



China's Biotech Parks –  
Leveraging the ecosystem  
for success





# Introduction

The Chinese government has recognized the biopharmaceutical industry ("BPI") as of strategic importance and been vigorously advocating its optimum development in China. Creating the necessary infrastructure for industry development has been and remains to be one of its key objectives and ambitions. Many local governments have established special biopharmaceutical industrial parks ("BPIPs") and issued policies to support and promote industry development. Market participants need to pay close attention to these developments to maximize their chances of success in investment and management.

BPI enterprises are high risk, require substantial investment and advanced technology, and have a lengthy development cycle. BPIPs have been one of the main contributors to the rapid development of the Chinese biopharmaceutical industry. Chinese BPIPs have become much more developed, and are attracting a growing number of domestic and multinational biopharmaceutical enterprises. BPIPs are also the main platforms through which local governments seek to attract, foster and promote industry development. BPIPs across China are being transformed and upgraded to provide enterprises with more innovative resources and more efficient services.

This paper presents the current development conditions of Chinese BPIPs, summarizes common local support policies, and discusses how biopharma enterprises can use industrial parks and related policies to map out entry strategies or re-improve their layouts in China. Its core positions are:

- During the 14th Five-Year Plan period (2021-2025), China will continue to regard bio-technology and pharmaceuticals as of strategic importance, and the industry will continue to have substantial room for development as the functions of BPIPs improve.
- Many local governments are striving to cultivate and develop the industry and have established BPIPs with different characteristics and a local focus. BPIPs are at varying stages of development. However, local support policies are key to their attraction of enterprises.
- Pharmaceutical and biotech enterprises should speak to government departments and BPIPs to negotiate tailored financial incentives, tax inducements and other support. During investment and site selection, they should consider the accessibility and maturity of local service offerings, and the reliability of upstream and downstream supply chains.
- Pharmaceutical and biotech enterprises should consider establishing tax-aligned supply chain and transfer pricing models in China, while leveraging available tax and financial incentives.
- Talent recruitment and retention is critical to success in the industry. Biotech and pharmaceutical enterprises can attract and retain core talent by accessing local governments' talent support policies. They should also ensure they have effective, tax efficient compensation structures, including equity-based incentive plans, to ensure their successful and sustainable development.

# The status and development of BPIPs in China

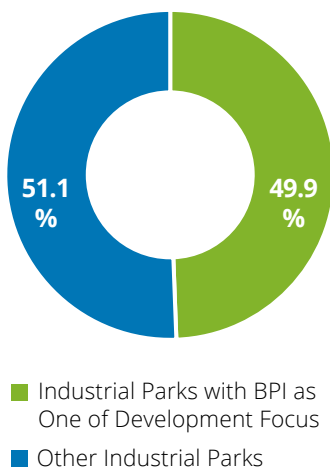
In recent years, propelled by supportive central government policies, the capital market and a growing pool of top talent, China's biotechnology and pharmaceuticals industry has grown explosively, in tandem with the rapid development of BPIPs.

- As of the end of 2019, China has 387 national-level industrial zones – 219 for economic and technological development and 168 for high and

new technology development. Of the total, 193 parks (49.9%) focus on the pharmaceuticals industry.

