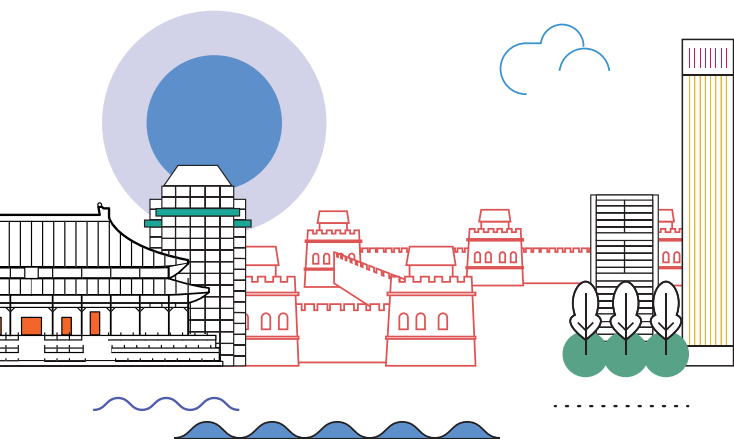


DOING BUSINESS GUIDE

SETTING UP YOUR BUSINESS IN CHINA: WHY AND HOW?



Publication date: January 2021





INTRODUCTORY NOTE

Despite a relatively difficult economic context and, since 2019, some challenges (trade war with the United States, Covid-19 pandemic), China is still on track to become the world's leading commercial power in 2030. Its emergence is now well established and, although growth is no longer in two figures, it is still strong, drawing its strength in even more diverse sectors. France and its products have a very positive image in China. In the competitive local environment, in the presence of both Chinese and international brands, it is more important than ever to be present in China in order to give yourself every chance of success.

Setting up business in China demands considerable long-term financial and human investment to which need to be added openness, long-term vision, patience and flexibility to fit into a changing environment, while paying special attention to legislation and intellectual property. This guide aims to give you an insight into the business rules and practices in China. We remain at your disposal to answer all your questions.



Catherine Song

General Manager China

catherine.song@pramex.com

CONTENTS

French foreign direct investments barometer in China.....	4
5 key questions to be better prepared	5
China in figures.....	6
10 good reasons to set up a business in China	8
Overview of the local/legal structures in China	12
Managing a subsidiary in China	14
France vs China: Employment Law and Tax overview	16
Sociocultural features	18
Our expertise	20
About us	22

FRENCH FOREIGN DIRECT INVESTMENTS BAROMETER IN CHINA

1st

Asian country in terms of international business set-ups

2,100

Number of French companies operating in China

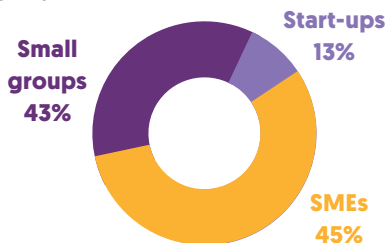


π Pramex Office

\$143 billion

The amount of foreign direct investment in China i.e. the second largest foreign investor after the United States and in front of Singapore. The country is the largest recipient in Asia

SMEs and intermediate-sized companies are the main driving forces behind projects to set up business in China.



Newly incorporated companies in China by type of French investors (2019)

The operations of internationalization mainly concern the following areas:



Per sectors / Key business areas (2019)

5 KEY QUESTIONS TO BE BETTER PREPARED

Is my company ready to operate in China?

If you have confirmed the market potential for your products or services, the city where you would like to set up and you have sufficient financial resources, your company is ready to go ahead. Remember that the Chinese market is very competitive. At the same time, establishing a company in China and making it 100% operational takes time (5-6 months). This timetable will be a point to consider in your deployment project.

Do I need to travel to China for the opening of my company?

It is possible to open a company remotely until the business licence is obtained. However, since 2020, with the new China Central Bank guidelines, banks are more demanding and most require a physical meeting with the legal representative of the company before opening any bank accounts.

Is there a minimum capital to open my company?

With the exception of a few so-called sensitive or specific sectors, there are no minimum capital requirements in China. However, it is necessary to forecast operating costs for the first years of the subsidiary's business. Indeed, the authorities will look at the project's consistency between the registered capital and the activities concerned and, secondly, exchange controls do not allow a current account between the parent company and the subsidiary in China.

What are administrative, accounting obligations, etc.?

From the start-up and the opening of accounts with the various local administrative authorities (tax office, human resources, etc.), the company must file monthly, quarterly and yearly returns: the monthly VAT and IIT (Individual Income Tax) return and the quarterly CIT (Corporate Income Tax) return. An annual inspection after the annual audit and the annual CIT return are also mandatory.

