The battle for MNC investment heats up

China's first tier cities are all competing to attract multinationals to set up regional headquarters. Shanghai is leading the race, but how do the policies for each city compare and what incentives are actually on offer?

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Multinational corporations (MNCs) have become more willing to establish their regional headquarters in China. First tier cities are likely locations as companies compete for a place in the market. Factors often taken into consideration are based on whether a location is investment-friendly in terms of incentive policies, information accessibility, consumption levels, financing resources and government cooperativeness.

Since the 1990s, the PRC government at both the central and provincial levels has successively promulgated legislation with preferential treatment for MNCs. Beijing, Shanghai and Shenzhen, as the widely recognised first tier cities, have issued their own rules for headquarters. But Shenzhen seems far behind compared to the other two cities when it comes to attracting MNCs. This is backed up by the fact that Shenzhen has the least number of existing regional headquarters. According to unofficial and incomplete statistics, 393 regional headquarters of MNCs are located in Shanghai as of September 2012, 121 in Beijing as of August 2012 and only 2 in Shenzhen as of July 2011. This situation may change because of recent legislation issued in Shanghai and Shenzhen.

On August 8 2012, the *Implementing Opinions on the «Shanghai Municipality, Provisions on Encouraging the Establishment of Regional Headquarters by Multinational Corporations»* (《上海市鼓励跨国公司设立地区总部的规定》实施意见) became effective. This was soon followed by the *Shenzhen Municipality, Tentative Measures on Encouraging the Development of Enterprise Headquarters* (深圳市鼓励总部企业发展暂行办法) on August 31. In addition to these two cities, on August 2, Jiangsu issued a similar Circular, hoping to encourage MNCs to locate their regional headquarters in the eastern province.

The successive promulgation of these pieces of legislation highlights the competition between China's major cities to attract MNCs. But how do the standards and various incentive policies differ between Beijing, Shanghai and Shenzhen? Also, which city has the most competitive strength to attract MNCs to establish their regional headquarters?

Shanghai's Provisions

In 2008, Shanghai issued the *Provisions of Shanghai City on Encouraging the Establishment of Regional Headquarters by Multinational Corporations)* (《上海市鼓励跨国公司设立地区总部的规定》) and the *Several Opinions Regarding the Implementation of Provisions of Shanghai City on Encouraging the Establishment of Regional Headquarters by Multinational Corporations* (《关于<上海市鼓励跨国公司设立地区总部的规定>的实施意见》). The Provisions were later repealed in 2011 when they were revised. The Opinions have also since been repealed with the recent promulgation of an updated version in August. Collectively, the Provisions and the Opinions make up the Shanghai Rules.

Compared with the 2008 Rules, the latest revisions relax the requirements for establishing a regional headquarters. They lower the threshold for preferential treatment and provide greater incentive policies. For example, MNCs which have made a prominent contribution to the local economic development and mostly satisfy the explicit conditions of the Rules, could be approved, at the discretion of the Shanghai Municipal Commerce Commission. In addition, subsidies of up to Rmb8 million ($1.2 million) are provided to encourage MNCs to establish or upgrade

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their existing regional headquarters to an Asia-wide, Asia-Pacific-wide or world-wide regional headquarters. Subject to the approval of relevant authorities, key regional headquarters in the form of an investment company may enjoy certain remuneration for the costs and expenses incurred during internal equity restructuring.

In some instances, the thresholds are tightened though. For example, a regional headquarters is required to employ no fewer than 10 employees to benefit from the start-up subsidy and the rental subsidy. It is also important to note that the new Shanghai Rules have validity periods, which will expire on June 30 2017.