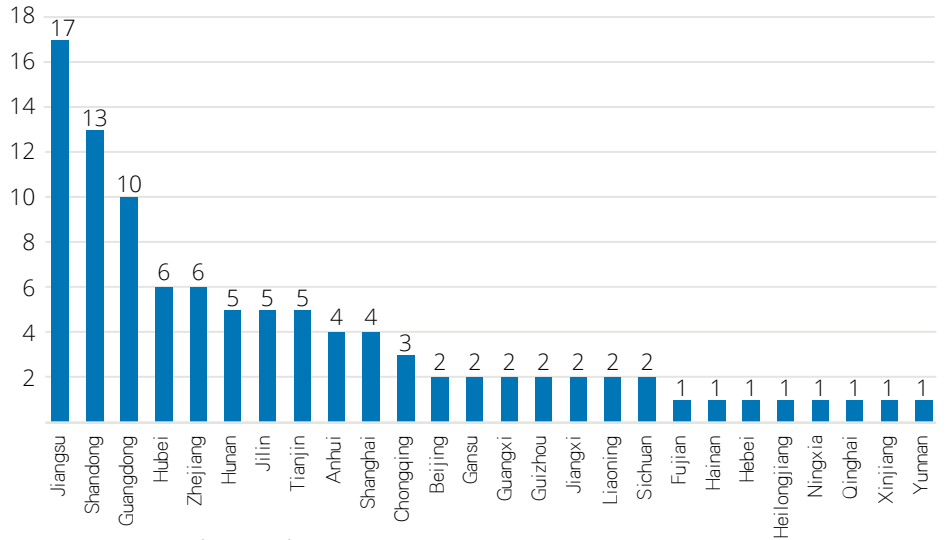
- In addition to the national industrial parks, some provincial and municipal industrial parks also emphasize BPI development. National industrial parks tend to have more development advantages and find it easier to attract talent, capital and innovative platforms.
- The geographical distribution of Chinese BPIPs matches China's economic landscape. Most BPIPs are in the Bohai Sea, Yangtze River Delta or Pearl River Delta regions, particularly Jiangsu, Shandong and Guangdong provinces. In recent years, with the development of other parts of the country, BPIPs in Central China (e.g. Wuhan and Changsha) and Western China (e.g. Chengdu and Chongqing) have also developed rapidly.
- In 2016-2019, the output value of Chinese BPIPs surged from RMB1,310 billion to RMB2,130 billion, with compound average annual growth of more than 17%, far outpacing the overall growth of China's economy. In 2020, the output value of Chinese BPIPs was more than RMB2,510 billion.

