



商業信託  
Commercial Trust



## Country Profile: China

## The Facts

Location	Eastern Asia, bordering the East China Sea, Korea Bay, Yellow Sea, and South China Sea, between North Korea and Vietnam
Languages	Official – Mandarin (Putonghua) Spoken – Cantonese, Shanghainese, Minnan, Hakka and other dialects
Nationality	Chinese
Religions	Officially atheist
Government	Communist State
Head of Government	Premier
Legislature	Unicameral Parliament
Constitutional Document	Constitution of the People's Republic of China
Economy	China is one of the world's top exporters and attracting record amounts of foreign investment. In turn, it is investing billions of dollars abroad. The major industries in China are mining and ore processing; machine building; armaments; textiles and apparel; petroleum; cement; chemicals; fertilizers; consumer products including footwear, toys, and electronics; food processing; transportation equipment, including automobiles, rail cars and locomotives, ships, and aircraft; telecommunications equipment, commercial space launch vehicles, satellites. China is also among the world's largest producers of rice, wheat, potatoes, corn, peanuts, tea, millet, barley; commercial crops include cotton, other fibers, apples, oilseeds, pork and fish; produces variety of livestock products.
Currency	Renminbi (CNY)
GDP (2012)	Total – CNY 51,932.21 billion Per capita – CNY 38,354 Real GDP growth – 7.8%
Population	1,349,585,800 (approx.)
Percentage of population	Han Chinese – 91.5% Other minor ethnics and nationalities – 8.5%
Area	9,596,961 km <sup>2</sup>
Time zone	CST (UTC+8)
Public Holidays	11
Climate	Extremely diverse; tropical in south to subarctic in north



Sources: Central Intelligence Agency, International Monetary Fund, FDI

## China

Since initiating market reforms in 1978, China has shifted from a centrally planned to a market based economy and experienced rapid economic and social development. GDP growth averaging about 10 percent a year has lifted more than 600 million people out of poverty. All Millennium Development Goals have been reached or are within reach.

China has been a member of WTO since 2001. With a population of 1.3 billion, China recently became the second largest economy and is increasingly playing an important and influential role in the global economy. Nowadays China is one of the world's top exporters and is attracting record amounts of foreign investment. In turn, it is investing billions of dollars abroad. The collapse in international export markets that accompanied the global financial crisis of 2009 initially hit China hard, but its economy was among the first in the world to rebound, quickly returning to growth.

China's 12th Five-Year Plan (2011-2015) highlights the development of services and measures to address environmental and social imbalances, setting targets to reduce pollution, to increase energy efficiency, to improve access to education and healthcare, and to expand social protection. Its annual growth target of 7 percent signals the intention to focus on quality of life, rather than pace of growth.

## The China Business Climate

Top reasons for investing in China are the below:

- **Stable economic growth:** The economic growth rate of China has been at average 9% annually for last two decades, which is three times rates of the economic growth of the developed countries, but the China's economy will keep this growth rate at least twenty years. The main reason is that the economy of China is in the course of urbanization, internationalization, industrialization and marketization. More than half of population in China will give up the rural village life style and embrace the urban life style. It means that at least 700 million Chinese will change its life style, such as eating, drinking, dressing, transporting, communicating, sheltering, etc. It indicates a large potential business opportunities for a foreign investor.
- **Extensive transportation network:** China has built an effective, extensive transportation network for last twenty years. China has 98000km railway, 9356 km high speed train, 87500 km highway, 152 airports. It is very easy for a passenger to travel from the North to the South, from the West to the East. Many high speed railway lines connecting Beijing with Tianjin, Beijing with Shanghai, Wuhan with Guangzhou, Zhengzhou with Xi'an, have been running since 2008. Even Lasha, the capital of Tibet, is connected with other cities in China by a railway line.
- **Special economic development zones:** In order to develop economy of the inland regions of China, the governments of China set up a series of favorite investment policies, ranging from taxation to land-using on these provinces. Encouraging foreign investment in the coast area is the first tier of opening door policy of China. After that, the government encouraged the foreign investors do business in the inland of China, such as Xi'an, Chongqing, Wuhan, Nanchang, Heilongjiang, Jilin, etc.
- **Growing high educated work force:** Every year, more than 6 million students graduated from the universities in China. Most of them are bilingualism – Chinese and English. Most of Chinese students are learning English at the kindergarten, and English exam is a big subject in the Chinese education system, either for entrance to high school or admission to university. So for any foreign investors, language is not a problem for running the business in China.



