# EU SME Centre:
# Ways to Enter the Chinese Market

# Contents



All exchange rates in this report are calculated on the basis of: EUR 1 = CNY 7.80 = USD 1.11

All sources used in this report can be found in the EU SME Centre report **Ways to Enter the Chinese Market**. This report was prepared by the **China-Britain Business Council (www.cbbc.org)**.

# 1. Preliminary Remarks

## Preliminary Remarks

China has issued and amended a range of laws and regulations to attract foreign investment in recent years. The primary laws to focus on are:

- The Foreign Investment Law of the People's Republic of China;
- The Regulations of the People's Republic of China on the Administration of Import and Export of Technologies;
- The Special Administrative Measures for the Access of Foreign Investment [Negative List], the Negative List for the Pilot Free Trade Zone, and the Catalogue of Industries for Encouraging Foreign Investment.

Key **areas of compliance**:

- Protection of personal privacy and data, and cybersecurity compliance;
- Anti-commercial bribery, anti-unfair competition, and anti-monopoly policy compliance;
- Environmental and health and safety compliance;
- Tax compliance;
- Employment compliance:
- Intellectual property (“IP”) protection;
- Due diligence towards Chinese partners or suppliers.

# Preliminary Remarks

- Without **patent, trademark, or copyright registration and protection** in China, it is not possible to file complaints with the relevant authorities. Registration of IP rights in other jurisdictions does not necessarily enable the extension of these IP rights to China.

- China is a "**first-to-file**" country. There are **two ways for foreign applicants to apply for a trademark**:
  - National registration with the Trademark Office of China at the National Intellectual Property Administration;
  - International registration via the **World Intellectual Property Organization ("WIPO")** under the Madrid Protocol.

- Trademark registration usually takes **12-14 months** and is valid for **10 years**.

- China also has a "first-to-file" system for **inventions, designs, and utility models**. Invention patents provide protection for a maximum period of **20 years**. Utility models and design patents both provide protection for a maximum of **10 years**.

- **Copyright protection** is obtained automatically without the need for registration, however, China provides voluntary registration systems.

- Foreign rights owners usually authorise local law firms to record copyright at the Copyright Protection Center of China.

# Preliminary Remarks

- There are three main **formal routes for IP enforcement** in China:
  - Administrative enforcement (including customs authorities)
  - Civil litigation
  - Criminal enforcement

- It is possible to protect IP online in China using **various platforms' own interfaces** (e.g. Alibaba, JD.com, WeChat.)

- The **circulation of foreign currency is** strictly controlled both across China's borders and within its territory.

- The movement of **foreign exchange** into and out of China is regulated using a "managed float" system, managed by the **People's Bank of China** and the **State Administration of Foreign Exchange**.

- **Hong Kong** went into recession in the third quarter of 2019 for the first time in a decade, but will remain a key platform for doing business with China in the long run.

- **Pilot Free Trade Zones** have made administrative reforms in the areas of investment, finance, foreign trade, and filing supervision, so as to create a more business-friendly environment.

