



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Doing Business in China in 2022

January 26th, 2022



Today's Speakers



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DEZAN SHIRA & ASSOCIATES

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Section 1

Overview of investment landscape and main changes in 2021





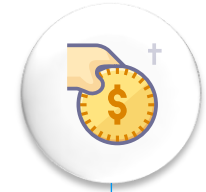
China's GDP grew **8.1%** in 2021



Full-year GDP **114.4 trillion yuan (\$18 trillion)**



Q1 Increase: **18.3%**
Q2 Increase: **7.9%**
Q3 Increase: **4.9%**
Q4 Increase: **4%**



Record-Breaking FDI actually used in 2021 **RMB 1.149 trillion, 14.9% YoY increase**
In 2020 the number was RMB 1.034 trillion (7.4% YoY increase)

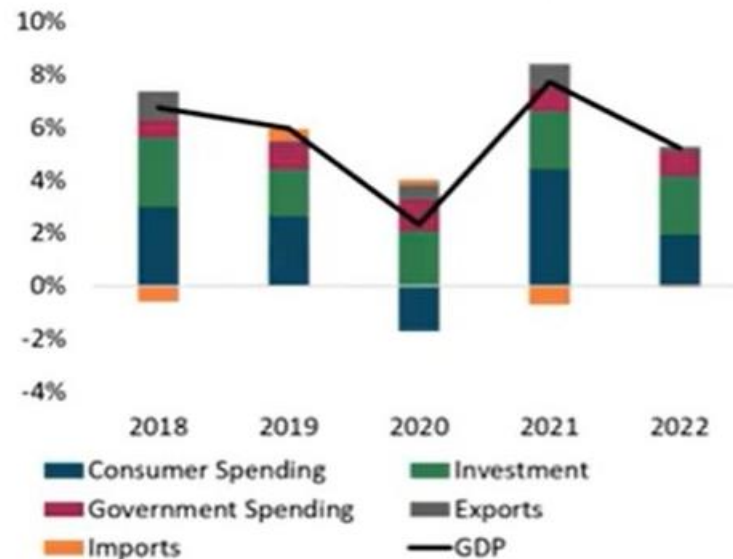


FDI in the high-tech manufacturing sector increased **17.1% y/y**;
FDI in the high-tech service sector rose **19.2%**.

China's economic turbulence is primed to increase due to Covid outbreaks and government policies

Outlook

The Delta variant has proven tricky to eliminate; companies should prepare for continued flare ups
Real GDP Growth (%YOY)



Drivers

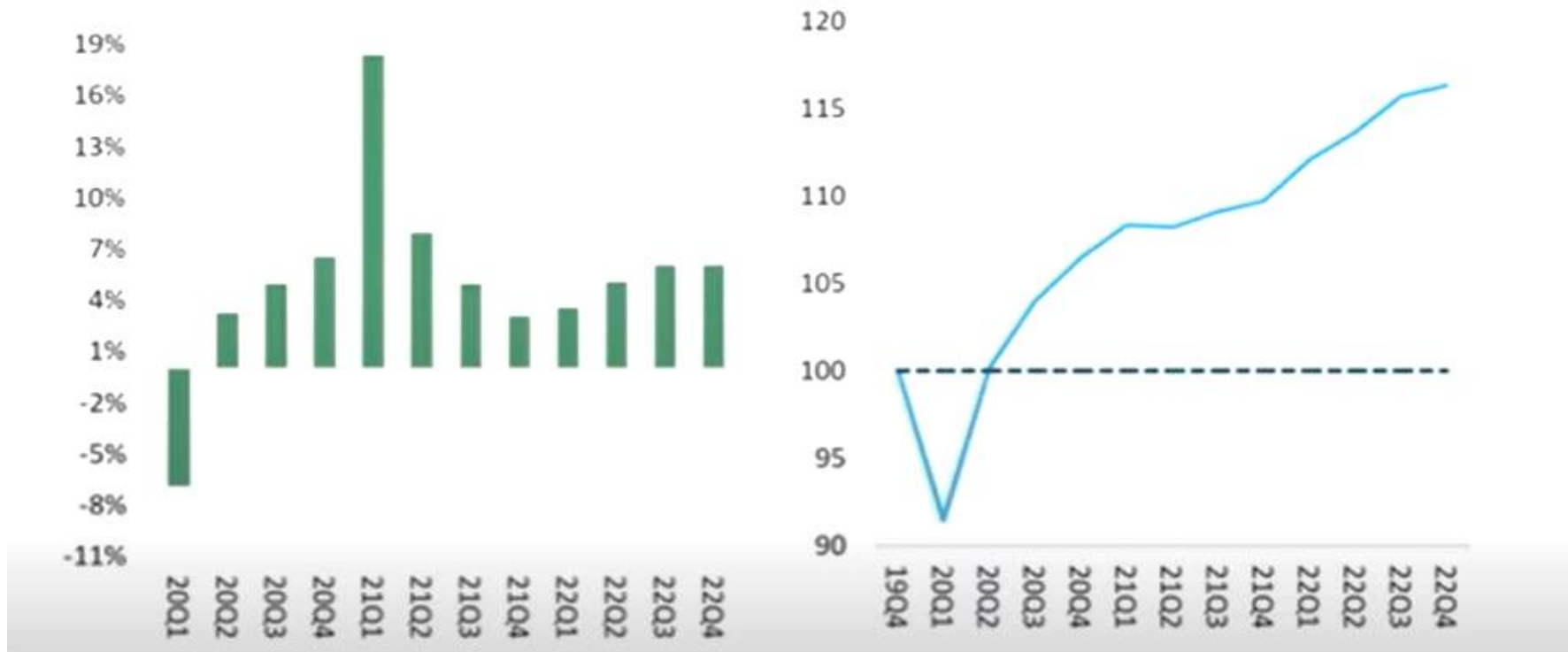
Investment	Consumer Spending
Neutral	Neutral
Government Actions	Exports
Somewhat negative	Somewhat positive

What to Watch

- New COVID outbreaks
- Power shortages
- Defaults in the real estate sector

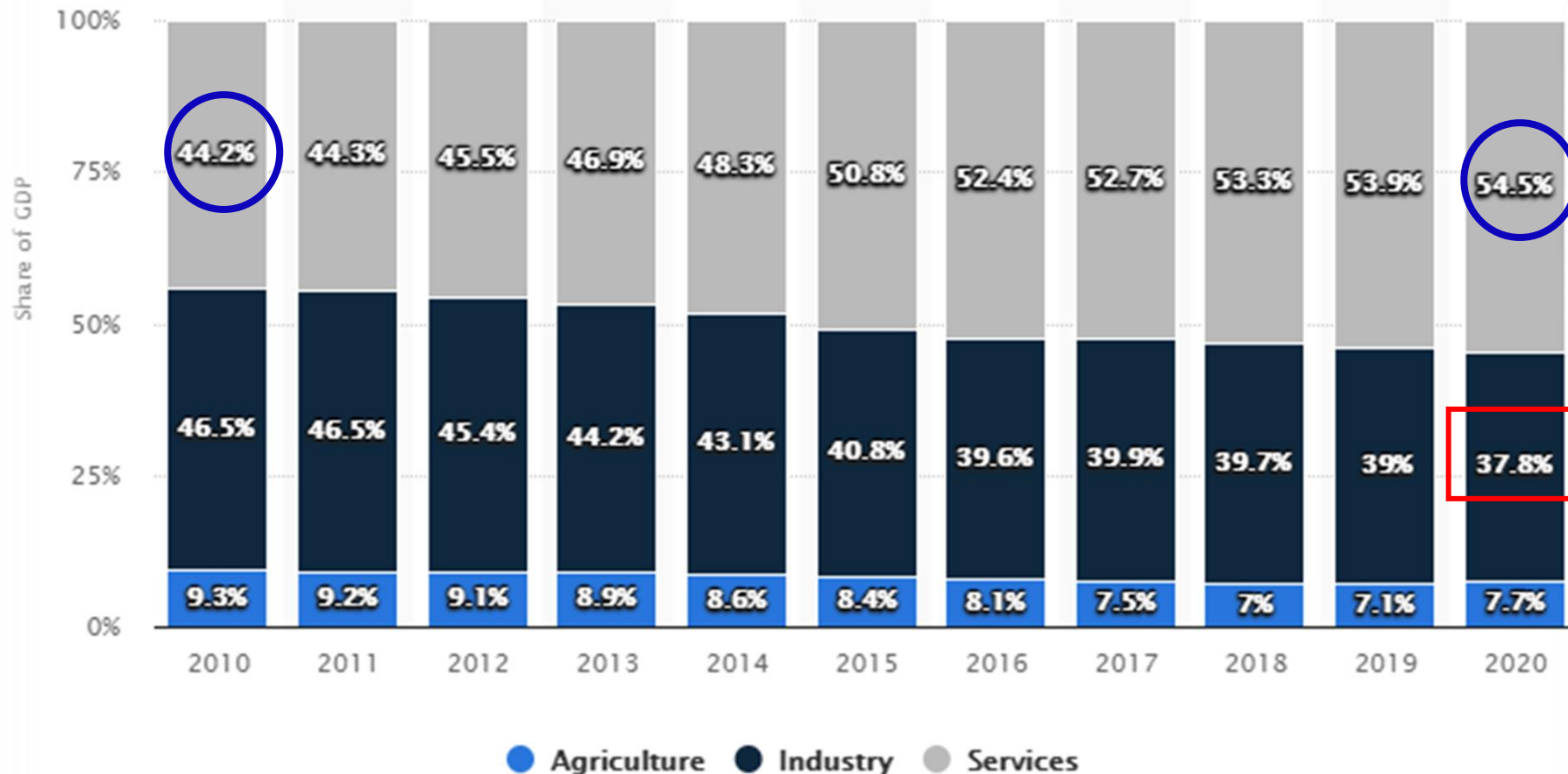
The economy will continue to expand but will be marked by heightened volatility

