



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

How to Start Selling in China: China Business Master Class

Maria Kotova

**Head of UK & Ireland Business
Development**

Dezan Shira & Associates

China-Britain Business Council

6th of February, 2020





1992 Dezan Shira's establishment

300+ Our team of legal, tax, accounting and audit professionals

2000+ Multinational clients that have already chosen us

80+ Countries served by our professional services

28 Our offices in **China, India, Vietnam, Singapore, Indonesia and** liaison offices in **Italy, the United States and Germany**, and alliance offices in **Malaysia, the Philippines, and Thailand.**



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Core Services

Our service categories each address operational needs and challenges that corporate clients face in emerging Asian foreign markets.

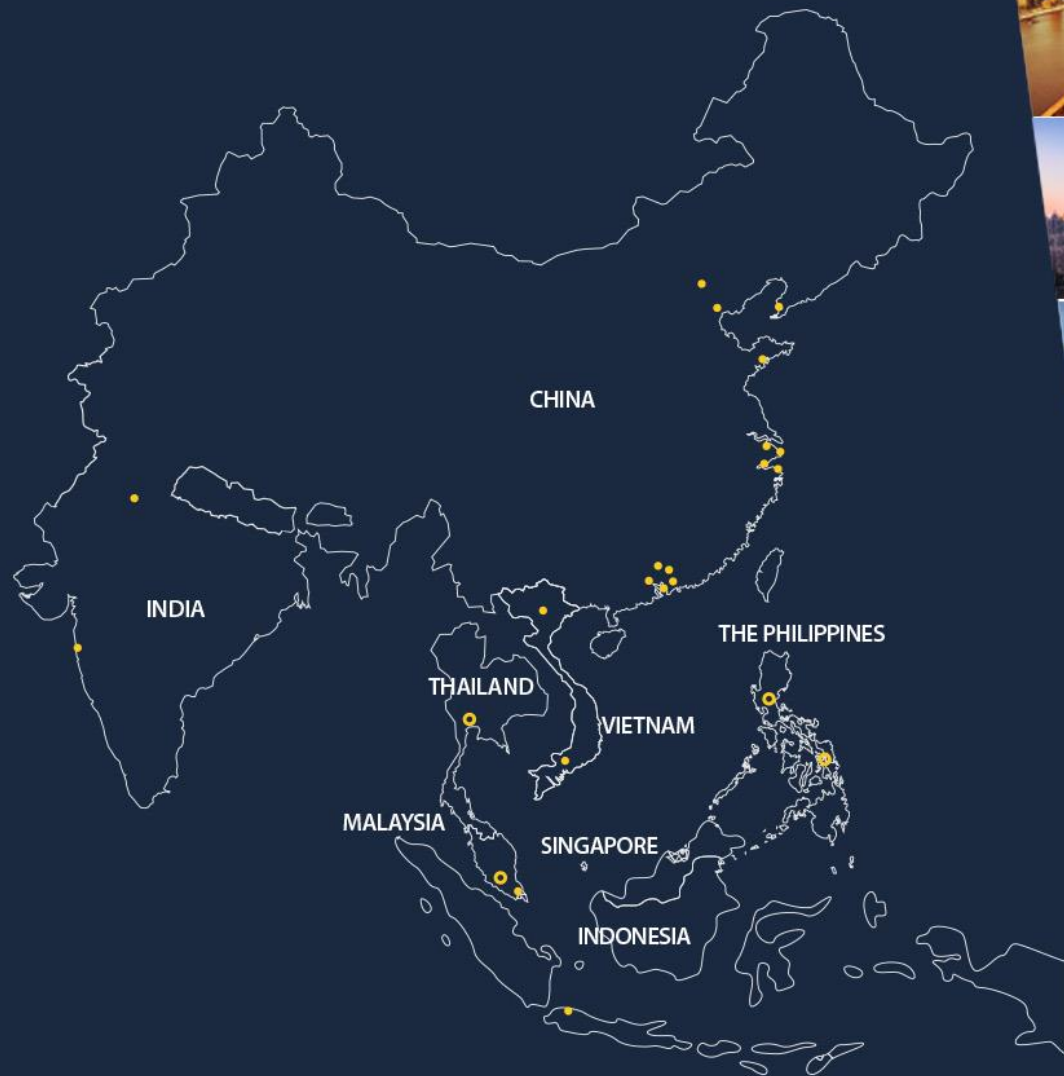
1. Business Intelligence
2. Business Advisory
3. Legal
4. Due Diligence
5. International Payroll & HR Admin
6. Accounting
7. International Tax
8. Audit
9. Information Systems & Technology





DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia



- Dezan Shira & Associates Offices
- Dezan Shira Asian Alliance Members

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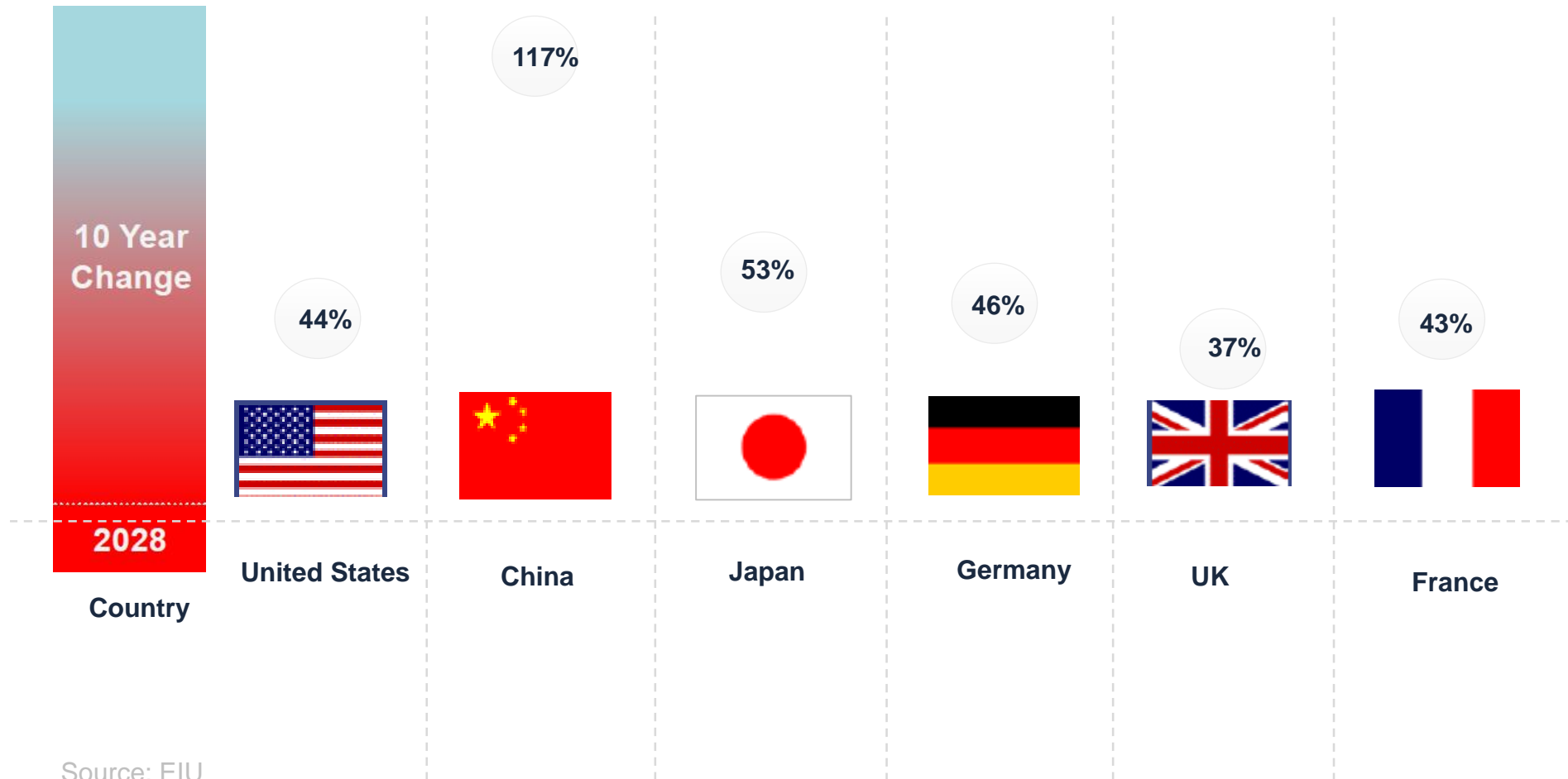
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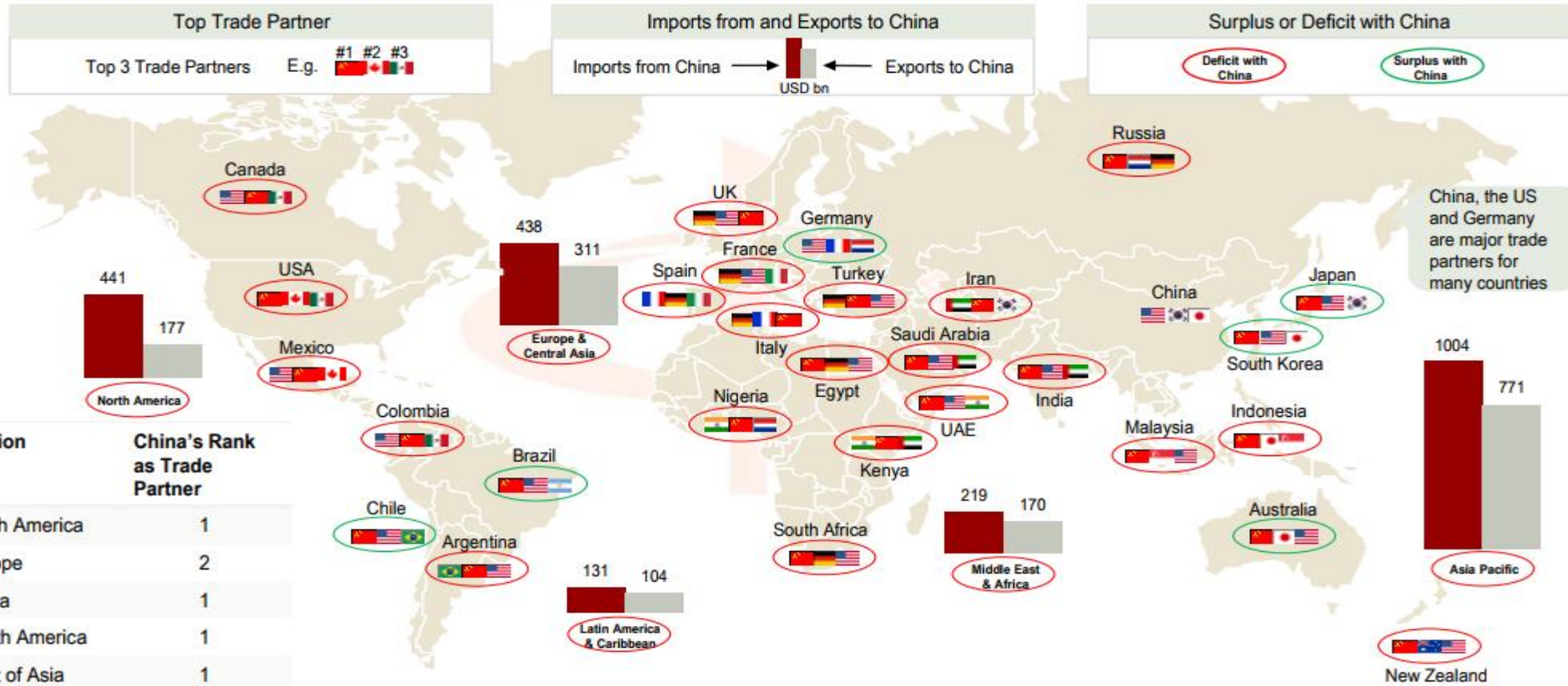
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Why China? Household consumption (top 6 ranking)



