is expected to climb over the next decade. During the same year, China surpassed Japan to become the world's second-largest economy. Some even predict that it will transcend the United States as the world's largest economy by 2020. Even without these projections, however, it has become apparent to all investors that China presents many opportunities for investment within its borders, and that it wields considerable economic power.

As China's economy has increased in size, however, it has also increased in complexity, and multinational companies now face a host of new challenges when investing in China. While the atmosphere is far more transparent and organized than in previous years, there still remain many regulatory differences between investment procedures in China and all investors' home countries. Thus, the question on the minds of prospective investors is: What is the best way to get in on the action in China?

Deloitte's *Doing Business In China Guide* has been created to help you see the opportunities and address those challenges. As the first foreign accounting firm to establish itself in China, Deloitte is uniquely qualified to aid foreign investors into China. With decades' worth of experience dealing with all sectors of the Chinese market and a presence in 16 cities, Deloitte is well-positioned to aid its clients, whether they are new investors taking the first steps, or the executives of extensive operations looking to expand still further. We hope you find our insights useful and that it will help you to succeed in the world's fastest growing market.
Since China’s WTO entrance, it has taken major steps to liberalize its trade policy, expanding its "open-door" policy to make its investment environment both more welcoming and simple for multinational companies and other prospective investors. China has seen considerable returns on this policy, as growth soars and its popularity as a destination for investment continues to increase. Foreign Investment Enterprises (FIE), conversely, have taken full advantage of these business-friendly policies. Markets which originally required them to defer to local enterprises when performing basic services now allow them equal priority with their competitors. It has also acted to balance the disadvantage caused by considerations such as foreign exchange rates and transfer expenditures.

**Foreign Investment Incentives**

As China’s Foreign Direct Investment (FDI) value has increased, China has made further overtures towards multinational corporations, trying to help them expand their operations and view it as one of their key locations. Part of this effort is China’s establishment of several incentives in particular industries, which include the following examples:

- FIEs with a focus on physical technological development, particularly those in the clean-tech or energy industry, are able to qualify for many different tax incentives, sectors rebates, reductions in income tax rates, and sometimes exemptions from purchase or resource-based taxes.
- Small or low-margin enterprises, especially those with a technological bent, also qualify for a reduction in their income tax rates.
- Enterprises with a focus on rural locations or in Western China.
- Based on their local industry specializations, many provinces in China also include their own tax incentives on top of the federal tax incentives. Although many of these recently have been discontinued, some provinces still offer their own investment incentives to certain types of foreign industry.
Another part of China’s investment attraction strategy is the customized liberalization of trade with some of its key partners, in the form of a Free Trade Agreement (FTA). Below follows a list of countries with which China has signed an FTA, along with a list of countries with whom it is currently negotiating an FTA:

<table>
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<th>FTA Completed</th>
<th>FTA In Progress (As of March 2012)</th>
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<td>ASEAN* (January 2010)</td>
<td>Australia</td>
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<td>Peru (April 2009)</td>
<td>South Korea</td>
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<td>Singapore (October 2008)</td>
<td>Switzerland</td>
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<td>Thailand (October 2003)</td>
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*The Association of Southeast Nations (ASEAN) is an economic organization consisting of 10 states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
Although the parameters of each FTA are country-specific, there are key elements in common – the removal of tariffs, import quotas, and preferences for certain goods are included in every FTA, and all are implemented within a year of the completion of the FTA. The new lack of trade barriers allows many companies to sharply reduce supply chain costs, and to attain price competitiveness without additional costs.

Aside from the Free Trade Agreements, China has also entered into other partnerships with other locations, including the signing of an Economic Cooperation Framework Agreement (ECFA) with Taiwan, which accomplishes many of the aims of an FTA. China is also negotiating a Customs Union Agreement with the South African Customs Union, with the intent of bringing the Chinese and South African trade systems closer together, since they are too far apart for an FTA to be feasible at this time.

**Foreign Enterprise Types**

MNCs looking to expand to China and investors setting up a new business here have several different types of structural options available. This particular decision is a crucial step in the initial process of setting up a business in China, and can determine the focus of the company going ahead. China recognizes several different types of foreign enterprise structures, and they fall under the following classifications: Branches of a foreign enterprise, cooperative joint ventures (CJV), Equity joint ventures (EJV), foreign enterprises, joint stock companies, and wholly foreign-owned enterprises (WFOE).

**Branches of a Foreign Enterprise**

MNCs are all legally able to open representative offices, or “branches” of their business in China. Unlike the other entities in the list, however, these branches do not enjoy the legal status of a Chinese individual, and are accordingly limited in their scope and authority to undertake profit-making activities.
Cooperative Joint Ventures (CJV)

A cooperative joint venture, also called a Contractual Operative Enterprise, is a separate legal entity jointly established by a foreign investor and a Chinese party. This joint venture can be established in two forms. The first is limited liability, in which the investor provides the majority of the funds and technology and the Chinese party provides the land and equipment. This structure also allows the foreign investor to act as a minority shareholder, since there are no minimum limits on ownership stakes. Advantages specific to this investment vehicle include the fact that CJVs are allowed access to some sectors from which other types of JVs are restricted not. Other advantages are that foreign partners have far more capability to modify and terminate aspects of the deal, allowing them a great deal of flexibility in responding to changing circumstances. In addition, the structure of a CJV contract allows for specificity on a number of issues, giving both partners many more options should one partner fail to comply with the terms of the contract, which in turn acts to reduce the risk of such a failure occurring.

The second form of a CJV involves a situation in which both the foreign investor and Chinese party assume unlimited liability for the debts that result from their partnership – However, in this situation, no separate legal entity is created, and the foreign investor is required to invest a minimum amount, usually resulting in a majority stake being held by the foreign investor.

Equity Joint Ventures (EJV)

An equity joint venture is similar to a joint venture in that both a foreign investor and Chinese party create a separate legal entity, which is structured as a limited liability company registered in China. Both partners jointly manage the company, and each assumes liability in proportion to its respective contribution to the capital of the registered JV. This form of investment is currently the second-most popular in China, and the government has simplified the process of both establishing and running this kind of business to a very manageable level.
**Foreign Enterprises**

Enterprises which fall under this category are typically those other than investment enterprises that have a presence in China, up to and including a representative office, sites contracted for natural resource extraction or use, or even entities which do not have a presence in China (although these entities must have some China-based source of income to be included in this category.)

**Joint Stock Companies (JSC)**

Joint stock enterprises are a type of investment structure in which the company is limited by its shares – Capital in these companies comprises the value of stock in exchange for the value of assets provided to the enterprise, and each partner assumes liability based on the proportion of shares purchased. An investor’s chief reason for choosing this investment vehicle is that a JSC is eligible to be listed on a Chinese stock exchange.

**Wholly Foreign-Owned Enterprises (WFOE)**

This type of investment structure did not become legal until China’s entry into the WTO, and since then has become the most popular structure for foreign enterprises in China. In this type of structure, the foreign investor does not form a joint venture with a Chinese party, and instead creates and bears the funding burden for its own limited-liability company, which it then registers in China. There are several advantages to this type of investment, which avoids the host of issues encountered in the search for and selection of a Chinese partner. In lacking a Chinese partner, however, this type of enterprise is forbidden from engaging in several business activities within China.
Branches of a foreign enterprise

Establishment Procedure:
All foreign enterprises are able to obtain a license for the establishment of a representative or branch office in Mainland China, including companies from Hong Kong, Macau, or Taiwan. However because the resultant branch is not a legal entity in China, these branches are only allowed to carry out purely marketing-oriented activities. Branches may not engage in any activities of a profit-making nature or which involve remuneration for services rendered. Thus, the office of a foreign company may not sign and conclude contracts with Chinese customers directly and is prohibited from engaging in any “direct business operations” (with certain exceptions, such as the representative office of a law firm).

Cooperative Joint Ventures (CJV)

Establishment Procedure:
When establishing a cooperative joint venture, a foreign investor has multiple options. If the investor is willing to merge with a Chinese company, both entities are then able to use the Chinese party’s business license to apply for a contractual arrangement. In this case, however, no new legal entity is set up.

Normal procedure, however, requires both the investor and the Chinese party to submit several materials, including the signed contract for the new JV, to the Ministry of Commerce (MOFCOM) or equivalent local entity for approval. If the approval is granted, the partners can then apply to the administrative authorities for registration of the joint venture and its license, which it must do within 30 days of receiving the approval to establish said JV.
Capital & Corporate Structure:

Of all the different options available to investors, cooperative joint ventures (CJVs) offer the most flexibility. In this type of JV, capital may be provided by both parties in the form of cash or other kinds of capital contributions, which may include rights to land, buildings, equipment, and intellectual property rights, among other forms of capital. Unlike other types of joint venture, the CJV sets no threshold capital investment requirement that a foreign investor must meet, allowing the foreign investor to be a minority stakeholder in the JV. In addition, the profits and losses from a CJV are uniquely distributed in that they do not necessarily need to follow the ratio of capital contribution, and are instead set by agreement and contract between the two partners. Since control is also not allocated according to equity stakes, the two partners can also freely negotiate staffing levels and responsibility at their discretion. Multiple management structures are applicable to a CJV, including: a board of shareholders, a board of directors, a joint management committee, or management by proxy. “Hybrid” CJVs tend to adopt management systems resembling those of the EJV; “true” CJVs tend to take the more flexible form of a joint management office. Under the latter structure, no general manager exists as such, although the parties usually appoint a legal representative. Generally, “true” CJVs, which do not have independent legal status in China, allow the Chinese partner to enter into such contracts under a grant of power of attorney by the foreign party.
**Equity Joint Ventures (EJV)**

**Establishment Procedure:** In order to establish an equity joint venture in China, both the foreign investor and the Chinese party are required to make a series of submissions to the Ministry of Commerce (MOFCOM) and local authorities in the intended province of the JV, consisting of the following documents:

- a jointly written proposal for the establishment of an EJV containing the prospective name and address of the company;
- a jointly undertaken feasibility study gauging the viability of the EJV and detailing the intended life span and operational scale of the EJV;
- original versions of all relevant documents signed by all parties, including the contract, all signed agreements, and articles of association;
- a list of the key executives at the helm of the JV (Chairman of the Board, Vice Chairman, Board Directors and others);
- all documents required by provincial-level authorities.

All capital contributions to the EJV must be certified by a Chinese-registered CPA firm, which provides a certificate to show proof of the contribution.

**Capital & Corporate Structure:**

By necessity, the capital structure of an EJV is more limited than that of a Cooperative Joint Venture foreign partners must contribute a minimum of 25% of the company’s registered capital. There is no upper limit on a foreign partner’s equity share, although the laws of some industries in China specifically mandate that the Chinese partner must hold the majority share. Additionally, all liabilities assumed by both partners are to be strictly in proportion to the partner’s equity shares and cannot be determined by contract or negotiation. Partners must pay their contribution within the timetable fixed in the contract. Failure to make timely capital contributions may result in the cancellation and compulsory surrender or revocation of the business license. The governance of an EJV is different from that of corporations in western countries. Investors hold equity interest, but no stock. Voting authority is vested in the board of directors rather than the shareholders. The directors are appointed by the investors and in general reflect the ratio of the capital contributions of the partners.
Joint Stock Enterprises

Establishment Procedures:
The accepted procedures for establishing a joint stock company in China differ in many ways from the same procedures in Western countries. In order to set up a joint stock company in China, the foreign and domestic partners creating said company must submit a series of documents to MOFCOM for examination, which includes the following documents:

- name and address of the company;
- scope and business of the company;
- method of establishment;
- registered capital of the company, the total number of shares, and the value of each share;
- names of key executives within the company;
- profit distribution and liability assumption.

Capital & Corporate Structure:
In some ways, the capital requirements of a joint stock company resemble those of an equity joint venture both vehicles require the foreign partner to contribute at least 25% of the company’s registered capital. In the case of a joint stock company, however, the minimum registered capital required for approval is RMB 30 million. All capital from the company must be divided into equal shares between partners. Companies must receive approval before they can issue A shares (denominated in yuan and available to Chinese citizens and to qualified foreign institutional investors) and B shares (denominated in U.S. dollars). A shares and B shares are tradable on stock exchanges. A shares are further divided into shares owned by individuals, legal persons and the state. Unlisted shares owned by foreign investors of the qualified foreign investment joint stock company may be traded on the B share market with the approval of the Ministry of Commerce.
**Wholly Foreign-Owned Enterprises**

**Establishment Procedure:** In China, the oversight, examination, and approval of WFOEs is one of the designated responsibilities of MOFCOM. However in certain cases, local governments have been known to legally approve these entities. Prior to writing an application at the federal level to establish a WFOE, the investor is required to complete a report outlining the enterprise and submit it to the local authority of the province in which the WFOE is to be based. After receiving a written response from the authority, the investor can then apply for registration and a business license for the company.