China's growth in Q4 will show the impact of recent outbreaks and power shortages
Gross domestic product (%YOY) *GDP index (2019Q4=100, SA)*



China's GDP Examined: A Service-Sector Surge

A more sustainable post-industrial services and consumption-driven economy.



Key Takeaways



China will continue to experience domestic COVID outbreaks over the coming quarters. Expect borders to remain closed through at least Q4 2022 as Beijing sticks to its virus elimination strategy.



The government will continue to meet new outbreaks with highly disruptive lockdowns that will raise headwinds on both the production and consumption sides of the economy. Expect demand for domestically-oriented products to be relatively subdued and volatile next year.



Watch the domestic real estate market and global energy markets for potential disruptors to China's growth. Turbulence in the former would have wide-ranging effects touching all parts of the economy; sky-high prices in the latter could lead to new rounds of power shortages.

**Investment Vehicles, legal
& tax matters**



Different main entity types: JV vs WFOE vs RO

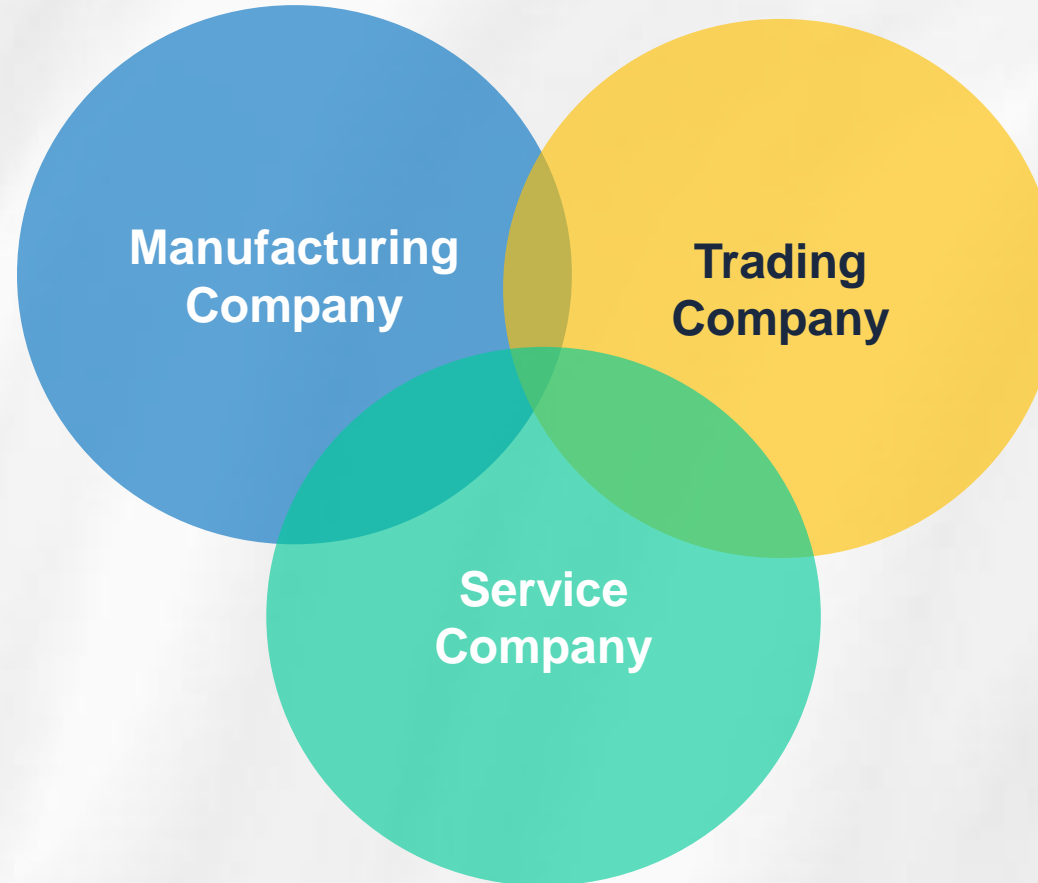


Sino-Foreign Joint Venture (JV)	Wholly Foreign Owned Enterprise (WFOE)	Representative Office (RO)
<ul style="list-style-type: none"> ✓ Help the foreign investor to invest in those restricted industries on the Negative List ✓ The Chinese partner may provide efficient and competitive resources as they are familiar to the market 	<ul style="list-style-type: none"> ✓ Foreign investor has full control ✓ More straightforward on document drafting and preparation 	<ul style="list-style-type: none"> ❖ An office in China established by a foreign enterprise ❖ It is merely a representative of the foreign enterprise, is not regarded as a "legal person" - means its liabilities are tied to the HQ ✓ A tentative try in the Chinese market ✓ Does not require Registered Capital ✓ Relatively short timeline to set up: takes roughly 1~3 months to complete all establishment procedures ✓ Relatively easy to establish and maintain ✓ Can do liaison activities on behalf of the HQ in carrying out trade business
<ul style="list-style-type: none"> ○ Risk of cooperation dispute ○ Less voting ○ More documents to prepare 	<ul style="list-style-type: none"> ○ Cannot engage in some restricted industries ○ Information and resource limited, due to not familiar with the market 	<ul style="list-style-type: none"> ○ The foreign enterprise must have been in existence for 2 years ○ Only allowed to engage in non-profit-making activities: market research, exhibition/ promotional activities Profit-making activities are forbidden. ○ Cannot hire staff directly

Different entity types: **Service** vs **Trading** vs **Manufacturing**

| **Business Activities**

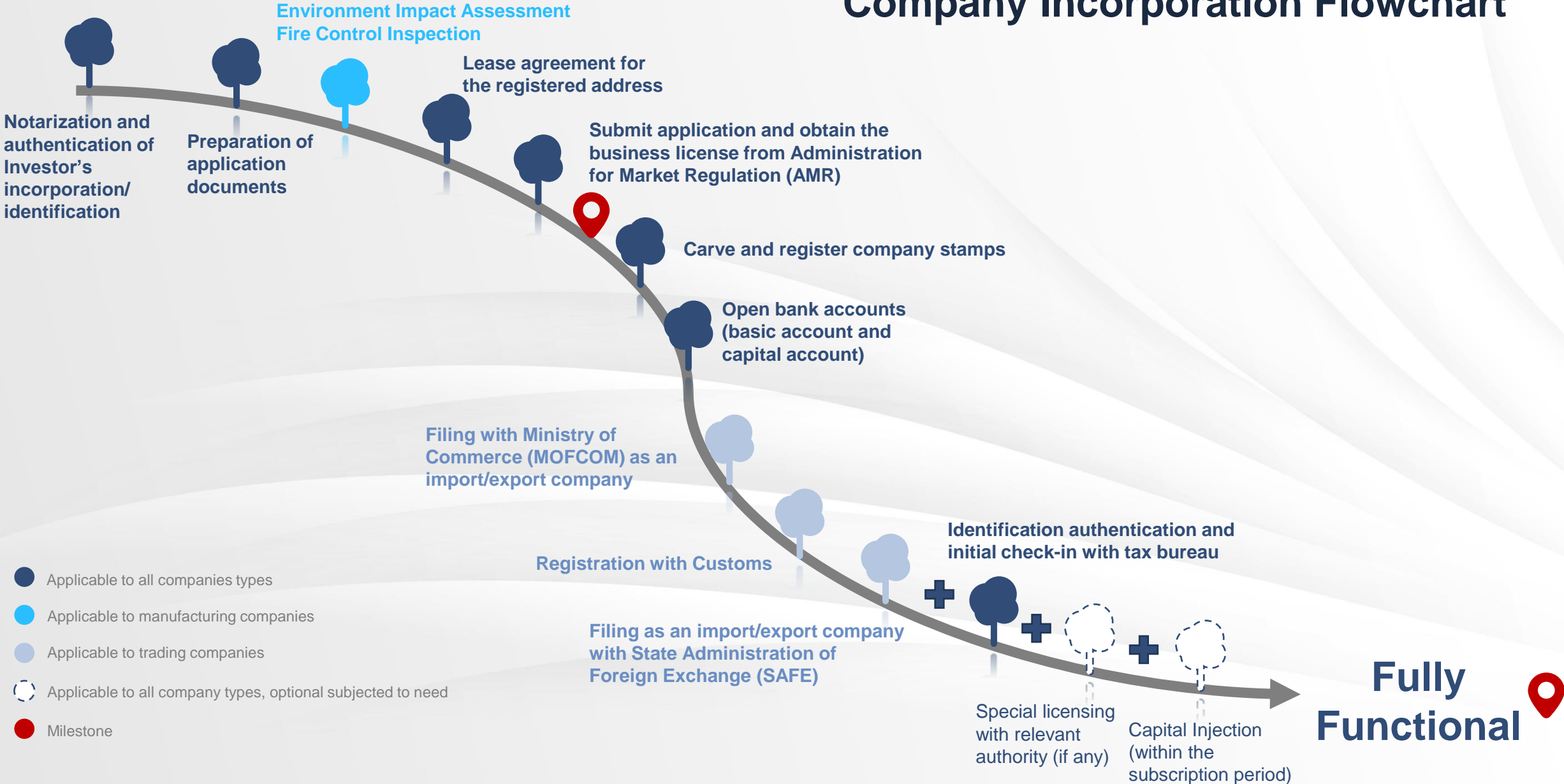
- + Purchase raw materials from suppliers
- + Manufacture products in China
- + Sell the self-manufactured products to distributors/ customers



