# Doing Business in CHINA

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# Introduction

China has emerged as one of the most significant manufacturing miracles since the industrial revolution began in Great Britain in the eighteenth century. By the end of 2012, China became a global leader in manufacturing operations and the second largest economic power in the world. The Made-in-China paradigm has been evidenced by products made in China ranging from high-tech goods such as personal computers, mobile phones to consumer goods such as air conditioners.

# Economic Overview

Growing business presence in China in 2024 presents a special opportunity. China's commitment to continued economic growth means significant opportunities for businesses ready to adapt to the local business environment.

Corporate reorganizations, particularly foreign joint ventures, are under the spotlight as they navigate the requirements of China's 2020 Foreign Investment Law before the looming December 31, 2024 deadline.

Adaptation and innovation remain key as businesses strive to align with China's push for technological advancement and sustainable practices.

Additionally, integrating digital marketing strategies has become increasingly significant, with gamification being explored as a nobel approach to engagement across various business domains.

Since China began to open up and reform its economy in 1978, GDP growth has averaged over 9 percent a year, and almost 800 million people have lifted themselves out of poverty. There have also been significant improvements in access to health, education, and other services over the same period.

China is now an upper-middle-income country. Although China has eradicated extreme poverty in 2020, an estimated 17.2 percent of the population lived on less than $6.85 a day, the World Bank's Upper-Middle-Income Country (UMIC) poverty line, in 2023.

The Chinese economy continues to occupy a central role in the global manufacturing sector, though its transition towards a consumer-driven economy has gained momentum. According to a 2025 economic forecast, the country's growth patterns are adjusting to the new norms. Foreign direct investment (FDI) is critical in China's financial strategies, influencing various policy decisions to foster a more attractive investment climate.

China has gathered the ways to back up its outstanding position in the global market and maintain investor confidence, including a huge market growth potential, a skilled labor pool, unparalleled infrastructure, and investment in its capabilities as a manufacturing base for industries of the future.

# CHINA'S FOREIGN INVESTMENT SYSTEM

## National treatment

The National Treatment replaces the previous investment approval system with a new approach that includes national treatment along with a 'negative list' for foreign investment. Under this system, unless specified in the negative list, Chinese authorities must treat foreign investors at least as favourably as Chinese investors.

## Relaxed and efficient foreign investment administration system

The case-by-case foreign investment approval requirement for FIEs has been replaced with an online reporting requirement with the Ministry of Commerce, greatly simplifying the administration of foreign investment. With this, most foreign-invested companies can directly apply for company establishment registration or other corporate changes, including equity transactions, by filing with the State Administration of Market Regulation ("SAMR") or its local counterparts.

In the spirit of new FIE, which aims to grant consistent national treatment to all FIEs in China and also create a fair environment for both Chinese and foreign companies.


# Business Environment In China

## Foreign Investment:

With the explicit aim of attracting know-how, high technology, advanced services, and outstanding talent, the Chinese government is actively expanding the potential for foreign inward investment. For example, the Foreign Investment Law gives more flexibility to FIEs setting up a company.

## Exclusion of Trade barriers:

The Chinese government is increasing the number of Free Trade Zones (“FTZs”) and extending the boundaries of existing Economic Development Zones (“EDZs”). FTZs and EDZs are two of China’s major approaches to being proactive in removing tariff.

## Legal System:

The new Foreign Investment Law regime has been in place for over 40 years since China promulgated its first law on Foreign Direct Investment (“FDI”).

# Simple Tax Regime

China's current tax framework was put in place after the tax reforms of 1994 to meet the needs of its socialist market economy.

### Personal Income tax:

It is a tax on personal income earned by individuals. The rate is a progressive tax with the following brackets:

- For monthly taxable income up to 3,000 yuan: 3%
- For monthly taxable income between 3,001 yuan and 12,000 yuan: 10%
- For monthly taxable income between 12,001 yuan and 25,000 yuan: 20%
- For monthly taxable income between 25,001 yuan and 35,000 yuan: 25%
- For monthly taxable income between 35,001 yuan and 55,000 yuan: 30%
- For monthly taxable income between 55,001 yuan and 80,000 yuan: 35%
- For monthly taxable income over 80,000 yuan: 45%

## Corporate income tax:

Tax resident enterprises ("TREs") are subject to corporate income tax on their worldwide income. In general, a company is regarded as a TRE in China if it is incorporated in China or effectively managed in China. Non-TREs are taxed on the China sourced income only. However, if the non-TRE has an establishment in China, non-China sourced income effectively connects with the China establishment.
The standard corporate tax rate is 25%, but the tax rate could be reduced to 15% for qualified enterprises which are engaged in industries encouraged by the China government.

