Setting Up a Business in China

The foreign investor's guide to navigating complexity in this exciting jurisdiction

We are the business behind business®.

Contents

China profile

In just over four decades, China transformed into the world's second-largest economy and a global business powerhouse. With a population of 1.4 billion, it's the world's most populated country[1] and the fourth-largest by land area[2]. China gradually moved away from a closed, planned economy to a market-oriented system and as a result, GDP has increased more than tenfold since the end of the 1970s.

More recent reforms have led to fiscal decentralization, private sector growth, the development of stock markets and a modern banking system—as well as a gradual opening to foreign trade and investment. In 2020—the final year of China's 13th Five-Year Plan—the country overhauled the system that oversaw foreign investments, introducing new regulations that put foreign investors on an equal footing with domestic companies and gave them equal protection and opportunities.

Despite the upheavals of the pandemic, China strengthened its position as the world's factory floor and bolstered its share of global trade as the flow of investments by multinational companies continued. According to the Centre for Economics and Business Research, China is expected to overtake the United States to become the world's biggest economy by 2036[3].

[1] Worldometers
[2] Statista
[3] CEBR

Why invest in China?

Top FDI destination

China received $42.73B[4] USD in foreign direct investment (FDI) inflows in 2020, putting it at number one globally. The country is also the largest recipient of FDI in Asia due to its ongoing liberalization plans, the rapid development of its hi-tech sector and the expansion of free trade zones. Regulations for foreign investors in the Chinese stock market have also been eased, with the lock-up period for strategic investments reduced from three years to one, and the minimum capital requirement cut from $100M USD to $50M USD.

In 2019, China introduced 11 new measures to make its financial sector even more accessible for foreign investors. The new regulations have eased entry requirements and widened the business scope for banking wealth managers, asset managers, insurers, securities houses, fund managers, futures brokers, and rating agencies. Standard & Poor's has obtained approval to operate in China, making it the first foreign credit-rating agency to enter the country.

A burgeoning middle class and educated workforce

According to China's National Bureau of Statistics, around 400 million Chinese are categorized as middle income. China accounts for half of the planet's middle class; their growing purchasing power is a source of opportunity for foreign businesses across a wide range of sectors. At least 58% of Chinese households are likely to be mass affluent (or above) by 2030[5].

In addition, adult literacy in the country exceeds 97%[6]. The Organisation for Economic Co-operation and Development (OECD) has forecast that China could account for 40%[7] of science, technology, engineering and math (STEM) graduates in OECD and G20 countries by 2030.