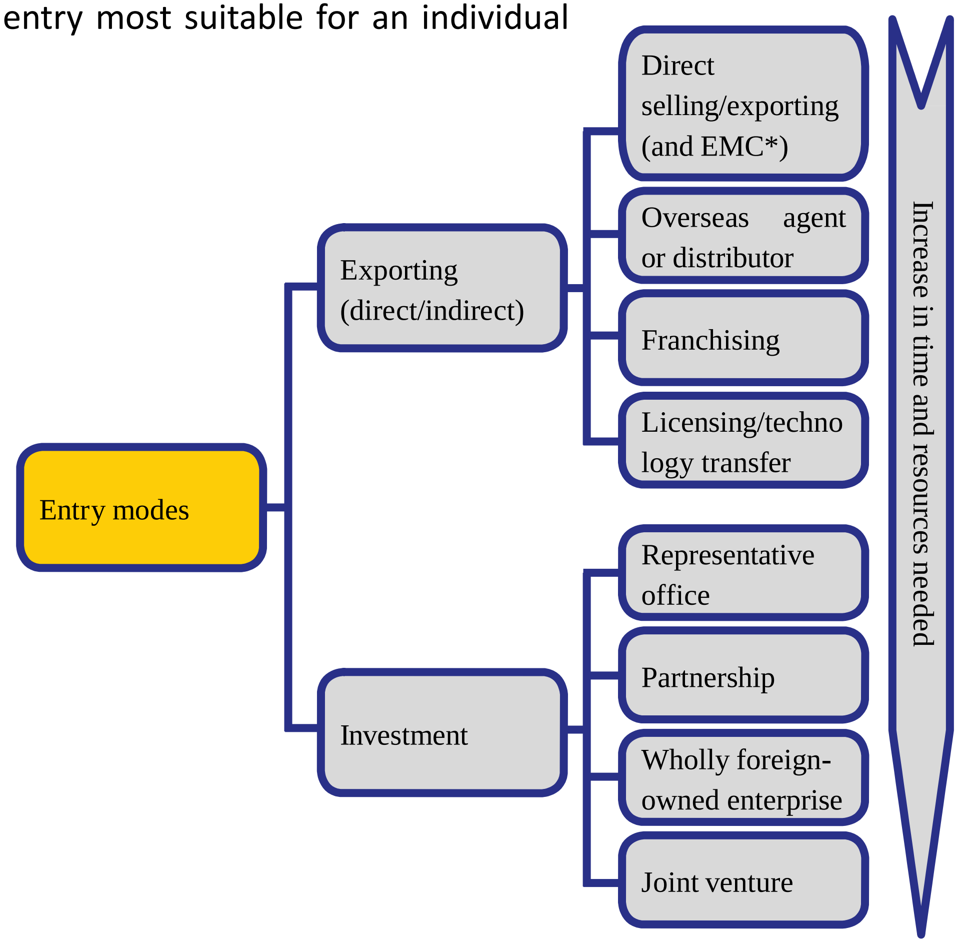
# 2. Broad methods of market entry

# Broad methods of market entry

- The **primary methods of entering the China market** are:
  - **Direct exporting**: Direct exporting refers to the exporting of goods or services from one country to another, and sending them directly to the final customer.
  - **Indirect exporting (using an intermediary)**: Indirect exporting is the selling of goods to an intermediary that focuses on the enterprise's target market by selling the products to customers.
  - Investing directly: Investing directly involves the establishment of a legal entity in another country for the purpose of expanding operations and/or production.
  - **Cross-border E-commerce (using a direct shipping model)**: The cross-border E-commerce direct shipping model is used for orders that are arranged and shipped by international retailers and/or brands directly via their commercial websites. These goods are then transported to consumers after receiving customs clearance. This model also requires that these goods feature on the Positive List of Cross-border E-commerce Retail Imported Commodities.
  - **Cross-border E-commerce (using a bonded warehouse model)**: The cross-border E-commerce bonded warehouse model is used for orders that are shipped from bonded warehouses directly to consumers after customs clearance. This model is suited to products which appear in the Positive List of Cross-border E-commerce Retail Imported Commodities and tends to reduce delivery times, to the benefit of the online shopping experience.

# Broad methods of market entry

- Considerations regarding the model of entry most suitable for an individual company's business plan include:
  - The size of the enterprise;
  - The nature of its products;
  - Previous export experience and expertise;
  - Business conditions and regulations in China (both exporting and investment requirements);
  - The need for on-the-ground representation (such as marketing and after-sales services);
  - The need for control of the product and IP rights protection;
  - The time and resources available to the company.



# 3. Exporting

# Exporting

- **Indirect exporting:**
  - One method of entering the China market is through an **intermediary** (i.e. an agent or distributor) based in China. An agent acts as a company's direct representative and is usually paid a specified management fee and/or a commission to represent and sell a product in China. An agent works more closely with the company, whereas a distributor works more closely with the company's customers.
  - For **small and medium-sized companies**, an easier way to enter the China market is through a respected agent or distributor. Localised agents possess the knowledge and contacts to promote foreign products and overcome barriers, such as those created by language and cultural differences.
  - **Sales agents and distributors** can assist in tracking policy and regulation updates (both locally and nationally), collecting market data, and quickly responding to change. Effectively, they are an organisation's eyes and ears on the ground.
  - Finding a **dedicated, reliable, professional, and credit-worthy agent or distributor** requires effort. Embassies and national chambers of commerce are often aware of agents who offer such services, hence organisations are advised to check whether the commercial department of their embassy or chamber of commerce has a relationship with any specialised agents. Likewise, many agents and distributors will advertise their services online and can be met at relevant trade shows. In China, an agent cannot be hired as an employee, but the agent can enter into a service contract if they have their own company.

# Exporting

- **Direct exporting:**
  - Direct exporting refers either to the **shipment of goods or provision of services across borders or to the transfer of technology from one country to another directly to the end customer**.
  - Exporting of goods to China always involves the engagement of a company with a licence for importing/exporting according to Chinese law.
  - Practically speaking, direct export is best suited for **products of a smaller quantity that do not require a developed distribution network**, or for the **export of services or technology**. EU SMEs can export through cross-border E-commerce channels to China, which enables them to sell directly to Chinese consumers without going through distributors as they would with the general trade model. Cross-border E-commerce provide two routes to EU SMEs: direct shipping from overseas to Chinese consumers ("B2C") and bonded importation ("B2B2C"). The former model requires relatively low up-front investment in bulk shipping and inventory stocking while as the latter model requires that inventory should be shipped and stocked in warehouses within free trade zones in China. Both routes require that the imported commodities should be on the **Positive List of Cross-border E-commerce Retail Imported Commodities**.
  - Higher gains come from **cutting out any middlemen** (such as intermediaries and agents) and **avoiding the costs of setting up in China**. However, such companies also have responsibility for doing their own market research and meeting all necessary administrative requirements: ensuring that their goods, services, and technology can enter the market, meeting relevant standards and certification requirements, and meeting necessary labelling and licensing requirements. Companies must also work with freight forwarders and banks, as well as manage customs procedures (if not handled by the Chinese import/export company)