China is a Major Trading Partner for All

Major Trade Partners for Key Countries; Trade Surplus/Deficit with China



Chinese Consumer Trends

Nominal private consumption by country, 2018

Source: The Economist Intelligence Unit

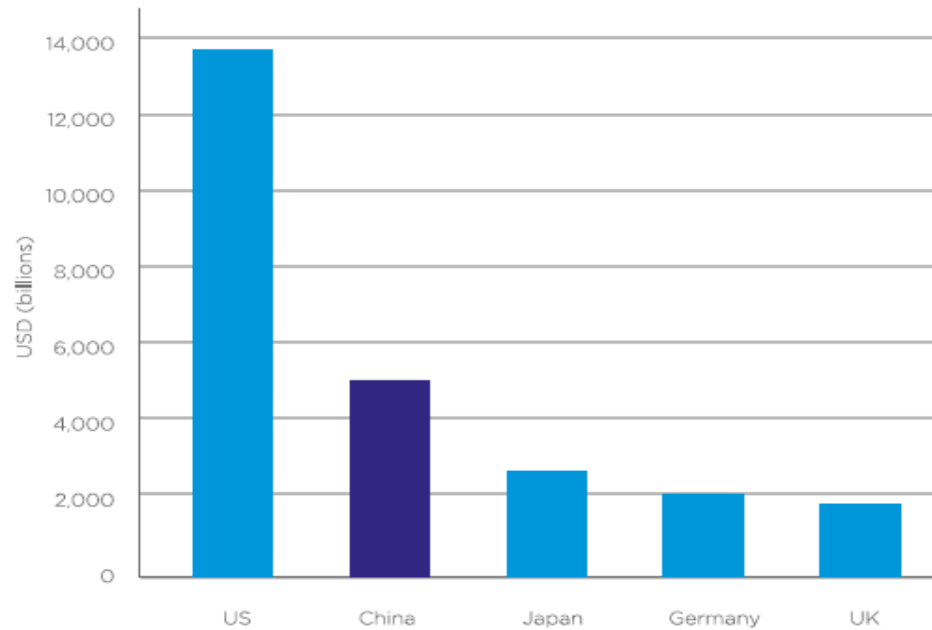
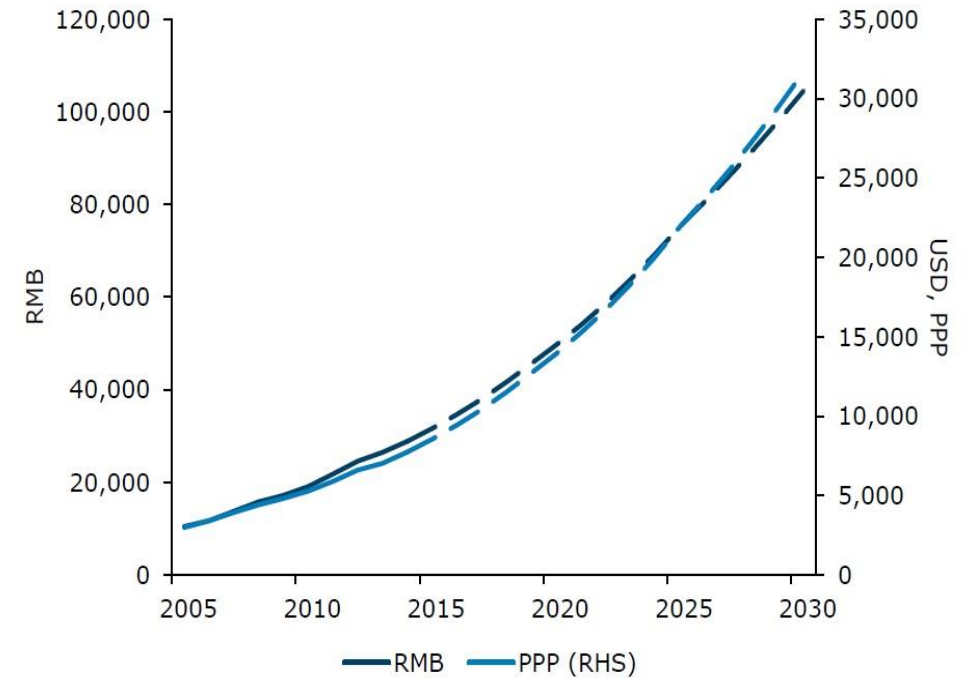