## Value Added Tax ("VAT"):

VAT is levied during the sale of goods, imports, service provision, and sales of intangible assets and immovable properties. There are two types of VAT payers:

- **General VAT payers** (0%, 6%, 9%, 13%): Enterprises with revenue over RMB 5 million during a period of less than 12 months or four quarters, or those with a robust accounting system, will fall under this category.
- **Small-scale VAT taxpayers** applies to enterprises whose accumulated taxable income is below RMB 5 million, during a consecutive 12 month period, or four quarters, A 3% levying rate is applied to small-scale VAT taxpayers.

### Excise tax:

A tax on specific goods, such as tobacco products, alcohol, and gasoline is excise tax. The rate varies depending on the product. Tobacco has 40% to 45% tax rate whereas alcoholic beverages have 10% to 50% tax rate.

### Property tax:

A tax is imposed on the owners, users, or custodians of houses and buildings at the rate of either 1.2% of the original value with certain deduction or 12% of the rental value.

### Land tax:

In China, land tax is imposed on the use or ownership of land by individuals or entities and may vary depending on the location, type, and purpose of the land.

### VAT for Services and Real Estate:

In China, VAT now applies to services, transfer of intangible properties, and sale of real estate, replacing the former Business Tax. Implemented in 2016, VAT rates vary from 6% to 13% depending on the type of service or transaction. For instance, most services are taxed at 6%, while real estate sales typically incur a 9% VAT. This system allows businesses to claim input VAT credits, potentially lowering their overall tax burden.

### Non-Resident tax:

In China, non-residents are subject to the same progressive tax rates as residents for employment income. The rates range from 3% to 45%, depending on the monthly taxable income. For example:

- For monthly taxable income between 25,001 and 35,000 yuan: 25%
- For monthly taxable income over 80,000 yuan: 45%

Non-residents may be taxed differently on other types of income, such as dividends or royalties.

# Incorporation of a company in China

Corporate establishment / registration / incorporation in China for foreign enterprises is usually possible via three main company types. These are known as Wholly Foreign-Owned Enterprises ("WFOEs"), Joint Ventures ("JVs") and Representative Offices ("ROs"). Each investment form has its own merits and drawbacks and the right choice will depend on the organization's goals and strategy to the country's market access.

**Wholly Foreign Owned Enterprises:**

WFOEs are widely accepted as the most popular entity for doing business in China. These are investment vehicles entirely owned by foreign (i.e. not Chinese) natural and legal persons. WFOEs are limited liability companies ("LLCs") with shareholders held liable for the company's debts or liabilities only up to the registered capital under China's new Foreign Investment Law.

**What is the minimum investment required to set up a Wholly Foreign-Owned Enterprise ("WFOE")?**

Different industries have different registered capital requirements (equity and investment). Since the Company Law was updated, minimum registered capital indications have been abolished, for the activities that do not involve a regulated industry (i.e. securities, insurance or banking).

Different types of WFOEs are required for different business activities. With a WFOE the investor will be able to employ local staff directly and ensure their social insurance and housing fund contributions.

## Joint Ventures

There are two main types of Joint Ventures available in China: Equity Joint Ventures ("EJVs") and Cooperative Joint Ventures ("CJVs").

- An EJV is an independent legal entity with limited liability. Profit and risk sharing in an EJV are proportionate to the equity of each partner in the EJV.
- A CJV's profits are allocated according to the terms of the co-operative venture contract rather than the proportion of their input in the registered capital, which offers greater structural flexibility over an EJV.

There is no minimum investment requirement, however the foreign contribution should not be less than 25% of the registered capital. This requirement has been removed by the New Foreign Investment Law since 1 January 2020. So, currently, there is no minimum investment requirement for Foreign-Chinese partners in a JV project with the exception of certain industries that are restricted for foreign investment.