**Capital & Corporate Structure:**
As of 2012, the minimum capital requirement to establish a WFOE is RMB 30,000, although the actual capital requirement should be commensurate with the proposed business plan and substantiated by projections (normally, five years) in the feasibility report contained with in the company formation application. At least 30% of the registered capital should be in cash and in-kind capital (*i.e.* industrial property, machinery, technology) should not exceed 70% of the registered capital of the enterprise. When capital is contributed in installments, the first installment must be not less than 15% of the registered capital or the minimum capital requirement, and must be delivered within three months from the date the business license is issued. The deadline for completing the contribution is normally two years from the date the business license is issued. The company is required to arrange for capital verification by a CPA firm in China and apply for an updated business license after each capital contribution. A WFOE must establish a board of directors or a managing director for its management structure. For corporate governance purposes, the company is required to have an independent supervisor (similar to non-executive director in Western countries). A detailed management structure must be set forth in the articles of association (including the duties and limits of authority of the legal representative, chief accountant, general manager and supervisor). The articles of association must specify procedures for termination and liquidation and for amending the articles.
On 1 January 2008, China’s newly modified corporate income tax system went into effect, applying to all foreign investment enterprises within China and all domestic Chinese enterprises as well. This new tax system has simplified tax procedures within China to a great extent, and also complements China’s policy of promoting robust growth by attracting more foreign investment.

**Tax Overview**

The 2008 Enterprise Income Tax (EIT) Law applies to both domestic and foreign-invested enterprises and, subject to transitional rules, enterprises that have enjoyed preferential treatment.

In addition to the enterprise income tax, enterprises may be subject to the Business Tax, Value Added Tax (VAT), Consumption Tax, Land Appreciation Tax, customs duties, and stamp duty.

Employers in China are required to withhold the individual income tax on behalf of their employees.

There is no excess profits tax or alternative minimum tax. The following is a list and descriptions of the common taxes that foreign investment enterprises may expect to encounter during their tenure in China.

**Income taxes:**
- Enterprise Income Tax
- Individual Income Tax

**Transaction-focused taxes:**
- Business Tax
- Consumption Tax
- Value-Added Tax (VAT)

**Miscellaneous taxes:**
- Customs duties
- Stamp duty
- Vehicle and vessel licensing tax
- Land appreciation tax
- Real estate tax
- Natural Resources tax

The EIT Law contains a general anti-avoidance rule that allows the tax authorities to make adjustments when an enterprise has entered into an arrangement with limited commercial purposes or no effects other than reducing taxes.


**Enterprise Income Tax**

Resident enterprises are taxed on their worldwide income; nonresidents are taxed on China-source income and income effectively connected with their establishments in China. A company is deemed to be resident in China if it is established in China, or if its effective and overall management is in China. The taxable income of a company is the amount remaining from its gross income in a tax year after the deduction of allowable expenses and losses. Taxable income generally includes profits, capital gains and passive income, such as dividends, interest, royalties and rents. The EIT sets the normal corporate tax rate at a flat rate of 25%.

**Individual Income Tax**

Domiciled individuals in China are subject to individual income tax on their worldwide income, whereas non-domiciled individuals are subject to tax depending on the source of income and the length of their physical stays in China. A non-domiciled individual who resides in China for more than five consecutive full tax years is subject to the Chinese individual income tax on his/her worldwide income with effect from the sixth year, provided the individual continues to reside in China for a full year. Any absence from China for more than 30 days during a temporary trip, or cumulatively for more than 90 days over numerous trips within calendar year, allows the individual to break up the "full tax year."

Individuals in China are taxed on specific types of income, such as employment income, business income and investment income, at different rates of tax. The tax rates can be progressive or flat. Wage and salary income is subject to progressive tax rates ranging from 3% to 45%. Tax is withheld by a paying unit or entity each month and paid over to the tax authorities. The same progressive rate schedule applies to both Chinese citizens and foreigners except for a differential in basic monthly exemptions, with a standard monthly deduction of RMB 3,500 for local citizens and RMB 4,800 for expatriates and certain nationals.
A separate tax schedule applies to income from the operation of a private business (including on a contractual or lease basis). For a private business, taxable income is defined as the total revenue net of costs, expenses and losses incurred. For a business operated on a contractual or lease basis, taxable income is the total revenue net of necessary expenses.

Personal services income is subject to tax at progressive rates ranging from 20% to 40%. A flat 20% tax (withheld at source) applies to certain income such as dividends, interest earnings (except interest on bank deposits), royalties and remuneration from manuscripts, etc. As an incentive to authors, remuneration from manuscripts is subject to a 30% deduction in tax payable. In addition, taxable income from personal services, royalties and remuneration from manuscripts or the leasing of property is net of a standard deduction for expenses that is 20% of total income with a minimum amount of RMB 800 per payment.

The tax year is the calendar year and tax quarters are calendar quarters. Enterprises are required to file provisional EIT returns with the local tax authorities within 15 days of the end of each quarter. These installments are generally calculated on actual quarterly profits. Enterprises that have difficulty prepaying tax based on actual quarterly profits may make prepayments based on the quarterly average taxable income for the preceding year, or by another method approved by the authorities. Final settlement of tax liability must be made within five months of the end of the year.

Returns must be filed regardless of whether the enterprise’s operations resulted in a profit or a loss. A late payment surcharge will be imposed on a daily basis at the rate of 0.05% of the amount of underpaid tax. Penalties may be imposed in addition to the late payment surcharge. An interest-based penalty was added in 2008 for transfer pricing, thin capitalization, controlled foreign corporation (CFC), and general anti-avoidance tax adjustments. The tax authorities may issue rulings for special cases.

Resident enterprises with branches registered in different regions in China and operating cross-regionally are required to make a provisional quarterly filing and a combined annual filing by the head office.
Business Tax

Business Tax generally applies to the provision of services that are not subject to VAT; the assigning of intangible assets, such as patents, trademarks, copyrights, and land use rights; and the sale of fixed assets. Services are subject to Business Tax where either the service provider or the recipient is located in China. Before 1 January 2009, only services performed within China were subject to Business Tax. The Business Tax does not cover processing, repair and replacement services, which are instead subject to the value-added tax. Business Tax rates are set at 3%-5% for most sectors, except for the entertainment business, which is taxed at a significantly higher 20%. Enterprises operating within the service sector and liable for Business Tax have no mechanism to claim a VAT credit for inputs of goods subject to VAT. Unlike VAT, no credit is granted for paying Business Tax the exception being that in some cases, Business Tax can be levied on the difference between the revenue and deductible costs. Tax paid on services received or property acquired may not be deducted from the Business Tax, although deductions of costs are allowed for designated activities.

The Chinese State Council announced on 26 October 2011 the launch of the pilot VAT reform program on 1 January 2012. The pilot program initially will apply to transportation and modern service industries in Shanghai and will be rolled out nationwide when conditions permit. Under the framework of the pilot program, the taxation of specified sectors in Shanghai will transition to being subject to VAT rather than Business Tax. The sectors affected include transportation industry and certain modern service sectors (including R&D and technology service, information and technology service, creative cultural service, logistics and ancillary service, leasing of moveable and tangible goods, attestation and consulting service). While there is no official announcement, the VAT reform is anticipated to be completed by 2015.
**Consumption Tax**

The Consumption Tax is solely aimed at prescribed non-essential and luxury goods, including alcohol, cosmetics, fuel oil, jewelry, tires, motorcycles, motor vehicles, petrol, yachts, golf products, luxury watches, disposable wood chopsticks and tobacco. The Consumption Tax mainly affects companies involved in producing or importing these goods, but exports are exempt. The tax is calculated based on the sales value of the goods, the sales volume, or a composite of the two. The proportional Consumption Tax rate is set from 3% to 45% on the sales revenue of the goods.

**Value-Added Tax (VAT)**

The value-added tax is a tax on consumption, and is imposed in China just as it is in many economies around the globe. China imposes the VAT on the sale of goods, the import of certain goods and the provision of certain labor services. There are two types of VAT payers - the general VAT payer and the small-scale VAT payer. Small-scale VAT payers are entities engaged in manufacturing or providing labor services with sales not exceeding RMB 0.5 million per year, and as firms engaged in wholesale or retail trade with sales not exceeding RMB 0.8 million per year.
The VAT rate for a general VAT payer is 17%, which is applicable to the value of products at the time of import and sales and the provision of certain services. A reduced rate of 13% applies to certain food staples, goods, books and utilities. Small-scale VAT payers are required to pay VAT at a rate of 3% as of 1 January 2009 (previously 6% or 4%).

VAT incurred on the purchase or construction of fixed assets may be credited against output VAT. Input VAT incurred under the following conditions, however, are not deductible against output VAT:

- The purchase of goods and services for the exclusive use for non-VAT taxable or VAT exempt projects, welfare activities or individual consumption;
- The purchase of yachts, motorcycles and motor vehicles that are subject to the Consumption Tax and used for the taxpayer’s self-use;
- Goods and taxable services purchased that are lost in an unusual manner;
- Goods and relevant taxable services purchased and consumed or used for products or finished goods that are lost in an unusual manner.
**Customs Duties**

Import duties are levied at both general and preferential rates. The preferential rates apply to imports originating from countries or regions that have signed agreements with China containing reciprocal preferential tariff clauses. The general tariff rates apply to imports originating from all other jurisdictions. However, if the State Council Customs Tariff Commission gives special approval, preferential tariff rates may be applied to imports that otherwise would be subject to the general rates.

To encourage foreign investment, foreign investment enterprises that meet certain requirements may be exempt from custom duties on the imports of machinery and equipment for personal use.

**Stamp Duty**

Stamp duty, ranging from 0.005% (for loan agreements) to 0.1% (for leases and agreements, warehousing and storage contracts) applies to prescribed contracts, written certificates of transfer of property rights, business account books and permits. The rate on share transactions is 0.1% for shares listed on a domestic stock exchange.

**Licensing Taxes**

Licensing tax can apply at the discretion of the local authorities on vehicles and vessels belonging to enterprises (and individuals).
Land Appreciation Tax (LAT)
Gains on the sale of real property net of development costs are subject to the land appreciation tax. The LAT applies to all types of land, construction and immovable property, including commercial, industrial and residential sites. The implementing regulations provide for a full deduction of qualified financing expenses, related taxes, administration and selling expenses. A super-deduction equal to 20% of property development costs and land purchase costs is available to real estate development companies. The LAT is charged in four bands ranging from 30% to 60% depending on the percentage of gain on the cost.

Real Estate Tax
A real estate tax is imposed on the owner of property at a rate of 1.2% on the assessed value or if leased to tenants, 12% on rent charged for leased property. This tax applies to Chinese legal entities, including foreign investment enterprises and individuals. A local land use tax is levied at varying rates, depending on the size of the city or locale. A deed tax is imposed on the transferee of real property. The deed tax is calculated as certain percentage of the total value of the transferred real property, with the rate ranging from 3% to 5%.

Natural Resources Tax
The natural resources tax is levied on enterprises and individuals engaged in the exploitation of mineral products or production of salt in China. The tax is calculated based on the volume of products sold or consumed, and is payable to the local authorities at the place of production or exploitation.

Tax Deductions
All documented costs that are related to generating taxable income are deductible unless the law specifically provides otherwise. Non-deductible expenses include:

- costs to purchase or construct fixed assets (such items must be capitalized);
- costs incurred to acquire and/or develop intangible assets;
- interest costs that must be capitalized;
- distributions with respect to equity interests paid to investors;
- royalties from a branch office paid to a head office;
• various income taxes paid, as well as late payment surcharges and fines incurred with respect to various tax payments;
• fines for unlawful operations and losses sustained as a result of the confiscation of property;
• losses incurred in the course of manufacturing or business activities that are compensated by responsible parties or insurance;
• non-verified provisions; and certain donations and sponsorship fees.

Additionally, deductible depreciation is calculated using the straight-line method and subject to certain minimum depreciation periods. Under certain circumstances, an accelerated depreciation method may be applied. Minimum salvage value should be reasonably determined by a taxpayer according to the nature and condition of the fixed assets. Special depreciation rules apply to enterprises engaged in oil and gas exploration.

**Withholding EIT**

• Dividends: A 10% withholding tax on dividends paid to nonresident companies was introduced in 2008. Previously, dividends paid by a Chinese company with at least 25% foreign participation were exempt. It should be noted, however, that dividends paid out of pre-2008 earnings continue to be exempt from withholding tax. The 10% withholding tax may be reduced under an applicable tax treaty.

• Interest: Interest is generally subject to a 10% withholding tax unless the rate is reduced under an applicable tax treaty. Interest from certain loans made to the Chinese government or state banks is exempt. A 5% business tax also applies to interest payments.
Royalties and fees: The withholding tax rate on royalties and fees arising from the licensing of trademarks, copyrights, know-how intellectual property and technical service fees is generally 10%. Royalties are generally subject to a 5% business tax except for payments made in connection with the use of technology, for which an exemption may be allowed.

Transfer Pricing

The EIT Law and its implementation rules establish the basis for the Chinese tax authorities to make special adjustments related to transfer pricing. Related entities' intercompany transactions must be at arm's length. Transactions covered by the Chinese rules include both tangible and intangible transactions, intra-group services and intercompany financing activities.

