



UNSW | 
Business School

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Welcome!



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A RACECOURSE

CLUBHOUSE



PARK HOTEL



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Presentation for UNSW undergraduate students

Shanghai – August 16, 2019



Rundown

- Introductions and overview of DSA
- China's foreign direct investment environment and regulations
- A day in the life of an FDI consultant
- An overview of China's financial system
- Cashing in: Repatriation of funds
- Q&A

Our Firm in Numbers



1992 Our establishment

295 Our team of legal, tax, accounting and audit professionals

2000+ Clients that have already chosen us

80+ Countries served

23 Offices in **China, India, Vietnam, Singapore, Indonesia** and liaison offices in **Italy, the United States and Germany.**
Alliance offices in **Malaysia, the Philippines, and Thailand.**

Our 2017 25th anniversary video [here](#)



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Your Partner for Growth in Asia



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- Dezan Shira Asian Alliance Members

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For more information, please visit www.dezshira.com



China at a glance
and its **FDI Environment**

Milestones

Establishment of the People's Republic of China

Reform and Opening Up

Admission to the World Trade Organization

Xi Jinping elected as President of the PRC

Belt and Road Initiative (OBOR)

PRC becomes biggest economy in PPP terms

Xi Jinping re-elected as President
Removal of term limits
Beginning of US-China trade war

1949

1978

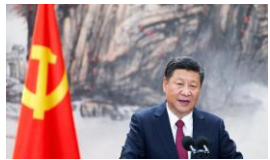
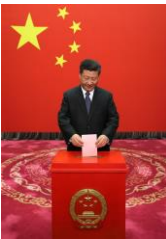
2001

2013

2013

2014

2018





*What does it take to setup
and run a business
anywhere?*

In the shoes of an investor

Ease of Doing Business – Parameters

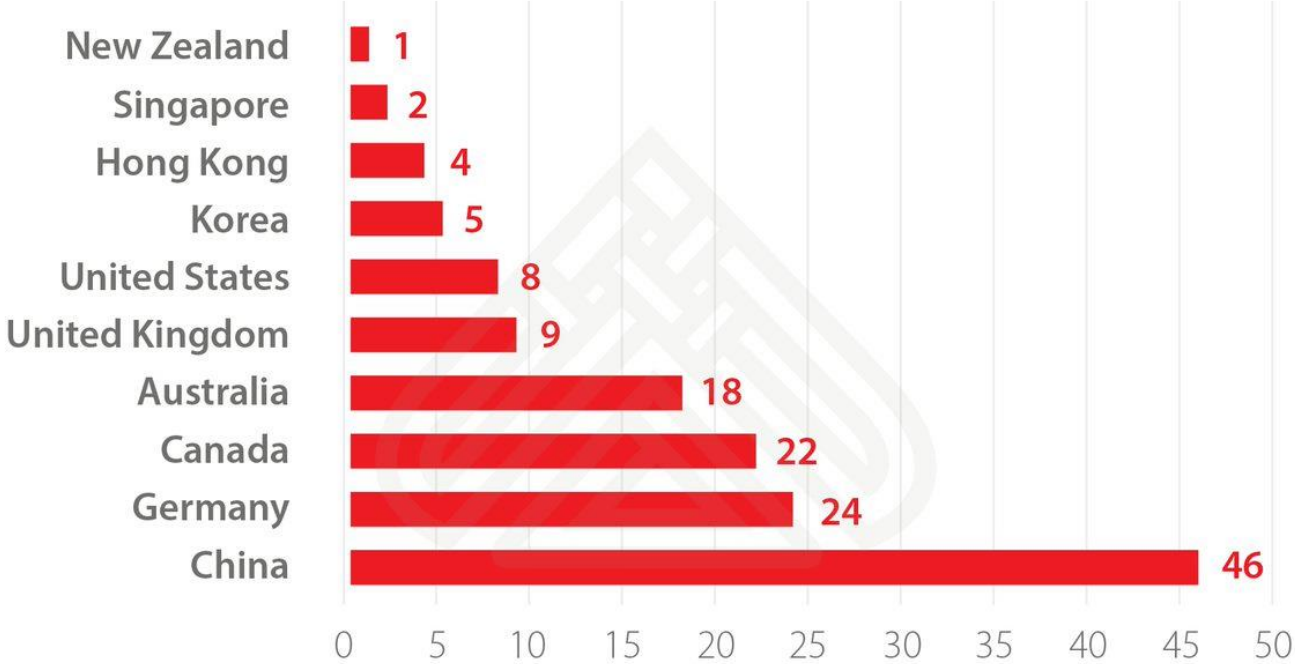
Economy Profile of China

*Doing Business 2019 Indicators
(in order of appearance in the document)*

Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, and the reliability of the electricity supply and the transparency of tariffs
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Labor market regulation	Flexibility in employment regulation and aspects of job quality