# 4. Licensing and franchising

# Licensing and franchising

- Licensing is **permission granted by an exclusive owner of IP rights**, such as technology or patents, trademarked content, and copyrighted content, to another party to use this IP on the basis of agreed-upon terms and conditions, such as payment of royalties, while the IP owner retains ownership of the IP.
- There are three types of licensing: **an exclusive licence, a sole licence, and a non-exclusive licence**. An exclusive licence is only granted to a single licensee, and excludes the holder from using the IP and from granting licences to any other person. A sole licence is only granted to one licensee and excludes the holder from granting licences to any other person, but does not exclude the holder from using the IP. A non-exclusive licence does not exclude the holder from using the IP nor from granting licences to any other person.

- **Licensing IP** can cover several areas:
  - Technology transfer: including patents (innovation), designs, software, and know-how;
  - Copyrights: original works of authorship fixed in any tangible form;
  - Trademarks: words, names, or symbols identifying goods made or sold that distinguish them from others.

- **Only enterprises may act as franchisors.** A franchisor must own a developed business that can provide a long-term commitment, technological support, business training, and other services.

- According to Article 2 of the Regulations of the People's Republic of China on the Administration of Import and Export of Technologies, technology transfer includes the assignment of patent rights or rights to apply for patents, the licensing of rights to implement patents, the assignment of technical know-how, and technical service.

# Licensing and franchising

- According to the **Regulations of Recording Patent Licensing Contracts of the People's Republic of China**, **relevant parties** should record their contract with the **National Intellectual Property Administration** within **three months of a contract taking effect**. When recording a contract, companies must provide CNIPA with the following documentation:
  - Patent licensing contract application form;
  - Patent licensing contract;
  - Patent certificate;
  - Identification documents of the licensor;
  - Identification documents of the licensee;
  - Power of attorney details.

- Furthermore, the **patent licensing contract** itself must include the following information:
  - A clear description of the patent, such as the name, number, application date, and authorisation date;
  - Name and address of the licensor and licensee;
  - Territorial scope of use;
  - Licensing period;
  - Type of licensing applicable;
  - Royalties to be paid and terms of payment;
  - A non-disclosure agreement;
  - Remedies for breaches of contract and claims for damages;
  - Provisions regulating enforcement against patent infringement;
  - Provisions stipulating resolution mechanisms if the licensing patent is invalidated.

# Licensing and franchising

- A **trademark licensing contract** must include the following information:
  - Clear description of the mark;
  - Purpose(s) of the licence (i.e. for merchandising);
  - Territory and/or distribution channels to which the licence applies;
  - Types of licensing applicable;
  - Statement(s) that no other right, title, or interest in the mark is granted beyond the terms and conditions specifically set forth in the licence;
  - Term of the licence;
  - Royalties to be paid and terms of payment;
  - Audit rights;
  - Provisions specifying what constitutes proper use of the mark and the licensor's rights of prior approval;
  - A non-assignment clause;
  - A hold harmless clause with indemnity/insurance for product liability claims involving the products or services on which the mark is used;
  - Conditions under which the licence may be terminated and post-termination rights and duties.

- According to the Trademark Law of the People's Republic of China, revised in 2019, a licensor must record the licensing contract with the Trademark Office of China at the National Intellectual Property Administration, after which the this office will publicise the contract on its official website. A trademark licensing contract which has not been recorded with this office cannot be enforced against any third parties in good faith.

# Licensing and franchising

- The State Council has published the Regulations on Administration of Commercial Franchises, revised in 2007, which includes rules applying to both domestic and foreign franchisors that engage in commercial franchising in China.

- The regulations stipulate that only enterprises (that is, not individuals or other entities) may act as franchisors. A franchisor must own a developed business that can provide a long-term commitment, technological support, business training, and other services. The regulations also require that a franchisor has former experience in terms of ownership and operation of at least two outlets for at least one year before it can establish a franchise in China.