Table 1

	Type	Authority	Thresholds
Beijing	Generally a corporate legal entity. For well-known MNCs, a non-corporate legal entity can also be considered. Not necessarily a wholly-owned entity of its parent.	Municipal Commerce Commission	A management company may qualify if: (1) the total assets of its foreign parent are no less than US$400 million; (2) its foreign parent has invested in or manages at least three enterprises with total paid-in registered capital of no less than US$10 million, or has invested in or manages at least six enterprises; (3) its registered capital is no less than US$2 million; and (4) it is the sole highest management entity for the parent company's China businesses. (5) thresholds can be further loosened if it is a well-known MNC.
Shanghai	Wholly-owned subsidiaries of the MNC		A management company may qualify if: (1) the total assets of its foreign parent are no less than US$400 million; (2) its foreign parent has invested in or manages at least three enterprises with total paid-in registered capital of no less than US$10 million, or has invested in or manages at least six enterprises; The Municipal Commerce Commission may consider, at its own discretion, certifying management companies as regional headquarters if they basically satisfy the above conditions and have made prominent contributions to the economic development of the local region; and (3) its registered capital is no less than US$2 million.
Shenzhen	Corporate legal entity and not necessarily a wholly-owned entity of its parent.	Headquarters Economic Development Leading Group	1. A newly established enterprise which has been operating for less than one year may qualify if: (a) its paid-in registered capital is no less than Rmb500 million; (b) the total assets of its controlling parent is no less than Rmb10,000 million; (c) the annual revenue of its controlling parent in the last year is no less than Rmb10,000; and (d) its controlling parent commits that the newly established enterprise will create Rmb5,000 million in annual revenue included in the statistical accounting of Shenzhen and contribute no less than Rmb60 million as local financial resources in the next year after certification 2. A newly moved-in enterprise which has been operating for less than one year may qualify if: (a) its paid-in registered capital is no less than Rmb500 million; (b) its annual revenue in the last year is no less than Rmb5,000; and (c) it commits to generate Rmb5,000 million in annual revenue included in the statistical accounting of Shenzhen and contribute no less than Rmb60 million as local financial resources in the next year after certification 3. Established enterprises which have continuously operated for more than one year may qualify if: (a) its annual revenue in the previous year is no less than Rmb2 billion; and (b) it contributed no less than Rmb40 million as local financial resources in the previous year. 4. Subject to approval by the municipal government, enterprises that conform to the industry development strategy and industry policy of Shenzhen and take on significant industry support may also qualify.

Financial Support	Revenue Bonuses
An office subsidy for regional headquarters established after January 1 2009: (1) Regional headquarters leasing their offices (tentatively limited to Chaoyang District) are entitled to a three-year subsidy as 30%, 20% and 10% of each year's rental; and (2) Regional headquarters buying or building their offices are entitled to a lump-sum subsidy of up to Rmb5 million; and three-year instalment (40%, 30% and 30%) establishment subsidy for regional headquarters established after January 1 2009: (a) Rmb5 million for registered capital greater than or equal to Rmb100 million and less than 500 million (b) Rmb8 million for registered capital greater than or equal to Rmb500 million and less than 1 billion (c) Rmb10 million if its registered capital is greater than or equal to Rmb1 billion	A three-year instalment (40%, 30% and 30%) revenue-based bonus of: (a) Rmb1 million for annual revenue greater than or equal to Rmb100 million and less than 500 million (b) Rmb5 million for annual income greater than Rmb500 million and less than 1 billion (b) Rmb10 million for annual revenue greater than or equal to 1 billion
1. An office subsidy for regional headquarters established or moved in after July 7, 2008 and has more than 10 employees: (a) regional headquarters leasing offices are entitled to a three year subsidy of no more than Rmb2.4/m^2/day for up to 1,000m^2; (b) regional headquarters buying or building offices can receive a lump-sum subsidy equal to the above three-year subsidy (up to Rmb2,628,000); and 2. Three-year instalment (40%, 30% and 30%) establishment subsidy of Rmb5 million beginning from the next year of its establishment or move-in for regional headquarters in the form of foreign invested investment companies established or moved in after July 7 2008 and has more than 10 employees.	1. For foreign-invested investment companies: (a) a three-year instalment (40%, 30% and 30%) revenue-based bonus of Rmb10 million when a regional headquarters certified by MOFCOM after July 7 2008 for the first time exceeds Rmb1 billion in annual revenue after such certification; (b) a three-year instalment (40%, 30% and 30%) revenue-based bonus of Rmb10 million when a regional headquarters certified by Mofcom before July 7, 2008 for the first time exceeds Rmb1 billion in annual revenue since 2008; (c) a three-year instalment (40%, 30% and 30%) revenue-based bonus of Rmb5 million when a regional headquarters certified after January 1, 2012 for the first time exceeds Rmb1 billion in annual revenue after such certification; (d) a three-year instalment (40%, 30% and 30%) revenue-based bonus of Rmb10 million when a regional headquarters certified before January 1 2012 for the first time exceeds Rmb1 billion in annual revenue since 2012; 2. For management companies: (a) a three-year (40%, 30% and 30%) instalment revenue-based bonus of Rmb5 million when a regional headquarters certified after July 7 2008 for the first time exceeds Rmb500 million in annual revenue after such certification; (b) a three-year (40%, 30% and 30%) instalment revenue-based bonus of Rmb5 million when a regional headquarters certified before July 7 2008 for the first time exceeds Rmb500 million in annual revenue since 2008
1 An office subsidy for enterprise headquarters: (a) enterprise headquarters leasing their offices (not including ancillary facilities and buildings) are entitled to a three-year subsidy of Rmb500/m^2/year with the total amount of subsidy per year no more than Rmb1.5 million; (b) enterprise headquarters buying their offices (not including ancillary facilities and buildings) are entitled to a lump-sum subsidy of 5% of the purchase price; (c) enterprise headquarters may apply to individually or jointly build a headquarters mansion subject to certain criteria in its annual revenue and contribution to local finance. 2. Establishment subsidies: (1) Enterprise headquarters may be awarded an establishment subsidy of Rmb10 million in the year of its certification; (2) Major enterprises which are introduced as key enterprises may agree on establishment subsidies by entering into a cooperation agreement with the municipal government.	1. Enterprise headquarters may be awarded with a revenue-based bonus of no more than Rmb50 million in total if the annual revenue for the second year of certification exceeds Rmb5,000 million. 2. Enterprise headquarters, after three years of certification may apply for a contribution bonus up to Rmb20 million.