**Figure 1: National-level industrial parks with BPI as a development focus**



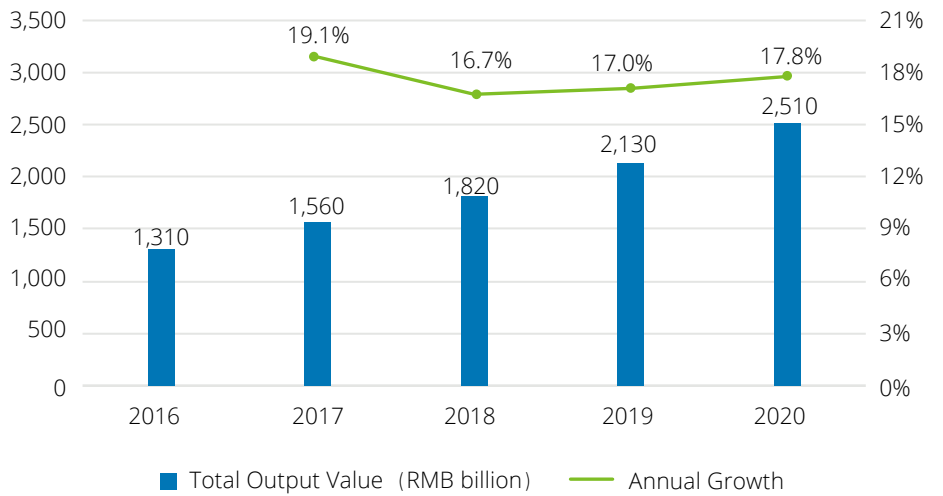
Source: Sina.com, Deloitte Analysis

**Figure 2: Locations of the Top 100 BPIPs (2020)**

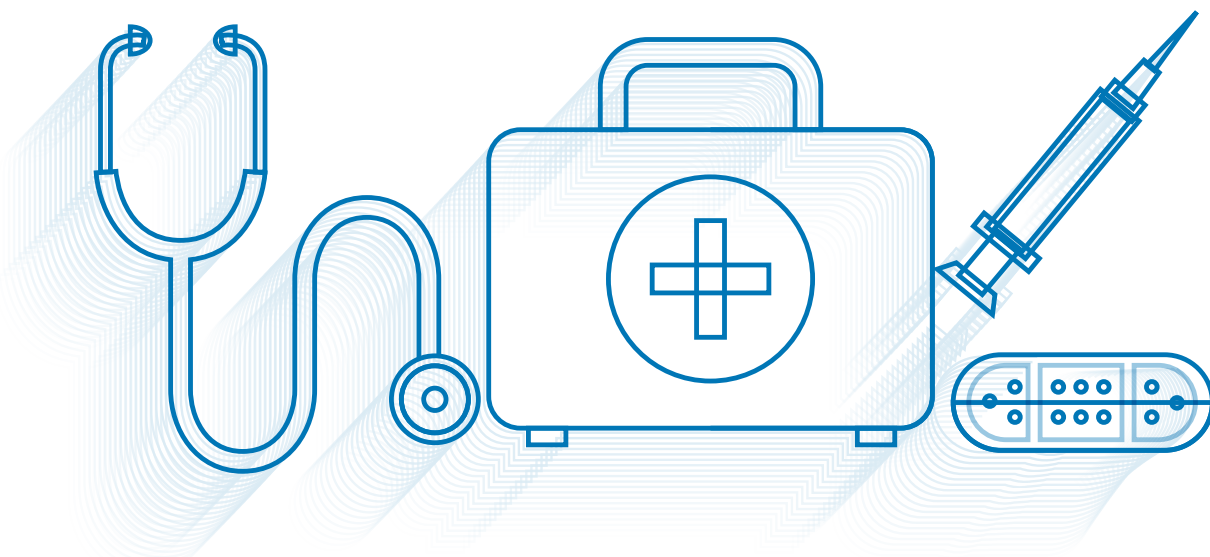


Source: Sina.com, Deloitte Analysis

**Figure 3: Output value of Chinese BPIPs (2016-2020)**



Source: AskCI.com, Deloitte Analysis



- BPIPs are at varying stages of development in terms of infrastructure, policies, systems, management and support services, and their areas of focus vary. They are competing to attract enterprises. The table below lists some well-known developed BPIPs as illustrative examples. These industrial parks have gradually taken the lead in BPIP development by offering first-class service platforms and industry incentives. There is also a trend of more integrated development among innovative enterprises, universities, investment institutions, public service platforms and government agencies.
- In June 2020, China's government promulgated a new policy on the Hainan Free Trade Port ("HNFTP"), including measures to encourage development of the biopharma industry. With zero customs duty, preferential policies on enterprise income tax ("EIT") and individual income tax ("IIT") rates, and other

business-friendly policies on foreign exchange and government registration and approval, HNFTP has caught the attention of many BPI multinationals. They have started to view HNFTP as an important location in their overall supply chain planning in China, and potentially in their APAC layouts.

According to the 14th Five-Year Plan, the Chinese government will continue to regard BPI as an emerging industry of strategic importance. Some local governments even plan to make the industry a new engine of economic growth and have released policies to promote industry development, including by strengthening the functions of BPIPs. These include Shanghai's *Action Plan for Promoting High-Quality Development of Shanghai's Biopharmaceutical Industry (2018-2020)*, Beijing's *Measures on Promoting the Innovative Development of the Medicine and Medical Devices Industry at*

*Zhongguancun National Independent Innovation Demonstration Area* in 2019, the Suzhou government of Jiangsu province's *Measures on Accelerating the High Quality Development of Suzhou's Biopharmaceutical Industry* in 2019, and the Wuhan government of Hubei province's *Notice on Issuing the Implementation Opinions and Detailed Rules of East Lake Hightech Development Zone Supporting the High-Quality Development of the Life Health Industry* in 2019.

China's BPI will continue to develop rapidly as the functions of BPIPs are further improved. The output value of Chinese BPIPs is expected to reach RMB5,840 billion by 2025. As the main hosts for BPI enterprise development and the implementation of industry support policies, Chinese BPIPs are expected to become even more innovative and improve their support for enterprises.