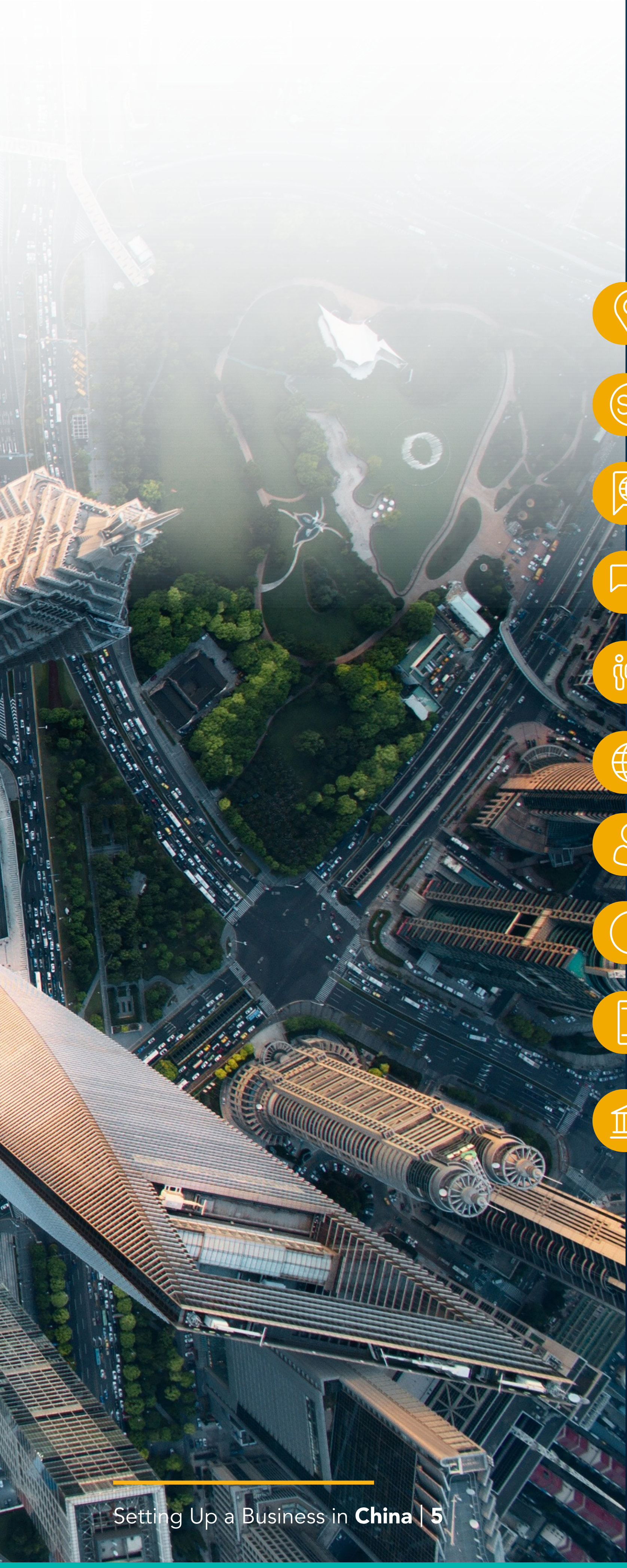
Strong focus on technology, R&D, and imports and exports

Thanks to its extensive manufacturing sector, China was the world's top exporter in 2019, with $3.38T USD in export sales[8]. It's also the world's second-largest importer, bringing in natural resources and consumer goods[8].

China is also the world's leading filer of applications for global patents, according to the World Intellectual Property Organization. China owns 85%, 49%, and 18% of worldwide patents in the automotive, aerospace, and advanced electronics sectors respectively[9].

Further proof of China's increasing influence is its vast, transformative infrastructure program. Its impressive network of railways, ports, highways, and pipelines span 65 countries from Asia to Europe via the Middle East and Africa.

[4] World Population Review
[5] National Bureau of Statistics of China
[6] Statista
[7] CSET
[8] Visual capitalist
[9] McKinsey



China at a glance

Capital
Beijing

Currency
Chinese Renminbi and Chinese Yuan

Business languages
Mandarin

Official languages
Mandarin

Population
1.4 billion[10]

GDP
$17.79 trillion

GDP per capita
$12,614[11]

Time zone
China Standard Time

Telephone country code
(+86)

Legal system
The Chinese legal system is a socialist legal system with uniquely Chinese characteristics; it's very different from common law and civil law systems.

[10] Worldometers
[11] World Bank

How to do business in China

On January 1, 2020, the Foreign Investment Law (FIL) replaced the previous system of Sino-foreign entities, which had been in place since the early 1990s. The FIL introduced simplified procedures, such as streamlined entity establishment, and has enabled foreign investors to enhance existing joint-venture arrangements and better safeguard their intellectual property rights. This has resulted in a fairer market environment between domestic and foreign players.

All foreign-invested enterprises (FIEs), whether joint ventures or wholly foreign-owned entities, are now treated as Chinese domestic entities, unless any laws and administrative regulations provide otherwise. However, certain sectors—listed in the nationwide Negative List—remain restricted or prohibited for foreign investors. Investing in a restricted sector will warrant additional conditions including caps on foreign shareholders and the requirement to appoint Chinese nationals to certain management positions. In 2020, most of these restrictive measures applied to the agriculture, education, and manufacturing sectors.