- + Purchase goods from suppliers
- + Sell goods to customers
- + Import / Export goods

- + Provide service to customers

Company Incorporation Flowchart



Different entity types: Service vs Trading vs Manufacturing vs Rep. office









Timeframe of Incorporation



Get Business License



Fully Functional

Manufacturing Company	Trading Company	Service Company	Representative Office
 3~5 months	 2~3 months	 1~2 months	 1~2 months
 2~3 months	 2~3 months	 1~2 months	 1~2 months
Gross: 5~8 months	Gross: 4~6 months	Gross: 2~4 months	Gross: 2~4 months

Introduction to the PRC Tax System

1

Property and behavior taxes

- Land Appreciation Tax
- Real Estate Tax
- Urban and Township Land Use Tax
- Arable Land Use Tax
- Deed Tax
- Resources Tax
- Vehicle and Vessel Tax
- Stamp Duty
- Urban Maintenance and Construction Tax
- Tobacco Tax
- Vessel Tonnage Tax
- Environmental Protection Tax

2

Goods and services taxes

- Value-added Tax (VAT)
- Consumption Tax
- Vehicle Purchase Tax
- Customs Duty

3

Income taxes

- Corporate Income Tax (CIT)
- Individual Income Tax (IIT)

China in a nutshell and Main events of 2021



Corporate Income Tax (CIT) Rates

25%

Personal Income Tax (PIT) Rates

5- 45%

Value-Added Tax (VAT) Rates

13, 9, or 6 depending on the types of goods and services

Withholding tax (WHT) rates

Resident: NA;
Non-resident: 10 / 10 / 10

Corporate capital gains tax rate (%)

Capital gains are subject to the normal CIT rate.

Individual capital gains tax rate (%)

20

Section 2

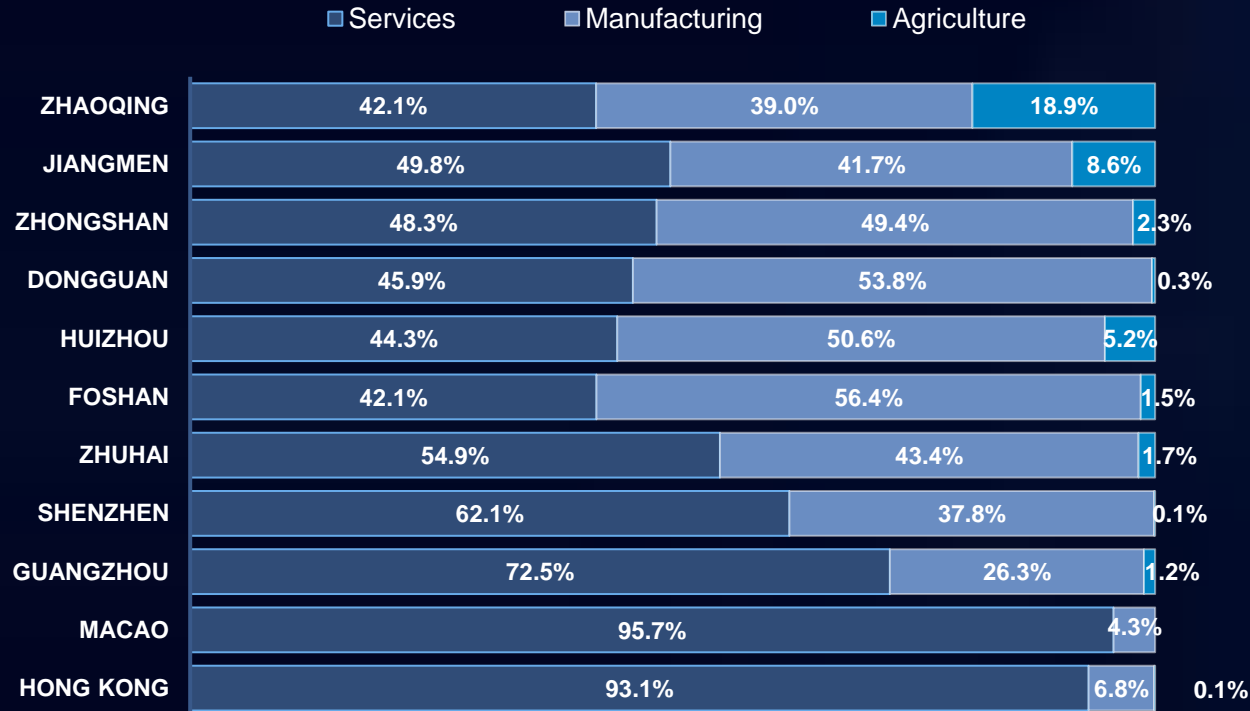
Current Situation in South China





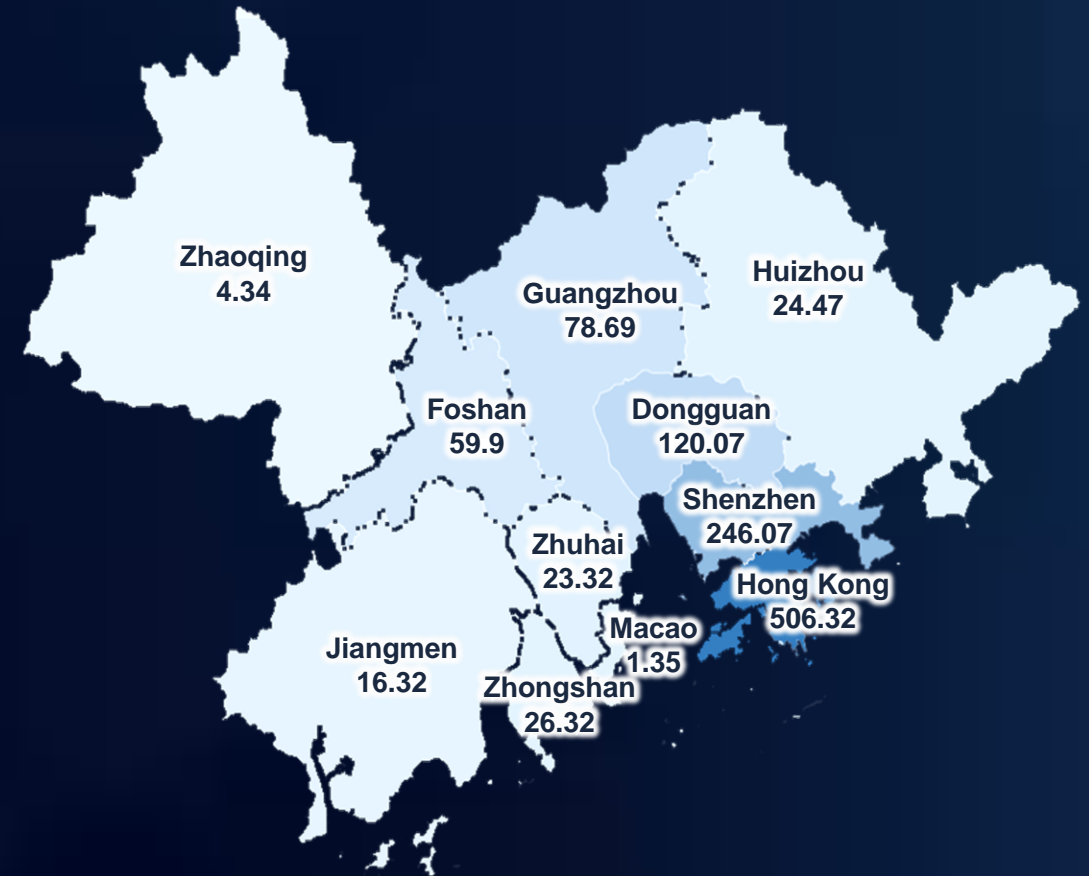
**Reform and Opening Up
under Deng Xiaoping
(Shenzhen)**

2020* Industrial Structure of GBA Cities



*2020 Data of Hong Kong and Macao are not published yet. Hence the data of 2019 of both are used here.