**Table 1: List of representative BPIPs in China**

Name	Province /Municipality	City
Shanghai Zhangjiang Medicine Valley	Shanghai	Shanghai
Suzhou BioBAY	Jiangsu	Suzhou
Zhongguancun Life Science Park	Beijing	Beijing
Beijing Yizhuang Biomedical Park	Beijing	Beijing
Wuhan BioLake	Hubei	Wuhan
Guangzhou Science City Bio Industry Park	Guangdong	Guangzhou
ELHT Hangzhou Biomedical Industrial Park	Zhejiang	Hangzhou
Chengdu Hi-Tech Industrial Development Zone	Sichuan	Chengdu
Nanjing Biotech and Pharmaceutical Valley	Jiangsu	Nanjing
China Medical City	Jiangsu	Taizhou

# Overview of tax and financial supporting policies for the Chinese biopharmaceutical industry

At the national and industry level, the Chinese government has been reforming medicine, medical and medical insurance systems. A raft of regulatory changes and new policies have been introduced in recent years, including the Marketing Authorization Holder ("MAH") system and efforts to accelerate drug reviews and approvals to energize the industry and encourage R&D and innovation; dynamic adjustment of the medical insurance catalogue with the introduction of government-set pricing and market entry negotiations to improve affordability and accessibility; the rollout of volume-based, government procurement, also to reduce prices; and the two invoice system, which aims to reduce transaction costs and stamp out corruption.

There are also tax and financial support policies at the national and local level. The main national policies applicable to BPI include:

## Key preferential tax policies

Most of these policies are designed to encourage R&D and technology development through preferential EIT, VAT and customs duty rates and treatment.

- Preferential EIT rate for high and new technology enterprises
- Preferential EIT rate for technologically-advanced service enterprises
- Additional R&D expense deductions for EIT
- Accelerated depreciation of fixed assets for EIT
- Exempt or zero-rated VAT treatment for specific cross-border services
- Customs duty and import VAT exemptions for specific enterprises or imported goods

In addition to these national policies, the central government has also introduced some regional preferential tax policies, the more recent of which include:


- **HNFTP:** EIT is levied at a reduced rate of 15% on enterprises engaged in "encouraged" business activities including BPI. A 15% effective IIT rate can be applied for highly-skilled and urgently-needed talent working in HNFTP;
- **Lingang Area of Shanghai Pilot FTZ:** EIT is levied at a reduced rate of 15% on eligible enterprises engaged in production and R&D in biopharma and other strategic industry players within five years since incorporation. Subsidies can be offered to reduce the effective IIT rate for overseas talent;
- **Greater Bay Area:** IIT subsidies can be offered for highly-skilled and urgently-needed overseas talent working in the nine mainland cities of the Greater Bay Area. The subsidies are exempt from IIT.

Many local governments have made BPI a key industry in their development plans, and released support and incentive policies that are often provided via BPIPs. These policies vary according to locations' different levels of economic development, industrial foundations, supply chain layouts,

and fiscal capacity. However, they also have some similarities, which reflect the characteristics of the biopharma industry. Using Shanghai, Suzhou and Wuhan as examples, we summarize the most commonly adopted local support and incentive policies below.

These local policies typically cover finance, talent, land and administrative supervision, and are quite similar in nature, although their details vary and they often have a local focus, especially when it comes to financial support.