Investors can set up a business in China through a variety of entities, including:

Companies	A company can take the form of a limited liability company (LLC) or a company listed by shares.
Wholly Foreign Owned Enterprise (WFOE)	To set up an WFOE, the business's registered capital will be stipulated in the articles of association and registered with the relevant State Administration for Market Regulation (SAMR). The registered capital can be increased or decreased by shareholders. Investors can make capital contributions in cash or in kind—such as intellectual property rights, land-use rights, or other non-monetary assets. WFOEs can also be funded through shareholder loans, which are subject to approval by government authorities and should be accessed through a special loan account. WFOEs are required to have a board of directors. The chairperson of the board of directors or the general manager can be the legal representative. Smaller businesses or those with a small number of shareholders can appoint an executive director. The executive director or the general manager can be the legal representative.
Partnerships	Foreign investors can opt for general or limited partnerships. A general partnership enterprise consists of general partners who are jointly and individually liable for the debts of the partnership enterprise. A limited partnership enterprise consists of both general partners and limited partners, where the general partners are jointly and individually liable for the debts of the partnership. The limited partners are liable for the debts of the partnership enterprise only to the extent of their respective capital contribution. As a result, limited partnerships may be suitable for forming investment funds—the fund sponsor assuming the role of general partner and financial investors being limited partners. The foreign partners' identification documents must be notarized by the local notary public and legalized by a Chinese embassy or consulate. Once established, the partnership is able to apply for the necessary operating permits. Capital contributions to a partnership may be made in cash or in kind, with intellectual property rights, land-use rights, other property rights, or with labor service.
Representative offices	Representative offices are not permitted to conduct direct business activities. They may only carry out market research and marketing activities related to the products or services of the parent company and liaison activities. Representative offices may not hire local Chinese staff directly. Instead, they must do so through a designated human resources agency authorized to handle employees' contracts, welfare, and benefits. The representative office is expected to open a bank account in China and report any changes to the local SAMR. It's not possible to convert a representative office to another corporate form.

Taxation

China's fiscal system comprises 18 kinds of levies covering corporate, personal, and indirect taxes. Failure to comply can lead to substantial penalties. As a general rule, residents of China—individuals or entities—are taxed on worldwide income, while non-residents are taxed on their Chinese-sourced income. Chinese tax includes:

Type of tax	Rate
Corporate income tax	The standard corporate income tax rate is set at 25%, applied to resident enterprises and non-resident enterprises with income-generating establishments in China. The tax rate could be reduced to 15% if the business is engaged in a priority sector for the Chinese government—hi-tech, for example. Preferential rates are available for small and micro enterprises if certain requirements are met, and can reduce taxes to as low as 2.5%.
Salaries tax	Employment and pension income is taxed for individuals at a progressive rate between 2% and 17% on their net chargeable income after deductions and allowances, or at a standard rate of 15% on their net income, whichever is lower.
Dividend tax	Dividends paid to a non-resident company attract a 10% withholding tax unless the rate is reduced under a tax treaty. The legally established rate for dividends paid to resident taxpayers is 20%.
Value-added tax (VAT)	VAT applies to the sales and importation of goods as well as the provision of all kinds of services in or to China. VAT also applies to the provision of services from China to overseas, except where exemptions or zero-rates apply. The standard VAT rate is 13%, although certain categories are taxed at 9% (agricultural and utility items, transport, etc.) and 6% (financial services and insurance, IT, technology, consulting, etc.). A special rate of 3% is available for small-scale taxpayers if certain requirements are met. To address the complexity of daily maintenance in what is traditionally physical VAT invoicing, the state tax bureau launched a pilot electronic special VAT program in 2020 in selected provinces (and plans to extend it to all provinces by the end of 2022).
Real estate income tax	Real estate income tax is levied on the owners or users of properties and buildings at either 1.2% of the original value or 12% of the rental value.
Consumption tax	Applies to five categories of products, including products in which over consumption is harmful to health, social order, and the environment, e.g., tobacco, alcohol, firecrackers, and fireworks; luxury goods and non-necessities, such as precious jewelry and cosmetics; high-energy consumption and high-end products, like passenger cars and motorcycles; non-renewable and non-replaceable petroleum products, such as gasoline and diesel oil; and financially significant products, for example, motor vehicle tires.
Environmental protection tax	Enterprises and other businesses are subject to environmental protection tax on the discharge of air and water pollutants, solid waste, and noise within China and other marine areas under the country's jurisdiction. Tax rates vary depending on the province.
Stamp duty	Stamp duty is imposed on entities and individuals who conclude or receive taxable documents in China. The most common documents are business account books and contracts relating to purchases and sales, property leasing, cargo transportation, warehousing storage, loans, property insurance, and technology. Stamp duty is levied at a flat rate, ranging from 0.03% to 0.1% of the contract value, as well as fixed amounts per document.
Individual income tax	Individual income tax is imposed on Chinese and foreign nationals who either reside or earn income in China. Residents are subject to the tax on their worldwide income, while non-residents pay the tax on their China-sourced income. Individuals who have stayed in China for a total of 183 days or more in a calendar year are considered residents. Individual income tax is levied at a progressive rate from 3% to 45%. Income derived from interest, dividends, leasing, or transfer of property and incident income is taxed at a flat 20% rate.
Customs policy	Import duties rates depend on the nature of the goods and their country of origin, ranging from 0% up to 270% for certain goods imported from countries that haven't signed the Most Favoured Nation agreements with China. Preferential duty rates are applied to imported goods originating in countries or territories that have signed trade agreements with China. Goods originating from Hong Kong and Macau enjoy zero tariffs.

Tax incentives and other China tax policies

China offers a number of tax-friendly policies to incentivize foreign investments, such as preferential tax rates and tax holidays for so-called "encouraged" sectors. These include agriculture, forestry, animal husbandry and fisheries, software and integrated circuit industries, major infrastructure, certain environmental projects, and certain technology transfers. There are also tax deductions for companies that reinvest their profits in China.

Free trade zones

Free trade zones (FTZs), which offer lighter legal requirements as well as preferential tax and trade policies, were developed to attract foreign investment, stimulate trade, and bolster regional development. As of the end of 2020, China had 21 FTZs. In addition, Shenzhen FTZ, Guangzhou FTZ, and Zhuhai FTZ also belong to the Greater Bay Area in the Pearl River Delta, an important economic hub that offers tax incentives, including individual income tax refunds for foreign employees.

Free trade agreements

China has signed free trade and preferential trade agreements (FTAs) with various countries. These agreements include customs duty concessions for imports into China while affording Chinese exports preferential import duty rates. Note: Individual income tax is levied at a progressive rate from 3% to 45%. Income derived from interest, dividends, leasing, or transfer of property and incident income is taxed at a flat 20% rate.

Foreign exchange control

To reduce financial risk, strict foreign exchange controls in China are enforced by the State Administration of Foreign Exchange (SAFE), the main authority regulating the foreign exchange market. Current account transactions include foreign exchange receipts and payments related to goods traded, services, and unilateral transfers.

Foreign exchange in relation to foreign direct investment has been simplified since an amendment to China's enterprise law in 2018, and a capital verification audit report is no longer required by SAFE. As an alternative funding solution, foreign-invested enterprises can borrow from offshore intercompanies. Interest against a loan is subject to loan contract registration and tax clearance in the tax authority before settlement.

Employment regulations

1 Basic employment terms

Hiring is usually done through internet advertisements, although trade fairs and college campus recruitment campaigns are also useful. In addition to interviews, certain candidates are required to take technical
or English proficiency tests.