2020 Export Volume of GBA Cities (US\$ bn)



New!

2021 Guangdong GDP is 12.4 trillion yuan, a YoY increase of 8% (USD 2Trillion)

The added value of the primary industry was **500.366 billion yuan**, a YoY increase of 7.9; the added value of the secondary industry was **5,021.919 billion yuan**, an increase of 8.7% year-on-year; the added value of the tertiary industry was **6914.682 billion yuan**, a year-on-year increase of 7.5

Industrial Structure (% of GDP) of GBA Cities in Mainland China

- **Primary industry:** agriculture, forestry, animal husbandry, fishery
- **Secondary Industry:** industrial and construction
- **Tertiary industry:** service industry



Shenzhen

Primary Industry: 0.1% of GDP
Secondary Industry: 39% of GDP
Tertiary Industry: 60.9% of GDP



Guangzhou

Primary Industry: 1.1% of GDP
Secondary Industry: 27.3% of GDP
Tertiary Industry: 71.6% of GDP



Foshan

- High Tech enterprise: up to **500K RMB**
- Technical transformation of fixed assets subsidy: up to 5% of the investment on fixed assets transformation
- Manufacturing Industry Innovation Center Support: up to **20 million RMB**
- Applicable industry: Equipment manufacturing, pan-home, automotive and new energy, civil-military integration and electronic information, intelligent manufacturing equipment and robots, new materials, food and beverage, biomedicine and health
- **Small and Micro size enterprise employment subsidy:** social insurance for the employees who are new graduates within 2 years, with employment contract for more than 1 year.



Dongguan

Huizhou

Zhuhai

Jiangmen

Zhongshan

Zhaoqing

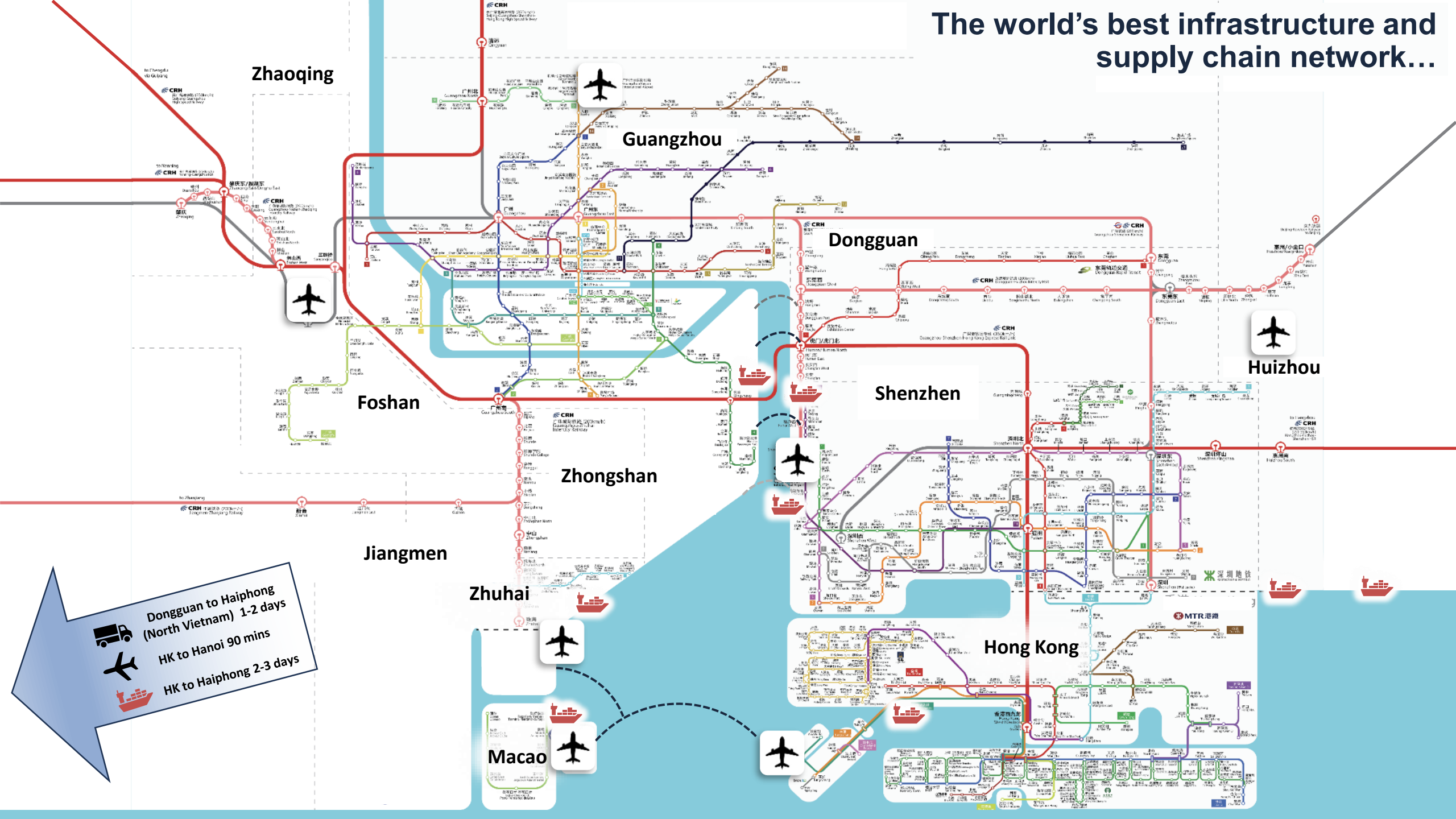
- Quality Award Incentive: Up to **1 million RMB** Manufacturing, service, construction enterprises;
- Technical Equipment Transformation Incentive: up to 10% of the total investment on equipment transformation, maximum **5 million RMB**.
- Financial Lease Incentive: up to **1 million RMB**
- SME Growth Incentive: up to **50K RMB** (50% of costs on lease or equipment purchase)

DG

- IT industry, Healthcare and Pharmaceutical industry, high-end equipment manufacturing industry, etc.
- Incentives: including but not limited to subsidies for project landing, fixed asset investment, transitional rent, equity investment, financing, technological transformation, standardized management, core equipment usage, business contribution awards, mergers and restructure, etc. up to **10 million RMB**.

ZS

The world's best infrastructure and supply chain network...



 Dongguan to Haiphong (North Vietnam) 1-2 days
 HK to Hanoi 90 mins
 HK to Haiphong 2-3 days

Guangdong Free Trade Zone

Key Locations



Measures

- Tax preference
- Special Customs supervision policies
- Further open-up for FDI



FTZ in Guangdong

- Since April 2015
- Includes Guangzhou Nansha Area, **Shenzhen Qianhai & Shekou Area**, Zhuhai Hengqin Area.

Section 2

Current Situation in Central China





Shanghai and YRD



Overview:

After 30 years of development and opening-up, East China has been given new roles in the country's overall development for the next three decades according to the 14th 5-Year Plan. With Shanghai being the center of international trade, innovation, and high-tech development in recent years, the Yangtze River Delta region will be the pioneer to put China's new 'dual circulation' strategy (DCS) in action. This strategy aims to spur domestic demand as well as cater to export markets to create conditions that will allow domestic and foreign markets to boost each other.