**Table 2: Local support and financial incentive policies**

 <b>Financial incentives: Local financial incentives aimed at encouraging innovation and R&amp;D, international market expansion, increased scale, improved quality, and platform building.</b>	
<b>1 Encouraging innovation and R&amp;D</b>	
<b>Innovation</b>	<ul style="list-style-type: none"> <li>Financial subsidies for early stage R&amp;D investment, depending on the drug category and based on a proportion, for certified new drugs on which production or marketing have begun;</li> <li>Financial subsidies, based on a proportion, for approved major national or provincial-level sci-tech special projects under the major new drug innovation program</li> </ul>
<b>R&amp;D</b>	<ul style="list-style-type: none"> <li>Subsidies for new projects that have entered Phase I, II and III clinical trials (obtained clinical approvals);</li> <li>Subsidies for new projects that have completed Phase I, II and III clinical trials (obtained clinical approvals);</li> <li>Subsidies based on a proportion of actual R&amp;D costs for the development of Category I chemical drugs, Category I biological products and Category I TCM and natural drugs;</li> <li>Subsidies based on a proportion of actual R&amp;D costs for drugs that have passed generic drug consistency evaluations</li> </ul>
<b>2 Encouraging enterprises to enter the international market</b>	
<b>International market</b>	<ul style="list-style-type: none"> <li>Financial support or subsidies based on a proportion of actual costs incurred in certification for biopharmaceutical enterprises that have obtained FDA and EMEA certifications;</li> <li>Subsidies based on a proportion of actual costs incurred in certification for biopharmaceutical enterprises that have obtained certification from international organizations including AAALAC and AAHRPP for the first time;</li> <li>Subsidies based on a proportion of actual cost of certification for biopharmaceutical enterprises that have received WHO certifications</li> </ul>
<b>3 Encouraging industrialization</b>	
<b>Large projects</b>	<ul style="list-style-type: none"> <li>Support, based on actual expenditure, for biopharmaceutical industrialization projects that promise, after settlement, to reach a certain level of annual total tax payments or investment, or that will have a driving or leading role in overall development of the local biopharmaceutical industry</li> </ul>
<b>Scale sales</b>	<ul style="list-style-type: none"> <li>One-off subsidies if an enterprise passes a specific milestone in main business income or annual sales revenue from a single drug or medical device (e.g. RMB100 million, RMB500 million, RMB1 billion, RMB5 billion or RMB10 billion)</li> </ul>



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#### 4 Encouraging the construction of public service platforms

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##### Public service platforms

- One-off subsidies based on a proportion of and not exceeding total expenses for project construction, property rental, and R&D equipment incurred in establishing a platform with a global top 100 university, global top 100 scientific research institution, Fortune Global 500 company, leading domestic university or scientific research institute, to support innovation and entrepreneurship among small and micro enterprises;
  - Subsidies based on a proportion of total investment in a project to build a public service platform, including third-party testing services for drugs and medical devices, GMP common laboratories, animal experimentation services, drug screening, pharmacological and toxicological research, efficiency evaluation, new drug applications and approvals, or disposal of medical waste in the industrial park;
  - Subsidies based on a proportion of income from services provided to unaffiliated biopharmaceutical industry enterprises in the local area or industrial parks by establishing and operating a public service platform
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#### 5 Industrial development and guidance funds

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##### Industry development fund

- Sub-funds for investment in the biopharmaceutical industry to guide and support major industrial, innovation and entrepreneurship projects;
  - Special development funds for parks to support industry, innovation and entrepreneurship, talent introduction and development, and infrastructure and public facility construction
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##### Talent

##### Talent

- "Talent Housing" projects;
  - Settlement and home purchase allowances;
  - Rewards or salary allowances for introduced talent;
  - Preferential treatment in areas such as household registration, medical security and children's education
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##### Land

##### Land guarantee

- Increasing the amount of earmarked land and giving priority to ensuring the implementation of major biopharma industrial projects;
  - Bringing land occupied by BPIPs and used for the production and R&D of key biopharmaceutical enterprises into the scope of guaranteed land for industrial production and R&D, with a flexible annual transfer system to reduce enterprises' land use costs;
  - Improving land use efficiency, increasing plot ratios for industrial and R&D use, and reducing or exempting transfer fees for capacity-increasing land
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##### Administrative Regulatory Policies

##### Administrative regulation

- Accelerated approvals and simplified procedures;
  - "Green channel" for eligible enterprises to bring in new drugs and innovative medical devices;
  - Accelerated customs clearance for drugs and increasing the capacity of drug supervision and inspection and biopharmaceutical testing services
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As shown above, local support and incentive policies provide a broad range of benefits covering finance, fund investment, talent, and regulatory procedures. However, the amount of support depends on case-by-case discussions with local governments, the nature and size of a project and its potential benefits to the local economy.