A related party is defined as one with a 25% direct or indirect ownership. A multi-layer calculation for indirect shareholdings also applies. Great emphasis is also put on control when defining associated enterprises. An entity with significant control over another entity's senior management, purchases, sales, production intangibles, and technologies required for the business is defined as a related party. Where intercompany charges or fees are not at arm's length arrangement, the tax authorities may make compensatory adjustments by reference to normal market rates or prices for similar services or goods. In certain cases, the tax authorities are entitled to levy tax retroactively on transactions between affiliated companies that took place up to 10 years ago. China has adopted the "best method" approach for selecting a transfer pricing method, with no specific ranking among the following reasonable methods: comparable uncontrolled price method, resale price method, cost plus method, transactional net margin method, profit split method and other arm's length methods.

Contemporaneous documentation rules apply to an enterprise unless the annual amount of related-party purchases and sales is less than RMB 200 million and the annual amount of other related party transactions is less than RMB 40 million; or foreign shareholding in the enterprise is less than 50% and the enterprise
only transacted with domestic related parties (not including those domiciled in Hong Kong, Taiwan, or Macau). Additionally, enterprises established by multinationals in China with limited functions and risks and solely performing manufacturing/processing, distribution or contract R&D activities should prepare and submit contemporaneous documentation by 20 June of the subsequent tax year if they incur a loss. The contemporaneous documentation should include information on the structure of the organization, a summary of business operations, information about related-party transactions, a comparability analysis, and the selection and application of any transfer pricing methodology.

**Social Security Contributions**

Effective 15 October 2011, all foreign individuals who legally work in China with either a work permit, resident permit, or permanent residency certificates are required to participate in the PRC Social Security System. As of March 2012, China has only signed a social security totalization agreement with Germany and a tentative pension agreement with the Republic of Korea to avoid a potential double levy. Therefore, most foreign individuals would be required to participate in the PRC Social Security System.

The mandatory PRC Social Security contributions for foreign individuals include basic pension, basic medical insurance, work-related injury insurance, unemployment insurance, and maternity insurance schemes. Employers are required to contribute to all the five schemes. Employees, however, may only be required to contribute to some of these schemes according to local social security rules (e.g. basic pension, basic medical insurance and unemployment insurance in Beijing).

Social security codes will be set up for foreign individuals coming from different countries for tracking and administration purposes, where social security cards will be issued by the relevant authorities to all registered foreign individuals. Foreign individuals can apply to withdraw the contributions allocated to their personal accounts upon repatriation.
China's 12th Five-Year Plan: Effects on foreign investors

On March 14 2011, the PRC government officially approved China's newest five-year plan, the 12th iteration in a series of economic and social initiatives designed to provide a "roadmap" for China over the next years. The 12th Five-Year Plan covers the years from 2011-2015, and reflects a major shift in market-related initiatives in China – the approved plan outlines some very fundamental changes to the Chinese economy, and will require some massive policy efforts to implement. As such, it contains some very important implications for foreign investors, offering opportunities and increasing the need for market awareness in equal measure.

Below follows a short list of key goals & initiatives in the 12th Five-Year Plan:

- Increase demand from industrial sectors for steel and iron, energy, construction materials, non-ferrous metals, and other resources through state-sponsored construction of affordable housing, transportation and utility infrastructure, as well as through industrial upgrading and reformation;
- Stimulate domestic consumption with such vehicles as direct subsidies to consumers, wage increases, price controls, and improved efficiency of logistical systems;
- Expand channels of financing for enterprises and improve financial services through liberalization of interest rates and diversification financial services;
- Gradually position the renminbi as an international currency;
- Reduce the growth of imports of important resources and commodities, particularly production factors; simultaneously increase exports of value-added products to guarantee continuous contribution to economic growth;
- Expand the Chinese presence in international markets, especially in African and Middle Eastern countries, which have low barriers to entry for Chinese firms and carry significant strategic advantages.

Additionally, the Five-Year Plan identifies seven Strategic Emerging Industries (SEIs) for particularly focused growth:
• Energy efficiency and environmental protection;
• Next-generation information technology;
• Pharmaceuticals and biotechnology;
• High-end manufacturing;
• New energy;
• New materials;
• Alternative automotive technology.

The initiatives and goals outlined in the 12th Five-Year Plan will have effects both positive and negative on foreign investors in China. One of the more salient effects of the coming changes in policy is the indication that the Chinese government will begin scrutinizing FDI more closely and becoming more selective about approval for projects, due to its new emphasis on domestic-led growth. Furthermore, China’s push to shore up domestic firms may also lead to the elimination of preferential incentives given to foreign investors, which may slightly increase costs for those investors.

This effort, however, does have a silver lining – as a direct result of the focus on increasing domestic consumption and the initiative to shift away from an export-led economy, the new Five-Year Plan also indicates the Chinese government’s intention to increase importation of consumer goods to China over the next several years. Increased imports will offer opportunities to many MNCs with interests in China and allow them new paths into the Chinese market.

Additionally, the Plan maintains a rigid focus on the importance of growth in the aforementioned strategic sectors, and a likely outcome of this is the support of increased private investment both foreign and domestic into these sectors. MNCs may in particular enjoy improved market access to previously restricted sectors, such as oil & gas, railroad, and telecommunications sectors.

Additionally, increased urbanization over the next few years will also allow MNCs to make inroads into larger and more concentrated markets, increasing their ability to reach consumers.

Overall, the PRC’s 12th Five-Year Plan offers MNCs many new opportunities. In order to take advantage of them, MNCs are best advised to stay abreast of the regulatory situation in China and to formulate their strategies and goals accordingly.
China's rules on merger and acquisition of domestic enterprises by foreign investors describe two types of operations permitted: (1) equity acquisitions, where foreign investors purchase existing shares of a Chinese enterprise or subscribe to new shares issued by a Chinese enterprise; and (2) asset acquisitions, where foreign investors purchase the assets of a Chinese enterprise. The Regulations on Mergers and Divisions of Enterprises with Foreign Investment established the rights and obligations of merging and dividing foreign investment enterprises (FIEs), approval authority, capital requirements and share distributions. Generally, a foreign-held stake in a merged or divided entity should amount to not less than 25%; otherwise, the entity may not be entitled to the special treatment applicable to FIEs. An FIE may not participate in a merger if its registered capital has not been paid in full or if the FIE has not commenced operations. A merger between a JV and a state-owned enterprise must be approved in advance by all partners and the original approving authority. An anti-monopoly investigation may be launched if the merger or acquisition meets certain criteria. Under the Company Law, a joint stock company seeking to undertake a merger must notify its creditors and give them up to 45 days to consent to the plan or propose an alternative settlement plan before the proposed merger. All parties involved must enter into a merger agreement and three separate announcements of the merger must be made in approved publications. Each party then submits the agreement, along with a merger application, to the appropriate administrative department. Once approved, the parties must submit the same
application to the examination authorities and for approval by the two companies. The newly merged entity must then apply to the authority in charge of registration of enterprises to amend its registration. The tax treatment of the major forms of M&A is governed by the merger and acquisition tax rules. An M&A is classified as either an ordinary or a special reorganization. In the case of an ordinary reorganization, any taxable gain/loss derived by the transferor is recognized at the time of the transaction; however, in a special reorganization, the taxpayers may elect to temporarily defer recognizing a taxable gain, or loss on the transactions provided certain requirements are met.

If the mergers involve a state-owned enterprise then special approvals above and beyond what was discussed earlier, need to be obtained. When SOEs or state-owned assets are involved, a valuation process by an official valuer may be required to determine the purchase price of the deal. The purchase price cannot be significantly different from the appraised value by the official valuers. In practice, the discrepancy may need to be limited to 10 percent of the appraised value in certain locations.

All inbound mergers and acquisitions in China generally follow the order of procedures below to successfully close the transaction:

- Sign a letter of intent for cooperation and a confidentiality agreement with the target company or other parties concerned;
- Conduct due diligence investigations;
- Finalize the M&A plan based on the results of due diligence investigations and the negotiations with the target company and other parties concerned;
- The parties concerned negotiate the terms and conditions of M&A;
- Sign the agreement and other relevant documents;
- Apply to the relevant Chinese government departments for approval;
• Fulfill the obligations of payment and delivery, transfer, licensing, and other obligations;
• Complete the modification of the outstanding registration records at relevant Chinese government departments.

Another of the more important regulatory requirements in China relates to foreign currency. China is still a foreign exchange-controlled country and the regulations and approvals around foreign currency can make it difficult to navigate an M&A deal with respect to China. For example, a government approval and registration process must be completed before a special purpose vehicle (SPV) can be set up outside of China by Chinese nationals (including Chinese corporations and individuals) to purchase businesses or operate in China. The original Chinese owner’s failure to comply with the initial approval or registration process may raise obstacles to the validity of a foreign investor’s subsequent indirect purchase of the SPV (which owns the business in China). Legal advice should be sought in this type of situation.

Other significant regulations that must be considered in respect of M&A deals in China which both relate to investments or takeovers of listed companies. These regulations dictate the additional rules and requirements for when foreign companies invest or perform takeovers of listed companies from the Ministry of Commerce, the China Securities Regulatory Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, and the State Administration of Foreign Exchange. Some of the rules concern such matters as ensuring that foreign investments into restricted and forbidden industries are maintained, setting reporting requirements to various agencies and the public, and describing the documents required for the approval process. The rules are extensive and complex, and those subject to them should consult legal advice when someone is venturing down the path of an acquisition of a listed company.
Land area: 9,561,000 sq km

Population: 1.34bn (2010; official census)

Climate: Continental, with extremes of temperature; subtropical in the Southeast

Language: Standard Chinese, based on northern Chinese (the Beijing dialect known as Mandarin); local dialects and languages are also used.

Currency: renminbi (RMB), or yuan. RMB 1 = 10 jiao = 100 fen.

Time: GMT +8
Business Environment Assessment

China’s business environment is already very open to foreign investment, and is even expected to improve as time passes. China’s current policy is geared toward open-market competition and focused on improving the efficiency of allocation of market resources. *The Economist Intelligence Unit* ranks China’s business environment in many categories far higher from 2011-15 than in the preceding five-year period, and China is still shifting its policies to match the requirements of the World Trade Organization.

Market opportunities

Foreign companies will continue to be attracted by the opportunities offered by China’s large and fast-growing economy. China has a population of 1.3 billion people, and according to the *EIU*, the size of the economy will grow to nearly US$13 trillion a year (at market exchange rates) by 2015. Although there will remain large income gaps between provinces in China, the rapid growth of the economy as a whole and the continued openness of the investment environment will provide a solid footing for incoming foreign companies.
### Annual data and forecast

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<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<td>Nominal GDP (US$ 1 bln)</td>
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<td>Imports of goods &amp; services</td>
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<td>Population (m)</td>
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<td>1,290</td>
<td>1,297</td>
<td>1,305</td>
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<td>GDP per head (US$ at PPP)</td>
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<td><strong>Fiscal indicators (% of GDP)</strong></td>
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<td>General government revenue</td>
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<td>19.476</td>
<td>19.785</td>
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<td>General government expenditure</td>
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<td>Net public debt</td>
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*Sources: Economist Intelligence Unit 2010*
## Prices and financial indicators

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<th>2011 (f)</th>
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<td>US$ (end-period)</td>
<td>7.97</td>
<td>7.61</td>
<td>6.95</td>
<td>6.83</td>
<td>6.77</td>
<td>6.46</td>
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<td>RMB (end-period)</td>
<td>7.81</td>
<td>7.31</td>
<td>6.84</td>
<td>5.83</td>
<td>6.62</td>
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<td><strong>Consumer prices:</strong></td>
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<td>(end-period; %)</td>
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<td><strong>Producer prices:</strong></td>
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<td>(av; %)</td>
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<td><strong>Stock of money M1:</strong></td>
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<tr>
<td>(% change)</td>
<td>17.9</td>
<td>21</td>
<td>9</td>
<td>33.2</td>
<td>20.4</td>
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<td><strong>Stock of money M2:</strong></td>
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<tr>
<td>(% change)</td>
<td>22.12</td>
<td>16.7</td>
<td>17.78</td>
<td>28.42</td>
<td>18.95</td>
<td>17.32</td>
<td>14.2</td>
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<td><strong>Lending interest rate:</strong></td>
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<tr>
<td>(end-period; %)</td>
<td>6.1</td>
<td>7.5</td>
<td>5.3</td>
<td>5.3</td>
<td>5.8</td>
<td>6.6</td>
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## Current account (US$ bn)

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<tr>
<td><strong>Trade balance</strong></td>
<td>232.75</td>
<td>354.00</td>
<td>412.36</td>
<td>261.12</td>
<td>305.37</td>
<td>201.10</td>
<td>169.00</td>
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<tr>
<td><strong>Goods: exports fob</strong></td>
<td>969.68</td>
<td>1,220.00</td>
<td>1,434.60</td>
<td>1,203.80</td>
<td>1,581.42</td>
<td>1,903.60</td>
<td>2,057.75</td>
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<td><strong>Goods: imports fob</strong></td>
<td>-751.94</td>
<td>-904.6</td>
<td>-1,073.90</td>
<td>-954.3</td>
<td>-1,327.20</td>
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<td>-1,875.90</td>
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<td><strong>Services balance</strong></td>
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<td>-7.9</td>
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<td><strong>Income balance</strong></td>
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<td>17.69</td>
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<td>30.38</td>
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<td><strong>Current transfers</strong></td>
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<td>38.67</td>
<td>45.8</td>
<td>33.75</td>
<td>42.9</td>
<td>26.9</td>
<td>33.6</td>
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<tr>
<td><strong>Current account</strong></td>
<td>232.75</td>
<td>354</td>
<td>412.36</td>
<td>261.12</td>
<td>305.37</td>
<td>201.1</td>
<td>169.0</td>
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</table>