FIGURE 2. CHINA URBAN DISPOSABLE INCOME PER CAPITA



Source: CEIC, ANZ Research

China Trends & Demands & Threats



20%



5

%



Huge
Consumption
market



Greater
Eurasian
Partnership



Digital Economy &
E-commerce

Import Export
&
Service
Opportunities



China Trends & Demands & Threats



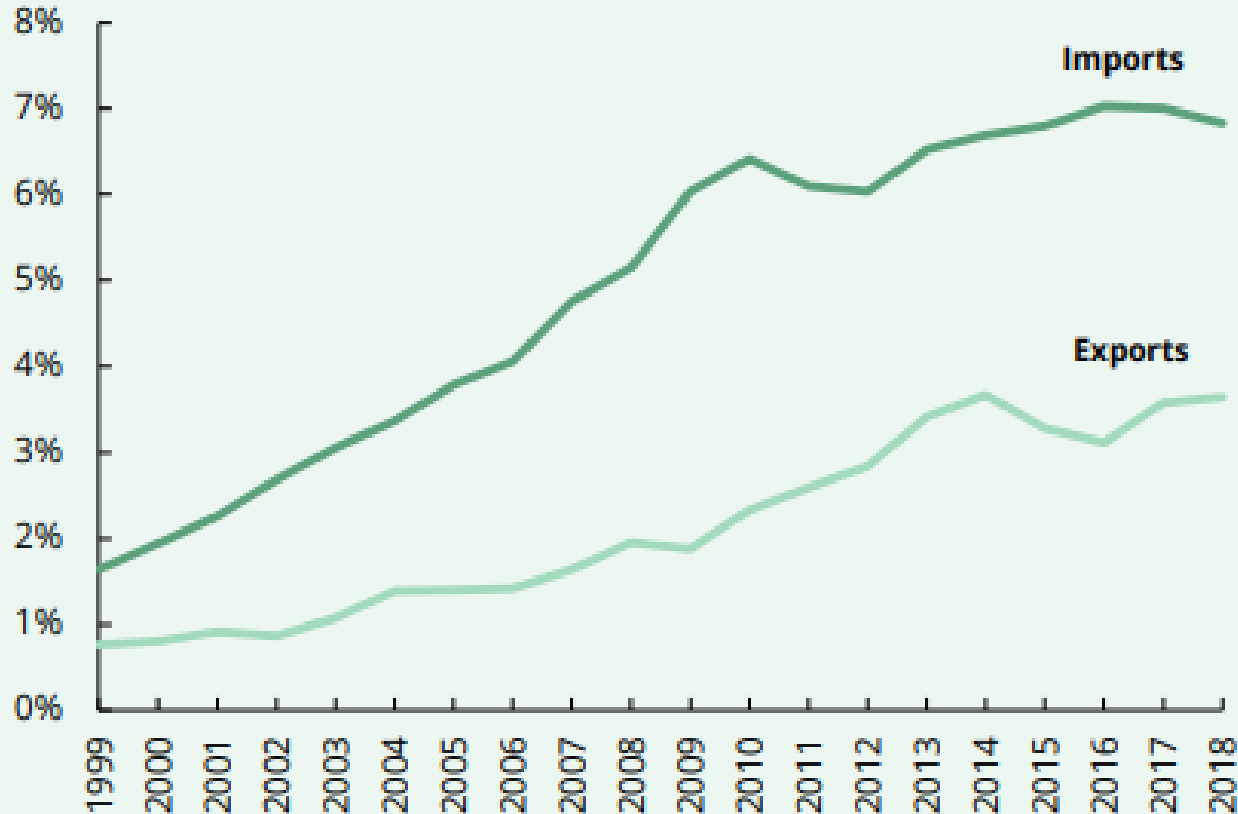
Regional Disparities



China - UK Trade

UK trade with China as a percentage of total trade

Goods and services, 1999 - 2018



Source: ONS

China's share of UK trade has increased rapidly in recent years - in 1999, China was the UK's 26th largest export market and 15th largest source of imports, accounting for 0.8% of UK exports and 1.6% of imports.

China - UK Trade

In 2018, China was the UK's **6th largest** export market and 4th largest source of imports.

China was the **UK's second largest** source of imports outside of the EU.

UK top 10 trading partners 2018, goods and services					
Exports	£ billions	% of total	Imports	£ billions	% of total
USA	120.9	18.8%	Germany	78.6	11.6%
Germany	56.0	8.7%	USA	76.6	11.3%
Netherlands	44.3	6.9%	Netherlands	49.3	7.2%
France	41.7	6.5%	China	44.7	6.6%
Ireland	35.1	5.5%	France	44.4	6.5%
China	22.6	3.5%	Spain	31.9	4.7%
Italy	20.7	3.2%	Belgium	29.0	4.3%
Switzerland	20.2	3.1%	Italy	25.6	3.8%
Belgium	19.1	3.0%	Norway	22.0	3.2%
Spain	18.0	2.8%	Ireland	21.6	3.2%
EU	291.0	45.3%	EU	357.4	52.6%
World	642.2	100.0%	World	680.0	100.0%

Source: ONS Pink Book

China - UK Trade of Goods

UK exports of goods and services to China were worth £23.1 billion

UK exports to China have tripled since the first EFD in 2008, growing from **£7.6 billion to £23.1 billion in 2018**.

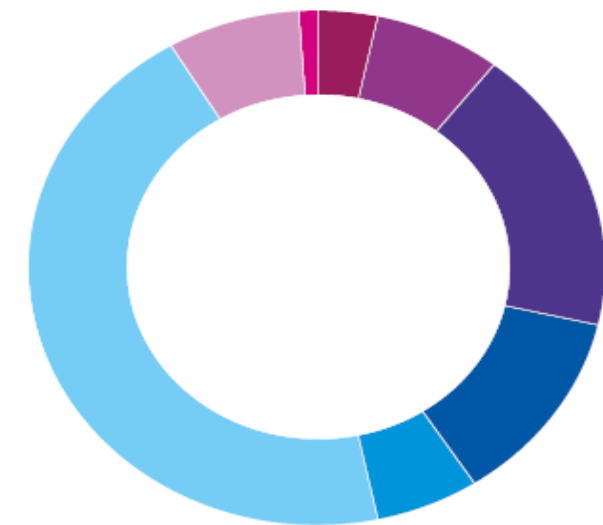
Key British exports include road vehicles, petroleum-related products, and travel services; notable imports include telecoms equipment, plastic articles, toys, games and sporting goods.

UK-China Free Trade Agreement?

Double Tax Agreement between China and UK

UK trade with China, 2018 (£ billions)			
	Exports	Imports	Balance
Goods	18.0	43.0	-25.0
Services	4.6	1.7	2.9
Total	22.6	44.7	-22.1

Source: ONS



China - UK (Service Export)

UK's single largest service export to China was "other business services", valued at **£1 billion**, making up just over a fifth of UK service exports to China.

This category includes **legal, accounting, advertising, research and development, architectural, engineering and other professional and technical services.**

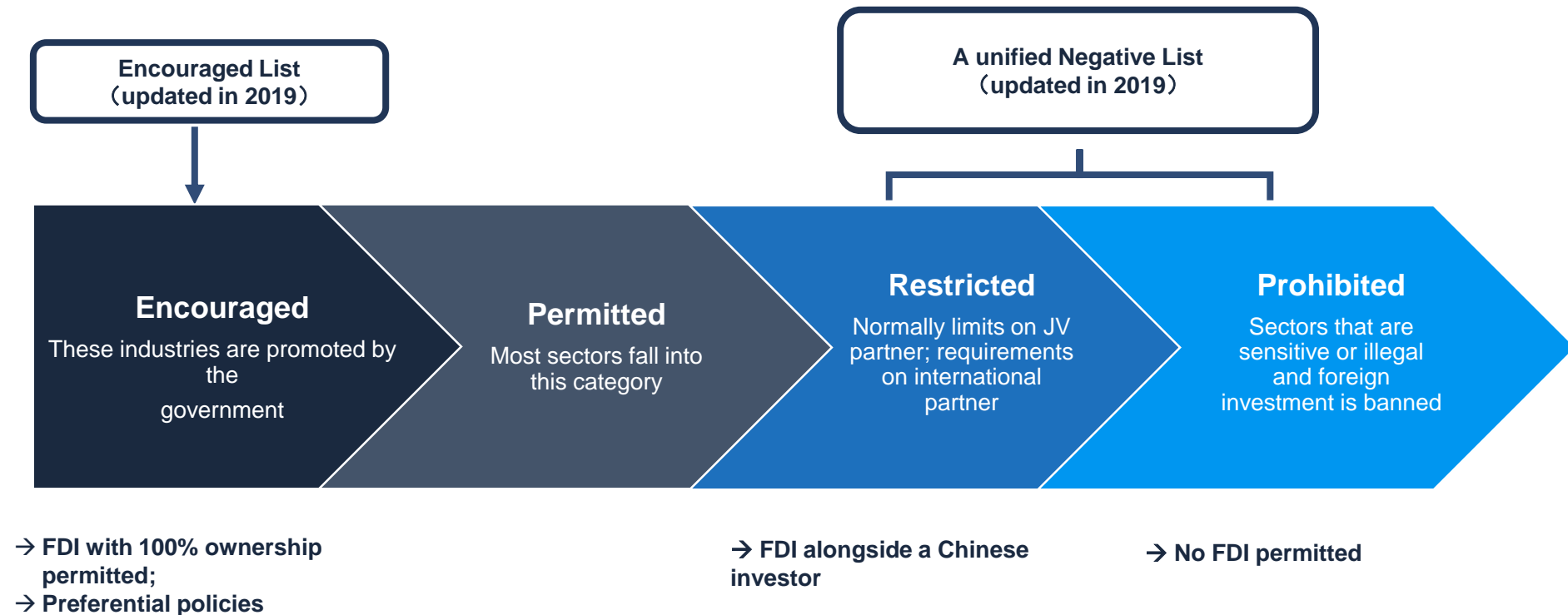
The agreement under Economic and Financial Dialogue (EFD) is to pursue the Shanghai-London stock connect plan and other projects in the sector of financial services. UK financial services exports to China last year were worth **£359 million alone.**