# Policy considerations for biopharma companies in China

**The most developed BPIPs are more attractive as a destination for biopharma companies. Tailored financial incentives, comprehensive support services, and reliable upstream and downstream supply chains have become the key factors in attracting investment**

The R&D, clinical trials and production of biopharma products have a long lifecycle and multiple phases. Enterprises not only have high requirements for infrastructure to support their operations, but also require reliable upstream and downstream supply chains, and highly dependable and efficient public services. As the main vehicles of BPI development, the most developed BPIPs provide mature infrastructure for R&D, testing, production and back-office functions, and highly effective public services, meeting enterprises' diverse requirements. They are able to attract clusters of industry players. Developed BPIPs are therefore often the first choice of destination for new biopharma investment.

Enterprises should consider many factors during the investment and site selection, including their own business and product lifecycles. Besides, as the Chinese economy shifts to a stage of more quality-oriented development, enterprises' considerations are also changing. For example, there is now not much difference in the main areas of focus, such as infrastructure, transportation and labor costs, of major industrial parks. Factors such as the accessibility and reliability of supporting upstream and downstream supply chains, financial incentives and other support policies, and the public service capabilities of BPIPs have become more relevant factors in decision making.

The most developed BPIPs, which operate according to international standards, usually have more advantages when it comes to public services and supply chain reliability. The financial incentive policies promulgated by industrial parks are similar in many respects, but the extent to which biopharma companies in China can apply for and obtain

favourable financial support usually depends on case-by-case negotiations with local governments. It can rest on factors including enterprises' status in the industry, the core technology or product involved, influence on upstream and downstream value chains, scale of investment, and contribution to local employment and tax fiscal revenue. Proactive and effective communication with local governments will help enterprises explore and obtain more benefits.

**Adapting to changes in the Chinese market, biopharma companies are assessing how to improve their layouts in China and reorganizing their supply chain-aligned tax strategies**

China is further deepening medicine, medical health care, and medical insurance system reform. On one hand, medical reform has injected new vitality into the market and created substantial room for growth. On the other hand, it has prompted a sharp decline in drug prices, putting enterprises under cost pressure. In response to challenges and

opportunities arising from medical reform, biopharma companies are re-optimizing their layouts and supply chains in China, including by introducing new products, establishing R&D bases, and moving production to lower-cost regions.

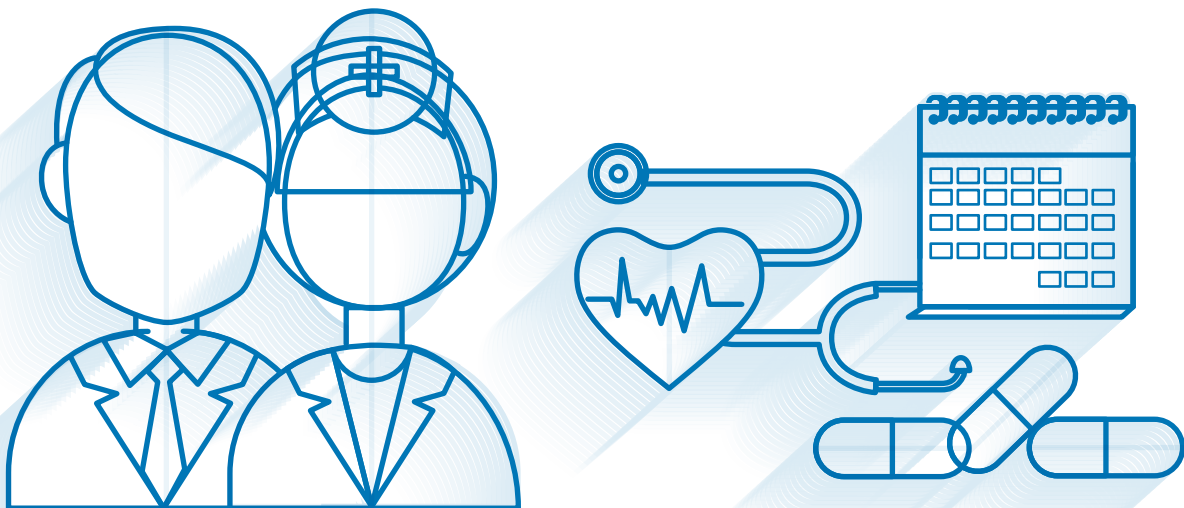
The various support policies issued by BPIPs to attract investment provide opportunities for pharmaceutical companies to improve their presences across China. For example, they can consider establishing new entities for newly-introduced products at more recently developed regions and parks, and setting up R&D centers, regional headquarters or sales centers at the advantageous and more developed industrial parks in Eastern China, while moving production to central and western regions to access raw materials and lower labor costs. Negotiating and obtaining the best local industry support policies can help enterprises reduce operating costs and increase return on investment.