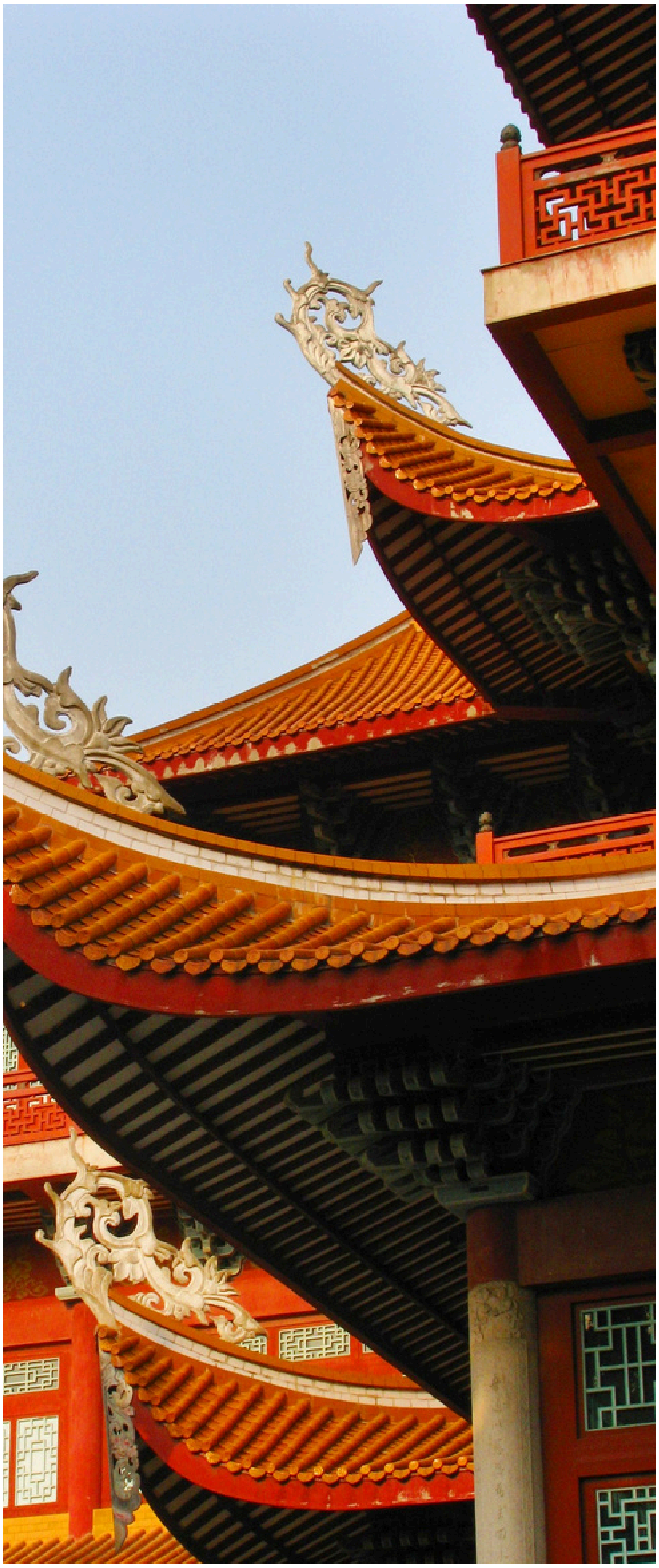
## Representative Offices

A foreign company establishes a Representative office ("RO") to represent in activities like market research, and Personal Representative ("PR") visits to local clients and suppliers. Since it is not an independent legal entity, it cannot participate in any direct commercial activities generating revenue or profits and it can only be set up by foreign entities with a minimum of two years of existence in the relevant jurisdiction.

There are no such registered capital requirements for a RO but local expenses need to be handled via overseas remittance from the foreign company.

Permitted activities include business development, establishing partners, rendering advice, preparation of market studies, and general collection of information and liaising with authorities and business partners. Foreign employees can be hired as chief representatives and general representatives of the local office whereas Chinese employees cannot hold any direct labour relationship with the RO.

