

How to start business in China

- company establishment



ECOVIS Ruide China

→ audit

→ accounting

→ tax

→ investment

Agenda

1 Business Environment

2 Types of Enterprises

Company establishment

→ audit

→ accounting

→ tax

→ investment

1. Business Environment

Introduction

- With the largest population and fastest-growing economy in the world, China is a country that is worth to be closely watched.
- Now a part of the WTO, changes are happens even faster in China.
- Sectors are opening up overnight, laws are being changed and more and more opportunities are presenting themselves to foreign investors.

1. Business Environment

Figures

- According to the nominal GDP (2008) after the USA and Japan – China is the **3** biggest national economy in the world (Germany No. 4)
- Purchasing power – No. **2**, after USA
- GDP 2008: > 3000 USD per head tripled (2002 940 USD)

Prospect

- Apart from decrease of economical growth the overall economical situation is still positive and in compare with other nations – the growths is above average, the country has high foreign economic currency reserves
- Still high attractivity for foreign investors
- But, high environmental burden, unemployment, salary differentials, protectionism

1. Business Environment

General information	
Name of the country	Peoples Republic of China (PRC)
Capital City	Beijing
Population	
Population	1,33 billions (2008)
Expanse	9,6 million sq km
Allocation of population	41 % city, 59 % countryside (2005)
Shanghai	18,4 million (2007)
Beijing	15,5 million (2007)
Tientsin	10,5 million (2007)
Wuhan	8,9 million (2007)
Chongqing	7,7 million (2007)

1. Business Environment

Economic	
Currency	Renminbi Yuan (1 EUR = ca. 9-10 RMB)
GDP	4,2 billion USD (2008)
Inflation	11,7 % agriculture, 48,4 % manufacture, 39,9 % service (2006)
Export goods	Textiles, shoes, toys, machines, machine parts, mineral fuels, chemicals
Import goods	Steel, motor vehicles, machines, petrochemical products, airplanes
Important foreign trade partner Export	USA, Japan, South Korea, Germany, Singapore, Netherlands, Great Britain, North Ireland
Important foreign trade partner Export	Japan, Taiwan, USA, South Korea, Germany, Singapore
Industry	Steel production, coal production, mineral oil, engineering, arm industry, textile industry, cement, fertilizer, food, vehicles, telecommunication and electrical equipment

1. Business Environment

Commercial policy

- Stimulation of
 - small-and medium sized companies
 - environmental protection
 - Effective usage of energy
- Annual growths about 8%
- More Fokus on rural areas

1. Business Environment

Location/ Development zones

- Stimulation of former politics:
east of China more developed than the west of China
(85 % of foreign investments, 90 % exports)
- New “Go West politics”: development of infrastructure,
tax and investment stimulation in the west of China
- Firstly consideration of infrastructure, supplier and clients,
environmental pollution, quality of living and professional staff
(big differences in China!)
- Tax or investment stimulations should be considered as
second step (e.g. high tech, environment, energy, infrastructure)
- Development zones are common in China

1. Business Environment

Investment and Trade

- China continues to be an important location for European investments
- The interest of Chinese companies to invest in Europe increases (stimulation of the government)
- Still some IPO of Chinese enterprises, e.g. In Germany
- China is since 2004 the most important trade partner in Asia

2. Types of Enterprises

Types of enterprises

Main Foreign Investment Enterprises:

- Equity joint ventures
- Cooperative joint ventures
- Wholly foreign-owned enterprises

2. Types of Enterprises

Equity joint ventures

A Chinese-foreign equity joint venture is a JV structured in the form of a Chinese limited liability company to which a Chinese enterprise and a foreign party each contributes its shares of capital.

- Law on Sino-Foreign Equity Joint Ventures
- Legislation one of the most comprehensive and extensive pieces of legislation relating foreign investment in China
- Advantageous to work with a Chinese partner who is familiar with the local market and have well established network with Chinese business and government authorities
- Parties jointly invest and manage the JV
- Parties share profits and risks and losses according their contributions to the registered capital
- Enterprise income tax law applicable

2. Types of Enterprises

Cooperative joint ventures

- A Chinese-foreign cooperative joint venture provides a flexible structure for foreign investors.
- Could be run as a legal entity, which is a limited liability company or as an unincorporated business (corporation or partnership)
- Rules are less stringent
- Terms of the contract are negotiable, e.g. profit distribution
- Enterprise income tax law applicable

2. Types of Enterprises

Wholly foreign-owned enterprise

- A wholly foreign-owned enterprise is a Chinese limited company, wholly owned by one or more foreign investors and established entirely with foreign capital.
- Encourages from the Chinese Government for high and new technology and equipment, development of new products as well as energy preservation
- Certain industries could be restricted or prohibited
- Popular business structure
- Cost and time saving due to not having a negotiation process with a Chinese partner
- IPR, trade secrets, technologies could be saved
- More flexible and streamlined management systems
- Limited liability company
- Enterprise income tax law applicable

2. Types of Enterprises

Chinese holding companies

- Chinese holding companies are foreign investment holding companies in China. These may take the form of WOFE or JV.
- Not engage in production operations themselves
- Hold interests in other foreign investment enterprises and provides certain services
- Umbrella structure arrangement, which enables a foreign company to hold together its foreign investment enterprise investments in China
- To set up a holding company, foreign investors shall satisfy at least some requirements
- As a holding the scope of activities has several restrictions

2. Types of Enterprises

Foreign enterprises with or without establishment in China

- **Foreign enterprise incorporated outside China/ establishment:**
 - non-resident enterprise with establishment in China
 - production or business operations
 - subject to tax to the extent for income connected with its establishment in PRC

- **Foreign enterprise incorporated outside China/ no establishment:**
 - non-resident enterprise with no establishment in China
 - no production or business operations
 - subject to **withholding tax** on income which is derived from China
Profits, dividends, interests, rental, Royalty, other income

2. Types of Enterprises

Definition “establishment”

- a place of management, operation or administration
- a farm, factory or place of extraction of natural resources
- a place where services are rendered
- a place of construction, installation, assembly, repair and exploitation etc.
- other establishments engaged in manufacturing and business operating activities

Definition “permanent establishment”

- a place of management, a branch, an office, a factory, a workshop
- a mine, an oil or gas well etc.
- a building site, construction, assembly or installation project > 6 months
- rendering of services, including consultancy services > 6 months within any 12 months period

2. Types of Enterprises

Representative office

General

- Important structure to be present on the Chinese market
- Cannot operate as businesses in terms of manufacturing or production, or engaging on sales and marketing
- allowed to conduct other activities such as customer liaison and market research, or to provide certain services

Taxation

- Deemed as permanent establishment
- Application for tax levying method
(5 different kind of taxation methods applicable)
- Different kind of regulations for Individual Income tax, employment regulations

2. Types of Enterprises

Branch offices

- Foreign companies are generally not allowed to set up branch office in China
- An exception foreign banks or insurance companies

2. Types of Enterprises

Domestic enterprises

- Established within the territory of the PRC
 - State-owned enterprises
 - Collectively-owned enterprises
 - Private enterprises
 - Cooperative enterprises
 - Share-formulated enterprises