From a tax perspective, biopharma groups should, by leveraging the reorganization of their layouts and supply chains from a business perspective, re-examine the functions and risk profiles of their domestic and overseas entities and re-align their tax and transfer pricing strategies to improve tax efficiency.

**Attracting and retaining core personnel is a key factor influencing the success or failure of biopharma companies' investment in China and they can leverage BPIPs' talent support policies**

BPI is not just capital-intensive, it is also technology-intensive. Developing biotechnology requires top talent. In recent years, China's BPI has been developing rapidly in some places, and been able to attract top talent back to the country to drive innovation and entrepreneurship.

Improvements in the BPI environment and the encouragement of innovation and entrepreneurship have also accelerated the return of top biopharmaceutical talent and prompted local surges in available talent. However, there is still a scarcity of core technical and management talent. In response, BPIPs have established various talent support policies to attract enterprises. Biopharma companies' investment decisions in China must factor in the availability of local talent. Making full use of support policies can not only help them obtain and retain core talent, but also reduce labor costs. In addition to local governments' preferential policies, enterprises, particularly those that rely on innovation, must establish plans to retain and motivate talent. Biopharma companies should not only look to establish effective pay schemes, but also consider long-term equity or stock-based incentive plans for core personnel. When formulating pay and incentive plans, enterprises should also consider enhancing tax efficiency.



# Conclusion

Now and for the foreseeable future, BPI will be an emerging industry of strategic importance in China that is supported by the government. Many local governments use industrial parks to attract biopharmaceutical enterprises and provide an extensive range of policies to support the industry's development.

In line with China's economic development, the domestic BPI and BPIPs are entering a stage of high-quality growth, having already experienced rapid expansions. Local governments' emphasis on BPI, and competition to establish BPIPs with various business and local focuses, provide opportunities for biopharma companies to invest in China or improve their existing layouts to adapt to market landscape changes. They should make full use of opportunities to negotiate with governments to seek qualified financial benefits and support for their businesses with no stones unturned. They should also seize the opportunity to re-examine their local and global supply chain arrangements and leverage business re-organization plans, to establish tax aligned supply chain strategies.

## Our services

Deloitte China Tax professionals, including our tax advisory and value chain alignment teams, are driven by innovation and have rich experience in the LSHC industry. Our tax and government services professionals have extensive experience of negotiating with local government investment promotion departments to obtain bespoke financial support, and the HR Planning and Talent Incentive Scheme Planning Team focuses on talent motivation and retention.

Deloitte China Tax for LSHC works closely with our industry strategy and technology consulting, financial advisory, risk advisory, and audit advisory teams to provide enterprises with comprehensive, full life-cycle tax services. It is committed to helping enterprises select sites for investment, seek industrial support and preferential tax policies, and formulating remuneration and incentive plans, overall supply chain aligned tax and transfer pricing strategies. It provides practical and compliant planning and solutions, and assists enterprises in their implementation.



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