What human resources aspects should be taken into consideration?

The issue of human resources remains key to the success of your project in China. Finding the right managerial profiles is key and comes at a cost in a competitive environment. Besides the regular inflation that affects the rapid increase in wages, payroll taxes remain very high in China (35 to 40% of the salary depending on the city). Finally, it is important to note that Chinese labour law is very protective for employees and it is difficult to dismiss someone without justifiable reason.

Contact Pramex China



205 Mao Ming South Road
Ruijin Building, Room 2308,
Shanghai 200020, P.R.C.
+86 (21) 6841 2802

CHINA IN FIGURES

KEY FIGURES



2nd
global
economy

13.45%
of world exports
(1st exporter)

2nd
importer in the world

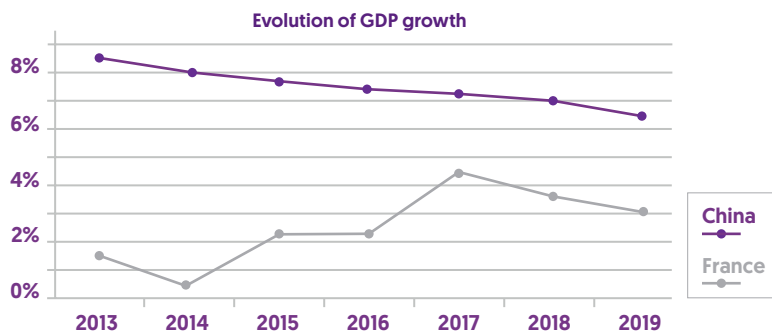
\$1769bn
FDI stock in 2019

2019



Country ranking (GDP)	7	2
GDP (in billions of \$)	2,778	14393
GDP growth (%)	1.5	6.1
Population (in M)	67	1,398
Standard & Poor's sovereign risk	AA	A+
Ease of doing business [1 – 189]	32	31

Source: World Bank



THE KEY STRENGTHS

- Growing economy, internal market
- Integrated value chains, from raw materials to finished products
- Several partners across the world
- Strong human potential

10 GOOD REASONS TO SET UP A BUSINESS IN CHINA



A PRIVILEGED ECONOMIC POSITION

- 2nd largest economy in the world in 2019
- 2nd destination for global FDI flows
- 2nd largest supplier to France
- 8th foreign investor in France in 2018
- France represents the No. 1 European destination for Chinese investment
- 2,100 French companies in China, generating over € 33 billion of FDI stock and employing 480,000 people in the Chinese territory

Sources: World Bank, Doing Business rankings, economic services



CONSIDERABLE MARKET POTENTIAL

- Average size of the middle class (300 million Chinese), growing needs, informed consumers
- The ongoing urbanisation (urbanisation rate of 60.6% in 2019 expected to rise to 70% in 2035)
- The development of secondary and tertiary cities (with a population of over 5 and 10 million)
- Growth sectors: food processing, medical, transportation, renewable energy, services, etc.

Source: Treasury



A LARGE NUMBER OF RESOURCES

- Often a leading supplier of raw materials, components, ingredients, etc.
- A well-trained workforce with 7 million new Chinese graduates



EFFICIENT TRANSPORT INFRASTRUCTURE

- 6 of the 10 largest ports in the world are in China (annual container traffic)
- Territorial coverage by road networks and hubs, rail (more than 100,000 km of tracks, including high speed), air (more than 200 airports), river
- Direct air links with France several times a day, from Beijing, Shanghai and Guangzhou
- Distances are long which demands anticipation when it comes to deadlines and costs



A MAJOR COUNTRY IN THE ASIAN AND GLOBAL ECOSYSTEM

- Despite the obstacles and difficulties encountered in 2019 and 2020, China remains the most dynamic economy in Asia and continues to grow
- A free trade agreement was signed in 2020 - RCEP- in the Asia-Pacific region between the ten ASEAN countries and five of their FTA partners - Australia, China, Japan, New Zealand and South Korea. This is the first multilateral free trade agreement to include China

6

A PLANNED ECONOMY

- Five-year economic development plans with clear guidelines for priority sectors
- Political continuity contributing, over time, to economic development
- A 13th plan (2016-2020) focusing on innovation, services and the environment
- A 14th plan (2021-2025) has just been adopted in line with the previous one

8

A CONNECTED COUNTRY

- 854 million Internet users, over 60% are connected through their mobile phones
- 200 million internet shoppers and the leading global market for e-commerce to Europe and the US
- Specificities in the ecosystem of the Chinese Internet with many foreign websites blocked and undersized network infrastructure (slow connection)