UK service exports to China by type of service, 2018

	£ millions	% of total
Other Business Services	1,000.0	21.7%
Travel	950.0	20.6%
Transportation	910.0	19.8%
Intellectual property	440.0	9.6%
Telecommunications, computer & information services	396.0	8.6%
Financial	359.0	7.8%
Personal, Cultural and Recreational	210.0	4.6%
Government	117.0	2.5%
Insurance and Pension	111.0	2.4%
Maintenance and Repair	60.0	1.3%
Construction	44.0	1.0%
Manufacturing	10.0	0.2%
Total services	4,607.0	100.0%

Source: ONS

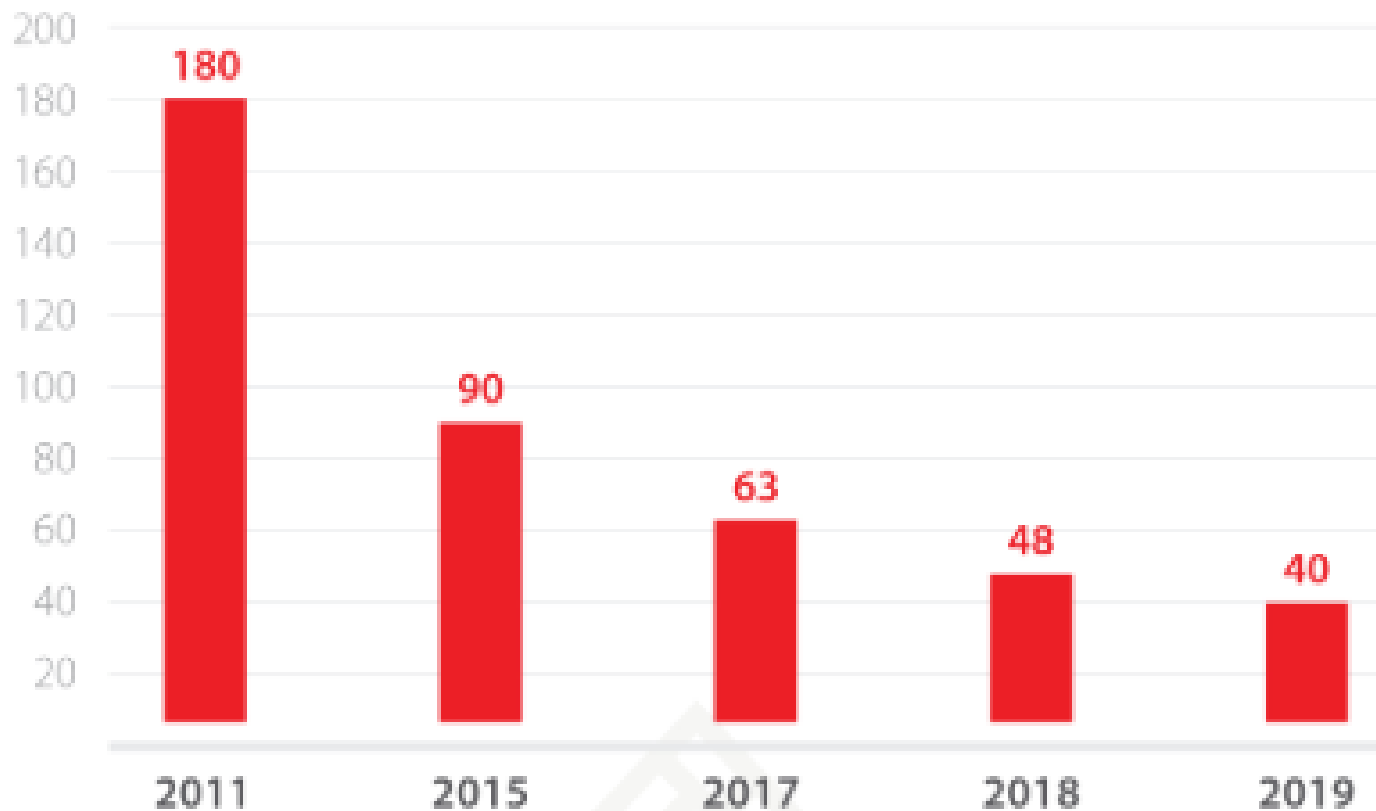
Pre-establishment of National Treatment and Negative List Management System



The Negative Lists have been updated during 2019 - Circular on the Promulgation of the Negative List (National Treatment).

What industry sectors provide new opportunities for UK firms?

Number of Items Prohibited or Restricted in China's 2019 National Negative List, 2011 to 2019



**Before 2018, the national negative list was included in the Catalogue of Industries for Foreign Investment in the "restrictive measures" section.*

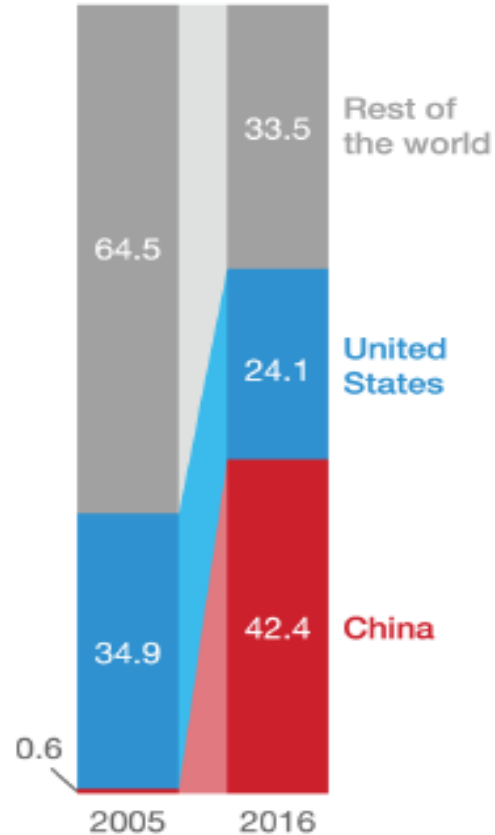
- FTZ Negative List: from 45 items in 2018 to 37 this year
- Negative List: from 48 items in 2018 to 40 this year

Further openings in transportation, infrastructure, agriculture, mining, manufacturing and culture.

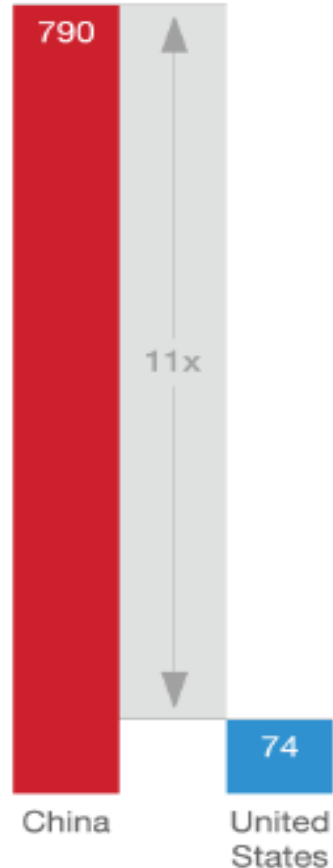
High- tech & Digital economy

China's digital economy is a story of commercial success and investor excitement.