## External debt (US$ bn)

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<tr>
<td><strong>Total foreign debt</strong></td>
<td>322.8</td>
<td>373.1</td>
<td>379.8</td>
<td>432.2</td>
<td>548.6</td>
<td>657.3</td>
<td>724.9</td>
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<td><strong>Total debt (% of GDP)</strong></td>
<td>11.6</td>
<td>10.7</td>
<td>8.4</td>
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<td>9.4</td>
<td>9.3</td>
<td>8.8</td>
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<td><strong>Principal repayments</strong></td>
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<td>20.8</td>
<td>25.1</td>
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<td>24.6</td>
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<td>32.7</td>
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<tr>
<td><strong>Interest</strong></td>
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<td>11.4</td>
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<td>7.8</td>
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## International reserves (US$ bn)

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<tr>
<td><strong>Total international reserves</strong></td>
<td>1,072.60</td>
<td>1,534.40</td>
<td>1,953.30</td>
<td>2,425.90</td>
<td>2,875.90</td>
<td>3,312.30</td>
<td>3,593.90</td>
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*Sources: Economist Intelligence Unit 2010*
Inbound M&A by Target Sector in 2011

Consumer Business & Transportation: 23%
Energy & Resources: 21%
Financial Services: 6%
Life Sciences & Healthcare: 15%
Manufacturing: 5%
Real Estate: 10%
Technology, Media & Communications: 20%

Source: Deloitte research

China's GDP 2005-2010 (US$1 mln)

GDP (US$1 mln)

Source: World Bank Database

Utilization of Foreign investment of China 2005-2010

Unit: US$ 100 million

Source: Invest in China
Inbound M&A - Top 10 Deals in 2011

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Announced Date</th>
<th>Target Company</th>
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* As of April 2012
Source: Thomson Financial
## City Rankings by Sector (2011)

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**The China Factor: Doing Business in China**
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Source: Economist Intelligence Unit.
Eastern China is the geographical region that covers most of China's eastern seaboard. For administrative and governmental purposes, the region is defined by the government of the People's Republic of China to include the provinces of Anhui, Fujian, Jiangsu, Shandong and Zhejiang, and the municipality of Shanghai.

Provinces

<table>
<thead>
<tr>
<th>Region</th>
<th>Provincial Capital</th>
<th>Area Km²</th>
<th>Nominal GDP 2010 (US$ 1 bln)</th>
<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
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<tr>
<td>Anhui</td>
<td>Hefei</td>
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Municipalities

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<th>Region</th>
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<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
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<td>Shanghai</td>
<td>17,037</td>
<td>220</td>
<td>11.10</td>
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Source: Economist Intelligence Unit 2010
Anhui

Key Sectors
Anhui is one of China’s most important production bases in the agricultural sector. The grain crops mainly include wheat, peas, corn, sorghum, yams, rice, and several others. Other crops include cotton, oil seeds, tobacco, and other commonly exported plants. Animal product exports tend to be very basic, limited mostly to different kinds of animal leather and meat. Along with the continuing development of industry and agriculture, the province of Anhui can also be seen as a viable place for service-oriented industries. Furthermore, Anhui is developing a manufacturing base: in 2010, its provincial capital of Hefei was the third-largest producer of household appliances in China; and Maanshan, one of its local cities, is host to a growing steel trade. As more industries look for alternatives from the rising costs on the coastlines, it is likely that this upward trend in investment will continue.

Investment Environment Brief
Anhui’s local government has generally tried to foster an environment which is consistent and stable for all types of foreign investment, and will likely benefit in the near future from China’s continuing modification of its laws to coincide with WTO trade policies.

Significant FDI Projects
- In early 2011, Samsung established a joint venture with Anhui Liuguo Chemical Industry and an anonymous Hong Kong-based company, with the respective parties to hold a 70% stake, a 20% stake and a 10% stake in the joint venture.
Fujian

Key Sectors
Fujian, although not as developed as some of China’s provinces, possesses a viable and growing agricultural base with a number of key crops, including rice and other field crops. In 2010, the local heavy industry sector began to grow, especially the markets for petrochemical and mineral refinement, and the production of large-scale equipment. As costs in neighboring provinces increase, foreign investors may turn to Fujian as a top investment prospect in these sectors. Fujian’s seafood industry is also growing to a commercially important level. Additionally, Fujian is one of the largest textile-manufacturing bases in China.

Investment Environment Brief
Foreign investors are only just beginning to look at Fujian as a real destination for FDI, but investment has begun to grow at a steady pace, and Fujian’s business environment is quite-growth friendly for new projects. Evidence of this can be seen in Fujian’s 13 Economic & Technological Development Zones, which are located across the areas of Dongshan, Fuzhou, Jimei, Meizhou Island, Wuyi Mountain, Xiamen, and Xinglin. These Development Zones contain both foreign and domestic enterprises and are set up with the intention of attracting new business projects.

Significant FDI Projects
- By the end of 2009, as many as 43,703 foreign enterprises received licenses for operation in Fujian. Multinational companies in the province include ExxonMobile, Oracle, Cisco, Boeing, Dell, GE, BP, Toyota, Mitsubishi, Maersk Logistics, ITOCHU, Siemens, SUMITOMO, Marubeni, Panasonic, Morgan, HSBC, HP, Toshiba, NEC, Fujitsu, Philips, Nokia, Alcatel, Emerson Electric, ABB, Daimler-Chrysler, Danon, Fuji-Xerox, Cendant, TESCO, Anheuser-Busch InBev, Manpower, Black & Decker, Micron and Dunlop.

- In March 2011, Dell - the world’s third largest manufacturer of personal computers-announced plans to build its regional headquarters for its services division in China in the Fujianese city of Xiamen. The move came after Dell also revealed plans to open more than 1000 retail stores in China, and double its after-sales service centers in China.
Jiangsu

Key Sectors
Jiangsu is one of the most developed provinces in China, with impressive infrastructure in its agricultural sector and light industries, including the food and textile sectors. Additionally, Jiangsu encourages strong growth in its energy and resources sectors—its resources include petroleum, coal, and natural gas, each of which China consumes in great quantities every year. Jiangsu is also emphasizing scientific research and innovation. Under the terms of the 12th Five-Year Plan, the province will be receiving RMB 20 billion in state funds to invest in research over the next five years, and will augment that investment by directing another RMB 80 billion in profits from foreign and domestic investment into research as well.

Investment Environment Brief
Of China's provinces, Jiangsu has the second-highest GDP, ranking only below Guangdong. Its business environment is very friendly to foreign enterprises, and it contains almost two dozen Economic & Technological Development Zones, making it a hot spot in China for many different types of investors.

Significant FDI Projects
- In 2011, American auto accessory manufacturer Kinedyne announced that it planned to open a new facility in Nantong, Jiangsu province. This facility acts as an addition to Kinedyne's current manufacturing center, which houses manufacturing, quality control, engineering, and supply chain operations for the Asia Pacific Region. In December 2011, the facility received ISO quality management certification.
- In 2011, Everlight Electronics Co, Taiwan's leading LED packaging company, was authorized by the local government in Liyang City to establish local operations. The company is building an equipment production line in the city’s Tianmu Lake Industrial Park, which is being transformed into a green industry zone as one of the major initiatives in China's new Five-Year Plan. According to Everlight, the costs of the line were about US$20 million, and the line was completed at the end of 2011.
Shandong

Key Sectors
Shandong is one of China’s major economic powerhouses, located on China’s coast. Shandong’s largest sector is the agricultural sector, followed closely by the production of wine and similar industrial endeavors. Shandong is also prominent in China for its high level of participation in China’s energy sector, especially in the areas of nuclear power and petroleum production. Popular locations for investment in Shandong include the city of Yantai, which is home to a growing automotive sector, and Qingdao, which is a strong producer of export goods and has thriving oil-refining facilities.

Investment Environment Brief
Shandong is one of the most affluent provinces in China, and is an accordingly lucrative destination for foreign investment. As the home province to several economic and technological development zones, certain areas of Shandong are literally purpose-built to attract FDI projects, and MNCs are able to take advantage of some of the lowest regulatory and tax burdens in China. Located in Jinan, Qingdao, Weifang, Weihai, Yantai, and Zibo, these Economic & Technological Development Zones have proven very successful in promoting economic growth and a higher concentration of economic activities.

Significant FDI Projects
• In May 2011, Saint-Gobain Sekurit announced the construction of its second automotive plant in the Shandong city of Qingdao, close to the division’s flat glass production site in the region. The company is investing roughly US$71 million in the project, which will be implemented over three phases between now and 2014. The first manufacturing line is scheduled to launch production sometime in 2012.
Zhejiang

Key Sectors
Zhejiang is one of the largest agricultural producers in China, and is popularly known as the “Land of Fish and Rice.” The latter is Zhejiang’s staple crop, and is accompanied by other well-known commercial crops like jute and cotton. Zhejiang is also known for its production of China’s famous “Dragon Well” green tea. Other important sectors in Zhejiang province include the textile and manufacturing industries. Popular locations for investment in Zhejiang include Hangzhou, its capital city and Ningbo, a pioneer in China’s steel industry.

Investment Environment Brief
Zhejiang is home to one of the most pro-business investment environments in China. With nearly two dozen Economic & Technological Development Zones spread across more than 10 major cities, it is one of the richest and fastest-growing provinces in China, and enjoys one of the lowest poverty rates in the country. Its investment environment is so friendly that it has been dubbed the “Zhejiang model” in other provinces and has been held up as a sterling example of growth for the rest of China.

Significant FDI Projects
• In March 2011, the Swiss pharmaceutical manufacturer Novartis acquired an 85% stake in Zhejiang Tianyuan Bio-Pharmaceutical Co. in a deal valued at US$125 million indicating possibly greater increase in interest China’s health sector. According to an agreement signed in 2009, the deal was settled at approximately 850 million RMB (US$125 million).
Shanghai

Key Sectors
Hosting the world’s busiest port and China’s leading stock exchange, Shanghai is known as a major center of trade, finance, information technology and culture in China. Shanghai is also China’s second largest steel and iron producer, and has a thriving materials industry. Furthermore, Shanghai is one of China’s major textile manufacturing cities, which makes it very important to China’s fashion industry. Lastly, Shanghai is a major destination for certain types of manufacturing, including jewelry and other luxury products.

Investment Environment Brief
Shanghai is one of the most prosperous cities in the entire world, and has a very open and investor-friendly business environment. In addition to containing more than 30 Economic & Technological Development Zones all geared toward specific sectors, labor costs for manufacturing are generally low. Moreover, Shanghai is the most popular destination in China for those in the financial services industry.

Significant FDI Projects
- In December 2010, Sandvik AB of Sweden acquired 80% of Shanghai Jianshe Luqiao Machinery Co., Ltd., (SJL) a designer and manufacturer of screening equipment, including utilities and services, to the Chinese mining and construction industries.
- ANZ Banking Group acquired 19.9% interest in Shanghai Rural Commercial Bank for US$252 million. SRCB is conducting a US$1.2 billion capital raising through an offer to existing and new shareholders to fuel further growth. Although this seems to represent a small stake, it is the upper limit for the size of a foreign bank’s stake in a Chinese bank.
Southern China is one of the major tourist destinations in the country, and is also home to some of China’s most important industries.

Provinces

<table>
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<tr>
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<th>Provincial Capital</th>
<th>Area Km²</th>
<th>Nominal GDP 2010 (US$ 1 bln)</th>
<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong</td>
<td>Guangzhou</td>
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<td>33,920</td>
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</table>

Source: Economist Intelligence Unit 2010
Guangdong

Key Sectors
Guangdong is the most affluent province in China by gross domestic product, and the second-largest recipient of FDI in China, also some of China’s fastest growing industries are based in this province. Key sectors include manufacturing of all types, the power industry, and the natural resources industry. Most recently, several prominent carmakers from Europe have begun implementing plans to open production lines in Guangdong. Popular investment locations in the province include the cities of Guangzhou - a noted destination for automotive investment - and Shenzhen. China’s first location to be designated a Special Economic Zone in 1980, and home to one of the Mainland’s two stock exchanges. Together Shenzhen and Guangzhou are pillars of China’s hyperindustrial Pearl River Delta.

Investment Environment Brief
Guangdong was the first province to open its doors to foreign investment with the start of China’s open market reforms, and it provides what is arguably the most pro-growth and investment friendly environment in China. Development Zones in Guangdong currently include those in Foshan, Guangzhou, Huizhou, Shantou, Shatoujiao, Shenzhen, Yantian, Zhanjiang, Zhonghan, and Zhuhai, for a grand total of 20 development zones.