# Licensing and franchising

- According to the Administrative Measures for Commercial Franchise Information Disclosure, revised in 2012, issued by the Ministry of Commerce of the People's Republic of China, the franchisor shall disclose information on the following topics to the franchisee at least 30 days before signing a franchise agreement:
  - Basic details about the franchisor and its business, such as registered capital, business scope, and number of outlets;
  - Franchisor's registered trademarks, patents, or know-how;
  - Payment of royalties;
  - Conditions of the products or services that the franchisor provides to the franchisee, such as whether or not the franchisee is only allowed to purchase products from specific suppliers;
  - Technical training and support provided by the franchisor;
  - Guiding the operation of the franchisee and the relevant responsibilities when dealing with customer complaints;
  - Budgets for operating a franchise, such as royalties, training fees, and decoration costs;
  - Introducing franchisees in China;
  - The franchisor's accounting reports issued by an accounting firm within the past two years;
  - If applicable, the status of the franchisor's lawsuits or arbitrations within the past five years;
  - If applicable, a record of any illegal operation by the franchisor or its legal representative;
  - The format of the franchise agreement.

# Licensing and franchising

### Steps for transferring technology to China

File for IP protection in home country and in China

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Confirm that the technology can legally be imported to China

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Select a Chinese import partner/licensee

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Negotiate a technology transfer agreement

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In the case of restricted technology, seek approval from MOFCOM

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Sign the contract

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Register the contract/obtain import licence at a MOFCOM branch

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Manage relationship and monitor compliance

### How to record a franchise agreement with MOFCOM

Register at MOFCOM's website: http://txjy.syggs.mofcom.gov.cn/

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Upload documents required by MOFCOM, such as business licence and trademark certificate

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MOFCOM reviews the documents and provides feedback within 10 days

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Once approved, the franchisor prints all of the documents and submits a hard copy to MOFCOM

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MOFCOM publishes the franchise information on its website

# 5. Selling online

# Selling online

- **Standalone websites**:
  - An existing standalone website outside China may be the **easiest method** of selling online, but it is **not likely to be the most effective**.
  - Standalone websites use the **direct mailing model** to carry out cross-border E-commerce business. Orders are arranged by international retailers and/or brands directly, and then shipped and cleared by the customs authorities. This model is for products that are on the Positive List of Cross-border E-commerce Retail Imported Commodities and which the producer would like to first test in the China market, and requires relatively low upfront investments for bulk shipping and inventory warehousing. Commodities shipped to China through this route are also subject to cross-border E-commerce comprehensive tax rate. Commodities shipped to China through this model are also subject to **the Cross-Border E-Commerce Comprehensive tax rate**. Three purchase records – the order, shipment, and payment information - are required to pass the customs process in China and the maximum order value for each order is **CNY 5,000 (EUR 641)**.
  - At a minimum, a company wishing to use this approach should develop a **Chinese language version of its website**, offer **content translated into Chinese** or use translation plug-ins that provide such a service, and arrange to **accept Chinese credit card payments** (using Chinese third-party payment platforms such as Alipay or WeChat Pay). In addition to these challenges, another disadvantage to using a standalone website is that consumers will have to endure longer shipping times.

# Selling online

- **E-Commerce platforms**:
  - **C2C (consumer-to-consumer) platforms:** This category brings together platforms with the sole responsibility of driving the potential buyer directly to the vendor, such as Taobao and eBay (which withdrew from the China market several years ago). A number of online shopping agents operating on Taobao have formed a so-called "grey market" made up of "Daigou traders"; this refers to the distribution by freelance exporters of various products, including cosmetics, food and drink products, and luxury products, to consumers in China. These online shopping agents charge a fee for providing the Daigou service but their imports do not pass through the customs authorities, hence this cost is lower than it would be if import tax were to be levied. However, the implementation of the E-Commerce Law has resulted in stricter supervision and additional restrictions being placed on Daigou trade.
  - **B2C (business-to-consumer) platforms:** There are various vertical E-commerce platforms in China which compete fiercely while targeting different consumer groups (differentiated by purchasing power, purchasing habits, and the tier of city that they live in). The majority of these platforms have international versions as well. Under special customs clearance regulations, international retailers and brands can work with B2C cross-border E-commerce platforms in order to reach Chinese consumers through bonded warehouses within free trade zones. **Tmall Global, JD Worldwide, and RED** are three of the most representative cross-border E-commerce platforms in China, although many others exist, such as **VIP International**. Three of these platforms are profiled below:
  - **Online-to-offline service platforms:** There are a number of additional platforms (such as **Dianping**) that focus on providing online-to-offline services without offering any escrow payment services. Instead they offer local information, detailed merchant profiles, consumer services, and ratings systems.