10

A LEGISLATIVE AND REGULATORY FRAMEWORK WHICH IS MORE STANDARDISED

- The legislative and regulatory framework, although it is still evolving, has progressed considerably since the entry of China into the WTO (2001)
- Since January 1st, 2020, foreign direct investment in China is subject to new regulations - Law on foreign direct investment - granting foreign-owned enterprises and local businesses a similar legal framework and almost equal treatment on the market



A LARGE FRENCH-SPEAKING COMMUNITY

- The largest French community in Asia, estimated at 20,000 French nationals in Shanghai, 8,000 in Beijing, nearly 5,000 in Guangzhou and elsewhere in China
- French and international schools in the country's major cities
- An solid and dynamic network of associations: French Chamber of Commerce in China, CCE, JEF, UFE, French Tech, etc.



A SKILLED POPULATION

- "Gaokao" success rate (equivalent of the A-levels): 70%
- The best Chinese universities: Beijing University, Tsinghua University, Shanghai Jiaotong University, Fudan, etc.
- Some French business schools operate in China (EM Lyon, SKEMA Business School) and many French-Chinese programs (HEC, Paris-Tech, etc.)
- 30,072 Chinese students in France in 2018
- However, there is little technical training

OVERVIEW OF THE LOCAL/LEGAL STRUCTURES IN CHINA

FOREIGN INVESTED ENTERPRISE (FIE)

FIEs are limited liability entities, governed by Chinese law, with fewer than 50 shareholders. According to their activities and their corporate aim, different licences are issued: **Manufacturing / Trade or Service.**

One regulation, two structures:

- A limited liability company 100% owned by at least one foreign investor (formerly WFOE)
- A company owned by at least 2 partners - one foreigner and a Chinese citizen (formerly JV). Since the new law on FDIs, the foreign partner is no longer required to hold at least 25% of the shares and the local Chinese partner may be a natural or legal person

REPRESENTATIVE OFFICE (RO)

The RO takes charge of promoting and monitoring the market for the parent company.

- It cannot engage in money-making activities. The incorporation process takes 2 to 4 months.
- It is not possible to transform a representative office into an FIE

STAGES IN THE CREATION OF A COMPANY IN CHINA

For an FIE

1

Application for the company's name in Chinese

1 TO 2 WEEKS

2

Application for approval for projects in restricted areas if necessary

2 WEEKS

2 a

"Environmental Impact Study" for industrial projects, depending on the installation site

4 TO 6 WEEKS

3

Application for a *Business Licence*: company's official incorporation

2 TO 4 WEEKS

4

Post-creation registration: (tax number, exchange control, etc.)

2 TO 3 WEEKS

5

Opening of a bank account and capital injection

4 WEEKS

6

Finalisation of "post-creation" registrations (VAT status, billing authorisations, etc.)

4 WEEKS



Overall timeline approx.
5 months

Depending on the location, formalities may differ.

MANAGING A SUBSIDIARY IN CHINA

BANK AND EXCHANGE CONTROL



Opening of a bank account

Passport or presence of a legal representative required, depending on the bank

Deadlines and procedures vary depending on the bank





Exchange control

Currency transactions (in/out) remain subject to exchange control, even if they are regularly relaxed.

Chinese banks act as the "armed wing" of SAFE [*State Administration for Foreign Exchange*], the Chinese exchange control body

Operating through a current account (cash advances) between the parent company abroad / and the subsidiary in China is not possible

ESTIMATED COSTS RELATED TO THE MANAGEMENT OF A SUBSIDIARY

Data in euros (€)			Shanghai
Average annual cost per sqm of office space	526	591	↗ 12%
Average gross annual salary of a Sales Director	105,000	256,163	↗ 144%
Legal gross minimum hourly wage	10.15	3.85	↘ -62%
Fastfood menu	9	5.4	↘ -40%
Monthly public transport subscription cost	75	27	↘ -64%
Monthly internet subscription 10Mbps	27	14	↗ 48%
Prepaid mobile local rate - 1mn	0.23	0.03	↘ -87%
Monthly rent (2-bedroom downtown apartment)	2,655	4,028	↗ 52%



01/11/2021: 1 CNY = 0.13 EUR

Sources: Robert Walters - Salary survey 2020
Le coût de l'Expat - Banque Populaire

FRANCE VS CHINA: EMPLOYMENT LAW AND TAX OVERVIEW

EMPLOYMENT LAW










		
Contributions		
Employer contributions	35% to 45%	35 to 40 %
Employee contributions	20%	20%
Legal weekly working time	35 hours	40 hours
Paid leave in days	30	5 minimum