Ease of Doing Business

China's ease of doing business index ranked at 46 in the world



Source: World Bank

Graphic© Asia Briefing Ltd.

What to expect in 2019?

Unpredictable relationships:

- Reactive/Confrontational with the **US**
- **BRI** relationships
- Shift in the **supply chain** into other Asian countries.

Investments and changes:

- PRC government response **to ease investments** and attract more FDI
- Lower **ODI**
- Considerable restructuring of **government** bodies.

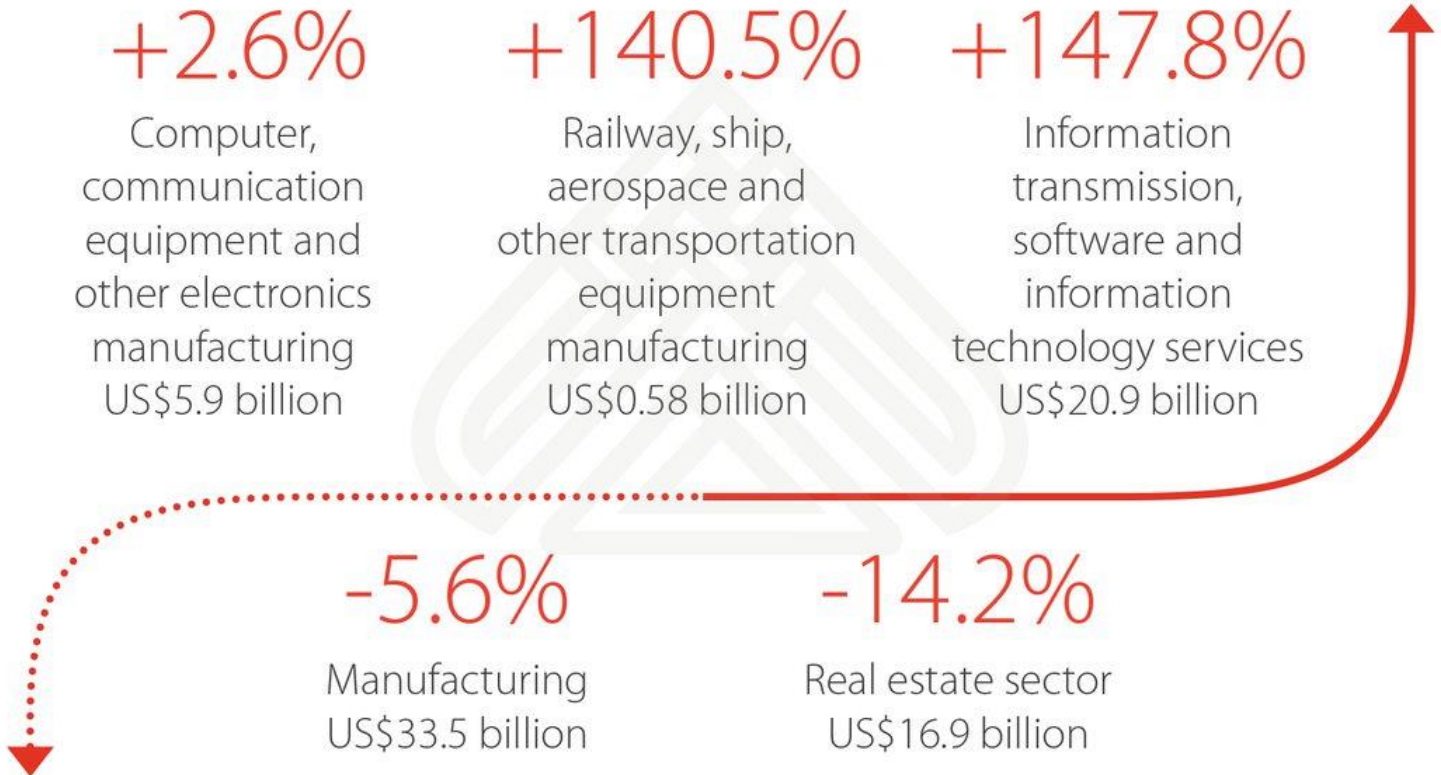
Hot industries to look out for this year:

- Agro-business
- Well-being, medical devices for individuals or clinical use and wearable devices in the healthcare and sports industry
- Eco-friendly appliances, commodities and packaging; hard- and software related to urban waste disposal management;
- Medical institutions and elderly home care and kindergartens

Still hot: e-commerce, F&B, education, renewables and “cleantech”, outbound and inbound tourism, entertainment, etc.

FDI Segment Trends

FDI into manufacturing and real estate are declining, while FDI into hi-tech sectors are increasing

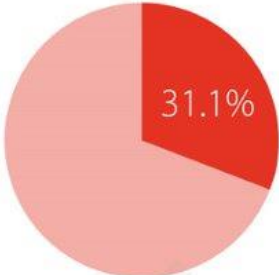


Source: MOFCOM

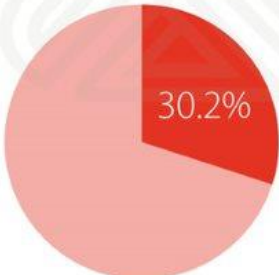
Graphic © Asia Briefing Ltd.

Business Confidence Amid The Trade War

Investors' confidence fell to historic lows with US-China trade tensions continuing



delaying or canceling investments



relocating supply chains outside of China

Source: Amcham

Graphic © Asia Briefing Ltd.