# Selling online

**The advantages of E-commerce platforms**

| | Outside China | Inside China |
|---|---|---|
| **For Chinese consumers** | • Sometimes provide access to goods not available in China | • More likely to be trusted<br>• Easier online payments<br>• Faster delivery<br>• Better after-sales service |
| **For EU sellers** | • Familiarity of platforms and their services | • Sellers benefit from platforms' existing traffic |

**The disadvantages of E-commerce platforms**

| | Outside China | Inside China |
|---|---|---|
| **For Chinese consumers** | • Language barrier<br>• Use of Chinese credit cards problematic<br>• Long delivery times<br>• High shipping costs and risk of damage<br>• No after-sales service | N/A |
| **For EU sellers** | • No target market access | • Involves marketing on an unknown platform in a foreign language<br>• Certification requirements |

# 6. Directly investing – wholly foreign-owned enterprises and joint ventures

# Directly investing – wholly foreign-owned enterprises and joint ventures

- **Wholly foreign-owned enterprises ("WFOEs")** and **joint ventures ("JVs")** are the most commonly used mechanisms when foreign investors want to invest in China.

- Foreign investors generally prefer WFOEs to JVs. This is due to higher confidence in their ability to establish and run China operations on their own.

- The conditions for approving WFOEs have been **relaxed** over time. For example, the requirement that at **least 50% of a WFOE's production be exported has been lifted in recent years**, and a **minimum registered capital is no longer required**.

- JVs present the advantage of gaining **access to an already-developed network of distributors**, assisting with the strategic need for a local partner or simply the desire to share operational costs.

- The new [Foreign Investment Law](), which came into effect on **1st January 2020**, aims to improve China's business environment and IP protection mechanisms. The impact of the Foreign Investment Law on the governance structures of WFOEs will be limited because they have been governed by the Company Law since 2006; however, JVs will be required to make a number of structural changes relating to a wide range of matters, including voting rules, dividend distribution, and share transfer mechanisms. The law stipulates a five-year transition period within which such changes must be made – this began on **1st January 2020**.

**Investment in WFOEs and equity JVs in China by year, 2013-2019**

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Jan-Nov 2019 |
|---|---|---|---|---|---|---|---|
| Total FDI (EUR billion) | 100.65 | 107.71 | 113.76 | 113.51 | 118.05 | 121.59 | 112.07 |
| WFOEs | 77.59 | 85.35 | 85.85 | 77.59 | 82.29 | 80.54 | 76.85 |
| Equity JVs | 19.56 | 18.92 | 23.32 | 27.21 | 26.79 | 31.08 | 24.23 |

# Directly investing – wholly foreign-owned enterprises and joint ventures

- **Wholly foreign-owned enterprises ("WFOE")**:
  - The WFOE was originally introduced as a means of **encouraging specific types of manufacturing within China**, such as manufacturing which would introduce new advanced technology into the country. WFOEs are limited liability companies that are owned by foreign nationals and solely financed by foreign investors.
  - Since the lifting of various institutional controls and China's accession to the World Trade Organization in 2001, WFOEs have become **increasingly popular** and have come to be used by traders, service providers, and software developers. They have also increasingly been used by service providers rather than just manufacturers, a change which the regulations governing them has accommodated over the years. There are limitations on the types of activities that a representative office ("RO") can carry out in China, particularly revenue- and profit-generating activities. Such **limitations are not found with WFOEs**, meaning they, alongside JVs, are more suited for foreign investors looking to establish a long-term presence in China that will make revenue and profit. WFOEs are able to **directly employ staff, issue CNY-based invoices, and directly sign contracts with third partie**s, thus simplifying the process and widening the possibilities of having a local presence.
  - The set up process of a WFOE has been significantly simplified following the Foreign Investment Law coming into effect in January 2020. Foreign investors cannot invest in industries on the Special Administrative Measures for the Access of Foreign Investment [Negative List] and now have to obtain permission for industries limiting foreign investment. Investing in industries outside this list enjoys the same treatment as local companies enjoy.

# Directly investing – wholly foreign-owned enterprises and joint ventures

- **Joint ventures ("JVs"):**
  - JVs are legal entities made up of a **partnership** between a Chinese company and a foreign individual. Their liability is limited to the assets that shareholders bring to the venture, and as such does not extend to the parent company. They are mainly set up in the following situations: A JV is a **limited liability company** structure formed by a foreign investor, which could be a foreign individual or enterprise, and a Chinese company. Once formed, the JV becomes a new legal entity in which the liability of the shareholders is limited to the assets they brought to the business. This liability is then restricted to the JV and does not extend to the parent company.
  - The advantages that can be gained from finding a local partner result in the use of JVs in two main situations: firstly, when a local partner is required in order to enter into a certain industry, as stated in the Special Administrative Measures for the Access of Foreign Investment [Negative List]; and secondly, when a local partner can offer tangible benefits such as established relationships with government and local market connections.
  - A local partner is able to offer specific benefits, including **established distribution channels, established government relationships, and knowledge of the relevant market**.
  - Under the new Foreign Investment Law, JVs will need to adopt three-tier governance structures in accordance with the **Company Law,** which requires the establishment of a board of shareholders, a board of directors, and a manager during the five-year transition period.