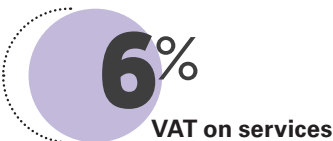
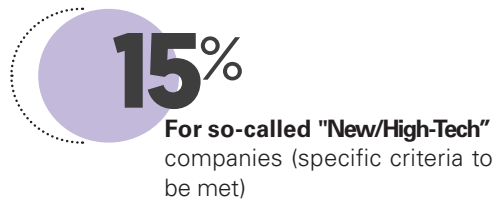
- Other taxes, surtaxes and stamp duties shall apply during the life of the company
- A French-Chinese tax agreement to avoid double taxation and prevent tax evasion in terms of income tax came into force in January 2015, replacing the 1984 agreement.
- Possible deductions for children's education, hospitalisation, etc. (since January 2019)
- Income tax withheld monthly at source
- Wages/Income may be paid abroad and declared in China for tax residents in China (at least 183 days of residency in China during a fiscal year)
- There are few tax deductions open to foreigners: e.g. *"housing allowance"* and *"school allowance"*

TAXATION IN CHINA

Income tax (a progressive rate from 5,000 RMB / month)

Monthly taxable income between	Tax
5,000 RMB to 8,000 RMB	 3%
8,000 RMB to 17,000 RMB	 10%
17,000 RMB to 30,000 RMB	 20%
30,000 RMB to 40,000 RMB	 25%
40,000 RMB to 60,000 RMB	 30%
60,000 RMB to 85,000 RMB	 35%
More than 85,000 RMB	 45%

Corporate tax



SOCIOCULTURAL FEATURES

BUSINESS BEHAVIOUR AND LIFESTYLE



The national language is Mandarin spoken throughout China and by the entire population. There are several dialects, including, for example, Cantonese. Even when English is spoken, some Chinese words are always appreciated



The most popular social network in China is currently WeChat. It includes all the features of Facebook and Messenger, Paypal, and a variety of other utilities. WeChat is used by individuals, businesses and celebrities and can also host public accounts that generate content for promotional purposes



The use of business cards, which used to be systematic, is gradually disappearing in favour of WeChat! It is common to exchange profiles to continue discussions, even professional, through this application



Meals are an important moment in negotiation with Chinese buyers, customers and partners. This contributes to building your "guanxi", your network of contacts in China

LABOUR CODE



Labour law was introduced in 2008. It governs working time, protection of workers, employer's rights, etc.



There are no collective agreements. An "employee handbook" can be implemented: it acts as the collective agreement and internal regulations

WORKING HOURS

40

**Hours of work
per week**

5

**Minimum of
days paid annual
leave**

11

**Public holidays
per year**

IMPORTANT SPECIFICATIONS



VISA: The application procedure for work visas for foreigners is complex and subject to criteria such as professional experience (minimum 2 years) or level of education (minimum bachelor degree level). If applying for an accompanying partner, it is necessary to be married to request a “family” visa.

Chinese employees must obtain a visa (or equivalent) for travel to most countries abroad, including Hong Kong, Taiwan and Macau.