China + 1

ASEAN has become a strong competitor of China in attracting FDI



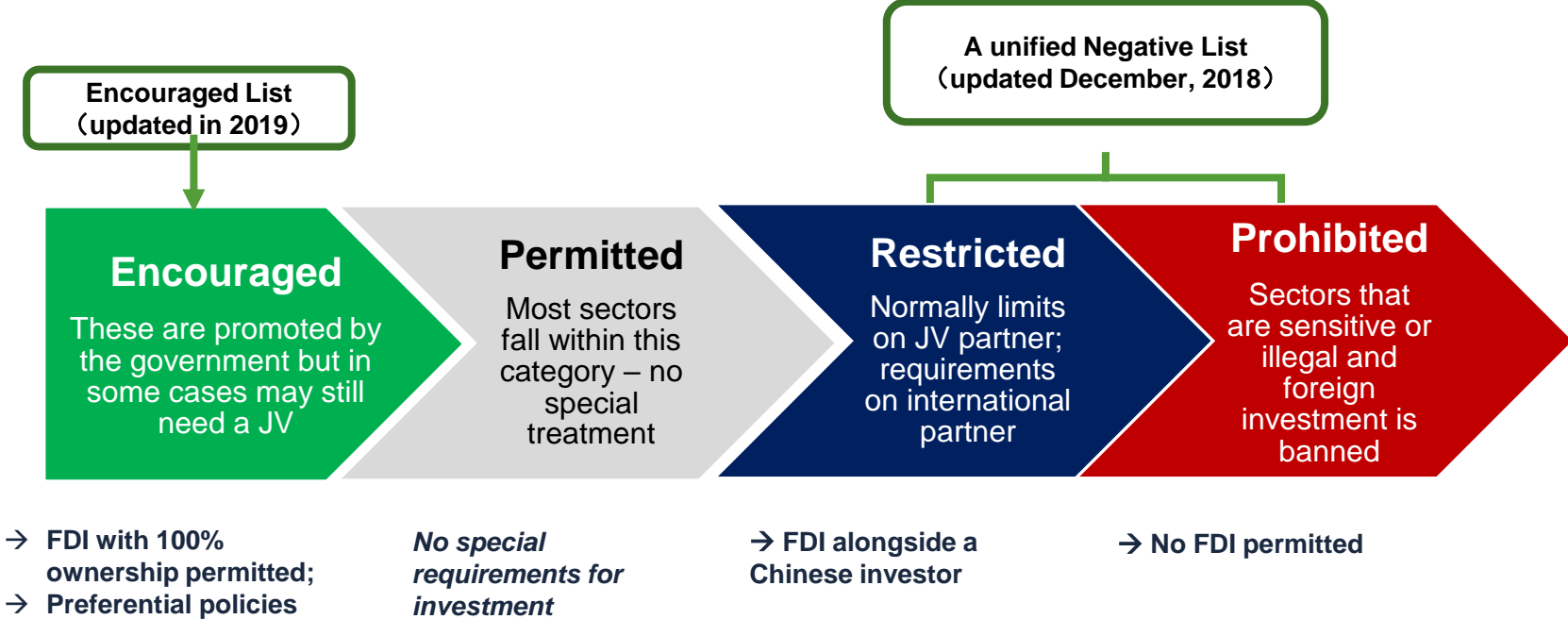
Source: UNCTAD, MOFCOM

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Foreign Investment Catalogue and the Negative List

The Negative List & The Encouraged List

(Catalogue of Foreign Investments)



Catalogue of Industries for Guiding Foreign Investment

(2018 & 2019 version)

“Restricted” (151)

- ± Manufacturing of automobile vehicles
- ± Insurance
- ± Securities, futures
- ± Banks
- ± Telecommunications
- ± Oil and gas exploration
- ± Medical institutions
- ± Pre-school and higher education
- ± Railway and waterway transport

“Prohibited” (28)

- × Commercial fishing
- × Manufacturing of weapons and ammunition
- × Wholesale and retail of tobacco
- × Compulsory education
- × Postal companies
- × Editing and publishing of books and newspapers
- × News agencies and internet news services
- × Radio and TV stations
- × Movie production

“Encouraged” (402)

- ✓ Nursing homes
- ✓ Vocational training
- ✓ R&D centers
- ✓ Development of energy saving technologies
- ✓ Highway freight forwarding
- ✓ Manufacturing of clothing
- ✓ Operation of new energy power stations
- ✓ Operation of fitness centers
- ✓ Venture capital enterprises
- ✓ Manufacturing of VR/AR tech

Negative List

Encouraged List

Made in China 2025

What is it?

- By 2020 40% of “core components and materials” should be domestic.
- By 2025 70%.

Medical devices industry is one of the major focus areas.

Local manufacturers provide cheaper but increasingly better solutions or low-tech manufacturing and/or less know-how.

Will this last?

How is *relocation* affecting this?

How to Enter the Market is the KEY Question

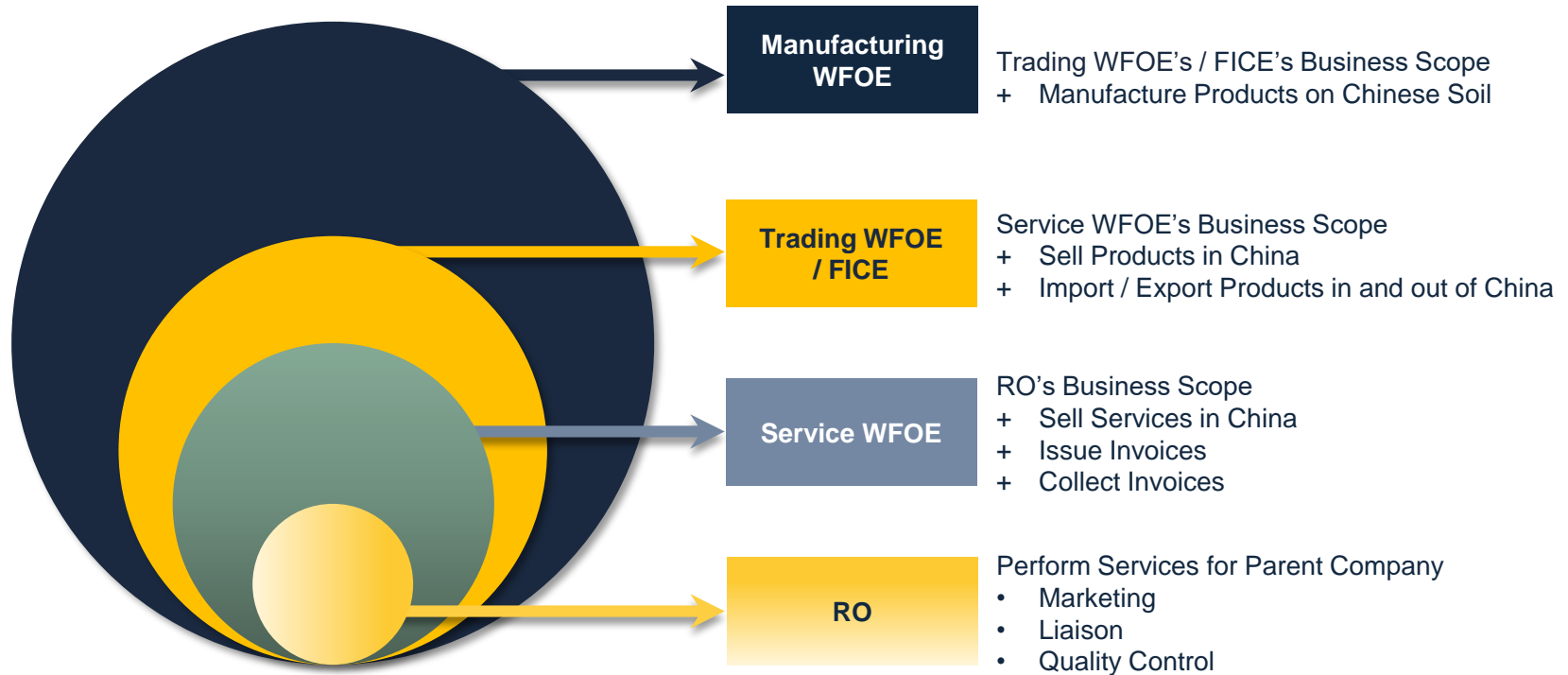
A rapidly developing country
where institutional changes can be lagging economic advances