# Directly investing – wholly foreign-owned enterprises and joint ventures

**General procedure for setting up a foreign invested enterprise**

Application for pre-registration approval

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Application for pre-name registration approval

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Application for a business licence from the SAMR

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Carving the seals and registering the carving

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Application for organisation of the code certificate

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Application for foreign exchange registration

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Application for central tax certificate and local tax certificate

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Opening a capital bank account

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Application for registration of finance register

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Application for statistic registration

# 7. Direct investment - partnerships

# Direct investment - partnerships

- A foreign-invested partnership enterprise (i.e. a partnership) has been available in China since **2010**. The main difference between a joint venture ("JV") and a partnership is that at least one of the partners will assume **unlimited liability**. Secondly, the process for setting up a partnership is less complicated than the equivalent process for JVs.

- A partnership may be formed by general partners bearing unlimited joint liability for the debts of the partnership (general partnership) or by both general and limited partners, where the latter bears the liability for its debts only to the extent of its capital contributions.

- Partnerships may be set up by:
  - Two or more foreign enterprises or individuals;
  - Foreign enterprises or individuals acting jointly with domestic individuals, legal persons, and/or other organisations.

- Foreign invested partnership enterprises must abide by the **Partnership Enterprise Law**.

- A foreign invested partnership ("FIP") is **neither permitted to invest in prohibited industries nor in industries that are restricted to joint ventures or where a Chinese party must hold a controlling interest**. The industries not falling within the above categories are therefore open to foreign investment partnerships.

# Direct investment - partnerships

- State-owned enterprises, listed companies, and social welfare organisations are **prohibited** from being general partners.

- There is **no requirement for the minimum registered capital**. However, parties should submit a confirmation of agreed consideration signed by all parties or an assessment certificate of consideration issued by a statutory agency in China.

- A foreign-funded partnership should **register with the local branch of the SAMR**, where it should submit the following documents:
  - Establishment registration application signed by all partners;
  - Partnership agreement signed by all partners;
  - Subject qualification certification of the whole partners or the identification of the natural person;
  - Certification of the main place of business;
  - Proxy of the representative designated or the agent jointly entrusted by all partners;
  - Confirmation of the contribution subscribed or actually paid by each and all partners;
  - Explanation of compliance with the policy for foreign investment industries signed by all partners;
  - Credit certificate issued by financial institutes engaging in business with foreign partners;
  - Power of attorney of legal document service signed by foreign partners and the domestic receiver of the legal document service;
  - Other related documents, as prescribed in the provisions.

# 8. Branches

# Branches

- The concept of a branch is **not clearly defined** in China, although they can generally be split into **foreign company branches** and **domestic company branches**. Neither type of branch is a legal person, and they cannot exceed the business scope of the company itself.

- Branches can **issue invoices** and **sign commercial contracts** and are also able to **keep separate accounts from a head office in China**.

- Foreign company branches can **carry out direct business activities**, although they are only permitted in certain sectors. Domestic company branches are for companies that are already established in China and can be set up in a different location from the registered address engaging in the same industries, thus allowing for expansion into new locations without setting up a wholly foreign-owned enterprise ("WFOE").

- Before registration in China, it is important to comply with the **pre-registration requirements**:
  - Appoint a legal representative: A representative, who can be Chinese or foreign and is legally able to reside and work in China, should be appointed by the branch office to manage the day-to-day operations of the branch;
  - Define the business scope: A branch office should conduct activities that fit within the business scope of its head office;
  - Confirm the location of the registered office: The leasing of office space is to be carried out before registration of the branch office.

- The **two stages to registration** in China for enterprises are:
  - Online pre-filing
  - Business licence application

# 9. Representative Offices ("ROs")

# Representative Offices ("ROs")

- A representative office ("RO") **allows entry into the China market** in a more limited way in terms of business activities allowed. As an RO is an extension of a foreign enterprise, it is **not able to generate profit or directly employ Chinese staff**.

- The benefit of an RO, however, is that it is **relatively easy to set up**. Instead of generating profit or directly employing Chinese staff, an RO concentrates on market research, promotional activities, liaisons for developing retail connections, procurement, and investment.

- It is managed by a **chief representative** who can also represent the foreign enterprise during the application process for registration, and who can be supported by up to three representatives.

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# Representative Offices ("ROs")

- To register and establish an RO, a foreign company must register with the **SAMR**, a process that takes two to three months, and should submit the following documents to the registration authorities:
  - RO application form;
  - Letter of appointment for the chief representative of the RO, alongside his/her identity documents and CV;
  - Rental contract for the office space to be used (limited to commercial buildings and valid for at least one year);
  - The foreign address and evidence of at least two years business operations of the foreign enterprise, to show that it is genuine;
  - Certificate of creditworthiness of funds from a financial institution that has business dealings with the company applying for the RO;
  - Articles/memorandum of association;
  - Power of attorney documentation demonstrating the appointment of the chief representative and any other representatives by the foreign enterprise.
  - If the process is carried out smoothly, an RO registration certificate will be subsequently issued after approximately 15 working days.