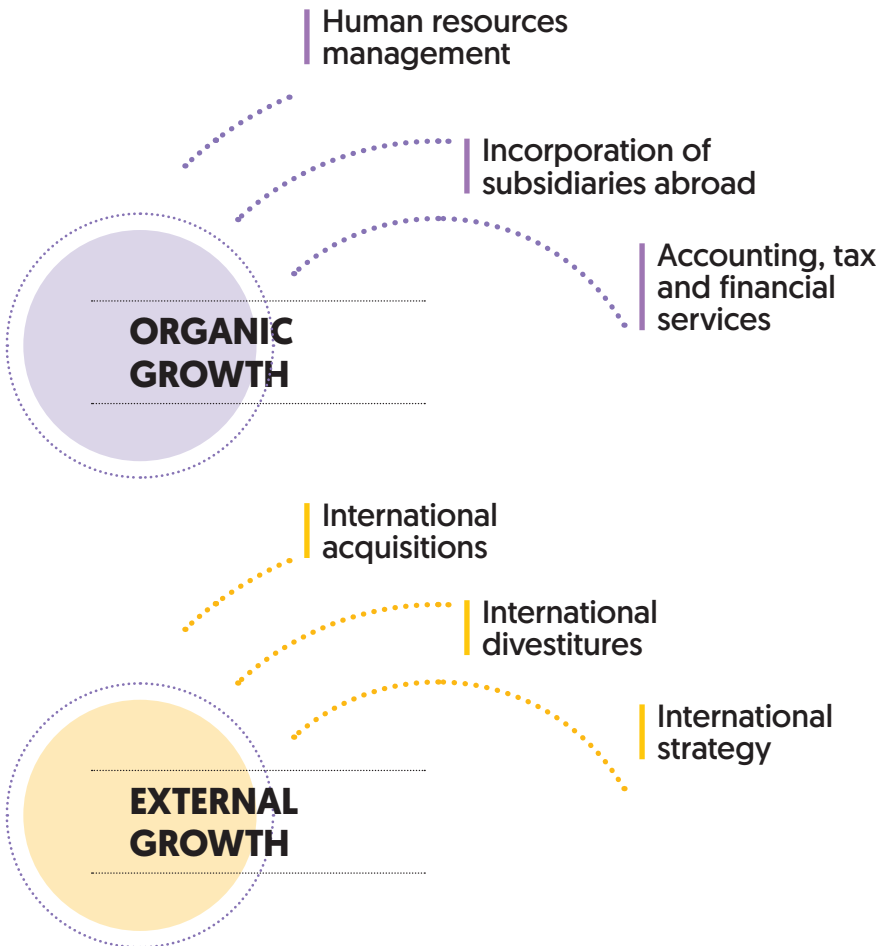


China is a highly decentralised country organised into provinces, cities, districts, counties, etc. Depending on the type of decisions to be taken, different levels of government will be contacted, with ministries in Beijing representing the highest level of decision-making

OUR EXPERTISE

THE SPECIALIST IN SETTING-UP SUBSIDIARIES ABROAD

No. 1 IN OUTSOURCED FINANCIAL, HR & LEGAL CORPORATE SERVICES FOR START-UPS, SMES AND SMALL GROUPS





The specialist in creating subsidiaries abroad

We manage over **800 subsidiaries of French companies abroad**.



Multiculturalism

Multicultural experts with perfect understanding of the French environment and local characteristics.



Your international partner

We support you in **Europe, the United States, Brazil, Asia and North Africa**.



A one-stop shop

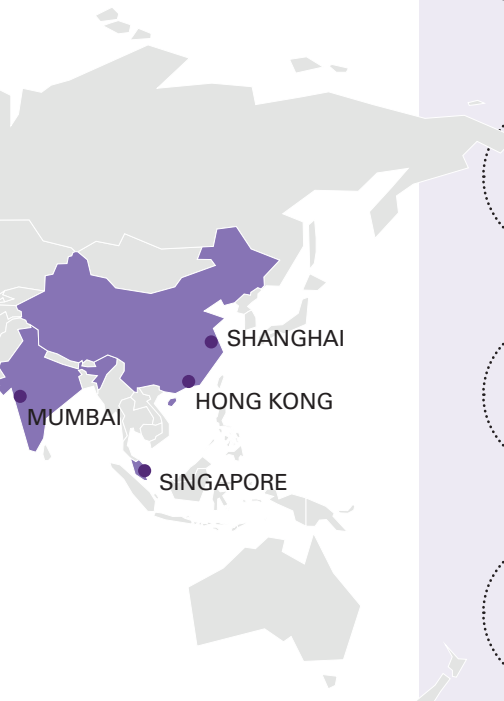
To assist you in the **administration of your subsidiary** (accounting, tax, HR, reporting, insurance, etc.).

ABOUT US

THE FRENCH LEADING CONSULTING FIRM FOR INTERNATIONAL DEVELOPMENT



Subsidiary of  **GROUPE BPCE**, a cooperative bank and insurance group present in more than 40 countries and 2nd leading bank in France.



+1,000
companies supported annually

13
countries

17
offices

130
bicultural experts and
professionals worldwide

OUR DISTRIBUTION NETWORKS



Because you cannot improvise
when it comes to setting-up operations abroad



**Contact in
China**

205 Mao Ming South Road
Ruijin Building, Room 2308,
Shanghai 200020, P.R.C.
+86 (21) 6841 2802

The contact information is enclosed in a rectangular box with a black border. The top part of the box contains a line-art icon of three buildings of varying heights and a small cloud. Below the icon, the text "Contact in China" is written in a bold, dark blue font. The bottom part of the box has a light purple background and contains the address and phone number in a dark blue font.

www.pramex.com

Warning

© 2021 Pramex International. All rights reserved. This document is the property of Pramex International. Any reproduction, translation or adaptation, whether complete or partial, whatever the process, material or media, is strictly prohibited without the permission of Pramex International. Pramex International disclaims any responsibility for the economic information contained in this publication and cannot be held responsible for any decision taken on the basis of such information. The only guarantees related to Pramex International services are those which, where applicable, are expressly provided in the statements of responsibility appended to the services. Nothing herein should be construed as creating an additional guarantee.