Choosing the right type of entity when entering is of paramount importance

Choices include:

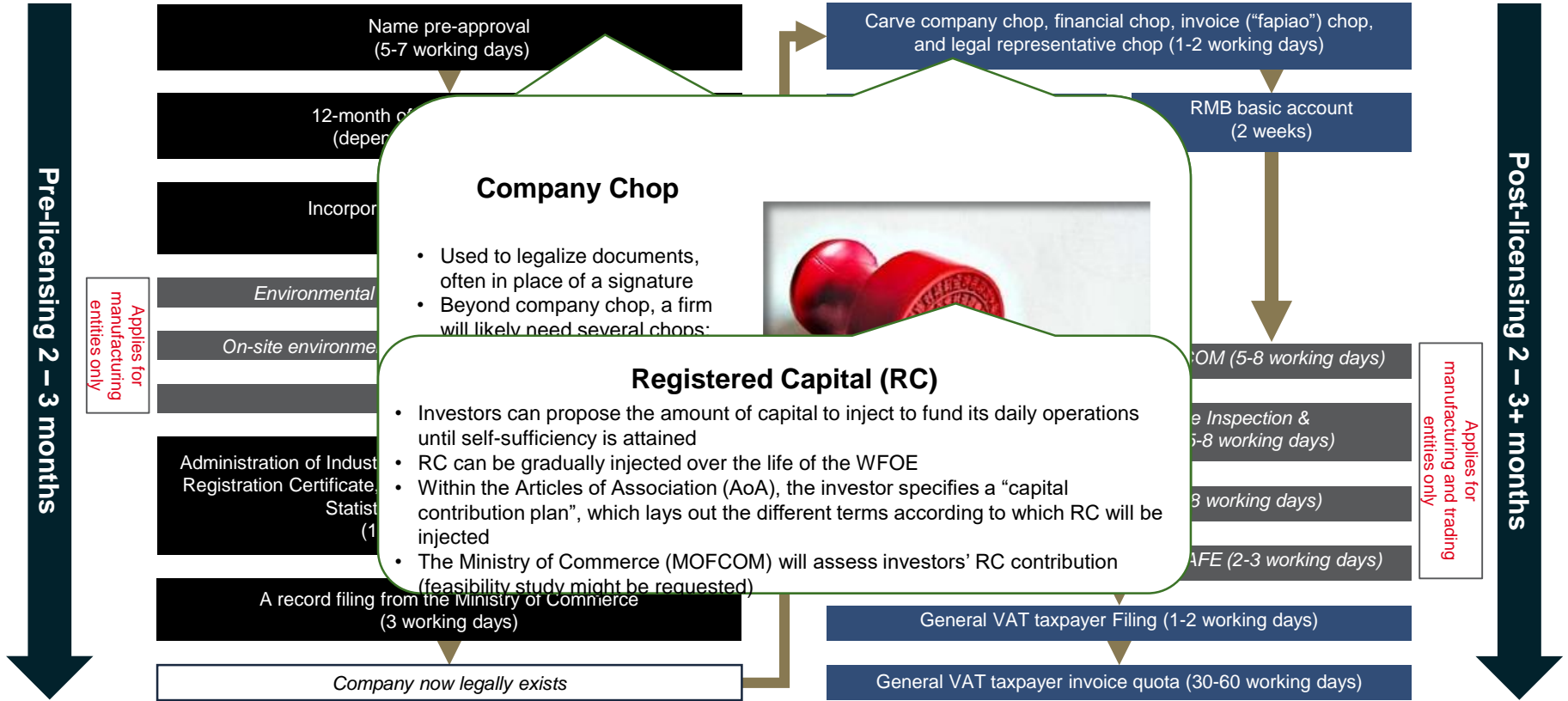
- Representative Offices
- 100% Foreign Owned Entity
- Joint-Venture
- “Light Footprint” and outsource models