# 10. Pilot Free Trade Zones ("PFTZs")

# Pilot Free Trade Zones ("PFTZs")

- Defined areas with **differing customs regulations, restrictions on foreign investment, and administrative procedures from the rest of China**, Pilot Free Trade Zones ("PFTZs") exist to encourage regional growth and promote international trade and investment.

- Their **customs regulations are relatively open, foreign investment is easier in them than elsewhere in China, and administrative procedures tend to be more streamlined**, hence they offer policies that can be particularly attractive to EU SMEs looking to set up or expand in China.

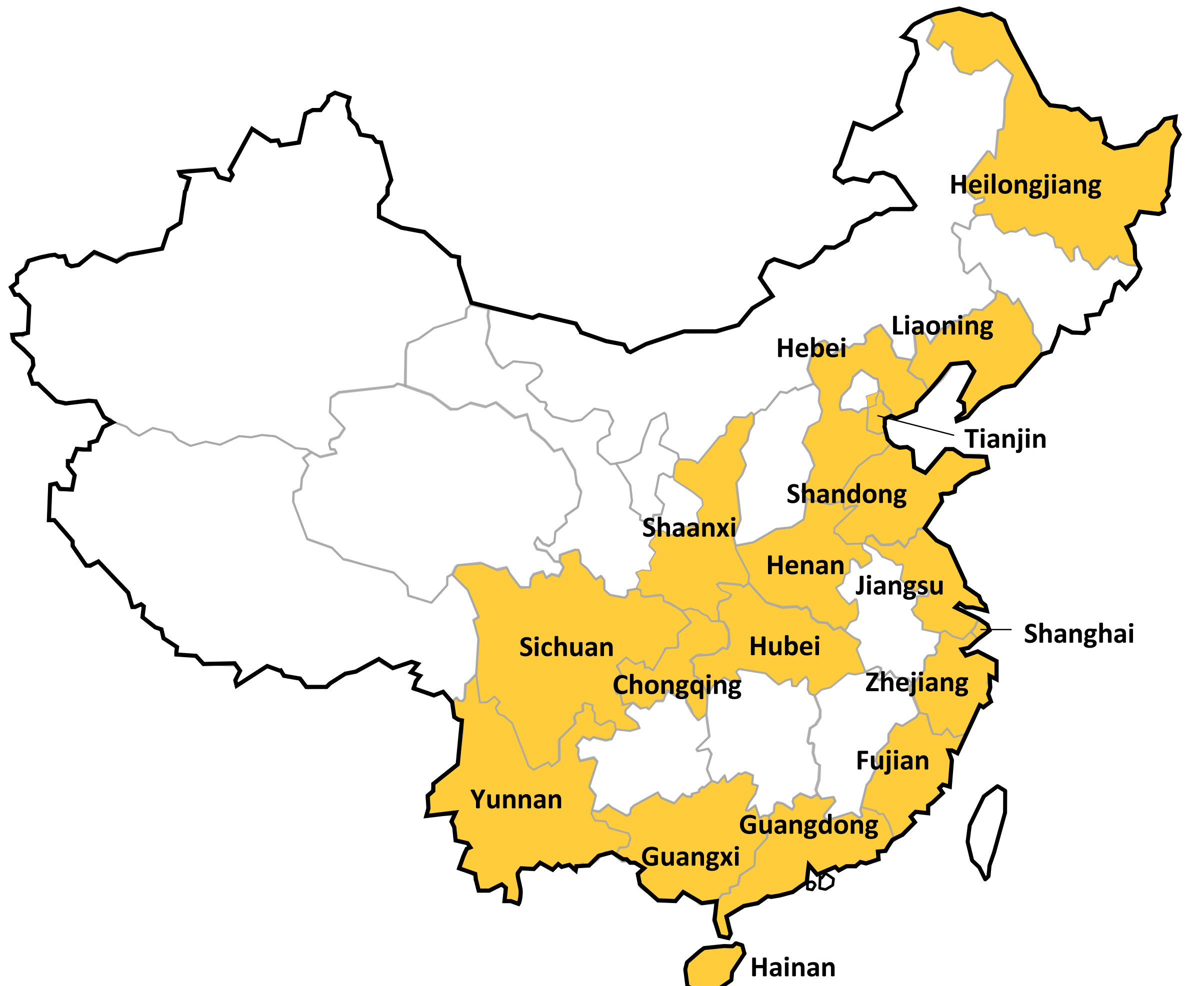
- Imports into PFTZs are **not subject to Chinese customs duties unless they are re-exported** from a PFTZ into mainland China, hence PFTZs attract a large number of foreign companies looking to sell their goods wholesale elsewhere in China.