- **Strong domestic market:** As exports start to decline in recent years due to economic crisis in Eurozone, China tend to focus on domestic market development. With 1.3 billion population, demand for daily consumptions, telecommunication, vehicles, electronics, etc. As there is increasing number of people benefit from rapid economic growth every year, the domestic purchasing power should not be under estimated.

### Setting up a Business in China

Business set-up in China is a big project by itself, which requires financial and time commitments, business management knowledge and China expertise. Identifying a competent agent to manage the complex process will be a cost and time effective way to avoid potential pitfalls. Below is a detailed summary of the bureaucratic and legal hurdles faced by entrepreneurs wishing to incorporate and register a new firm in China:

- **Obtain a notice of approval of the company name:** The applicant picks up the application for company name pre-approval from the local Administration of Industry and Commerce (AIC). The applicant can be the representative designated by all the shareholders or the agent entrusted by all the shareholders. The completed application form shall be signed by all shareholders of the company. The application form together with the business licenses or other registration certificates (if the shareholders are companies or other eligible entities) and the photocopy of the identity card of the individual shareholders shall be filed with the AIC. Effective July 1, 2004, enterprise name registration must follow the amended State Administration of Industry and Commerce (SAIC) rules (that is, the new Enterprise Name Registration Administration Implementing Measures, or *Qi ye ming cheng deng ji guan li shi shi ban fa*). According to the new registration rules, if the applicant goes directly to the AIC, a proposed company name is approved or rejected on the spot. This is newly regulated by Article 24 of the aforementioned measures and is implemented in practice. However if the application is made through mail, fax, email, etc., the proposed company name will be approved or rejected within 15 days.
- **Open a preliminary bank account; deposit fund in the account and obtain the certificate of deposit:** The Company Law was modified on October 27, 2005, and became effective on January 1, 2006. Article 26 lowers the minimum capital requirement to CNY 30,000. According to this article, the shareholders, after paying the required initial capital contribution, may pay off their remaining capital contributions, if any, within 2 years after establishing the company. Note that the required initial capital contribution is at least 20% of the proposed company's registered capital and shall not be lower than the legal requirement for the registered capital for particular industries. Article 27 provides the form of the capital contribution. According to this article, if the initial capital contribution is in cash, the shareholders must (a) open a preliminary bank account after obtaining preapproval of the company name; and (b) deposit the initial capital contribution into the bank account. If the initial capital contribution is in nonmonetary assets, the shareholder must transfer the property title of the assets to the company and the value of such assets must be appraised. The initial capital contribution must be verified by legally established verification institutes. The revised Company Law enables shareholders to contribute up to 70% of the registered capital of a limited liability corporation in 'nonmonetary assets that can be monetarily valued and legally transferred.'
- **Apply for registration certification ;business license of enterprise legal person' with SAIC:** To obtain registration certification, the company must file a completed application form along with the following documents:
  1. Notice of approval of company name
  2. Lease or other proof of company office

3. Capital verification certificate or appraisal report
  4. Articles of association, executed by each shareholder
  5. Representation authorization
  6. Identity cards of shareholders and identification documents of officers
  7. Appointment documents and identification documents (certifying name and address) of the directors, supervisors, and officers
  8. Appointment documents and identification documents of the company's legal representative
  9. If the initial contribution is in nonmonetary assets, the document certifying transfer of the property title of such assets
  10. Other documents as required by the authorities
- **Apply for National Organization Code certificate:** The National Organization Code (NOC) is a specific unique identifier that is issued to an entity that is organized under Chinese law. The NOC Certificate identifies the organization as being duly established under Chinese law, and it includes all of the organization's official information. The following documents must be submitted to the National Administration for Organization Code Allocation in order to apply for the NOC:
    1. A photocopy of the Registration Certificate (the photocopy must have both sides of the registration certificate)
    2. An official seal (the seal that the local Public Security Bureau approved for it)
    3. Photocopies of the Chief Representative and the person that has been entrusted with completing the NOC registration process' passports. It usually take about 5 working days to obtain the NOC Certificate after the application for the NOC Certificate has been submitted.
  - **Registration with local and state taxes:** The tax registration procedures have been simplified since 2004 with the implementation of the Administration Measures of Tax Registration, issued by the State Taxation Bureau. Two separate taxation authorities still exist (the state taxation bureau and local taxation bureau). However, company founders are required to file tax registration only once, to either of these two authorities. The statutory time limit is 30 days from the date of receiving the registration application. The company must file the tax registration form and the initial tax reporting forms. Together with those forms, the company submits for review the following documents:
    1. Business license duplicate (original and one copy)
    2. Organization code certificate (original and one copy)
    3. Identification card of the legal representative (original and one copy)
    4. Identification card of the taxation personnel (original and one copy)
    5. Company seal and financial seal
    6. Office lease agreement and receipt(s) for rent paid
    7. Articles of association (original and one copy) and bank-issued account-opening certificate (original and one copy)
    8. Capital verification report
    9. Photocopy of property ownership certificate
    10. Land use right certificate
    11. Commitment letter regarding the authenticity of the documents submitted