Three Different Types (by Business Scope)



WFOE

Registration Procedures



www.dezshira.com

WFOE

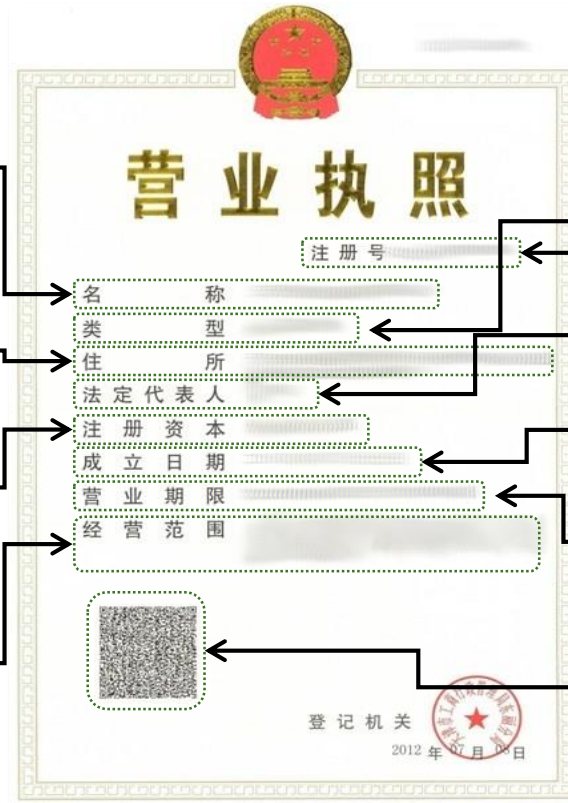
The Business License

Company Name
*Trade Name + Industry +
(Geographic Name) + Company Type*
Dezan Shira Management
Consulting (Shenzhen), Ltd.