Significant FDI Projects
• In May 2011, Asahi Glass Co. began construction on a processing plant for LCD panels in China’s Guangdong Province, which is scheduled for completion by the summer of 2012. The new plant will handle polishing and cutting of large, eighth-generation glass substrates. In 2011, Asahi Glass group established a wholly owned subsidiary in Shenzhen, which is being used as a springboard for this project.
Guangxi Key Sectors
Agriculture is the foremost pillar of Guangxi’s economy. Important crops in Guangxi include rice, wheat, corn, and yam. Other commercial crops grown in Guangxi are tobacco, sugar cane, and peanuts. Additionally, 85% of the world's star anise, a popular spice with medicinal properties, is grown in Guangxi. In recent months, Guangxi has also begun to see a significant level of growth in its automotive sector – one of its largest cities, Liuzhou, has become a well-known investment destination in the auto market.

Investment Environment Brief
Guangxi has historically been one of China’s slower-developing provinces. In recent years, however, there has been good reason for optimism, and these reasons will likely continue going forward. Furthermore, the implementation of the China-ASEAN Free Trade Area in January 2010 has also assisted in opening Guangxi for investment.

Significant FDI Projects
- In 2010, a joint venture between China automaker Shanghai Automotive Industry Company (SAIC) and U.S. giant General Motors (GM) called SGM Wuling, which is based in Liuzhou, raised over 50% of GM’s total revenue in China.
Hainan

Key Sectors
Although Hainan is not one of the major contributors to China’s overall economy, its tourism industry is strong, and its agricultural industry is growing. Hainan makes up for its lack of industrial development in other ways, however – for instance, it is the host province to the Boao Forum for Asia, one of the most important annual conferences in the region. Additionally, its unique position as a tourist resort in China has led to a notable amount of investment in its property sector.

Investment Environment Brief
Hainan, while not a major destination for foreign investment in China is home to two Economic & Technological Development Zones in Haikou and Yangpu, and in industries like agriculture and tourism it has historically been accepting and encouraging to FDI.

Significant FDI Projects
• Hilton Worldwide signed three management agreements with New Huadu Industrial Group for a Waldorf Astoria-branded resort and a Hilton Hotels Resorts property in Hainan, which is slated to open sometime in 2013.
• In early 2011, The Hewlett-Packard Company (HP) signed a strategic cooperation and implementation protocol with the Hainan government. Under the terms of the agreement, HP will build 4 projects in Sanya, Lingshui and Chengmai. It will build an Asia-Pacific Energy Outsourcing Research Institute and an Outsourcing Service Institute in Lingshi, an Urban Future Institute in Chengmai and a Cloud Computing & 3D Cartoon Service Institute in Sanya.
Central China is one of China's major agricultural regions, and also includes a solid industrial base.

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<td>166,900</td>
<td>111</td>
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</table>

Source: Economist Intelligence Unit 2010
Hubei

Key Sectors
In addition to Hubei’s possession of strong agricultural and industrial sectors, the province’s main attraction is its energy & resources sector. The province contains large deposits of rare earths (of which China produces 97% of the world’s total supply) and key metals like copper, iron, vanadium, and phosphorus. Other minerals include hongshiite, borax, and manganese. Several key parts of the hydroelectricity industry in China are also heavily invested in Hubei and more dam projects are planned in the future. Hubei is also home to a modest and growing gemstone industry, which includes high-quality turquoise, garnets, and multiple varieties of faustite.

Investment Environment Brief
Hubei is one of China’s fastest growing provinces by demographics, and its investment environment is steadily becoming more open as foreign investors continue to express interest in its largely untapped resources. A total of six Economic and Technological Development zones in Hubei are located in various places across Jingzhou, Wuhan, and Xiangyang.

Significant FDI Projects
- TRW Automotive recently unveiled plans to build two new plants in China - one of these, slated for completion at the end of 2012, is to be built in Wuhan. The other is to be built in Qingdao.
Hunan

Key Sectors
Hunan is mainly known in China as a chief agricultural province, producing copious amounts of rice and ramie for consumption around the country - in fact, Hunan is China’s largest producer of rice, and also China’s fourth largest producer of tea. There have been recent developments, however, in both the industrial and mining sectors - key companies like Valin Steel and Hunan Nonferrous Metals have chosen Hunan as their industrial base, and this is a clear indication that the metallurgical industry is set to grow.

Investment Environment Brief
Hunan's status as a food producer has in the past limited its capacity as a key destination for FDI. Recently, however, investment from overseas has started to increase, and Hunan is finally beginning to take advantage of its natural resource deposits – According to local government statistics, export-import value increased by more than 70% in 2010.

Significant FDI Projects
• Among recent FDI projects in Hunan, three were over US$20 million each. XEMC New Energy Co., Ltd. was the largest of these. XEMC is a joint venture and its partners include U.S. Sonny Caine Company, XEMC, CITIC Trust & Investment Co., Ltd., and Huaxin International Trust & Investment Co., Ltd. The total investment value is US$307.63 million in total.
**Henan**

**Key Sectors**
Henan’s key areas of trade are the agriculture sector, textile industry and other types of light industry. Henan is China’s largest producer of wheat, and it ranks only behind Hunan in rice production – thanks to its large contribution to food staples, it is known as the “breadbasket of China.” Additionally, although Henan has only recently begun to develop heavy industry, there are large reserves of natural resources available in the province, including molybdenum, coal, aluminum, and alkaline metals.

**Investment Environment Brief**
Since China’s entry into the WTO, Henan has taken the initiative in trying to attract foreign investment into many of its key sectors, forming tangible trade relationships with several key states in the U.S. Henan is also trying to attract commercial investment from key areas of the Eurozone, relaxing regulations to make its industries a priority for FDI.

**Significant FDI Projects**
- U.S. beverage giant Coca-Cola plans to increase investment in China on the basis that the country might become its biggest market. The combined investments in the three plants in Hohhot, Luohe of Henan Province and Sanshui of Guangdong Province amount to US$240 million.
Jiangxi

Key Sectors
The main developed industry in Jiangxi is agriculture – Jiangxi primarily produces rice, and several other food staple crops. Jiangxi also contains several large deposits of minerals and rare earths, including tungsten, tantalum, and niobium. These deposits, however, are largely undeveloped, and the mining industry is only a fledgling industry in Jiangxi.

Investment Environment Brief
Jiangxi is not as developed in terms of industry as is the rest of Central China - it is the geographical neighbor of several highly prosperous provinces like Zhejiang, Hunan, and Hubei, but it has yet to truly share in that success. There is reason to believe this will change, however - as mentioned above, Jiangxi possesses large deposits of several rare earths and minerals, and this can become a key driver for foreign investment in the future.

Significant FDI Projects
• In May 2011, H.C. Starck, one of the world’s leading manufacturers of refractory metals and advanced ceramics, and Jiangxi Rare Metals Tungsten Holding Group Co. Ltd., one of China’s largest tungsten mine operators, created a joint venture to strengthen their share in the tungsten products market in China.
Northern China is defined by the Chinese government to include the municipalities of Beijing and Tianjin, the provinces of Hebei and Shanxi, and Inner Mongolia Autonomous Region. This region possesses some of China’s most extensive natural resource deposits, making it a key destination for foreign investment, as well as the overall capital of China and several of its highly developed provinces.

### Provinces

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### Municipalities

<table>
<thead>
<tr>
<th>Region</th>
<th>Area Km²</th>
<th>Nominal GDP 2010 (US$ 1 bln)</th>
<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>16,801</td>
<td>178</td>
<td>6.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Tianjin</td>
<td>11.760</td>
<td>110</td>
<td>9.2</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit 2010
Hebei

Key Sectors
Steel is one of Hebei’s most important industries - the province is one of China’s largest producers of iron and steel, and its production of both metals ranks first and third in the country respectively. Furthermore, China’s stimulus specifically targeted Hebei as a place for consolidation of a fragmented metals market, helping it to maximize its industrial output. Hebei’s other key sectors include agriculture and manufacturing.

Investment Environment Brief
Hebei is making a concentrated effort to open its economy to foreign investment, starting with its manufacturing and metallurgical industries. According to local government statistics, over 40 Fortune 500 companies have some investment situated in Hebei, and more than 80 countries from around the world have chosen Hebei as an investment destination. Hebei also has four Economic & Technological Development Zones open for investment.

Significant FDI Projects
• In July 2011, French retail giant Carrefour formed a joint venture with Hebei-based retail company Baolongcang. Carrefour holds a 51% majority stake of the new company, and Baolongcang holds the remaining 49%. The new joint venture will take over operations of all of Baolongcang’s 11 stores.

• In April 2011, Europe’s Bolzoni Group created a joint-venture with Hebei Jing County Huaxin Forks Co.Ltd (Huaxin) for the production of forks for lift trucks in China. The new company will be called Bolzoni Huaxin co.Ltd and the Bolzoni Group will have a 60% stake - the other 40% will be owned by Huaxin. The agreement may also include the Bolzoni Group taking a 20% investment in the share capital of Huaxin.
Shanxi

Key Sectors
Shanxi’s largest market is its local coal industry - with the largest deposits of coal in China, Shanxi is one of the most important sources of China’s energy. Despite the large coal reserves, however, Shanxi is actually the second largest producer of coal in China after Inner Mongolia-mostly due to a lack of effective exploitation of these resources. Its energy markets are responsible for over 80% of its GDP, so there are no other significant sectors in its economy, although the Chinese government is implementing some drastic steps to remedy this situation.

Investment Environment Brief
Shanxi will be undergoing an economic transformation in 2012. In December 2010, the National Development Reform Commission (NDRC), which is China’s paramount economic governing entity, announced the creation of a "pilot economic transformation zone" in Shanxi in order to aid its slow development. Part of this transformation will involve the opening of Shanxi for foreign investment, since it is currently too dependent on external demand from China’s other provinces. There are also two different Economic & Technological Development Zones in Taiyuan.

Significant FDI Projects
• In November 2011, France-based global retailer Carrefour, a very well-known brand name and investor in China, opened its first store in Shanxi province, marking its 196th store opening in China. This outlet is also part of Carrefour’s plan to increase its number of stores in China to 300 by 2015.
Inner Mongolia

Key Sectors
Inner Mongolia’s economy is largely based on its abundance of natural resources, which includes a large supply of rare earth metals, extensive reserves of coal (of which Inner Mongolia is China’s largest producer), and many other key resources which make it a large contributor to the Chinese energy industry. Although full-scale exploitation of these resources only began recently, the province has seen spectacular results – from 2005 to 2008, Inner Mongolia boasted a faster rate of growth than any of China’s other provinces and grew at a healthy double-digit rate during the global recession. Rising sectors also include a rapidly growing alternative energy industry and stable agricultural sector, both bolstered by the increasing interest in the province as a whole. The region’s renewable energy industry has also expanded rapidly. Wind-power generating capacity has risen from 170-mw in 2005 to 10-gw by end 2010, accounting for one-fifth of power generated in Inner Mongolia.

Investment Environment Brief
Since the 1990s, Inner Mongolia has become a far more business-friendly place to invest, drawing on its coveted rare earth market and natural resources to draw investment from both domestic and foreign investors. Furthermore, Inner Mongolia has not added many local regulations to federal foreign investment laws, even providing priority to certain types of FDI projects. Inner Mongolia is also home to six different Economic & Technological Zones across the province.

Significant FDI Projects
• In May 2011, Yum Brands, one of the most prominent restaurant brand owners in the world, recently launched an expansion initiative in Asia by bidding for Little Sheep. The latter company is based in Baotou and operates what is a well-recognized brand within the profitable and still growing Chinese restaurant market.
Beijing

Key Sectors
As China’s capital city, Beijing is one of the country’s largest city-based economies. With a GDP of US$208 billion in 2010, its growth rate reached 10.2%, almost exactly equal to the national average GDP growth rate. Its information technology sector alone houses over 4000 enterprises, and this sector is supplemented by Beijing’s equally strong manufacturing center, which produces everything from textiles to heavy industry. Beijing is also one of China’s largest automotive industry centers, and places great priority on its infrastructure, which was buoyed by China’s stimulus package in 2009.

Investment Environment Brief
Beijing is one of China’s most prominent and popular destinations for inbound investment, and provides numerous incentives for foreign companies to set up in the city. With a comprehensive investment process for virtually every type of industry, Beijing’s investment climate is one of the most reliable and time-tested in the nation. In addition, Beijing’s prioritization of foreign investment is such that it houses around three dozen Economic & Technological Development Zones within its borders, including zones devoted to certain counties and certain industries.