- It is usually the case that PFTZs are made up of other types of existing economic zone, such as **High-tech Parks or Bonded Zones**. PFTZs zones do not offer bonded services themselves though.

- The first PFTZ in China was created in **Shanghai** in **2013**, and there are now **18 PFTZs** in China. Although they are named after provinces and provincial-level cities, with one exception PFTZs do not cover the whole province or city; instead, they are located in one or multiple areas across the province or city.

# Pilot Free Trade Zones ("PFTZs")

The locations of China's PFTZs



# Pilot Free Trade Zones ("PFTZs")

- While each PFTZ is different, **common features** found within and common benefits offered by many PFTZs include a combination of the following:
    - **Industrial clusters** within FTZs, so as to reduce transport and communications inefficiencies, further supported by suitable connections between the areas of the PFTZ and nearby transportation hubs such as ports, railway stations, airports, and motorways;
    - **Customs-free trade** until a product is re-exported outside of the zone, at which point either the Chinese customs authority will levy customs duties (if the product is re-exported into mainland China), or a third party will levy customs duties (if the product is re-exported to another part of the world);
    - **The ability for foreigners to open WeChat business accounts**, so as they can target Chinese employers and customers;
    - **More liberal policies for accessing foreign websites** than can sometimes be found elsewhere in China, so as to support smooth international communications and exchanges;
    - **A simplified registration process** for foreign exchanges;
    - **The free transfer of funds** between free trade accounts ("FTAs"), and non-resident accounts based both onshore and offshore;
    - **The ability to loan CNY** from offshore funds;
    - **A policy of supporting interest rates** that are more liberal than those found elsewhere in the country.

# Pilot Free Trade Zones ("PFTZs")

- The following are a series of **recommendations for EU SMEs** to bear in mind when setting up in a PFTZ:
  - Pay attention to **employment regulations for foreigners**, as they can change and are not necessarily the same across the country. Some cities and provinces will offer more favourable policies that make it easier to resettle foreign talent, while others will make it more difficult.
  - Speak to **local officials** during the negotiation process, as it is often the case that a PFTZ negotiates with partners on a case-by-case basis, therefore may be able to offer incentives beyond those set down in the standard offer. Negotiating with multiple PFTZs at the same time and making each aware that it is in competition with others can also be useful for obtaining the best deal available.
  - **Do not attempt to manage a site remotely from the EU**, as this often causes inefficiencies in terms of knowledge of on-the-ground operations and the propagating of ideas. Instead, either spend a significant amount of time in China each year or empower local staff, such as Chinese staff, to make relevant decisions.
  - Ensure that there are **sufficient supplies of labour and utilities** for any site chosen. PFTZs may vary in terms of how much support they offer in getting connected to local water, electricity, gas, and internet services, and some parts of China contain large numbers of workers from elsewhere in the country who may be highly mobile and therefore be an unstable long-term work force.
  - If offered **land in place of rented factory facilities**, consider this offer, as the land may prove to be valuable if developed correctly, despite the lack of flexibility that comes with not having quick access to already-developed factory facilities.

# 11. Using Hong Kong as an entry point to mainland China

# Using Hong Kong as an entry point to mainland China

- Hong Kong has been, and in many ways remains, the **traditional gateway** to doing business in China.

- Since returning to China in **1997**, Hong Kong has been administered by mainland China as a **Special Administrative Region ("SAR")** under a **One Country, Two Systems policy**, thereby allowing Hong Kong to continue to maintain its **favoured legal and economic structure**. English is still an official language, and Hong Kong remains one of the most liberal market-based economies in the world. The benefits of the One Country, Two Systems policy are:
    - No foreign ownership restrictions;
    - English and Chinese as official languages, with English being the preferred language for business and contracts;
    - Free movement of capital, talent, goods, and information;
    - Independent participation in international forums.

- Hong Kong is the key investment route for mainland China's outward FDI. According to the Ministry of Commerce, in **2017** Hong Kong channelled **57.6% of the mainland's FDI outflows**, amounting to **USD 91.2 billion (EUR 82.2 billion)**. By the end of 2017 it accounted for **54.2% of mainland China's outward FDI stock**, the cumulative value of which stood at **USD 981.3 billion (EUR 884.1 billion)**.

- **The Closer Economic partnership Agreement ("CEPA")** is a bilateral free trade agreement between mainland China and Hong Kong that came into effect in January 2004. Under the agreement, China has agreed to eliminate tariffs for all products of Hong Kong origin and allow preferential treatment to Hong Kong service suppliers in certain service sectors. Foreign companies registered in Hong Kong may also be eligible to benefit from CEPA rules.