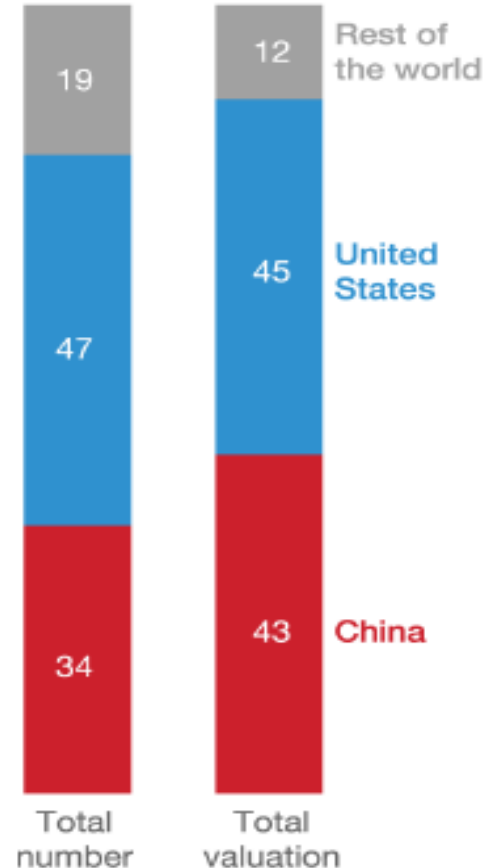
% of total retail e-commerce transaction value



Mobile payments,¹ 2016, \$ billion



% of global unicorns² June 2016



- Digital Retail
- Cash will become absolute.
- Requiring a real name for any activity – oversight of online behavior
- Restrictions on the market entry for foreign investors
- Defining “actual control” of the domestic companies
- IP protection

Healthcare

(Pharma, medical devices, biotech)

- ❑ Healthcare market is growing and one of the most attractive in the world for foreign investors due to its size and growth. China surpassed Japan to become the world's second largest healthcare market in and continue to develop as fastest-growing health-care market of all large emerging economies.
- ❑ Medical device market grew 20% (56 bill \$), pharma – 10% (\$227 bill).
- ❑ Healthcare spending is expected to account 6.5 to 7 % of total GDP in China. (\$2 trillions) by 2030.
- ❑ Recent reforms as registration of the medical devices; SFDA registrations of imported medical devices
- ❑ FDI as medical institutions – form of JVs
- ❑ Encouraged advances medical technology, management experience and best-in-industry operational models and specialized services – nursing, hospice care (aging. popul)
- ❑ SFDA – ease of drug approvals

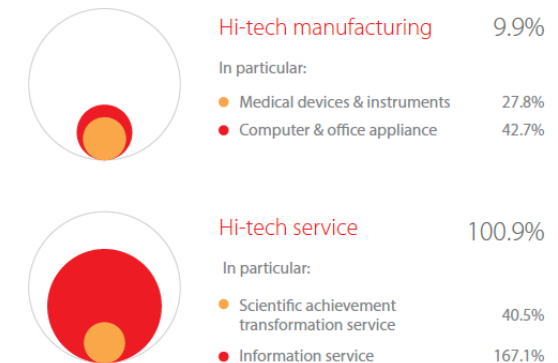
Clean energy



Effected industries: Textiles, Rubber, Leather, Chemicals, Carbon, Metal, Coating, Plastic, Dying, Painting, and Printing processes

- In 2013, China passed the “10 Measures for Environmental Protection
- More than 80,000 factories has been shut down across the country by the anti-pollution drive in 2016
- Where foreign investors can capitalize?
 - Selling part
 - Technology

Performance of Hi-tech Manufacturing and Hi-tech Service Sector (Year-on-Year Growth)



Clean Tech

- Chinese investment into green industries increase tremendously (US\$3 billion in 2005 vs over US\$100 billion in 2017)
- The last decade has witnessed China's transition from the world's top polluter to the one of the leaders in clean energy.
- At present China has the highest capacity for renewable power production as it holds a quarter share in the global capacity for renewable energy. Wind and solar power are the backbone of China's renewable energy sector and are the highest in the world in terms of capacity.
- Ban of petrol and diesel petrol vehicles, bringing New-energy vehicles (NEV). Last year China surpassed US to become the world's largest and fastest growing market for NEVs.
- Potential ease for foreign investors to produce as long as it is new-energy cars.



What are the Business Models for Selling in China?



Direct Sales



Sales through a
Distributor



E-commerce and
On-line Sales



Opening of a
Subsidiary

China's New Trademark Law

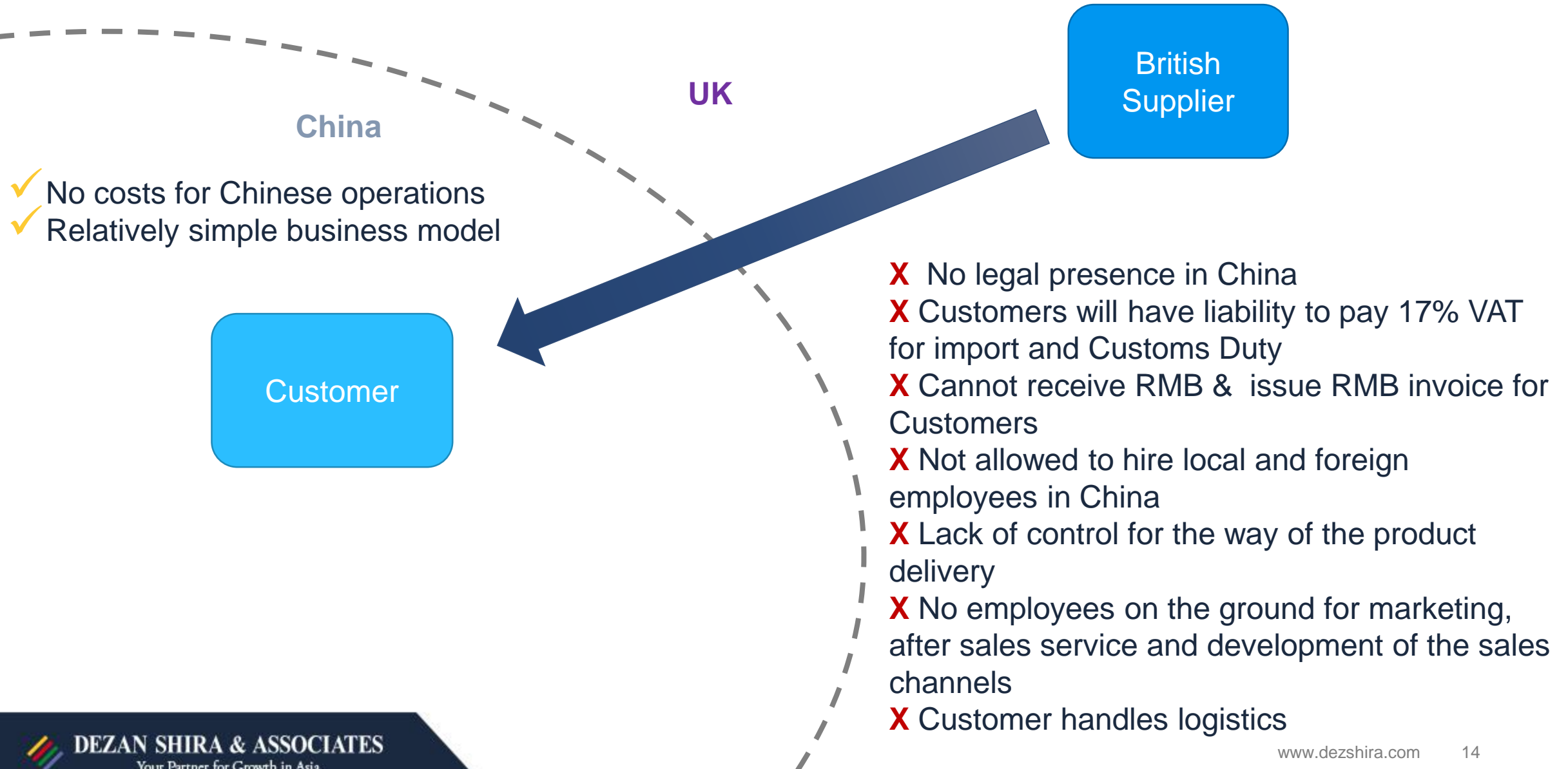
- China's new Trademark Law came into effect November 1, 2019.
- China has "first-to-file" system
- Prohibiting bad-faith trademark filings, although it is not clear definition of "without the intention to use"
- Increased legal obligations for trademark agencies
- Intensified punishment for trademark infringement
- While patent registration is only available in Beijing, TM can be registered at TM registration bureau in one of 14 cities in China.
- It is recommended to register brands in both English and Chinese as well as any logos and trademarks

Priority system based on the "first-to-file" registration of TM

- Only registered Trademarks are protected. There is no general regulations to protect non-registered TM (except for "well-known" brands)
- First applicant for the TM will obtain exclusive rights to use the TM.
- The applicant does not need to demonstrate previous use of a TM in commercial activity (except of the cases when another applicant made the application on the same day)