East China plays a vital role in China's economy. It accounts for:



25%

of China's total economic output



1/3

of China's annual research and development (R&D) expenditure



1/3

of the number of invention patents in force in China



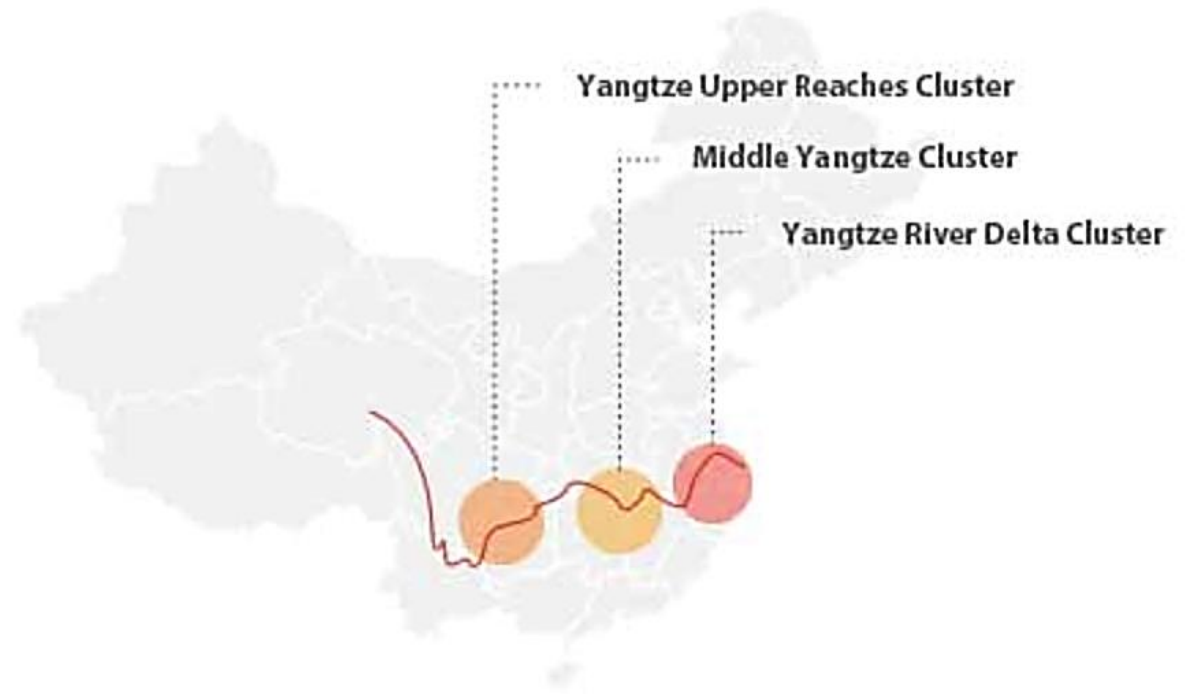
1/3

of China's gross export, foreign direct investment (FDI), and outbound investment



Where is Yangtze River Delta?

Yangtze River Delta region, which covers the three provinces of Jiangsu, Anhui, and Zhejiang as well as the city of Shanghai, has been chosen to lead China's dual circulation strategy.





4 CHANGZHOU
 Area 4,372 km²
 GDP US\$111.01 B
 POP 4.73 M

5 SUZHOU
 Area 8,488 km²
 GDP US\$288.54 B
 POP 10.75 M

6 NANTONG
 Area 8,001 km²
 GDP US\$140.75 B
 POP 7.32 M

7 YANCHENG
 Area 16,972 km²
 GDP US\$85.53 B
 POP 7.20 M

8 YANGZHOU
 Area 6,591 km²
 GDP US\$87.75 B
 POP 4.53 M

9 ZHENJIANG
 Area 3,847 km²
 GDP US\$61.91 B
 POP 3.20 M

10 TAIZHOU
 Area 5,787 km²
 GDP US\$77.00 B
 POP 4.64 M

11 HANGZHOU
 Area 16,596 km²
 GDP US\$230.60 B
 POP 10.36 M

12 NINGBO
 Area 9,816 km²
 GDP US\$179.78 B
 POP 8.54 M

13 JIAXING
 Area 3,915 km²
 GDP US\$80.55 B
 POP 4.73 M

14 HUZHOU
 Area 5,820 km²
 GDP US\$46.84 B
 POP 3.06 M

15 SHAOXING
 Area 8,256 km²
 GDP US\$86.72 B
 POP 5.06 M

16 JINHUA
 Area 10,942 km²
 GDP US\$68.40 B
 POP 5.62 M

17 ZHOUSHAN
 Area 1,440 km²
 GDP US\$18.28 B
 POP 1.17 M

18 TAIZHOU
 Area 9,411 km²
 GDP US\$73.12 B
 POP 6.14 M

19 HEFEI
 Area 11,445 km²
 GDP US\$141.14 B
 POP 8.19 M

20 WUHU
 Area 6,026 km²
 GDP US\$54.27 B
 POP 3.78 M

21 MAANSHAN
 Area 4,049 km²
 GDP US\$31.67 B
 POP 2.36 M

1 SHANGHAI
 Area 6,341 km²
 GDP US\$572.33 B
 POP 24.28 M

2 NANJING
 Area 6,587 km²
 GDP US\$210.45 B
 POP 8.50 M

3 WUXI
 Area 4,627 km²
 GDP US\$177.78 B
 POP 6.59 M

22 TONGLING
 Area 3,008 km²
 GDP US\$14.40 B
 POP 1.64 M

23 ANQING
 Area 13,590 km²
 GDP US\$35.71 B
 POP 4.72 M

24 CHUZHOU
 Area 13,398 km²
 GDP US\$43.64 B
 POP 4.15 M

25 CHIZHOU
 Area 8,271 km²
 GDP US\$12.48 B
 POP 1.49 M

26 XUANCHENG
 Area 12,340 km²
 GDP US\$23.42 B
 POP 2.66 M

27 WENZHOU
 Area 11,613 km²
 GDP US\$99.09 B
 POP 9.30 M

Yangtze River Delta Region



24%

of China's total
GDP in 2019



46

open ports



29%

of China's
outbound
investment



25%

of China's "Double-First Class" universities,
state key laboratories, and national
engineering research centers



37%

of China's total import and export
volume



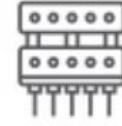
39%

of foreign direct investment in China



1/3

of China's annual R&D
expenditure and number of
valid invention patents



1/2

of the scale of China's
integrated circuit industry



1/3

of the scale of software
information service industry

Graphic©Asia Briefing Ltd.

YRD in Comparison:

The GBA is the most open and boasts the openness of Hong Kong + Macau

YRD is the most economically significant and has the most developed infrastructure

Jing-Jin-Ji has the innovative strength of Beijing.

Based on the indicators measured, the YRD is the strongest overall, followed by the GBA and then Jing-Jin-Ji. What makes the YRD stand out is that it performs well all-round and has several strong cities within a well-integrated cluster



The “dual circulation” strategy (DCS) is a two-pronged development strategy that seeks to spur China’s domestic demand in addition to catering to export markets and will create conditions that allow domestic and foreign markets to boost each other

The Beijing-Tianjin-Hebei region (Jing-Jin-Ji), the Yangtze River Delta (YRD), and the Greater Bay Area (GBA) will be developed by China as three world-class city clusters

China’s free trade zones (FTZs), which feature a more liberalized business environment than elsewhere on the mainland, also play an important role in making the clusters more open. Jing-Jin-Ji has the Tianjin FTZ, the GBA has the Guangdong FTZ, and the YRD has the Shanghai and the Zhejiang FTZs.

NOTE: As Special Administrative Regions, Hong Kong and Macau in the GBA have considerably more open environments than elsewhere in China, including FTZs.



What is the dual circulation strategy and how it is applied to China’s Mega City Clusters?



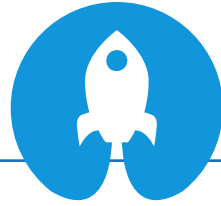
China's dual circulation strategy seeks to spur China's domestic demand on one hand and simultaneously develop conditions to facilitate foreign investment and boost production for exports on the other

Thus, the two-pronged strategy refers to the parallel emphasis on an **'internal circulation'** and an **'international circulation'** and a shift towards becoming a demand and innovation-driven economy

While on its own merit, the DCS is not an inwards-looking strategy, the focus on tapping into China's internal consumption patterns and domestic markets aims to buffer the impact of global economic headwinds and unpredictable external events on China's economic and financial stability. The strategy is also, in more simpler terms, a culmination of China's intentions to become more self-reliant as well as increase its export market exposure

What is China's Dual Circulation Strategy (DCS)?



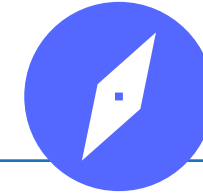


Boosting domestic demand

China has been conducting domestic reforms for boosting private consumption for years, and this has been reignited by the impact of recent external ripples in the global economy.

China is already a “hyper-sized” consumer market with 1.4 billion people. Although its private consumption is lagging behind production amid unemployment and economic uncertainties due to COVID-19, its 400-million-strong middle class is steadily growing and offers extraordinary market potential.

Under this trend, we expect opportunities in areas like health services and pension provision, as well as in the upgrading and digitalization of supply chain networks and the e-commerce industry.



Focusing on strategic chock-point sectors

The other key element of DCS will be “**reducing risks tied to import dependency**”. As a report by *The Economist Intelligence Unit* analyzes, “technology, energy, and food will be the sector focus.”