Normal business hours are from 9 a.m. to 6 p.m., Monday to Friday. Government offices are open between 9 a.m. and 5 p.m. On average, employees work eight hours a day up to a maximum of 44 hours a week. They're entitled to one full rest day in a seven-day period.

The minimum wage varies across the provinces, with capitals and major cities enjoying higher hourly wages than smaller towns and rural areas in the same province. In 2020, the highest monthly minimum wages were in Beijing, Shanghai, and Tianjin, where part-time employees received RMB 24, RMB 22 and RMB 20.8 per hour respectively. In contrast, workers in Yunnan earned as little as RMB 13 per hour.

Employees who work beyond eight hours a day are entitled to at least 1.5 times their basic salary for overtime worked. If employees work on a weekend, they are entitled either to double their regular wage or an additional day off during the week. Senior managers need to apply for flexible working hours which is not applicable to OT pay.

In the event of a dispute between the employer and employee, the parties can resort to mediation, go to court, or come to a mutual agreement. Many contracts stipulate arbitration by the local labor dispute arbitration committee.

Only women are protected from sexual harassment through the Protection of Rights and Interests of Women law, introduced in 1992 and amended in 2018. Female employees have the right to complain to their employer and the competent authority. The right to strike is not protected by law.

All employers must provide an individual written contract for full-time employees. Part-time workers are not required to have a written contract.

Employment contracts may be for a fixed or an open term. Fixed-term contracts can be renewed for two terms only in most cities. At the end of the two fixed terms, the employer is required to offer an open-term contract to the employee. Trial periods are usually included in the first employment contract.

Employees may resign by giving their employer 30 days' notice—or three days' during the trial period. Employers can unilaterally terminate employees' contracts only in certain circumstances, including failing the trial period, violation of company rules, professional misconduct, criminal liability, if the employee is simultaneously employed by another organization, affecting their performance, or if the employee fails to improve their performance following a formal warning. No severance pay is due for summary dismissals.

2 Social security system

Employers and employees are required to make mandatory contributions to the five funds that make up China's social insurance scheme—and mandatory contributions to a housing fund for Chinese employees only—including:

- Pension insurance
- Basic medical insurance
- Occupational injury insurance
- Unemployment insurance
- Maternity insurance

Social security contributions vary from location to location, however, the contribution base is capped at 300% of the average local salary and cannot be lower than 60%. Local governments update salary and minimum wage benchmarks every year.

In mid-2019, the Chinese government reduced the burden of pension contributions on employers from 20% to 16%. Total employer contributions can reach up to 40% of the employee's monthly wages, although rates vary throughout the country.

3 Foreign employees

Foreign employees, except those who have permanent resident status, are allowed to work in China only with permission from the relevant authorities. The foreign employee is expected to provide a number of documents, such as notarized and legalized higher-education diplomas, a notarized and legalized certificate of non-criminal record, as well as health check reports. When the employer's application has been approved, the foreign employee can officially apply for a work permit and a residence permit. Once granted, it allows multiple entries into the country for a certain period, usually a year.

Residents of Hong Kong, Macau, and Taiwan are allowed to work in China without immigration or employment registration. Chinese nationals with permanent residence abroad may be required to complete some type of employment registration, although this depends on the locality.

Foreign employees are required to pay into China's social insurance scheme. They can be exempt if they come from countries that have social insurance exemption agreements with China, of which there are 11, including Germany, South Korea, Denmark, Canada, Finland, Switzerland, the Netherlands, Spain, Luxembourg, Japan, and Serbia. An agreement with France has yet to be implemented.

How CSC can help you invest in China

Before entering the Chinese market, foreign investors should rely on professional advice to navigate these complex matters. Therefore, working with a trusted partner is essential. Investing in China requires careful business planning given the country's size, complex legislation, ever-evolving business environment, and culture and language barriers.