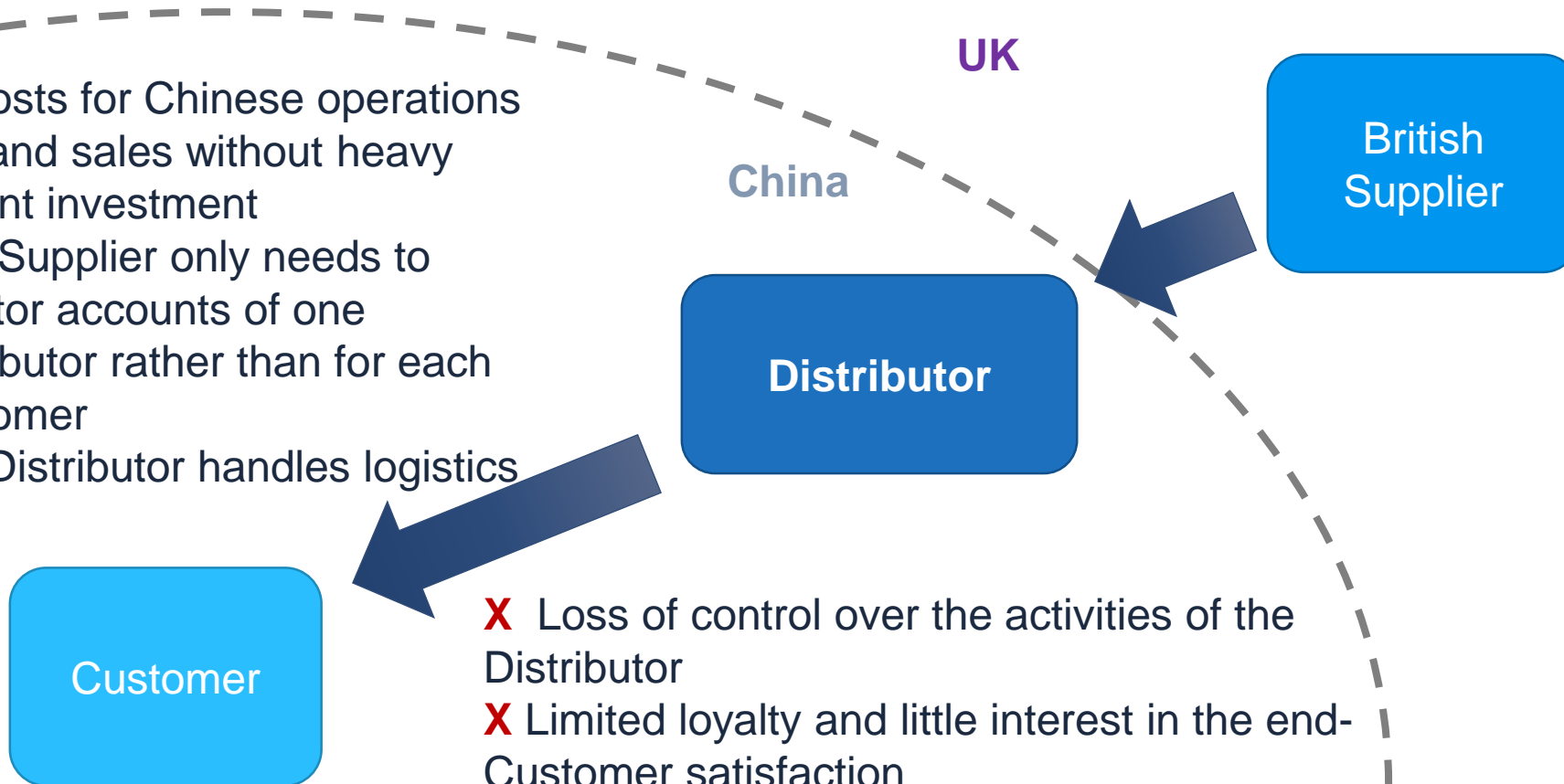


Direct Sales



Sales through a Distributor

- ✓ No costs for Chinese operations
- ✓ Expand sales without heavy upfront investment
- ✓ The Supplier only needs to monitor accounts of one Distributor rather than for each Customer
- ✓ The Distributor handles logistics



- ✗ Loss of control over the activities of the Distributor
- ✗ Limited loyalty and little interest in the end-Customer satisfaction
- ✗ Not allowed to have employees on the ground to monitor the Distributor
- ✗ Cannot receive RMB and invoice in RMB
- ✗ Who handles the marketing?
- ✗ Exclusive rights for the Distributor?

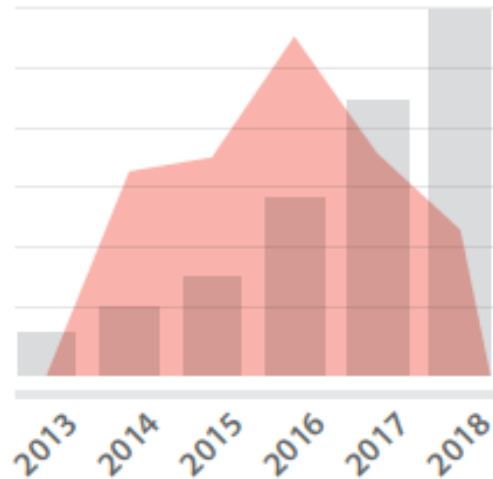
China's Cross Border e-Commerce at Glance

- E-commerce model can serve as a test platform for understanding consumer demand in China.
- Driven by over 780 million Internet users, online retail in China reached **\$ 1.33 trillion in 2018**. Cross-border online trading exceeded **\$ 100 billion in 2018**
- The new Law on E-Commerce from January 1, 2019 defines the basic rules for the sale of goods and the provision of services via the Internet.

CBEC Shopper Analysis

■ Number of CBEC shopper (Million)
 ■ Increasing rate (%)

Year	Number of CBEC shopper (Million)	Increasing rate (%)
2013	10	0
2014	15	50
2015	23	53.5
2016	42	83.6
2017	65	54.6
2018	88	35.4



Number of Online and Mobile Shoppers

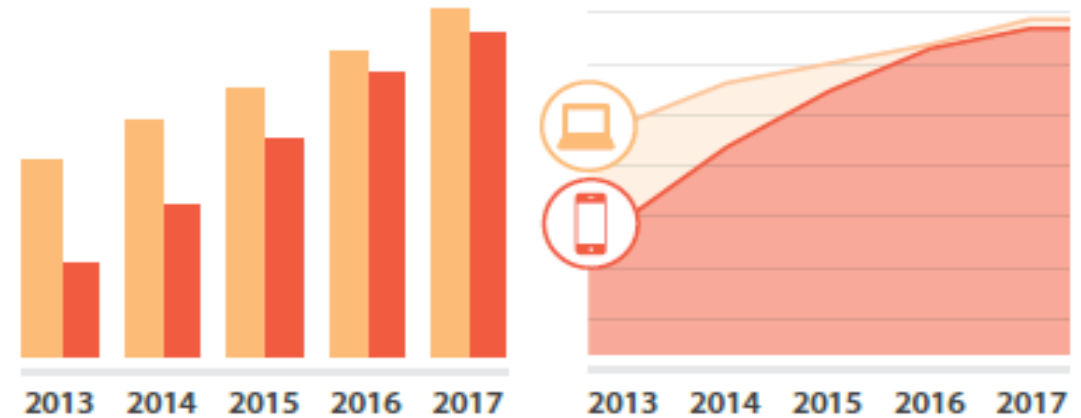
■ Online shoppers ■ Online shoppers on mobile devices

Unit: Million

Year	Online shoppers (Million)	Online shoppers on mobile devices (Million)
2013	301.9	144.4
2014	361.4	236.1
2015	413.3	339.7
2016	466.7	440.9
2017	533.3	505.6

Unit: % Ratio of all internet users

Year	Online shoppers (% Ratio)	Online shoppers on mobile devices (% Ratio)
2013	48.9%	28.9%
2014	55.7%	42.4%
2015	60.0%	54.8%
2016	63.8%	63.4%
2017	69.1%	67.2%



Source: CNNIC (China Internet Network Information Centre)

On-line Sales / E-commerce

- **Possible business models for online trading:**

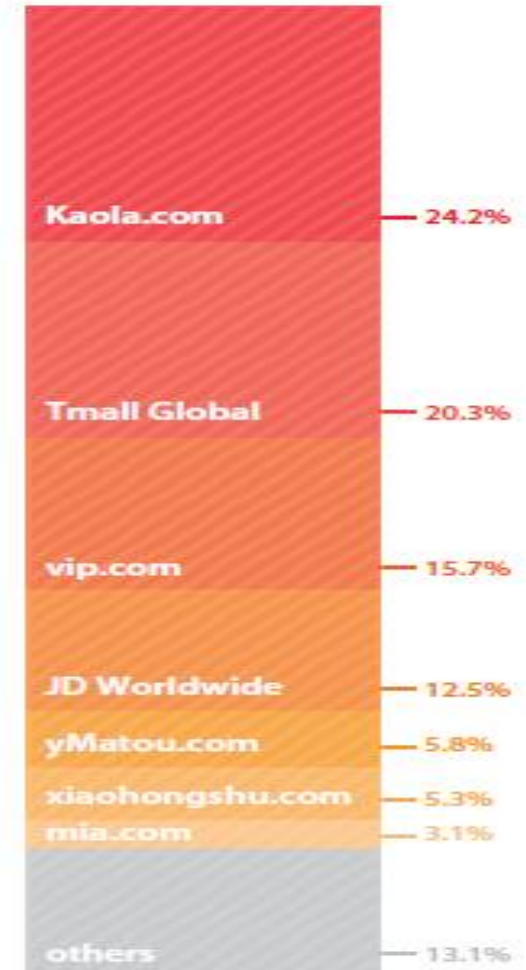
- Sales through an external website (outside of China)
- Sales through online stores on the basis of B2C (Tmall Global, JD Worldwide, Suning Global)
- Sales through online stores on the basis of B2C2C (Kaola, JD Worldwide, Tmall Global, Beibei, VIP.com)
- Sales through the WeChat Store

- **Tmall Global ≠ Tmall China**

Key considerations:

- Required to register entity in China?
- TM registration?
- Costs for e-commerce store?
- Inventory?
- Technology solutions to support the growth?