Significant FDI Projects
- In April 2012, the famous automaker Mercedes-Benz opened a new store in Beijing. The new store, called the Beijing Sanlitun Performance Center, is the world’s first standalone brand-care dealership, marked specifically for sale of the company’s AMG brand. This move reflects Mercedes-Benz’s confidence in the Chinese auto market, and the company has indicated that this will not be its only AMG Performance Center in China.
- Chinese life and general insurance broker CNinsure sold its 55% stake in Beijing Fanhua Datong Investment Management Company – one of its two life insurance distribution units – to Winner Sight Global, an affiliate of US private equity firm Warburg Pincus. The deal was completed in late-March with CNinsure receiving US$63.4 million in cash and a cash dividend of RMB10m (US$1.5 million) in return for the stake.
Tianjin

Key Sectors
One of the key pillars of Tianjin’s economy is its manufacturing sector, which makes up over 50% of Tianjin’s total economy and also fosters double-digit growth every year. In the future, however, Tianjin is looking to its resources to drive economic growth. In addition to possessing large oilfields, Tianjin is one of China’s biggest promoters of alternative energy. It is the center of geothermal energy production in China, and invests heavily in other forms of green energy, including solar power and wind power production. In the way of key projects, the government of Tianjin partnered with Singaporean authorities to create the Sino-Singapore Eco-City, a community east of Tianjin City devoted to energy-saving technologies and efficient use of energy. Paramount in Tianjin’s economy, however, is the Port of Tianjin, which acts as an economic trade zone in itself and draws investment from all over the world into the city. Thanks to its status as one of China’s top ports, Tianjin enjoys very strong trade values in the ports & logistics sector.

Investment Environment Brief
Tianjin is drawing prospective eyes from all over the world as a key area for sustainable development. In addition to being one of the largest cities to invest in green technology, it possesses a very stable and open investment environment supplemented by the Tianjin Economic-Technological Development Area (TEDA), which is said to possess more foreign businesses than the entire municipality of Shanghai at 4,900 businesses by the end of 2010. This area enjoys reduced tax rates and many free-market policies, and accounts for much of the prosperity within Tianjin’s foreign sector.

Significant FDI Projects
- Renewable energy has been pronounced as one of the province’s key industries, exploiting the strengths of several wind-turbine manufacturers already in the area. Notably, Vestas, the world’s largest wind-power manufacturer, inaugurated its TEDA-based wind turbine control system manufacturing facilities in October 2009, marking the company’s largest manufacturing complex globally. The city hosted a wind-power trade fair in March 2011 to support buyers and suppliers.
In March 2011, Total Group, one of the largest integrated oil and gas companies in the world, announced a plan to invest US$42.6 million in a new lubricant blending plant in Tianjin. The investment will help the company expand its presence in the world's second-largest lubricant market. Tianjin Lubrication Oil Blending Plant, a new subsidiary of Total China, will produce a full range of lubricant and grease products. The plant, which is expected to be operational by late 2012, is designed to reach a maximum capacity of 200,000 metric tons per year.
Northwest China includes the autonomous regions of Xinjiang and Ningxia and the provinces of Gansu, and Qinghai. This region as a whole is a large contributor to China’s energy and mining industry, and is a key target of China’s Western Development Strategy.

**Provinces**

<table>
<thead>
<tr>
<th>Region</th>
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<th>Nominal GDP 2010 (US$ 1 bln)</th>
<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ningxia</td>
<td>Yinchuan</td>
<td>66,000</td>
<td>19</td>
<td>0.23</td>
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<td>Xining</td>
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<td>Lanzhou</td>
<td>454,000</td>
<td>50</td>
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</table>
Ningxia

Key Sectors
With a GDP of around US$12.5 billion, Ningxia is one of China's smallest provinces. Ningxia's economy is based mostly on agricultural endeavors, including its herbal contributions to Traditional Chinese Medicine, which is an industry of considerable size in China. Other industries which are currently under development include the business and tourism industries, and Ningxia possesses large deposits of coal, which can be a key target for investors.

Investment Environment Brief
Ningxia may be one of China's smallest provinces by GDP, but signs of improvement are beginning to appear, starting with 2010's 11.5% growth rate. Additionally, the government of Ningxia issued a press release in January 2011 urging foreign investors to choose several types of business in Ningxia including high-tech industry, renewable energy, and metallurgical industry. Economic and Technological Development Zones in Ningxia are located in the cities of Yinchuan and Desheng.

Significant FDI Projects
- In May 2011, global winery Moet Hennessy signed on a joint venture with Ningxia-based SOE Nongken to produce high-end sparkling wines in the province. Production will commence in 2014 from a 67-hectare vineyard in the Helanshan District. Nongken already has 670 hectares under cultivation with an annual wine production capacity of 30,000 tons. For Moet Hennessy, the joint venture adds another arm to its success in China, which is already the number one consumer of its cognac.
**Key Sectors**
One of the key pillars of Xinjiang’s economy is its agricultural produce. The region is popularly known as China’s fruit capital, and produces grapes, melons, wheat, and many other dietary staples. The real economic potential of Xinjiang, however lies in its natural resources - in addition to possessing large reserves of oil, Xinjiang is China’s largest producer of natural gas, which is becoming a highly demanded commodity in the global economy. Xinjiang's growing petrochemical industry and natural resource production account for well over 50% of its GDP.

**Investment Environment Brief**
In early 2000, China announced the launch of the Western Development Plan, and the bolstering of Xinjiang’s economy remains a key aspect that plan. This initiative included reinforcing existing levels of infrastructure and developing Xinjiang’s mining industry. 12 years later, the policy has been proven to be the right choice, and has made Xinjiang a much more prosperous and investor-friendly province. Additionally, Xinjiang held an expo aimed exclusively at European business in September 2011 to welcome them to Xinjiang and demonstrate the already considerable improvement in Xinjiang’s economy.

**Significant FDI Projects**
- In July 2011, U.S.-based Peabody Energy Corporation entered into an agreement with the Xinjiang government to develop a local coal mine with an annual production capacity of 50 million metric tons. Although the full financial details of the agreement were not disclosed, the project is widely expected to induce further US investment into the region in the future.
Qinghai

Key Sectors
Qinghai’s key pillars of industry are its petrochemical and mining industries. Qinghai’s production of iron & steel has helped to support its economy, and so has its limited production of oil and natural gas, both resources crucial to other provinces in China. Qinghai, moreover is another province with an abundance of rare earth deposits, including those which are crucial to telecommunications equipment, aircraft, and other forms of technology.

Investment Environment Brief
Qinghai, being one of the smallest provinces in China, does not draw much foreign investment. Its future plans, however, lean heavily on green technology. Qinghai is concerned about environmental energy to the extent that the local government has announced that the province is willing to sacrifice GDP growth to make sure that its energy is green and its environment unharmed by the ongoing mining interest present. Qinghai is home to only one Economic and Technological Development Zone in Xining which focuses exclusively on energy companies both conventional and renewable.

Significant FDI Projects:
• In 2011, Sino Agro Food announced the a creation of a joint venture in Qinghai called SJAP with an undisclosed partner – the JV will immediately engage in the creation of a new enzyme plant outside of Xining, and Sino-Agro Food will hold a 60% share in the venture.
Gansu

Key Sectors
Gansu's economy is centered on the extraction and utilization of metals within the province. Like the other provinces in Northwest China, Gansu possesses extensive deposits of rare earth metals, and is reasonably efficient at utilizing these resources. Gansu also has a strong coal industry and receives nearly 80% of its power from this resource. In order to get out from under the yoke of coal, Gansu prioritized its renewable energy sector as part of the 11th 5-Year Plan, and it is also developing in the areas of wind power, solar energy, hydropower, and biomass. In 2010, Gansu's GDP was US$59.6 billion - almost 20% higher than the same figure in 2009.

Investment Environment Brief
Until very recently, Gansu was not considered a top candidate for foreign investment. Since the province's excellent results under the 11th Five-Year Plan, however, multinational firms have begun to look at Gansu much more seriously. In truth, however, Gansu's current dearth of developed infrastructure and its general lack of accessibility will force it to climb a long way before it breaks out of the domestic market. Gansu is home to two different Economic & Technological Development Zones, both focused on different forms of energy development.

Significant FDI Projects
• In June 2011, U.S. cattle breeder Bonsmara Natural Beef, known for its cultivation of several popular brands of meat, signed an agreement with the Gansu provincial government to assist them in developing their growing cattle industry.
Southwest China consists of the municipality of Chongqing and the following provinces: Guizhou, Sichuan, Yunnan, and the Tibet Autonomous Region.

Provinces

<table>
<thead>
<tr>
<th>Region</th>
<th>Provincial Capital</th>
<th>Area Km²</th>
<th>Nominal GDP 2010 (US$ 1 bln)</th>
<th>Total FDI Value 2010 (US$ 1 bln)</th>
<th>Population (1 mln)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guizhou</td>
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<td>Tibet</td>
<td>Lhasa</td>
<td>1,220,000</td>
<td>6</td>
<td>0.02</td>
<td>2.9</td>
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</tbody>
</table>

Source: Economist Intelligence Unit 2010
Guizhou

Key Sectors
Guizhou's economy, while mostly rural, sees potential in developing its vast supply of natural resources. Among other minerals, Guizhou contains key deposits of oil shale and accessible deposits of coal, and has managed to utilize these resources to a large enough extent to begin exporting its energy to neighboring provinces like Guangdong. Other sectors which contribute a significant amount Guizhou's revenue total include agriculture and tourism, and it is also developing a growing interest in transportation and infrastructure.

Investment Environment Brief
Due in part to a lack of promotion and provincial development, Guizhou has failed to register on the radar of foreign investors, but this is also beginning to change. Most recently Guizhou has begun moving to take advantage of its geographical position between "powerhouse provinces" like Sichuan and Hunan to push for greater infrastructure, especially in the area of transportation, and the government of Guizhou aims to build a massive high-speed rail network between 2011 and 2015. This is just one of several industries in which foreign investment may develop.

Significant FDI Projects
• In June 2011, officials from Singapore met with Guizhou's local government to formally approve the creation of a Singapore Manufacturing Industrial Park in Renhuai, a project worth more than US$1 billion.
Sichuan

Key Sectors
Sichuan is one of China’s strongest and most diverse economies, with a wide range of sectors which all meet a certain standard of prosperity. In terms of agriculture and livestock, Sichuan is China’s largest pork producer, its second largest silk spinner, and among the top exporters of wheat and grain crops. Sichuan is also heavily resource-laden with all types of metals, including chromium, vanadium, lithium and steel. Sichuan uses these resources effectively and is one of China’s largest industrial centers as well, encouraging a range of industries from steel foundries to silk factories, and also a growing market for electronics. Sichuan’s GDP in 2010 was US$249 billion, an increase of 15.1% from 2009 - well above the national average.

Investment Environment Brief
Sichuan has a very well established set of rules for incoming foreign investment and is generally considered to be one of the most reliable provinces in China. As a center for all types of industry, it hosts within its borders four very large Economic & Technological Development Zones, and in 2010 it was ranked first out of all of China’s provinces in the category of foreign trade, according to MOFCOM. Furthermore, in 2010 Sichuan’s volume of actual utilized FDI came to a total of US$7.01 billion, which as stated previously was the highest value in China.

Significant FDI Projects
• In April 2011, South Korea’s Hyundai Motor Company, one of the world’s largest automakers, signed an agreement with China’s Sichuan Nanjun Automobile Group Co. to establish a joint venture for US$557 million. The venture, which is slated for establishment in Ziyun City, aims to produce more than 150,000 vehicles for the trucks & buses market in China by 2013.
• In June 2011, London-based Diageo PLC inked a US$21.6 million deal to increase its stake in liquor producer Sichuan Chengdu Quanxing Group. The deal also indirectly gives Diageo over Quanxing-affiliated ShuiJingFang, in which the group owns a 39.7% stake. In the future, Diageo also intends to make a bid for the remaining shares of ShuiJingFang.
Yunnan

Key Sectors
Yunnan is one of China’s key suppliers of various key metals, most notably copper and zinc. Other metals produced include aluminum, lead, and tin. Other sectors that contribute to Yunnan’s growth include the agriculture sector, which is famous for its productive growth and export of tobacco throughout China and abroad. Yunnan’s major problem in becoming a first-tier economy, though, is its ongoing lack of investment in infrastructure and development, of which it has little. In 2010, Yunnan’s GDP reached US$112 billion, an increase of 11% from 2009.

Investment Environment Brief
Despite Yunnan’s lack of development, it still possesses a very open and stable investment environment for foreign companies. Many multinationals are very interested in the plentiful deposits of metals Yunnan has to offer, and also in Yunnan’s thriving tobacco industry. Also, Yunnan houses 18 different Economic & Technological Development Zones which provide very good incentives for prospective foreign investors. These traits led Yunnan to become Southwest China’s third biggest FDI destination in 2010, bringing in a total of US$1.3 billion through various sectors.

Significant FDI Projects
- A joint venture between Hanergy Holding Group, Jinsha River Hydro power Development Co., Ltd. and Yunnan Development & Investment Company will build the world’s largest privately owned hydro power station in Jinsha River, Yunnan. The project is slated for completion in 2013.
- In January 2011, Value Partners Group Limited signed an agreement to set up a joint venture private equity fund management company (FMC) with Yunnan Industrial Investment Holding Group Ltd in China. The new company will operate from Kunming in China’s Yunnan region; Value Partners will hold a 60% stake, while Yunnan Industrial Investment will hold the remaining 40% – the partners will jointly manage the company. The initial registered capital of the firm will be US$2.28 million.
**Tibet**

**Key Sectors**
Due to a lack of arable land in Tibet and some difficult times since the global financial crisis of 2008, the chief sector that supports Tibet is its tourism industry. Because of the history and the Buddhist attractions available for public viewing in Tibet, the government actively seeks to promote as much tourism as possible in the province, and Tibet's manufacturing tends to work according to this industry, producing textiles and items commensurate with tourists' expectations. In 2010, Tibet's overall GDP came to US$7.9 billion.