Registered Address
commercial property

Registered Capital
Paid in capital not listed

Business Scope
*Will need to explicitly state
business activities of
company*



Registration Number

Company Type
WFOE will be an LLC

Legal Representative

Date of Incorporation

Term of Validity
WFOE will be 30 years

QR Code
*linked to National
Enterprise Credit Registry*



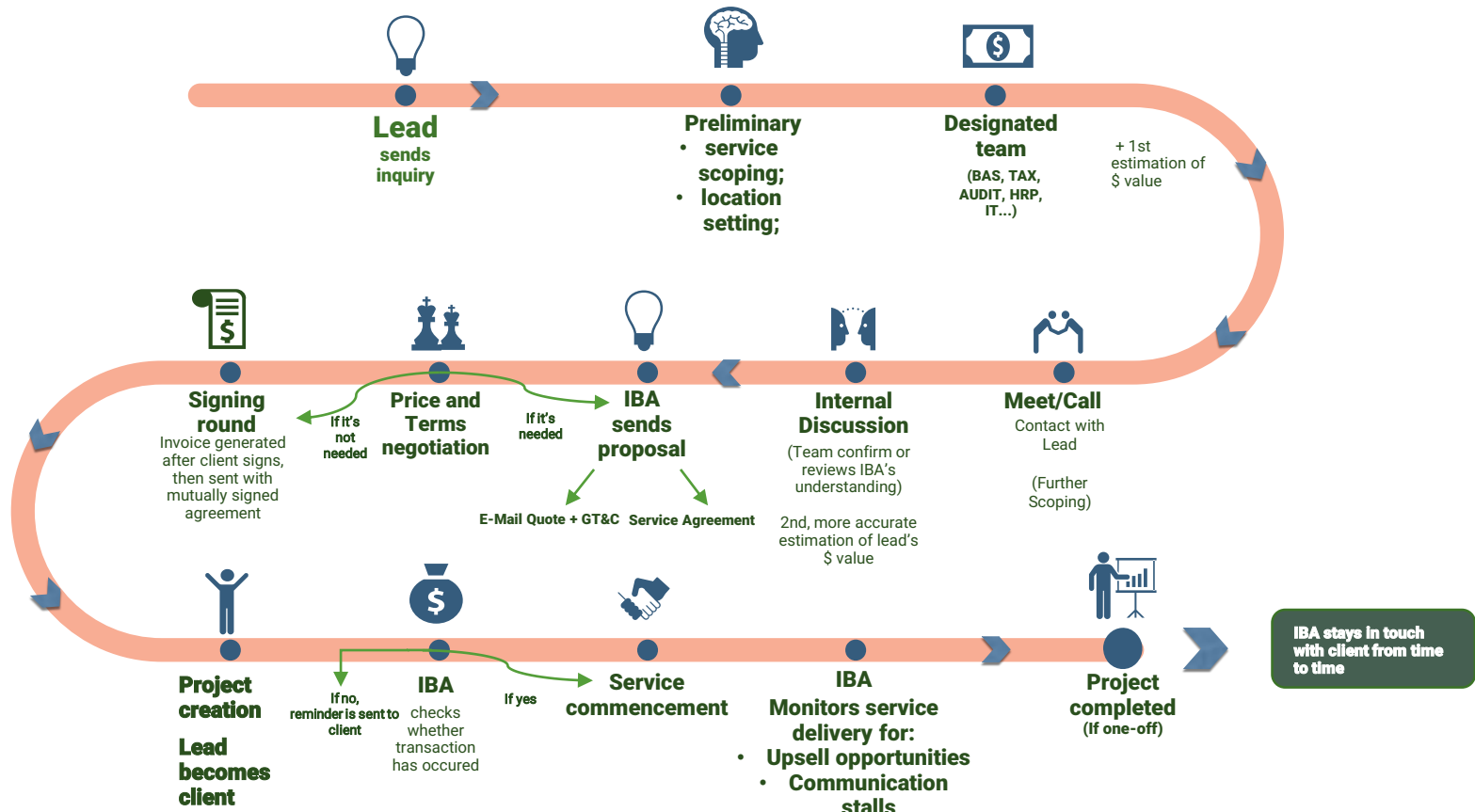
A Day in International Business Advisory

(*the IBA*)

An International Business Advisory (IBA) Day

- **Updating**
- **Analysing a lead's profile (scoping)**
- **Arranging technical teams for meetings**
- **Use of technology: CRM**
- **Contract reviews**
- **Meetings and following up**
- **Pushing projects forward**
- **Attending and presenting at seminars**
- **Managing publication contents**
- **Collaborating with marketing, editorial and digital marketing teams**

IBA's Lead Onboarding Process





Market and Industry **Considerations**

Common challenges: Understanding the local market through **Business Intelligence**

Know thy customer

- Is there a demand for my product?
- How do I brand myself so that my products become more appealing?
- How will my products be purchased / how will I sell them?
- How do I promote my products and generate brand awareness?

Know thy competition

- Is there room for my products?
- How do I differentiate myself?

Prepare for labor and location **benchmarking**

Opportunity and Risk Assessment

Those who do business in China often comment that China is unlike any other market. Even well-established companies have to behave like start-ups in order to compete. Where does your business fit within the Chinese market? And how can you be two steps ahead of the curve?

Opportunity Assessment

- Industry agnostic. Available for China, ASEAN and India.
- Industry analysis covering predetermined data metrics, including location, consumer base, supplier base, regulatory and market specificities, and more.

Risk Assessment

- Industry agnostic. Available for China, ASEAN and India.
- Geological risk
- Living considerations risk
- Political risk
- Business risk
- Security risk

Competitive Analysis

When making the decision to enter a new market, companies need to understand who their main competitors are, both foreign and domestic.