Who we are

CSC provides knowledge-based solutions for every phase of the business life cycle, helping businesses form entities, maintain compliance, execute transaction work, and support real estate, M&A, and other corporate transactions in hundreds of U.S. and international jurisdictions.

We work with some of the world's largest banks and commercial lenders to reduce risk in their lien portfolios, improve their transaction speeds, and create a secure environment for their financial processing needs. We also provide solutions for secure real estate document preparation and recording.

We are the trusted partner for 90% of the Fortune 500®, nearly 10,000 law firms, and more than 3,000 financial organizations. Headquartered in Wilmington, Delaware, USA, since 1899, we are a global company capable of doing business wherever our clients are—and we accomplish that by employing experts in every business we serve.

What we can do

CSC provides a wide range of financial and administrative services to clients operating and investing in the international business environment. We help companies expand globally, offering support with restructuring, outsourcing, and further developments.

We're experts in management and administration services to operational companies and holding structures across the globe. In China, our multilingual team understands local rules, culture, and customs, and how they affect legal and regulatory requirements for businesses in this exciting jurisdiction.

We also provide end-to-end support for alternative fund managers covering the formation, governance, and administration of alternative funds established in China and other offshore jurisdictions.

Entity solutions

- Corporate services
  - Formations and incorporations
  - Corporate secretary
  - Global treasury management
  - Domiciliation
  - Accounts and reporting
  - Director services
  - Tax Compliance services
- Special purpose vehicles (SPVs)
- Global subsidiary management
- Global payroll
- Private Client services

Fund solutions

- Fund administration
  - Private equity
  - Private debt
  - Real estate
  - Infrastructure
  - Fund of funds
  - Hedge fund
- Shadow accounting
- Outsourcing
  - Middle office outsourcing
  - Loan administration
  - Reconciliation
  - Treasury management
- Regulatory and governance
  - Anti-money laundering (AML) and Know Your Customer (KYC)
  - Regulatory reporting
- Technology and consulting

Digital brand and cyber risk

- Domain security
- Domain management
- Online brand protection

Business administration and compliance

- Transaction filings
  - Charitable filings

Capital markets

- Trustee services
  - Indenture and note trustee
  - Successor trustee
  - Bankruptcy, insolvency, and restructuring
  - Specialized Trustee services
  - Delaware Statutory Trust
- Escrow services
- Independent director
- Loan agency
  - Administrative and facility agent
  - Collateral and security agent
  - Depositary agent and account bank
- SPV services
  - Transaction structuring and compliance
  - Domiciliation and management

Appendix

Double taxation agreements

China has signed Avoidance of Double Taxation Agreements (DTAs), limited DTAs, and Exchange of Information Arrangements (EOI Arrangements) with 45 jurisdictions. A DTA is a treaty between two countries that aims to prevent double taxation and fiscal evasion. DTAs typically cover income tax, withholding tax, and residency. The benefits include reduced tax liability, increased certainty, and encouraged cross-border investment. Tax rules differ from jurisdiction to jurisdiction. While some aspects of taxation may be universal or largely similar across different tax systems, there will inevitably also be significant differences. Speak to your tax professionals for details.

Austria
Belarus
Belgium
Brunei
Cambodia
Canada
Czech Republic
Estonia
Finland
France
Georgia
Guernsey
Hungary
India
Indonesia
Ireland
Italy
Japan
Jersey
South Korea
Kuwait
Latvia
Liechtenstein
Luxembourg
Macau
Mainland China
Malaysia
Malta
Mexico
Netherlands
New Zealand
Pakistan
Portugal
Qatar
Romania
Russia
Saudi Arabia
Serbia
South Africa
Spain
Special Administrative Regions of the People's Republic of China (SAR)
Switzerland
Thailand
United Arab Emirates
United Kingdom
United States
Vietnam

CSC

Let's talk cscglobal.com

CLS04102025