**Investment Environment Brief**
Tourism is the only major sector for foreign investment in Tibet. Even this, due in part to the desire to keep the culture in Tibet consistent throughout the ages, is heavily limited. Tibet only has one Economic & Technological Zone in the entire province, which is located in Lhasa. In 2010, Tibet's FDI was valued at a meager US$24 million.
**Chongqing**

**Key Sectors**
Chongqing’s largest sector by far is its manufacturing sector, and in particular its automotive sector. As China’s third largest automobile producer and largest producer of some types of vehicles, Chongqing maintains a thriving manufacturing base for high-quality automotive components. Additionally, Chongqing’s manufacturing base includes textiles, electronic components, and consumer products. Also strong is Chongqing’s stock of natural resources, which includes oil, various minerals, coal, iron ore, and aluminum. Chongqing has a growing agricultural sector as well, although this is not one of its key moneymakers. Chongqing’s GDP in 2010 was US$118 billion, up roughly 400% since 2005.

**Investment Environment Brief**
Chongqing is one of the most favorable and popular destinations in Southwest China for foreign investment. Its strong auto sector, bolstered by low manufacturing costs and reasonable labor laws, has brought many foreign investors into the municipality and will no doubt continue to do so. In addition to its policies, Chongqing contains six Economic & Technological Development Zones, each with a focus on a different manufacturing and technology sector. As further proof of Chongqing’s viability as an investment destination, its FDI value in 2010 was US$6.3 billion - second only to Sichuan in its region, and representing a staggering 58% increase over the 2009 figure.

**Significant FDI Projects**
- In May 2011, the global IT technology giant Acer produced its first laptop from its newly opened plant in Chongqing. Acer expects that around 30-40% of its total production volume in China will be generated by this factory, and has invested a total of US$150 million in the province.
**Northeast China** consists of the three provinces of Liaoning, Jilin and Heilongjiang. The region is also informally known as the "Three Northeast Provinces."

**Provinces**

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Liaoning</td>
<td>Shenyang</td>
<td>145,900</td>
<td>221</td>
<td>20.8</td>
<td>43.0</td>
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<tr>
<td>Jilin</td>
<td>Changchun</td>
<td>187,400</td>
<td>105</td>
<td>1.3</td>
<td>27.1</td>
</tr>
<tr>
<td>Heilongjiang</td>
<td>Harbin</td>
<td>460,000</td>
<td>125</td>
<td>2.7</td>
<td>37.2</td>
</tr>
</tbody>
</table>

Source: Economist Intelligence Unit 2010
Liaoning

Key Sectors
For years now, Liaoning has been China’s seventh largest province by GDP. Its top industries are all components of a heavily developed and advancing economy – the mining and energy sector, chemicals, communications equipment, and industrial-size machinery. Liaoning is also rich in natural resources, being Northeast China’s leading source of oil and natural gas. Liaoning’s GDP in 2010 amounted to US$249 billion, an increase of 13.1% from the previous year.

Investment Environment Brief
Liaoning’s investment environment is one of the most popular in the region–with two major manufacturing powerhouse in the province, Dalian and Shenyang, there are many major opportunities for investment in a variety of different sectors. Furthermore, Liaoning hosts within these two cities a large number of Economic & Technological Development Zones, numbering 14 in total. Foreign direct investment into Liaoning also rose to US$20.8 billion, representing a dramatic increase from 2009.

Significant FDI Projects
• In May 2011, BMW Group announced a nearly 100% increase in investment in its new Shenyang factory to around US$1.42 billion to enable higher production value. With its JV partner Brilliance Auto, the automaker started construction on the new plant in the capital of Liaoning province, which is slated for completion in 2012.
Jilin

Key Sectors
Industry in Jilin is concentrated on automobiles, train carriages, and iron alloy. Jilin is one of the most important commodity grain bases in China and it ranks 6th in timber production. Ginseng and deer antlers, which are used extensively in Traditional Chinese medicine, are also produced mainly in Jilin.

Investment Environment Brief
FDI inflows into Jilin rose by 14.7% in 2009. Although FDI into Jilin has been consistently lower than such inflows into the better-positioned province of Liaoning to the south, Jilin’s prominence in the automotive industry has ensured a steady stream of foreign investment.

Significant FDI Projects
• Japan’s Toyota completed the construction of a long-awaited automotive component plant in the provincial capital, Changchun, in late 2011. The local First Automotive Works (FAW) is also planning a large expansion of production of its own-branded vehicles and setting up an automotive city in Jilin city over a five-year period. Concerns remain that, with major carmakers stepping up their China investments, the sector could overheat and leave the country with dormant plants in the future.
Heilongjiang

Key Sectors
Heilongjiang’s chief draw in terms of foreign investment is its industrial sector, which produces strong growth in automotive markets and other electronic equipment industries. Also important is Heilongjiang’s production and utilization of petroleum resources, which are an important component of infrastructure in such a cold climate. Recently, Heilongjiang has also begun to promote its agricultural sector as well, and there is ample reason for optimism in this area – development has been rapid, and now Heilongjiang’s agriculture plays an important role in China. With large amounts of arable land and many forests, Heilongjiang has become a prime producer of oil, coal, and wood. Heilongjiang’s GDP in 2010 was US$151.2 billion, which represents 12.6% growth over the 2009 figure.

Investment Environment Brief
Heilongjiang, although one of China’s important industrial provinces, is not considered a top-tier destination for foreign investment, due in part to its rough climate and ongoing development of basic infrastructure. As soon as China’s current focus on Heilongjiang’s infrastructure bears fruit, however, this may change. Key areas to watch include Heilongjiang’s capital, the city of Harbin. Heilongjiang province contains six Economic & Technological Development Zones, mostly devoted to power equipment and industry. In 2010, Heilongjiang’s stock of FDI amounted to US$2.7 billion.

Significant FDI Projects
• Gomselmash, a Belarusian agricultural company, launched a joint venture called Harbin Dong Jin Gomel for the production of agricultural machines. In 2011, this unit began producing a new set of machines specifically aimed at the corn harvest, and will be drawing further investment from its Belarusian partner to do so.
**Hong Kong**

**Key Sectors**

Hong Kong SAR’s economy is driven mainly by four key sectors—financial services, tourism, logistics, and professional services. These four industries drive almost all of Hong Kong SAR’s growth on a global scale, and are highly popular and profitable areas of foreign investment as well. In addition, Hong Kong also maintains thriving cultural and medical industries.

**Investment Environment Brief**

Hong Kong SAR plays host to what is indisputably the most globalized and business-friendly investment environment not only in China, but in the entire world—for the last 15 years, it has been ranked at No. 1 on the Index of Economic Freedom published by the Heritage Foundation in the United States. Furthermore, it is currently at the top of the annually published KOF Globalization Index, ahead of Ireland and Singapore. It is in every way an exemplary economic model, and serves as an excellent benchmark for many of China’s provincial economies.

**Significant FDI Projects**

- Aqua Logistics Ltd, a Mumbai-based third party logistics solutions provider, acquired three Hong Kong logistics firms—CIT Logistics Ltd, TAG Logistics Ltd, and AGI Logistics Ltd by means of a wholly-owned subsidiary, Aqua Logistics HK Ltd. Initially, the company acquired a 60% stake in these three companies for US$7.09 million. It will acquire an additional 15% stake in these companies over a set period.
Macau

Key Sectors
Macau, sometimes called the "Las Vegas" of China, is an economy based mostly on the tourism and entertainment industries. Its textile manufacturing industry, however, is also growing well, providing more than 75% of Macau's total exports. The profits from the gaming, hospitality, and tourism industries in Macau collectively constitute more than 50% of the region's GDP, and are a key draw for many different investors.

Investment Environment Brief
As a founding member of the World Trade Organization (WTO), Macau has for years been held to an international standard in maintaining trade relations with all the 120+ members of the WTO, and the region has always kept to the rules of the organization, which require a very open and stable climate for investment. In addition to staying within its budget, Macau is largely independent of most national PRC regulations, to the extent that the central government in China even foregoes the privilege of levying taxes in Macau. All of these qualities and more make Macau a very favorable destination for foreign investment.

Significant FDI Projects
• In early 2011, CITIC 1616 Holdings Ltd signed a purchase agreement for a 20% stake in Macau’s incumbent telecommunications service provider and sole fixed-line operator from CITIC Pacific for $181 million in cash and new shares.
What is the Chinese Services Group (CSG)?

The CSG serves as the unifying force to market, facilitate and deliver Deloitte professional services to both multi-national corporations investing into China and Chinese companies expanding overseas. Operating as a platform to leverage China expertise, bridge the cultural gap, and to ensure client service excellence, the Global CSG, in coordination with the China firm, complements a multi-member firm, multi-industry, multi-functional and multi-disciplinary approach.
Deloitte China + the Chinese Services Group = Your China Dimension

Deloitte is the only professional services firm to have such an expansive and dedicated cross-border network across functions and industries with the ability to react in real time to clients' needs - globally!

Lawrence Chia
Global CSG Co-Chairman

If you are considering taking your business to China, Deloitte’s Chinese Services Group can take the mystery out of how to successfully establish and grow your business. Our local presence in your country can give you a resource that understands you, your current business environment, and the new challenges that China poses.

Mark Robinson
Global CSG Co-Chairman
How can the CSG add value?

With China's continuance as one of the most critical investment priorities globally, the CSG can add value through various channels:

<table>
<thead>
<tr>
<th>Inbound Investment</th>
<th>Outbound Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Leverage China as a “door opener” &amp; assume a high profile on a subject, providing local expertise cutting across geographies &amp; sectors;</td>
<td>• Facilitate access to industry experts and key decision makers throughout China;</td>
</tr>
<tr>
<td>• Raise Deloitte’s eminence in the market on issues of key concern to our clients.</td>
<td>• Serve as a channel to communicate time-sensitive regulations and updates on China for your business.</td>
</tr>
</tbody>
</table>

The CSG Around the World

The CSG network has coverage in over 120 locations around the world spanning six continents.
Global CSG contacts

For more information, please contact:

CSG Leadership

Beijing
Lawrence Chia
Co-Chairman
+86 10 8520 7758
lawchia@deloitte.com.cn

Toronto
Mark Robinson
Co-Chairman
+1 416 601 6065
mrobinson@deloitte.ca

Shanghai
Timothy Klatte
Partner
+86 21 6141 2760
tiklatte@deloitte.com.cn

CSG Asia Pacific

Australia
Keith Jones
+61 8 9365 7233
kejones@deloitte.com.au

Guam
Daniel Fitzgerald
+1 371 646 3884
dafitzgerald@deloitte.com

India
Atul Dhawan
+91 124 679 2030
adhawan@deloitte.com

Indonesia
Claudia Lauw
+62 21 2312879 Ext.6993
claw@deloitte.com

Japan
Hitoshi Matsumoto
+81 3 6213 3501
hitoshi.matsumoto@tohmatsu.co.jp

Malaysia
Theng Hooi Tan
+603 7723 6590
tanth@deloitte.com

New Zealand
Jenny Liu
+64 9 303 0788
jennliu@deloitte.co.nz

Philippines
Diane Yap
+63 02 581 9053
dyap@deloitte.com

Singapore
Ernest Kan
+65 6530 5517
ekan@deloitte.com

South Korea
Nak Sup Ko
+82 2 6676 1103
nko@deloitte.com

Taiwan
Scott Lee
+886 2 2545 9988 Ext.7800
scottlee@deloitte.com.tw

Thailand
Subhasakdi Krishnamra
+66 2676 5700 Ext.5087
skrishnamra@deloitte.com

Vietnam
Ha Thi Thu Thanh
+84 4 6288 3568
hthanh@deloitte.com
Angola
Rui Santos Silva  
+351 9175 41598  
rusilva@deloitte.pt

Eastern Africa
Nikhil Hira  
+254 0 20 4230 377  
nhira@deloitte.com

Francophone Africa
Alain Penanguer  
+33 1 5561 2747  
apenanguer@deloitte.fr

Mauritius
Jean-Noel Wong  
+230 203 8000  
jnoelwong@deloitte.com

South & Southern Africa
Mark Casey  
+27 011 806 5205  
mcasey@deloitte.co.za

The Middle East
James Babb  
+971 50 295 1359  
jbabb@deloitte.com

West & Central Africa
Evans Tomety  
+234 01 2717 800  
etomety@deloitte.com

Bolivia
Saul Encinas  
Tel: +51 11 5129 2003  
saencinas@deloitte.com

Brazil
Ricardo de Carvalho  
+55 11 5186 1776  
rcarvalho@deloitte.com

Canada (Eastern)
Tan Ong  
+1 514 393 5529  
tong@deloitte.ca

Canada (Western)
Beverley Pao  
+1 604 640 3179  
bepao@deloitte.ca

Caribbean Cluster
John Johnston  
+1 441 299 1301  
john.johnston@deloitte.bm

Central & South America
Eduardo De Bonis  
+54 11 5129 2003  
edebonis@deloitte.com

Chile
Juan Echeverria  
+562 7 297 224  
jecheverria@deloitte.com

Colombia
Ricardo Rubio  
Tel: +57 1546 1810  
rrubio@deloitte.com

Ecuador
Jorge Brito  
+593 4 2452 770  
jorgebrito@deloitte.com

El Salvador, Costa Rica, Nicaragua, Honduras
Federico Chavarria  
Tel: +506 2246 5000  
fechavarria@deloitte.com

Mexico
David Chen  
+52 656 5080 6075  
davidchen@externosdeloittemx.com

Panama
Domingo Latoracca  
Tel: +507 303 4100  
dlatoracca@deloitte.com

United States
Christopher Cooper  
+408 704 2526  
chriscooper@deloitte.com

Uruguay
Pablo Rosselli  
Tel: +59 82 916 0756  
prosselli@deloitte.com

Venezuela
Joaquin Lopez  
Tel: +58 212 2068588  
jlopez@deloitte.com
What is the Asia Pacific International Core of Excellence (AP ICE)?