BI Competitive Analysis Reports can cover the following:

Who are the main competitors within this market?

Where are their main market locations and demographics?

How long have they been in the market and what partnerships do they have?

What is their background? What is the depth of their presence?

Do they have a digital presence? What is their branding?

E-commerce Strategy Analysis

E-commerce presents new opportunities for foreign companies looking to enter the Chinese market, but with a plethora of options, it can be hard to find the right platform and channel. We can help Clients take a step back, find and assess different e-commerce options, and then connect with the right professional partners to get started.

BI e-Commerce Strategy Analysis reports can cover the following:

- What are the available e-commerce platforms available for my business?
- What are the advantages and disadvantages of each platform?
- What is the process to pursue each platform?
- Who are the key contacts I can reach out to get on the platform?



An overview of China's financial system

Why do foreign companies think China's financial system is so complex?

- China's financial system is vastly different to Australia's in many ways.
- Foreign investors find China's financial system to be one of the most difficult in Asia.
- **Main reasons for this include:**
 - Idiosyncratic regulations
 - Strict foreign exchange rules

China's foreign exchange system

- **China's foreign exchange system is heavily regulated by the central government.**
- **The central government maintains tight control over all funds flowing into and out of China.**
- **To comply with China's foreign exchange regulations, companies need to open and register special bank accounts, report transactions in foreign currencies, and allow extra time to convert foreign currency under government mandates.**

Capital account versus current account

- **In China's foreign exchange system, there are two main accounts:**
 1. Capital account
 2. Current account
- **The current account applies to ordinary recurring business transactions, for example, trading receipts and payments (sales and expenses), repatriation of profits etc.**
- **The capital account doesn't deal with day to day operating items/flows of funds. The capital account deals with the injection of capital into a company (share capital), capital investments, foreign loans etc.**

China's capital account policy

- China has a closed capital account policy.
- Broadly, this means that capital / money cannot flow into or out of the country without complying with China's foreign exchange rules.

China's foreign exchange system

- **The State Administration of Foreign Exchange (SAFE) and the Central Bank (the People's Bank) are the main bodies responsible for overseeing the flow of foreign exchange.**
- **SAFE is responsible for managing foreign exchange activities in China, setting relevant regulations, and administering china's foreign exchange reserves.**
- **Companies are required to either obtain approval from SAFE or in some cases to file various documents/records, before a wide range of inbound and outbound transactions can be performed involving forex payments.**

Compliance requirements: Debt to equity

- According to SAFE, foreign invested enterprises (FIEs) are subject to debt to equity ratio requirements i.e. they cannot be thinly capitalized.
- This broadly means that the debt portion of a company's total investment amount cannot be too high i.e. there needs to be a significant level of capital contributed by investors when the entity is set up.
- If the company fails to comply with these requirements, the foreign exchange bureau can take over the capital account information, banks can refuse to process capital account items and not remit profits to shareholders.

Restrictions on transferring capital abroad: China's ODI restrictions

- Repatriating capital out of China is very difficult.
- China prefers to keep funds within its borders.
- Due to record levels of outbound direct investment (ODI), the Chinese government introduced strict controls where certain types of ODI require government approval.
- The level of scrutiny over ODI depends on the amount, the industry, receiving country and the investor.

Profit repatriation

- Repatriating profits out of China is also very difficult.
- One of the most common questions we get asked by our clients is how can they get their profits out of China. This is possible but it is not easy.
- The most common method is a dividend. But this is not easy as there are a number of compliance requirements:
 1. Annual audit and tax compliance
 2. Profit distribution resolution
 3. Apply for double tax treaty benefits (if applicable)
 4. Pay the necessary taxes on the payment of the dividend abroad (i.e. withholding tax)
 5. Record filing with tax bureau if payment is over USD50k.
- So companies turn to other/substitute methods such as service fees, royalty payments etc.

Restrictions on transferring capital abroad: Banks and financial institutions

- **Banks and financial institutions in China also need to report domestic and overseas cash transactions of RMB50k (approximately AUD10k) or more.**
- **Overseas transfers by individuals of approximately AUD15k or more also need to be reported. Before processing the payment, Banks will likely ask the individual how they plan to use the foreign currency (as RMB will need to be converted before being sent O/S).**

Q&A session





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news and resources with us