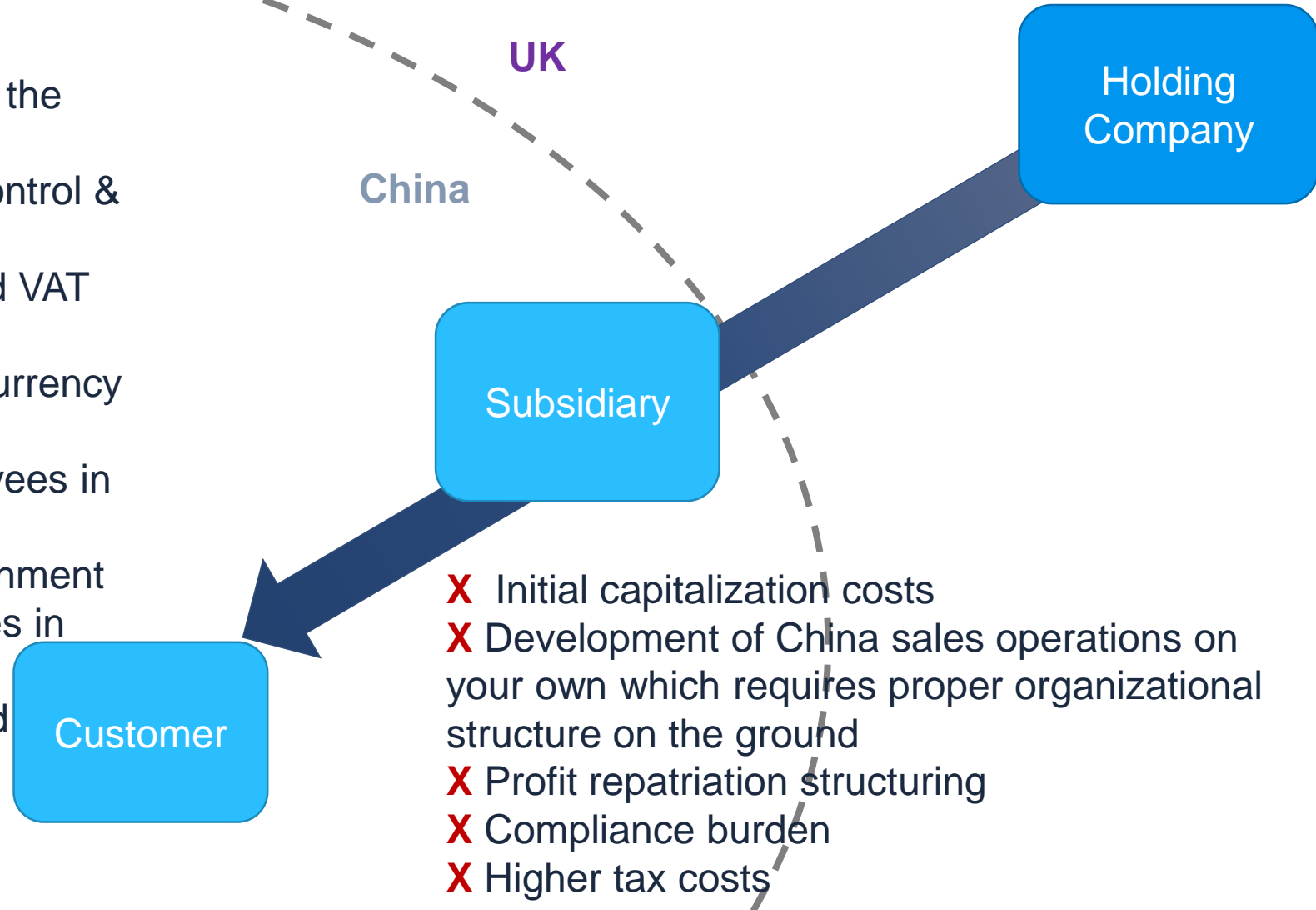
Market Share of Main CBEC Players



Source: iiMediaResearch, WalktheChat

Sales Through a Local Subsidiary

- ✓ Specialized structure
- ✓ Business support and liaison office for the overseas HQ
- ✓ Expand sourcing platform, logistics control & quality control
- ✓ Allowed to issue invoices in RMB and VAT invoices (Fapiao) to the Customer
- ✓ Allowed to convert RMB into foreign currency for profit repatriation
- ✓ Allowed to hire local and expat employees in China
- ✓ Eliminating risk of Permanent Establishment
- ✓ Allowed to expand and set up branches in other cities
- ✓ Development of own infrastructure and marketing;
- ✓ Maintain control of the product prices
- ✓ Security of IP and sales channels

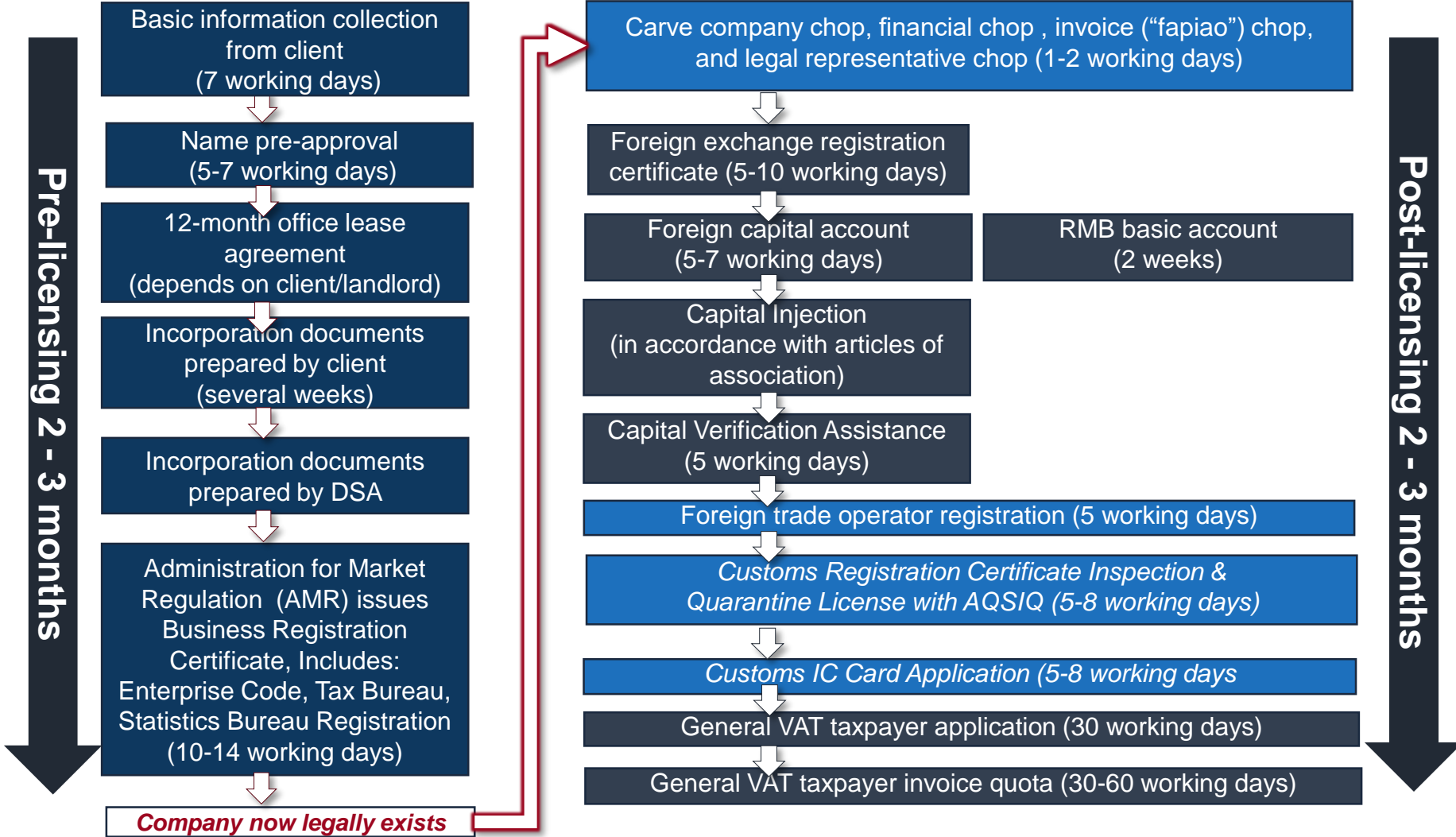


- ✗ Initial capitalization costs
- ✗ Development of China sales operations on your own which requires proper organizational structure on the ground
- ✗ Profit repatriation structuring
- ✗ Compliance burden
- ✗ Higher tax costs

Setting up a Local Subsidiary

- Type of legal entity: **FICE – foreign-invested commercial enterprise**
(or trading Wholly Foreign Owned Enterprise “WFOE”)
- Business scope: Retail, Wholesale, Franchising, Commission Agency Activity, on-line sales, quality control etc.
- HS code products to be listed for all products proposed to be exported or imported in the process of the registration
- Customs registrations
 - Customs bureau registration;
 - Foreign trade operator filing;
 - E-Port registration with local Customs;
 - Registration for payment in foreign currency due to importing commodities with foreign exchange bureau;
 - Registration for exporting verification with foreign exchange bureau;
 - Commodities inspection registration.

