Doing business in China

Foreign direct investment (FDI) in China can be traced back to the 1950s but it wasn't until 1979 that China 'officially' opened its doors to the world. It has since experienced a remarkable change in the fabric of its economy, with FDI inflows growing rapidly making it the largest FDI host country among the developing world.

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In the early stages inflow of investment was relatively slow in the Far East, but approaching the 21st century economic circumstances and political incentives boosted the inflow of foreign investment considerably. After going through a period of 'experimentation' between '79 and '83 and rapid growth in the 90s, China is experiencing a period of stability and change in the 21st century since joining the World Trade Organisation (WTO) after a 15-year negotiation marathon.

The WTO agreement had a significant impact on FDI in China. Foreign firms are now granted direct trading rights for the first time in history allowing them to import and export themselves without going through a Chinese state-owned trading firm as the middleman.

Industrial tariffs are also being reduced, but the most promising development since the WTO agreement is a renewed trust in the country from the international market.

- ***China has been the top of the FDI confidence index since 2002***

FDI has brought capital, advanced technologies and business to China since it opened its doors for business over three decades ago. This international support has seen the country being propelled to prosperity, with unique investment opportunities being generated by the hour in a country where the only way is up.

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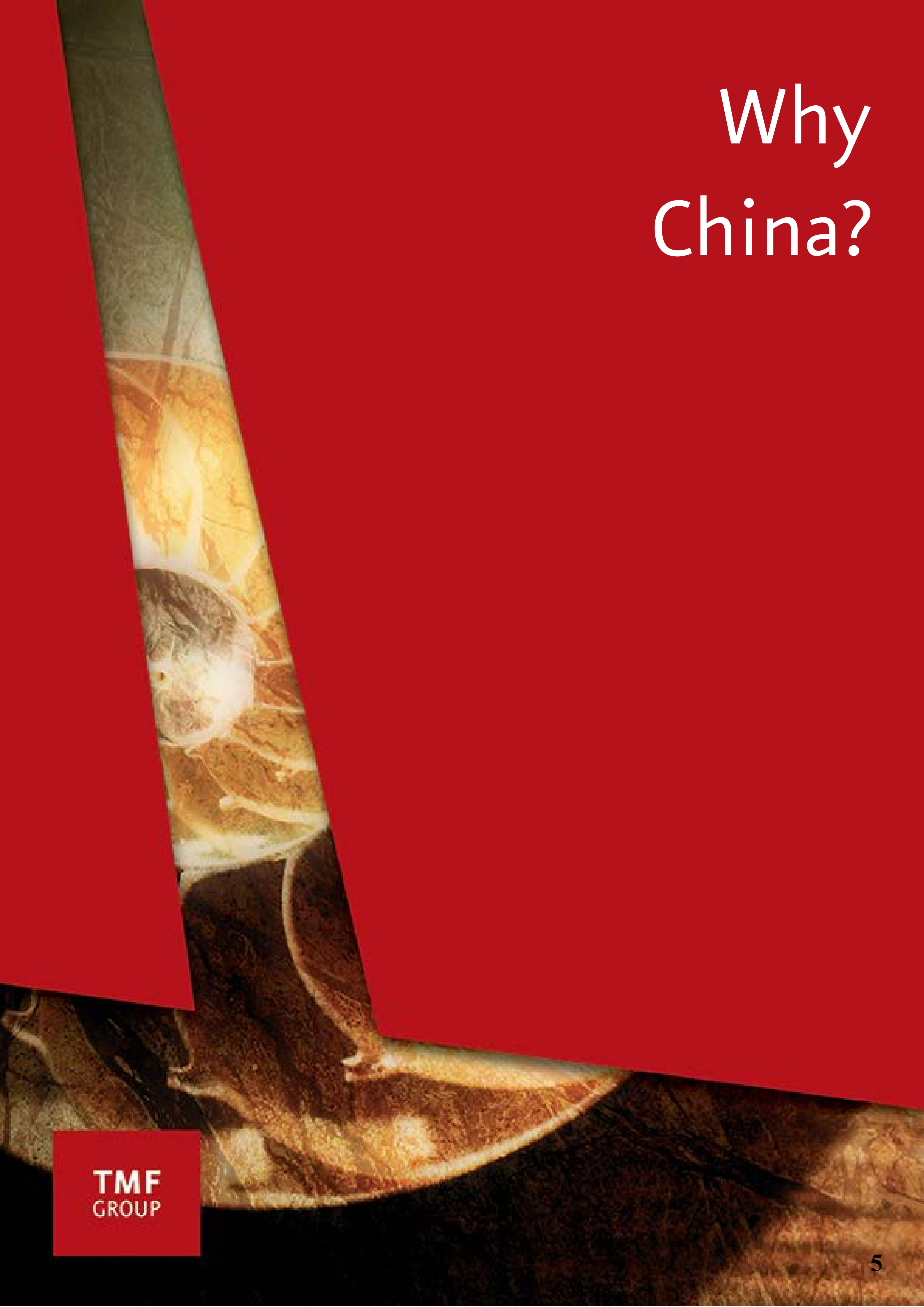
Why China?