Tensions with the US have exposed the vulnerability of China’s supply chain – China relies on US\$300 billion worth of imported semiconductors to meet over 85 percent of its domestic market demand. Thus, of all sectors, technology is poised to receive the most overt support for achieving self-sufficiency, with semiconductors or integrated circuits (ICs) getting the most attention.

Considering factors, such as China’s huge domestic market, comprehensive supply chain network, and strong business ecosystem on one hand, and the rising labor cost and aging population on the other, many foreign investors are adopting “**in China, for China**” and “**China plus one**” strategies to tap into China’s market demand growth while also lowering costs, diversifying risks, and accessing new markets.

What will be China’s next steps under DCS?



Why did Shanghai lose out to competitors in the past?

In the past offshore trade has always been welcomed by major APAC free trade hubs, such as Hong Kong and Singapore. However, it was underdeveloped in Shanghai and other mainland cities, mostly due to the **strict regulatory controls**.

The customs and the foreign exchange authorities had long held on to the idea that it is **hard to determine the authenticity of offshore trade**, considering the exporting and importing parties are located outside of China, and the goods, capital, and trade documentation are all separate from each other under this trade model.

The "theory" was - fabricated transactions can be very harmful to a country's economic order and foreign exchange market – squeezing the capital from real economy, accelerating the imbalance of international payments, and encouraging unreasonable investments in foreign exchange – authorities in China tended to be very cautious and strict towards offshore trade transactions.



Shanghai Encourages Foreign R&D Centers

Consisting of 23 articles, the *Regulations* will be in effect from December 1, 2020 until November 30, 2025

During this period, eligible foreign-funded R&D centers will benefit from a dozen policy support measures, including:

Funding support, tax cuts, participation in government projects

Talent acquisition and development

Cross-border financial services facilitation

Customs clearance facilitation for cross-border R&D

Facilitation of environmental assessment & hazardous waste management, facilitation on land use for R&D purposes

Protection of intelligent property rights (IPRs)

Shanghai Pudong New Area Pilots “One Integrated License”

July 2019

Shanghai's Pudong New Area had launched the “one integrated license” pilot program for 10 industries, including convenience stores, gym, hotels, restaurants, etc.

November 19, 2020

The “one integrated license” pilot program expands the number of **beneficiary industries from 10 to 31**. Lasting till the end of 2022, the reform will help market entities enter specific industries through one integrated license, replacing the previous multiple ones.

According to the overall plan, 31 industries in Pudong New Area, most of which are related to citizen's daily life and consumption, will spearhead the integrated license reform

It is officially estimated that the reform will reduce

- the average application time for pilot industries **from 95 working days to five working days**,
- the number of **application materials from 53 to 10**, and
- the number of **elements to fill out in the forms from 313 to 98**.

This could largely reduce the cost of entering a market.

Shanghai Pudong New Area Pilots “One Integrated License” Business

Accounting firms;
Amusement parks;
Bakeries;
Bathing places;
Beauty and hair saloons;
Book stores;
Cafeterias and teahouses;
Construction project construction;
Construction project supervision;

Construction project engineering investigation and design;
Convenience stores;
Cosmetics manufacturing;
Data center/cloud computing;
E-commerce;
Entertainment venues;
Galleries;
Gyms;
Construction project construction;
Construction project supervision;

Mother and child supplies stores;
Pharmacies;
Production of disinfection products;
Pubs;
Restaurants;
Supermarket;
Small-sized catering;
Singing and dancing entertainment places; and
Theaters

Shanghai Relaxes Incorporation Documentation Rules

In Shanghai, formal procedures for incorporating a company have been relaxed in order to assist new Chinese market-entrants amid the ongoing restrictions brought on by the COVID-19 outbreak



**Legal Representative
is out of China**

**International
Documentation
Delivery**

**China
Embassies/Consulates
operating with
delays/closed**

**Quarantine Measures
in Different Countries**

Investing in Suzhou Industrial Park

In terms of foreign trade, Suzhou ranks just behind Shanghai, Shenzhen, and Beijing



Source: Suzhou Industrial Administrative Committee, 2020

Graphic @AsiaBriefing Ltd.