Foreign Investment Commercial Enterprise. Phases and timeline



Catalogue of Exported Goods

(according to HS Code)

- **Export quotas:** for example, *Wheat, corn, rice, wheat flour, corn flour, rice flour, cotton, lumber, coal, crude oil, refined oil, tin and tin products, silver, other minerals*
- **Export quotas through tendering:** e.g., *Raw materials, minerals, natural resources*
- **Export license:** e.g. *Meat, certain metals, chemical products, automobiles, motorcycles, etc.*



Catalogue of Import Goods

(according to HS Code)

- **Groups of goods allowed for import:** automatic licensing; supervision by the Ministry of Commerce of China
- **Groups of goods limited to import:** control by means of tariff quotas or requirement for a special license: wheat, corn, rice, sugar, wool, cotton and some fertilizers (tariff quotas); medical equipment, dangerous goods, food circulation (special license)
- **Groups of goods prohibited for import:** some types of industrial waste, used clothes and equipment, seedlings, etc.

Import Tariff Reduction Policy Starting November 2017

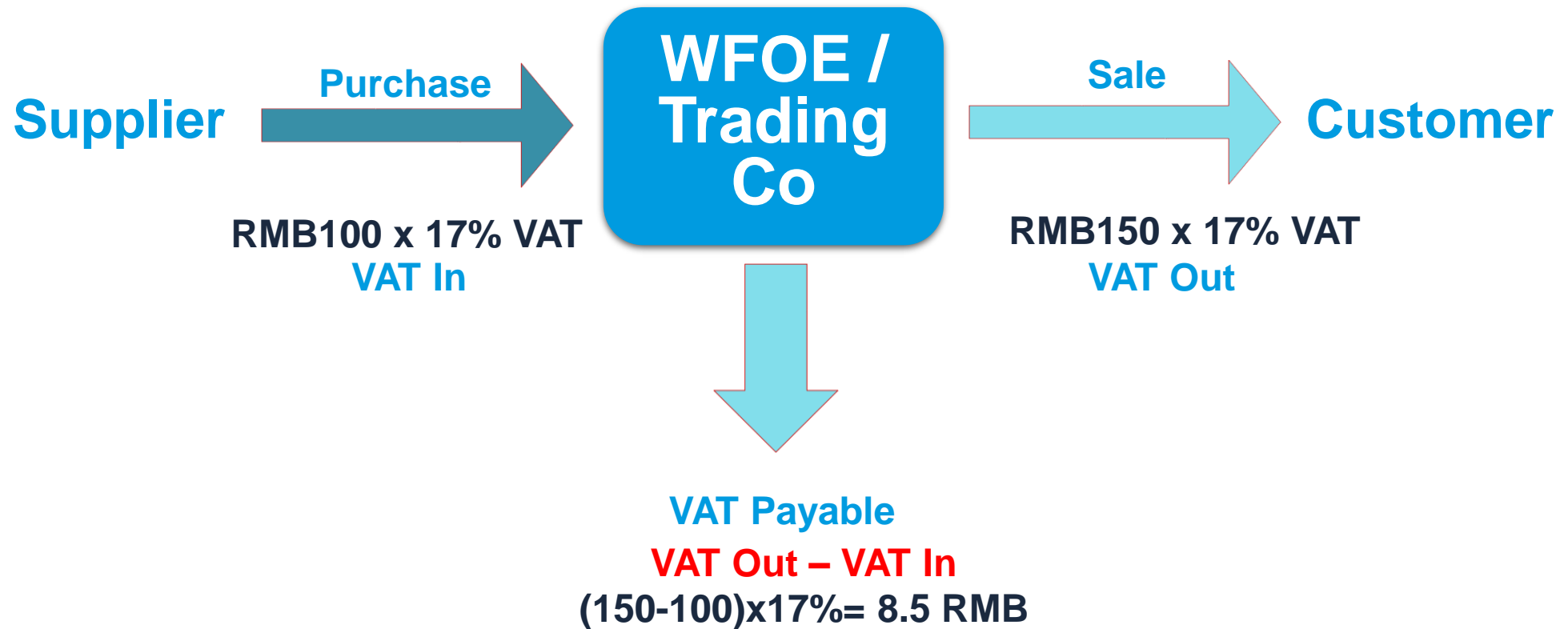


What are the Key Consideration for Setting up a FICE?

- Holding Structure
- Profit Repatriation Strategy
- WFOE corporate name
- Funding and Subscribed Capital
- Legal Representative
- Business Scope
- WFOE office lease
- General VAT taxpayer status
- WFOE holding company
- Corporate governance



Introduction to VAT system



Key Considerations

- All export / import activities should have corresponding FX transaction
- Flow of invoices should match payment flow
- Custom documents and VAT fapiaos are important supporting documents for accounting and tax purposes
- Money sent out of China are monitored and restricted by SAFE (withholding taxes may apply if not connected with goods)



ASIA BRIEFING



CHINA BRIEFING



INDIA BRIEFING



VIETNAM BRIEFING



ASEAN BRIEFING



The New Foreign Investment Law in China

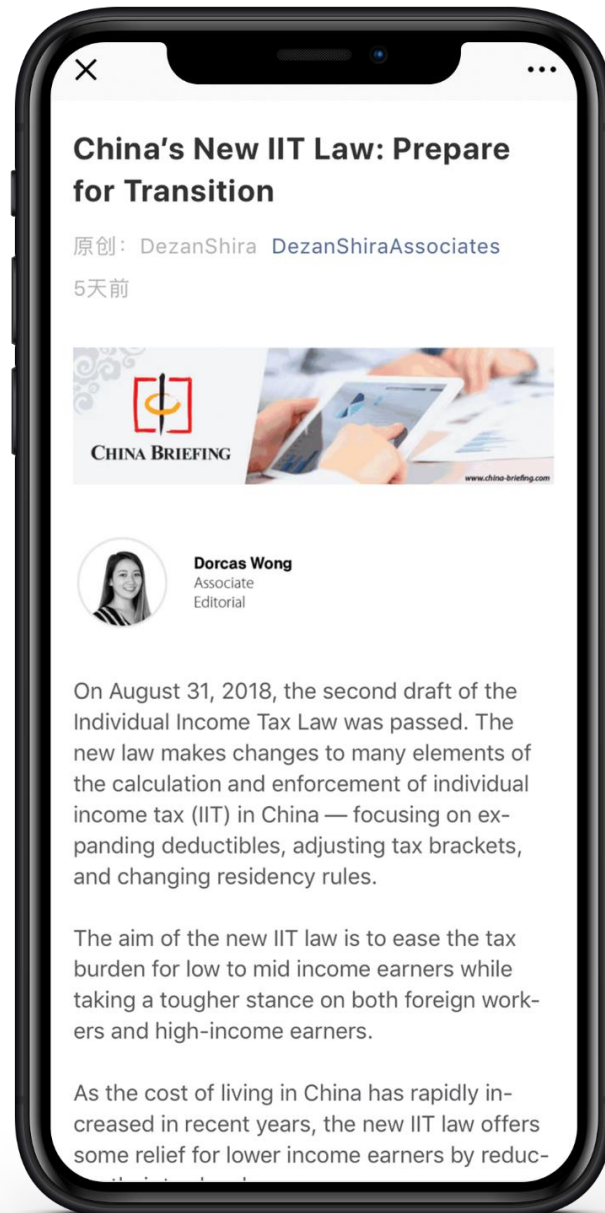
The Context for the New FDI Law P.04
What to Watch for Under the New FDI Law P.07
How the New FDI Law Affects Investment in China P.11

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