Why China?

To comprehend the potential for investment in China you must first understand the scalability.

- *Some 19 per cent of the world's population live in China in a country the size of the entire continent of Europe.*
- *The economy is the second biggest in the world behind USA, with a nominal GDP larger than Japan, Germany, France and the United Kingdom.*
- *34 per cent of companies say their outlook for China is more positive than in 2010*
- *China's commerce ministry is aiming for $120 billion a year on average in FDI over the next four years.*
- *China approved the establishment of 27,712 foreign-invested companies in 2011, up 1.12 percent year-on-year.*

Although this may seem overwhelming, recent research suggests that China is becoming a collection of individual markets rather than being a single vast economy. Instead of continuing on a path of rapid industrial development policy makers are attempting to create a sustainable consumer base model which could become the greatest consumption story in modern history.

- *The country's service industry registered faster growth and a larger amount of FDI than the manufacturing sector.*

With GDP rising and personal wealth abundant this seems like a plausible equation. A vast brand-loyal market hungry for international products and services is emerging in China and whereas in the past we rushed to take things from them, the tables have turned as they start to demand things from us.

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Why TMF?

Why TMF?

Despite the immense level of opportunities, navigating the legal, accounting and tax environments in China is a daunting task. Business licenses and reporting requirements across 33 Chinese provinces and administrative departments represents a huge drain on any management team's time.

But TMF can help, and here's why:

- *We have eight offices across China, and plan to open a further 17 by 2014.*
- *TMF Group has the local knowledge and experience to ensure your expansion plans stay on track.*
- *We have core accounting, corporate secretarial and HR & Payroll services to help you navigate complicated jurisdictions.*
- *Our China operations provide local insight and execution for companies looking to enter and expand across the country.*
- *We understand the details of how to establish local companies or branches, including the best corporate structures.*
- *All of our services are dedicated to helping you reduce the risks and costs of your China expansion.*
- *We have 35,000 clients including over 50 per cent of Fortune 500 & FTSE 250 companies.*

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Accounting

Accounting

Accounting in China is still very much a work in progress. There has yet been a complete transition between simply reporting inventories in a fully state-owned era to detailing profits and performance as a developed economy.

There has been a shift towards the globally recognised International Financial Reporting Standards (IFRS), but some key variations still remain:

- *Reporting debtors or creditors on transactions through the balance sheet can reflect the old centrally-owned approach.*
- *Many items are not fully tax deductable in the same way an inbound investor may expect.*
- *Chinese authorities paying close attention to abuses around inter-company cross border billings.*
- *Only straight line amortisation/depreciation of capitalised assets allowed on the balance sheet.*
- *Assets often must be stated at historical purchase or investment value.*
- *Undeveloped rules in the case of consolidating group companies within China.*
- *Varied application of the accountant standards.*

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Corporate secretarial and compliance services

Corporate secretarial and compliance services

It is of vital importance that companies enter China with a corporate structure that is well established to ensure local administrative and taxation authorities are kept happy. There are several options open for companies and ensuring that the right one is selected and it is properly set up is crucial to avoid local compliance upsets.

What types of business structures are available in China?

- ***Chinese joint venture***

  Joint ventures offer a cheap way of entering the Chinese market and there is potential for growth, but due diligence of what a Chinese partner brings to a JV is paramount. There are three steps to setting up a JV, which starts with agreeing the nature and terms of the commercial agreement and seeking official sanction. The Ministry of Commerce must then approve and a business license must be obtained.

- ***Wholly Foreign Owned Enterprises (WFOE)***

  A WFOE is a Limited Liability Company wholly owned by the foreign investor which means the involvement of a mainland Chinese investor is not required. There are broadly four types of WFOE depending on sector and investors are required to inject a minimum amount of funds from the direct parent investor company into the WFOE.

- ***China Representative office***

  The Representative Office choice can put many limits on the activities permitted in China. That being said, this option can present a practical first option for your enterprise. If you are determined this is the right choice the first course of action is appointing a local agent, before you register as a Representative Office with the relevant Ministry of Commerce and obtain a Business Certificate from the local Administration of Industry and Commerce board.

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Payroll and HR

Payroll and HR

In a foreign regulatory environment administering payroll and human resource tasks should be focussed on risk reduction and cost control. In China employment laws are imposed at both local and provincial level, and failure to implement the correct procedures can result in intensive investigations from the authorities, and heavy penalties for non-compliance.

Here are some things to consider:

- *Develop an efficient and locally compliant payroll solution.*
- *Registering as part of local social security authorities.*
- *Perform payroll calculations which include benefits computations, and payslips.*
- *Making payments in local currency in accordance with local regulations.*
- *Providing additional income tax computations and benefits payments for expatriate staff.*
- *Submitting all staff payments and deductions reports to the relevant local authorities.*
- *Settling all annual social security and housing fund payments.*

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