## Types of Business Structures in China

Following types of companies can be formed in China:

**Branch Offices:** A branch office in China is one that is used for business purposes for which the main company office holds responsibility. It is not a legal entity and it can only carries out liaison and coordination work. Such a situation would involve the existence of an offshore "parent", the People's Republic of China would be denied control of the entity - a situation which it seeks to avoid. In this way, China does not officially recognize branch offices, nor does it officially allow them to operate. Therefore, the difficulties posed by such restrictions and lack of legal standing mean that the branch office cannot be recommended as a vehicle for investment.



- **Sino-Foreign Equity Joint Ventures:** These are enterprises established in China with joint investment from foreign companies, enterprises or other economic bodies and Chinese economic bodies. As the name suggests, such enterprises involve joint investment, operation and share of risk in proportion to the amount of investment inputted by the respective parties. Each party is accordingly jointly responsible for the profits and losses of the enterprise. Investment can come in the form of (amongst other things) currency, buildings, industrial property or equipment. In general, the level of investment offered by the foreign company should not be less than 25%. The corporate form of such joint ventures is the limited liability company, with a Board of Directors as its supreme body of power. Some joint ventures in China have now adopted this corporate form.
- **Sino-Foreign Co-operative Joint Ventures:** Sino-foreign co-operative joint ventures also refer to Chinese- foreign contractual joint ventures. They are enterprises established in China with investment or conditions for co- operation jointly offered by foreign companies, enterprises or other economic bodies as well as by Chinese economic bodies. The main difference from the equity joint venture we have just discussed is that the investment of the parties involved will not necessarily be converted into ratios of investment. The rights and obligations of the parties involved with regards to such issues as distribution, investment, operation and sharing of risks and profits is determined by the contracts signed by the parties from the outset of the venture. These ventures tend to involve the foreign partner providing most or all of the funds whilst the Chinese partner contribute land, facilities and a perhaps a limited amount of funding. The usual approach is to stipulate in the contract that the Chinese party will own all the assets of the venture once the date of expiry of the venture is reached, with the foreign party recouping its investment within the duration of the venture. Such forms of co-operative joint venture are universally attractive, for they allow the Chinese partner to have a source of investment whilst permitting the foreign company to recoup its investment.
- **Wholly- Owned Foreign Enterprises:** These also refer to wholly foreign- owned enterprises. They are enterprises set up in China by foreign companies or economic bodies in accordance with Chinese law with the investment entirely provided by foreign investors. Such enterprises must be conducive to the development of China's national economy; they must also meet one of the following requirements:
  1. The application of internationally advanced technology
  2. The orientation of most of the products for export

The corporate form of foreign enterprises in China is generally the limited liability company. Although China has been late on the scene in terms of providing a system of establishment for foreign enterprises, they have grown in number rapidly over the past few years.

- **Chinese Holding Companies:** Approval has recently been given to multinational corporations by China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) to establish foreign-invested holding companies. Though mostly analogous to Western Holding Companies, there are a couple of differences. Multinational companies may wish to set up holding companies in order to increase investment or reinvestment in China, as well as to coordinate investment companies already established in China. A Holding Company in China may invest in such fields as industry, agriculture, infrastructure and energy, provided that the State encourages foreign investment in these sectors. Typical work undertaken by a Holding Company might include action as a purchasing agent, distribution or the provision of after sales service, amongst other things. Provisional Regulations dictate that a Chinese Holding Company may enjoy the preferential treatment of a foreign- invested enterprise, and as such is awarded both a foreign- invested enterprise certificate and license.
- **B Shares:** Chinese government allows foreign investment to acquire shares of special category, B shares, of approved list companies in the Stock Exchange. However, ownership and management are separated. Chinese government is considering allowing foreign invested entity in China to be listed in the Stock Exchange, but it takes time for the government to come at this decision.
- **Special Approved Foreign JV:** Foreign nationals are generally not allowed to hold equity of private companies in China unless with special consent from the government. A merger and acquisition exercise involving foreign fund will convert a private company into a foreign JV.