Established in June 2010, the AP ICE integrated foreign nationals into our Asia Pacific Tax practice, based in Hong Kong – 23 highly experienced tax professionals from 15 tax jurisdictions who not only understand the specific needs of clients, but who also have solid technical understanding of various foreign tax jurisdictions. Our specialists are constantly in contact with the Deloitte local member firms in key foreign jurisdictions, staying abreast of local issues and knowledgeable about the latest local tax information.
“Due to the acceleration, global taxes become more important as tax laws continually change. The AP ICE presence in Asia Pacific offers tailor-made international tax solutions not only to the multinational companies, but also to the companies who want to extend their global footprint.”

Alan Tsoi
AP ICE Co-Leader

“Deloitte's AP ICE is the first of its kind – an integral part of our global transformation strategy. It creates a platform and allows clients in the region access to the best international tax resources without the hassle of battling time zones and long-distance travel.”

Lili Zheng
AP ICE Co-Leader
How can the AP ICE help?

- Reduction of foreign taxes;
- Optimization of cash repatriation;
- Business restructuring to reduce worldwide taxes and to optimize foreign tax credits;
- Tax optimization of supply chain-oriented business restructurings;
- Use of intellectual property in a global enterprise;
- Tax-effective financing strategies;
- Business expansion planning, including choice of entity and capitalization issues;
- Mergers, acquisitions, and divestitures;
- Tax treaty planning and interpretation.
# Introducing the AP ICE Team

For more information, please contact:

## AP ICE Contacts:

<table>
<thead>
<tr>
<th>Country</th>
<th>AP ICE Contact</th>
<th>Phone Number</th>
<th>Email Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Wouter Claes</td>
<td>+852 2852 6460</td>
<td><a href="mailto:woclaes@deloitte.com">woclaes@deloitte.com</a></td>
</tr>
<tr>
<td>Canada</td>
<td>Chris Roberge</td>
<td>+852 2852 5627</td>
<td><a href="mailto:chrisroberge@deloitte.com">chrisroberge@deloitte.com</a></td>
</tr>
<tr>
<td>Canada</td>
<td>Vanessa Poon</td>
<td>+852 2852 1610</td>
<td><a href="mailto:vanpoon@deloitte.com">vanpoon@deloitte.com</a></td>
</tr>
<tr>
<td>China</td>
<td>Alan Tsoi</td>
<td>+852 2852 6600</td>
<td><a href="mailto:atsoi@deloitte.com">atsoi@deloitte.com</a></td>
</tr>
<tr>
<td>China</td>
<td>Elaine Xing</td>
<td>+852 2852 6679</td>
<td><a href="mailto:exing@deloitte.com">exing@deloitte.com</a></td>
</tr>
<tr>
<td>France</td>
<td>Wai Lin Ng</td>
<td>+852 2852 6456</td>
<td><a href="mailto:wailinng@deloitte.com">wailinng@deloitte.com</a></td>
</tr>
<tr>
<td>France</td>
<td>Jordi Bonabosch</td>
<td>+852 2852 1083</td>
<td><a href="mailto:jbonaborsch@deloitte.com">jbonaborsch@deloitte.com</a></td>
</tr>
<tr>
<td>Germany</td>
<td>Karsten Ley</td>
<td>+852 2852 6733</td>
<td><a href="mailto:Karstenley@deloitte.com">Karstenley@deloitte.com</a></td>
</tr>
<tr>
<td>India / Ireland</td>
<td>Enwright J. De Sales</td>
<td>+852 2852 1078</td>
<td><a href="mailto:ejdesales@deloitte.com">ejdesales@deloitte.com</a></td>
</tr>
<tr>
<td>Japan</td>
<td>Masayuki Owaki</td>
<td>+813 6213 3920</td>
<td><a href="mailto:masayuki.owaki@tohmatsu.co.jp">masayuki.owaki@tohmatsu.co.jp</a></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Cedric Carnoye</td>
<td>+852 2852 6783</td>
<td><a href="mailto:cecarnoye@deloitte.com">cecarnoye@deloitte.com</a></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Wee Ling Soh</td>
<td>+852 2852 6558</td>
<td><a href="mailto:wlsloh@deloitte.com">wlsloh@deloitte.com</a></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Nora Bafrouri</td>
<td>+852 2852 6642</td>
<td><a href="mailto:nobafrouri@deloitte.com">nobafrouri@deloitte.com</a></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Eddy Hartman</td>
<td>+852 2582 1079</td>
<td><a href="mailto:eddyhartman@deloitte.com">eddyhartman@deloitte.com</a></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Jochem Temmerman</td>
<td>+852 2582 5683</td>
<td><a href="mailto:jotemmerman@deloitte.com">jotemmerman@deloitte.com</a></td>
</tr>
<tr>
<td>Singapore</td>
<td>Steve Towers</td>
<td>+65 6216 3227</td>
<td><a href="mailto:stowers@deloitie.com">stowers@deloitie.com</a></td>
</tr>
<tr>
<td>South Korea</td>
<td>Gyung Ho Kim</td>
<td>+852 2852 5681</td>
<td><a href="mailto:gyhkim@deloitte.com">gyhkim@deloitte.com</a></td>
</tr>
<tr>
<td>Taiwan</td>
<td>Arthur Chen</td>
<td>+852 2852 1086</td>
<td><a href="mailto:artchen@deloitte.com">artchen@deloitte.com</a></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Andrea Howl</td>
<td>+852 2852 1950</td>
<td><a href="mailto:andhowl@deloitte.com">andhowl@deloitte.com</a></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Sarah Tan</td>
<td>+852 2852 5856</td>
<td><a href="mailto:sartan@deloitte.com">sartan@deloitte.com</a></td>
</tr>
<tr>
<td>United States</td>
<td>Lili Zheng</td>
<td>+852 2852 6769</td>
<td><a href="mailto:lzheng@deloitte.com">lzheng@deloitte.com</a></td>
</tr>
<tr>
<td>United States</td>
<td>Aaron Grundman</td>
<td>+86 21 6141 1490</td>
<td><a href="mailto:agrundman@deloitte.com.cn">agrundman@deloitte.com.cn</a></td>
</tr>
<tr>
<td>United States</td>
<td>Jing Nealis</td>
<td>+852 2852 6782</td>
<td><a href="mailto:jnealis@deloitte.com">jnealis@deloitte.com</a></td>
</tr>
<tr>
<td>Business Development</td>
<td>Koen De Ridder</td>
<td>+852 2852 5640</td>
<td><a href="mailto:kderidder@deloitte.com">kderidder@deloitte.com</a></td>
</tr>
</tbody>
</table>
Deloitte's China Research and Insight Centre (CRIC)

The Deloitte China Research and Insight Centre (CRIC) was established by Deloitte China in 2008. Serving as an intelligence platform, CRIC provides Deloitte’s practitioners and clients around the world with information, analysis and insights on China economic development by producing and publishing thought leadership and other publications. CRIC participates directly in major forums and conferences as the intellectual partner. CRIC also supports major client and market activities, as well as top management in preparing conference/clients presentations. Below represents a sampling of CRIC publications:

**Measuring Value**
**China and Asia - The Forum and the Formula**
This publication deals with one of the rising forums in the region. As the Boao Forum for Asia Annual Conference (BFA AC) enters its second decade, the discussion and potential of Asia as an integrated economic region also are entering a new stage. As a result of the global financial crisis and several aspects of integration proceeded smoothly, it has become increasingly common to look to Asia as the world’s engine of recovery from the crisis and as the epicenter of future growth.

March 2012

**Where Is China Manufacturing Industry Going?**
**Deloitte China Manufacturing Competitiveness Survey 2011**
Through a survey of 150 enterprises and interviews, the report analyzes China’s manufacturing competitiveness, comparing with other Asian countries’ competitiveness, and pointed out the current problems facing the manufacturing industry and the future direction of China’s manufacturing industry.

November 2011
The total M&A market in China will continue to grow, but the paces are varying among the three segmented markets by deal type. Domestic M&A market is to be pushed by government policy including 12th FYP and tight monetary policy, and will see more vertical integration deals. In addition, the inbound M&A market is expected to hike as the government is encouraging better utilization of foreign capital serving the country’s industrial upgrading and technology innovation. Meanwhile, Chinese enterprises have become more prudent in conducting overseas acquisition, but the possible revisit of global financial crisis may make more bargain targets available.

September 2011
Contact details for Deloitte's China practice

Beijing
Deloitte Touche Tohmatsu CPA Ltd.
Beijing Branch
8/F Deloitte Tower
The Towers, Oriental Plaza
1 East Chang An Avenue
Beijing 100738, PRC
Tel: +86 10 8520 7788
Fax: +86 10 8518 1218

Harbin
Deloitte Consulting (Shanghai)
Company Limited
Harbin Branch
Room 1618, Development Zone Mansion
368 Changjiang Road
Nangang District
Harbin 150090, PRC
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056

Chongqing
Deloitte & Touche Financial Advisory Services (China) Limited
Room 10-12
13/F International Trade Center
Chongqing
38 Qing Nian Road
Yu Zhong District
Chongqing 400010, PRC
Tel: +86 23 6310 6206
Fax: +86 23 6310 6170

Dalian
Deloitte Touche Tohmatsu CPA Ltd.
Dalian Branch
Room 1503 Senmao Building
147 Zhongshan Road
Dalian 116011, PRC
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297

Guangzhou
Deloitte Touche Tohmatsu CPA Ltd.
Guangzhou Branch
26/F Teemtower
208 Tianhe Road
Guangzhou 510620, PRC
Tel: +86 20 8396 9228
Fax: +86 20 3888 0119 / 0121

Hangzhou
Deloitte Business Advisory Services (Hangzhou) Company Limited
Room 605, Partition A,
EAC Corporate Office
18 Jiaogong Road
Hangzhou 310013, PRC
Tel: +86 571 2811 1900
Fax: +86 571 2811 1904

Nanjing
Deloitte Touche Tohmatsu CPA Ltd.
Nanjing Branch
11/F Golden Eagle Plaza
89 Hanzhong Road
Nanjing 210029, PRC
Tel: +86 25 5790 8880
Fax: +86 25 8691 8776

Shanghai
Deloitte Touche Tohmatsu CPA Ltd.
30/F Bund Center
222 Yan An Road East
Shanghai 200002, PRC
Tel: +86 21 6141 8888
Fax: + 86 21 6335 0003

Shenzhen
Deloitte Touche Tohmatsu CPA Ltd.
Shenzhen Branch
13/F China Resources Building
5001 Shennan Road East
Shenzhen 518010, PRC
Tel: +86 755 8246 3255
Fax: +86 755 8246 3186

Tianjin
Deloitte Touche Tohmatsu CPA Ltd.
Tianjin Branch
30/F The Exchange North Tower No.1
189 Nanjing Road
Heping District
Tianjin 300051, PRC
Tel: +86 22 2320 6688
Fax: +86 22 2320 6699

Wuhan
Deloitte & Touche Financial Advisory Services Limited
Wuhan Liaison Office
Unit 2, 38/F New World International Trade Tower
568 Jianshe Avenue
Wuhan 430022, PRC
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032

Xiamen
Deloitte & Touche Financial Advisory Services Limited
Xiamen Liaison Office
Unit E, 26/F International Plaza
8 Lujiang Road, Siming District
Xiamen 361001, PRC
Tel: +86 592 2107 298
Fax: +86 592 2107 259
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Deloitte China is one of the leading professional services providers in the Chinese Mainland, Hong Kong SAR and Macau SAR. We have nearly 10,000 people in 16 offices in Beijing, Chongqing, Dalian, Guangzhou, Hangzhou, Harbin, Hong Kong, Jinan, Macau, Nanjing, Shanghai, Shenzhen, Suzhou, Tianjin, Wuhan and Xiamen.

As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China’s accounting standards, taxation system and local professional accountants. We also provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

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