# Sector Specific Opportunities In China



There are opportunities for doing business in a wide range of industries in China.

**Automobiles, automotive parts and autonomous driving:**

While international brands continue to play a significant role in China's automotive market, domestic brands have gained ground in recent years. China remains crucial for global automakers, accounting for a substantial portion of their worldwide sales. The Chinese automotive market has seen a rapid shift towards New Energy Vehicles ("NEVs"), with China now being the world's largest NEV market. This includes battery electric, plug-in hybrid, and fuel cell vehicles. Accompanying this, is a growing focus on autonomous driving technology, with both domestic and international companies making significant investments in this area.

**Transportation**:

China continues to be a major player in global shipbuilding, with a focus on diversifying into Liquefied Natural Gas (“LNG”)/ Liquified Petroleum Gas (“LPG”) carriers, special engineering vessels, passenger ships, and luxury cruise ships. The country is also investing in intelligent ships and energy-efficient technologies. In the aviation sector, China plans to significantly increase its number of airports by 2035.

**Healthcare provision:**

China's healthcare spending as a percentage of Gross Domestic Product (“GDP”) (around 7% as of 2023) remains lower than many developed economies, indicating potential for growth. The government is actively promoting healthcare reform and investment in medical infrastructure.

**Semiconductors, chips and sensors:**

China remains a dominant consumer of global semiconductors, driven by demand in 5G, Artificial intelligence (“AI”), and Neighborhood Electric Vehicle (“NEVs”). The country is also investing heavily in domestic semiconductor production to reduce reliance on imports.

**Fintech:**

With a focus on banking, investment, asset management, insurance and internet finance, China’s fintech sector benefits from fewer regulations than other countries.

# Shanghai : Preferred Hub For Businesses

In recent years, Shanghai has continued to advance institutional reform, expand its opening-up, and introduce supportive policies, developing a vibrant headquarters economy and building momentum for Shanghai's 'Five-Centre' strategy. As of early 2024, Shanghai had attracted over 900 Multi National Company ("MNC") Regional Headquarters ("RHQs") including:

- More than 130 Asia-Pacific/global HQs
- Over 500 R&D centres

**International financial center with comprehensive factor markets**:

In 2023, Shanghai maintained its position as a top global financial hub, ranking third worldwide according to the Global Financial Centers Index 32 ("GFCI 32") released by Z/Yen and the China Development Institute.

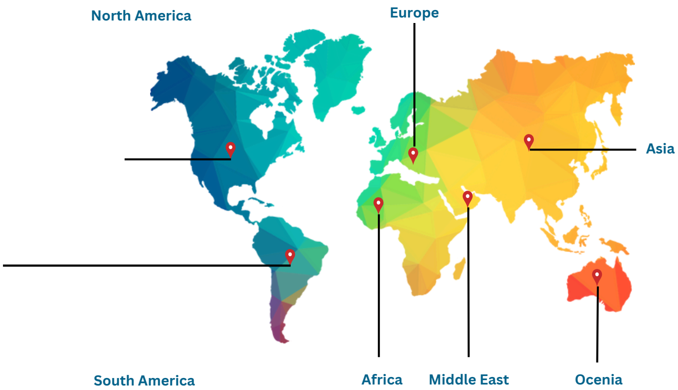
**The further opening of Shanghai's financial markets:**

Shanghai continues to expand the scope of its financial opening up, with ongoing development of innovative financial products and connections, such as the Shanghai-London Stock Connect and further enhancements to the Shanghai-Hong Kong Stock Connect.

# How we can help?

- Our team assists in establishing entities, obtaining necessary licenses and permits, ensuring compliance with all regulatory requirements, and enabling clients to focus on their core operations.
- From mergers and acquisitions to venture capital investments, our experts provide strategic counsel and guidance, ensuring transactions are executed efficiently.
- Our regulatory compliance specialists stay updated of the latest developments, thus providing guidance and ensuring operations remain compliant with ever-changing rules and regulations.
- We also assist companies in migrating their IT infrastructure and ensure seamless integration with China’s data center infrastructure.
- Our experts build a skilled workforce in the digital age by offering comprehensive training programs and talent development initiatives.

## SERVING CLIENTS WORLDWIDE

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