## Taxation

For more than 30 years since the beginning of the reform and opening up, the taxation system of China has gone through several major reforms, and been improving day by day. After several reforms, for the present, China has 19 tax categories, i.e. value added tax, consumption tax, business tax, enterprise income tax, individual income tax, resource tax, urban and township land use tax, house property tax, city maintenance and construction tax, tax on the use of arable land, land appreciation tax, vehicle purchase tax, vehicle and vessel tax, stamp tax, deed tax, tobacco leaf tax, customs duty, tonnage dues, and fixed assets investment orientation regulatory tax. Of which, 17 tax categories are to be collected by tax authorities; the fixed assets investment orientation regulatory tax was suspended to be collected as from 2000 as determined by the State Council; customs duty and tonnage dues are to be collected by the customs, in addition, the import value added tax and import consumption tax are to be withheld by the customs.

## Investment Incentives in China

Three main development zones were established to attract foreign investments:

- **Special Economic Zones:** Since 1979, five Special Economic Zones have been established in southern China - Shenzhen, Zhuhai, Xiamen, Shantou and Hainan. In 2010, a new Special Economic Zone was established in Kashgar, Xinjiang Province. The authorities of the Special Economic Zones have been given a great deal of freedom to govern the activities within their zones, especially in encouraging investment through special centrally approved investment incentives. However, the reduced FEIT rate of 15 percent granted to foreign invested enterprises and foreign enterprises in these zones has been cancelled under the new CIT Law.
- **New and High Technology Development Zones:** At present there are over 60 New and High Technology Development Zones that offer various subsidies to the enterprises located in these zones. One of the objectives of the zones is to promote the industrialization of technologies owned by regional universities and research institutes.
- **Bonded Zones and Export Processing Zones:** As of 2010 there were 16 Bonded Zones (sometimes referred to as Free Trade Zones) and 60 Export Processing Zones in the PRC. Goods imported into these zones from outside the PRC are not subject to PRC customs duty. In addition, the import license and quota system does not apply to goods imported from outside the PRC into these zones.

In addition to these customs policies, special foreign exchange and taxation policies are also available.

## Immigration and Visa Requirements

Chinese Business Visa (F) is required if you intend to participate for up to 6 months in business activities as an employee of an overseas organization; investigating & establishing a business activity. In some situations overseas businessmen with a need to travel frequently in and out of China over a longer period may be granted a 12 month visa. To obtain an F visa, you must have an invitation letter from a Chinese organization that you will be dealing with or a reference letter from your employer explaining the purpose of the visit. The inviter should check that their invitation complies with all regulations. The below are requirements to submit a F visa application:

- Applicant's passport with blank pages and at least 6 months validity left before expiration.
- One completed Visa Application Form. If someone else travelling with you shares the same passport, or if you are applying for a visa in a country or territory other than the country of your current nationality, you should fill out the Supplementary Visa Application Form.
- One recent passport-size color photo stuck on the application form



- An 'Invitation Letter of Duly Authorized Unit' or 'Confirmation Letter of Invitation' prescribing the visa validity, number of entries and stay period.
- Under some circumstances, the applicants may be required to submit a copy of Chinese hotel reservation, return air ticket booking and financial proof.

You can submit your application to the visa office of Chinese embassies or consulates by yourself or entrust a visa agency to do so on your behalf. The power of attorney is not required. No appointment is required. It regularly takes 4 working days for processing the application. However, the express service and rush service are also available if you want to pick up your visa earlier. Extra US 30 for the same-day collection; and additional US 20 for the second or third day collection.

## Banking Requirements

If you decide to open an account at a Chinese bank, you should make sure to do the proper prep work, bring the proper documentation, and make sure you sign up to receive a Union Pay Card. Also, it is important to be aware of several implications to having a bank account in a country like China. There are four banks in China that are considerably larger than all of the other banks; they are often referred to as, 'The Big Four'. They are Bank of China (BOC), China Construction Bank (CCB), Agricultural Bank of China, and the Industrial and Commercial Bank of China (ICBC). These large institutions offer the most reliability, convenience, trust-worthiness, and they are the most likely to have an English website and online banking. You will only need to bring passport (to show your visa), address proof and valid corresponding address in china. It is a good idea to apply a credit card in China too due to some shops, restaurants and online payment do not except foreign credit cards.

## Reference

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