Section 3

Current Situation in North China





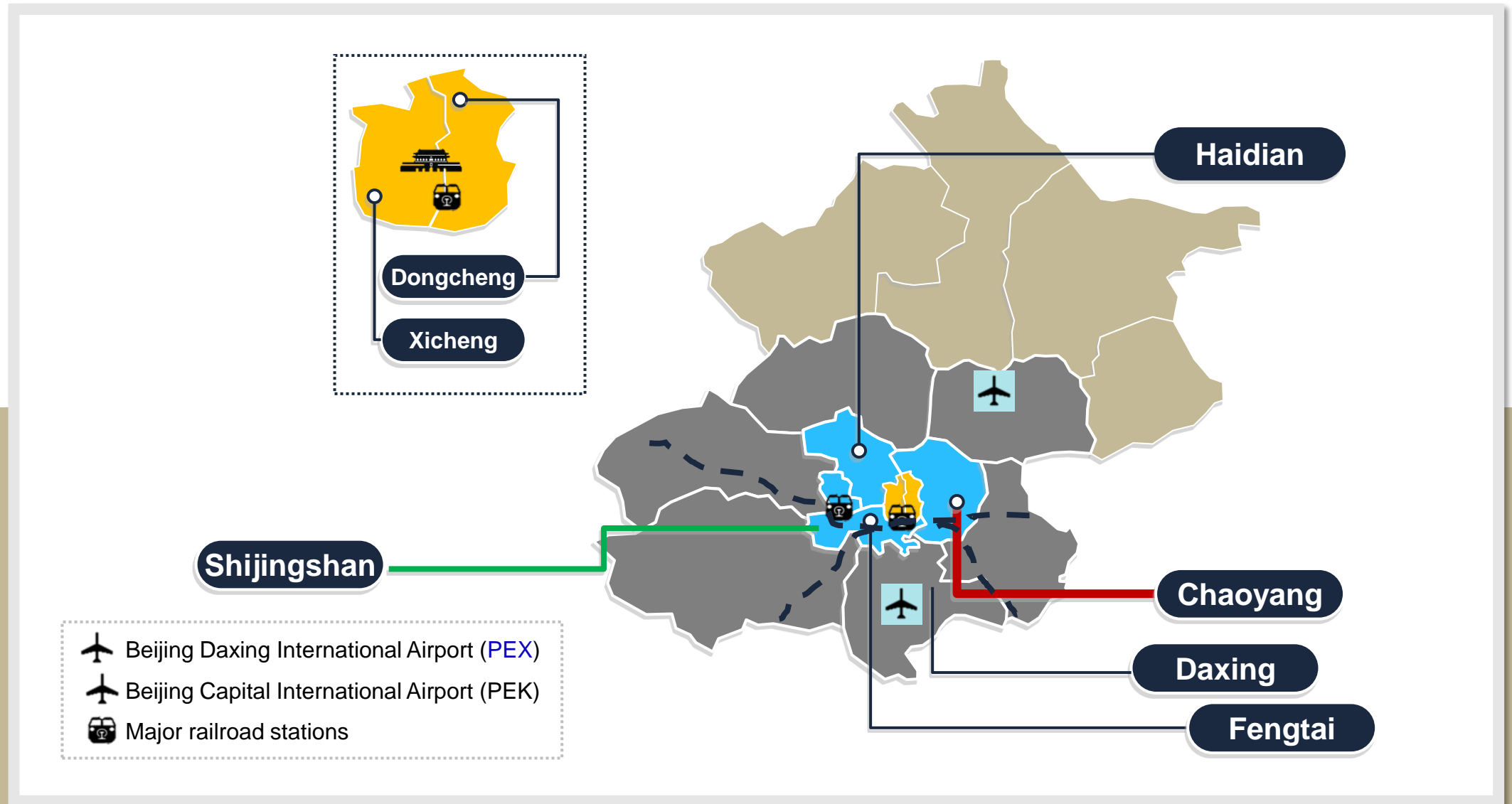
Beijing



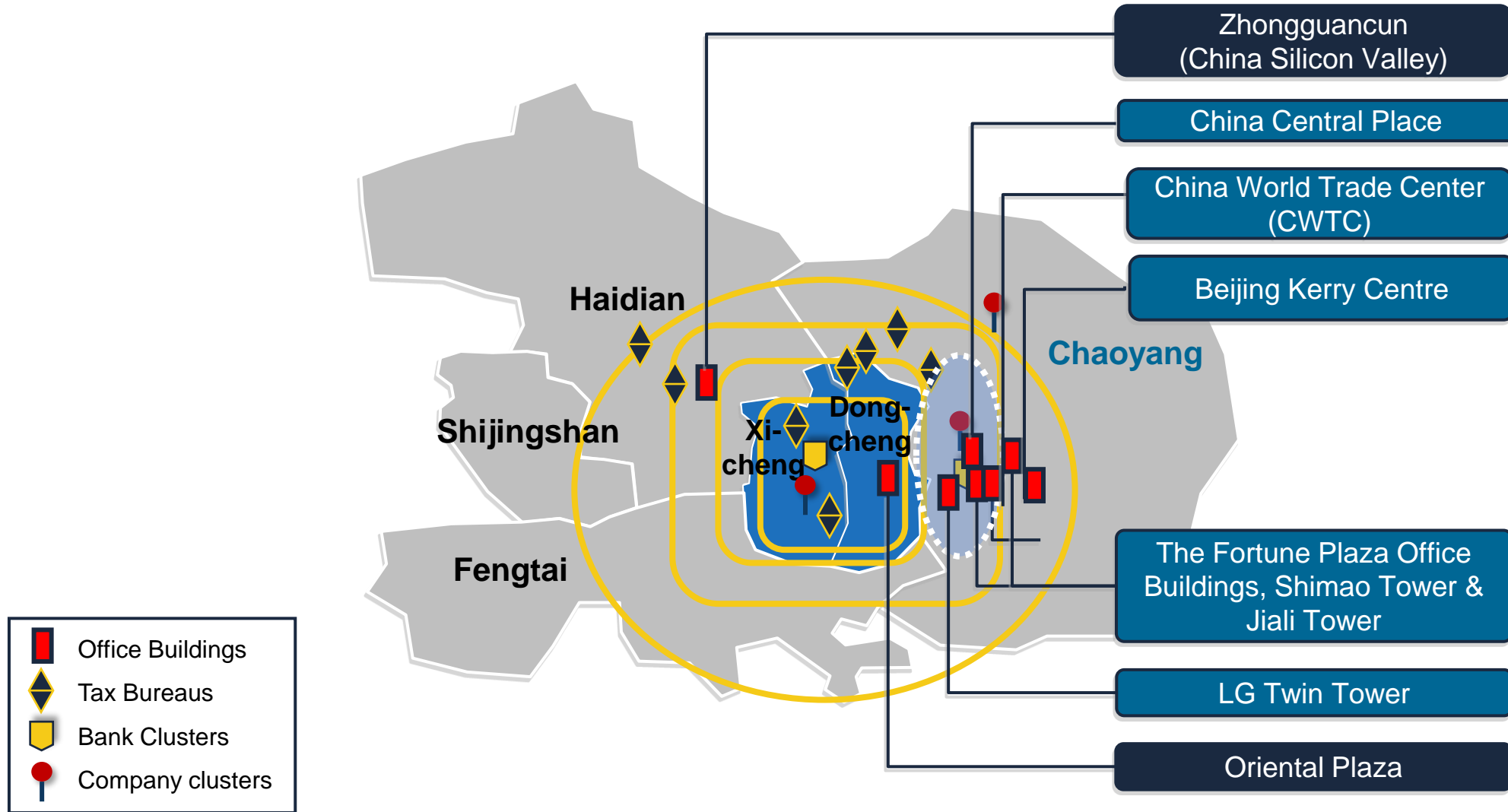
General Impression



A General Map of Beijing



Popular Office Facilities

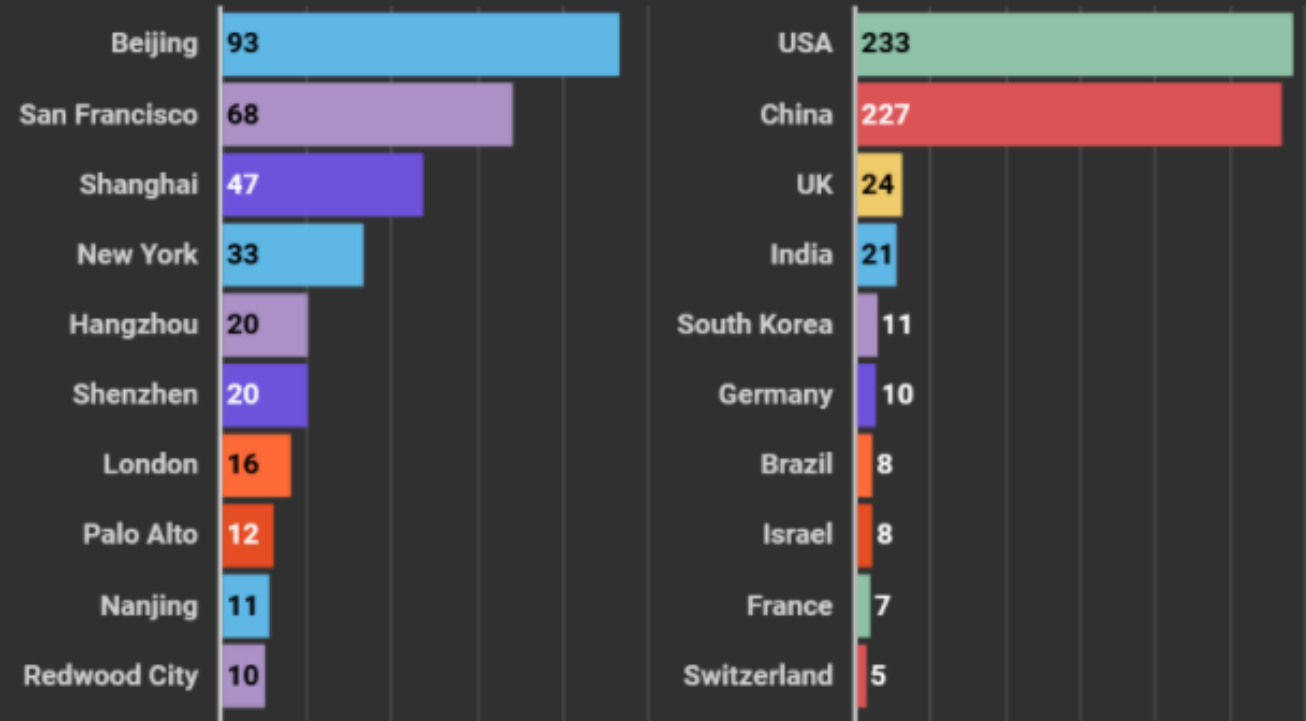




The City of Unicorn

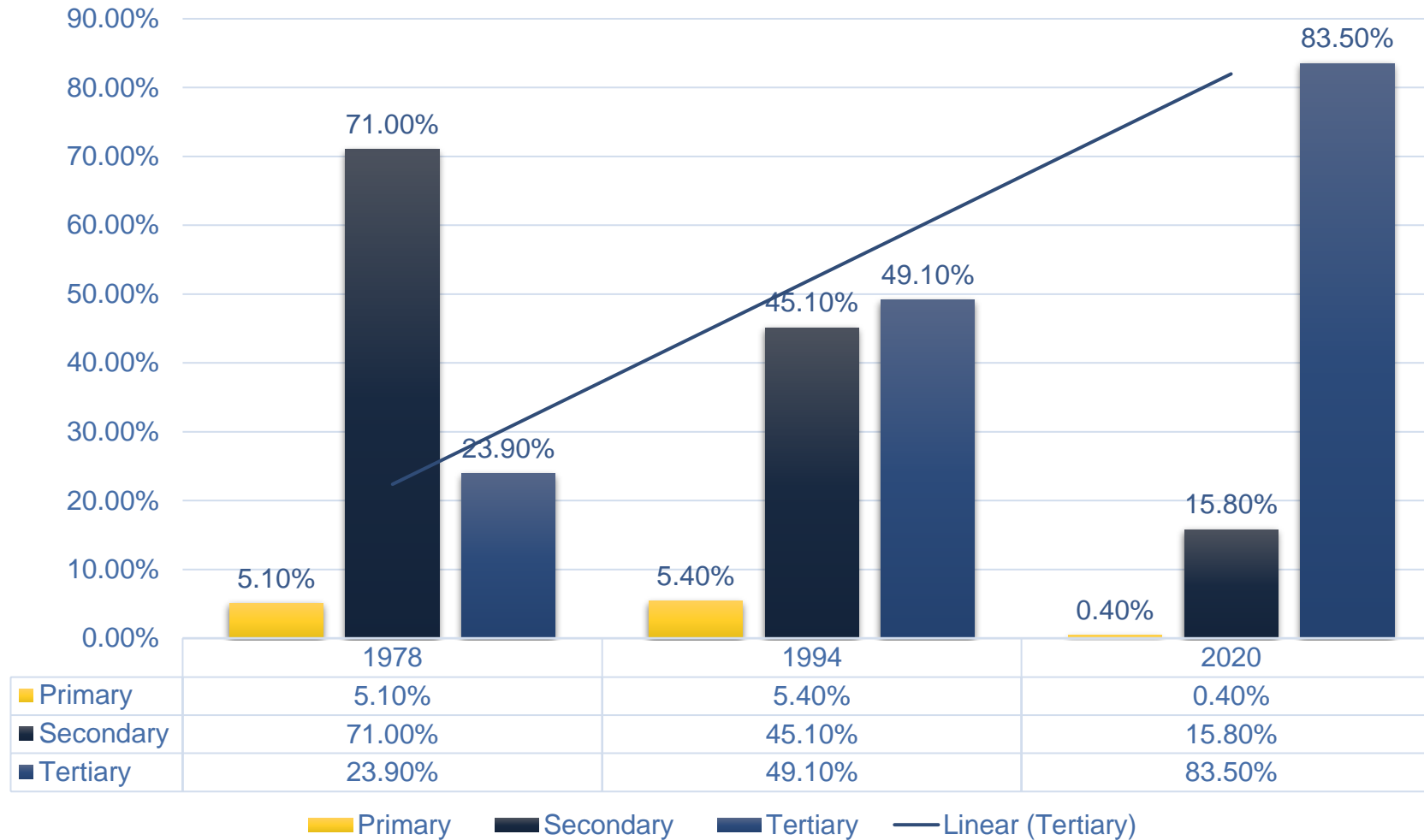
- Beijing is listed as the world's "unicorn capital," - Closing in almost **100 Unicorns** – Most In The World
- Beijing has 80% of Angle investors and 1/3 of equity investment institutions