Shenzhen's alternative approach

Compared with Beijing, Shanghai and Guangzhou, Shenzhen is late in the game to attract regional headquarters from a legislative and regulatory perspective. Since joining the race, Shenzhen has adopted a regime with its own characteristics to regulate regional headquarters, different from Beijing and Shanghai. The first legislation in Shenzhen was promulgated in late 2008 if the form of Trial Measures. The Measures categorised headquarters into three types, comprehensive, functional and growth. Each type of headquarters was subject to different recognition standards.

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On August 31 2012, the Shenzhen Tentative Measures were published, repealing the Trial Measures. The Tentative Measures apply unified standards to enterprises for headquarters certification. This includes multinationals, domestic companies, investment companies or management enterprises. It is also significant that the department in charge of recognition is not the municipal commerce commission, as is the practice in Beijing and Shanghai. Instead, it is overseen by The Head Committee for the Economic Development of Headquarters (总部经济发展工作领导小组) jointly established with the Municipal Government and under the Department of Development and Reform. Shenzhen has adopted a different legislative and regulatory regime from Beijing and Shanghai in recognising and supervising the MNCs' regional headquarters.

Comparing the policies

Specific policies for regional headquarters vary in different localities due to their geographic locations and economic profiles. Table 1 is a detailed comparison of the various local thresholds and incentive policies in Beijing, Shanghai and Shenzhen. It reveals that Shenzhen sets the highest certification thresholds, but offers the largest amount of cash bonuses. Shanghai, after issuing its latest Rules, stands out as having the most favourable economic and administrative environment for regional headquarters.

Extra incentives

Shanghai also offers a bonus for upgrading or restructuring a MNC's regional headquarters. Newly-established regional headquarters that cover all of Asia, the Asia-Pacific region or the world, with no fewer than 50 employees and the legal representative appointed by its parent and its key functional management permanently working in Shanghai can enjoy a Rmb8 million subsidy. MNCs that are already established can upgrade their headquarters to meet the same requirements to receive a Rmb3 million subsidy. Key regional headquarters of a foreign-invested investment company may enjoy certain remuneration for the costs and expenses incurred during its internal equity restructuring. This is subject to the review of the Municipal Commerce Commission, Municipal Financial Bureau and other relevant departments.

In Beijing, principal executives receive an annual cash bonus of up to Rmb500,000 in three successive years. If the incremental amount of locally retained enterprise income tax is within the top 10 in the city, the principal executive will also receive a Rmb500,000 bonus. A cash bonus of up to Rmb300,000 is also on offer to regional headquarters' Beijing-based senior executives above the vice-general manager level.

Beijing and Shanghai then offer preferential treatment when it comes to customs declarations and quarantine and inspection. They also offer to facilitate the administrative procedures of different functional departments for regional headquarters. Both cities encourage investment companies to set up finance companies to provide centralised financial management services to enterprises when they invest within China. Priority for expatriate employees to obtain their visa, work permits, employment certificates and Chinese permanent residency certificates are also included. Preferential treatment in issuing the city's permanent residency certificates to senior Chinese managers and technical staff is also available

Shanghai will help facilitate Renminbi current accounts and encourage commercial banks to provide more settlement and exchange services, while Beijing removes the one-year working restriction for foreigners wishing to buy property. It is likely that Shenzhen will issue similar preferential policies as part of its regulations, but details have not yet been released.

An economy of regional headquarters

There is no doubt that Shanghai enjoys the leading place in headquarters economic development. Well-known MNCs like GE, Johnson & Johnson and HSBC have all chosen Shanghai for their regional headquarters. Shanghai's aim is to explore more possibilities to benefit from regional headquarters by issuing the latest Rules. Shanghai also intends to encourage MNCs to upgrade their existing regional headquarters by offering financial support. This distinguishes Shanghai's Rules from Beijing and Shenzhen and means its leading position will continue. Shenzhen, despite its late start, has its own advantage due its close proximity to Hong Kong. If the Shenzhen government considered more incentive policies in the future, it could become a strong competitor to Shanghai. Beijing, as the capital of China, will always have an important place in the race for headquarters.

Recent legislation promulgated in Shanghai, Shenzhen and Jiangsu shows these cities are open to greater investment from MNCs. It remains to be seen how Beijing will respond to the new Rules in Shanghai and whether successive legislation will entice other cities in China to attract MNCs and their regional headquarters.

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