LEADING CITIES AND COUNTRIES FOR UNICORN COMPANIES AS OF 2020



A unicorn company is a term used for a privately held startup that had reached a billion-dollar valuation

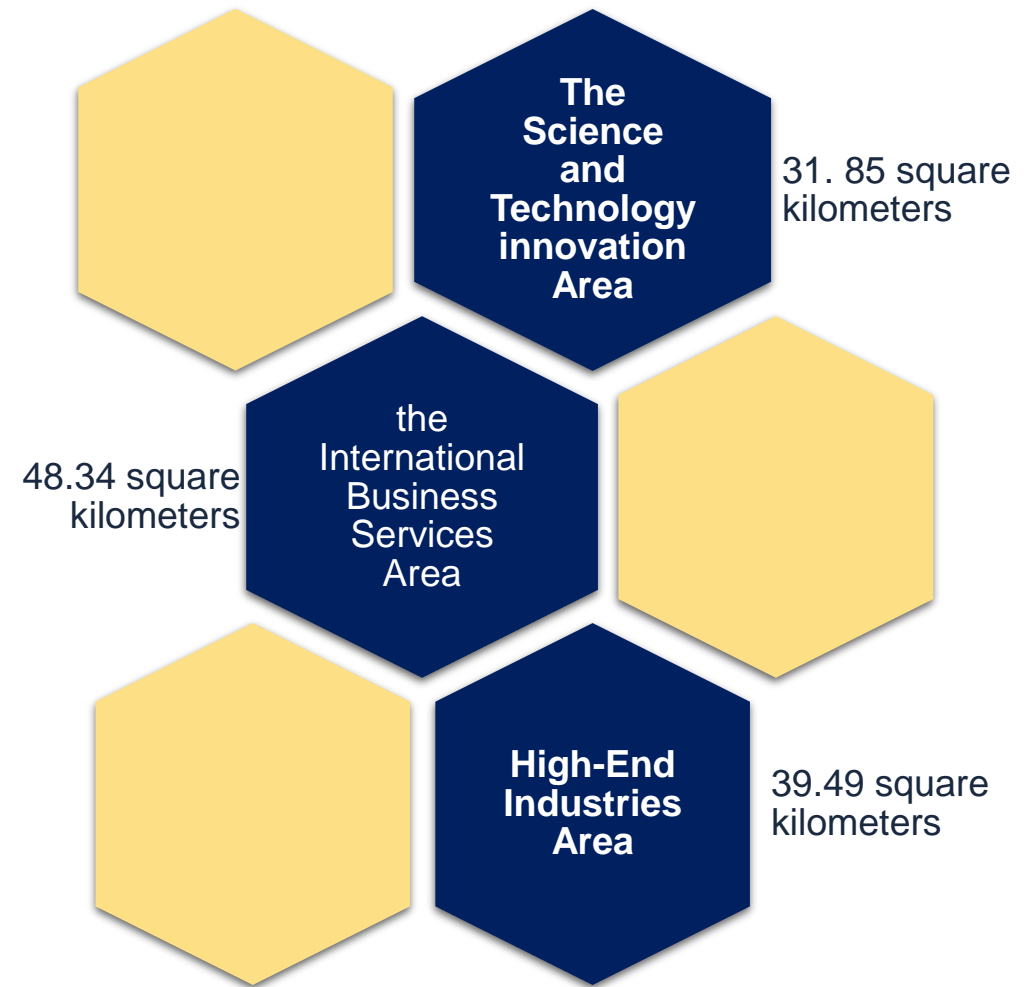
Beijing's Industrial Structure



Beijing FTZs

Focus Industries:

- Service industry hub
 - Business, financial, cultural and film
 - biotech and health
 - civil aviation
- Technology Innovation Hub
 - New generation IT
 - Biology and health
 - Science and Technology
- Logistic and digital trade



Conclusion



Science and technology services

Digital economy and trade

Financial services (most attention)

Internet information services

Business and cultural and tourism industries

Education services

Health and medical services

Professional services


Civil aviation services



Business Environment



More Investment Opportunities



Tax Incentives



Foreign Talent Support Policy



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Q & A



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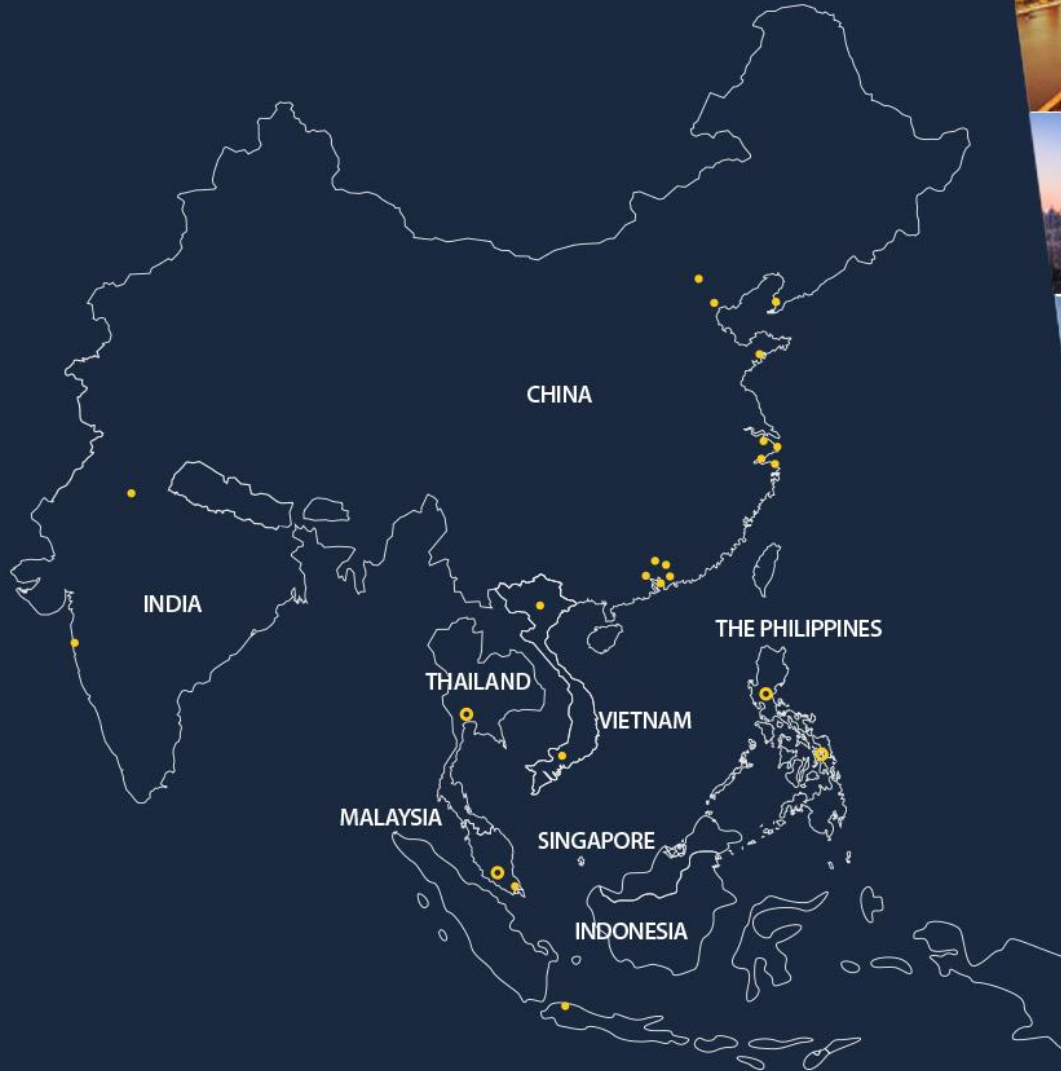
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