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Doing
business in
CHINA



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International



This guide has been prepared to provide basic information to people interested in investing and doing business in China.

The following guide does not cover in detail all the requirements and issues that must be considered, but is intended to provide a general idea of the advantages of doing business in China and the basic tax requirements.

This document is intended to be used for informational purposes and its content is based on the information and regulations that came into force as of January 2023. If you wish to obtain more information, we recommend that you consult a professional tax advisor.

BLITA International



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Our partner firms are committed to providing the highest quality professional services to help meet your international business and financial objectives. Our members' local experience in tax rules, culture and knowledge of business activity in their home country allows them to offer the best solution and advice to maximize your profits and reduce your tax consequences.

C O N T E N T

China Business Guide

01

Why do business
in China?

02

Taxes in China

03

How to establish
and incorporate
a company in
China

04

Market
opportunities
and business
sectors



01

**Why do business
in China?**

General Aspects of China

Capital	Pekín
Area and number of inhabitants	9,596,960 km ² and a population of 1,448,471 inhabitants (est. July 2021) National Bureau of Statistics (ONE) of China
Language	Mandarin Chinese
Currency	Yuan or Renminbi
Code for international calls	+86
GDP	\$17.73 trillion USD (2021 est.) National Bureau of Statistics (NSO) of China
GDP– per cápita	\$12,556.33 USD (2021 est.) National Bureau of Statistics (NSO) of China
Exports	\$6.14 trillion dollars (2021 est.) General Customs Administration
Imports	\$2.73 million dollars (2021 est.) General Customs Administration
Inflation	2.1% (2022 est.) National Bureau of Statistics (NSO) of China
Government structure	China is a socialist state where the fundamental law of the State is the Constitution of the People's Republic of China. The country is established by two systems of administration: a central one and a local one. The National People's Congress ("NPC") is the highest state body and the only legislative house in the People's Republic of China. The NPC and its Standing Committee exercise the legislative power of the state.

Business and tax advisors in China:





○ Comprehensive economy

In the current scenario, the People's Republic of China is recognized as a global economic power and is called the financier of the world, a reputation it has earned with the implementation of its Belt and Road, also known as the New Road of China. Silk. This process that began in the 1970s led the Government to completely rethink its relationship with the outside world, as well as the consolidation of its great growth at an economic, demographic and military level.

Through this economic initiative, China implemented an ambitious program of loans or subsidies for development and investment programs, aimed at the construction of power plants, gas pipelines, ports, airports and railways in about 138 countries in Africa, the southeast and central Africa. from Asia, Europe and Latin America.

According to data from the Chinese Ministry of Commerce, your country has one of the best economic developments in the last 25 years with an annual average of 9.5%. Foreign direct investment (FDI) in its continental area also grew by 17.8% year-on-year during the first nine months of last year, reaching \$142.01 billion. The sectors that contributed the most to this figure were services and high-tech industries. Foreign investments came mainly from both the “Belt and Road” member countries and the Association of Southeast Asian Nations (ASEAN).

China has become a major contributor to the world economy. It has worked on this global integration since the implementation of the reform and opening-up policy in the 1970s.

○ Strategic geographical location

According to the Chinese embassy in Colombia, this nation is located in the East of the Asian continent and West of the Pacific Ocean and has a land area of 9,600,000 kilometers, which places it as the fourth largest country in the world. behind Russia, Canada and the United States. This nation, which is a continental power, controls an extensive coastline and has a continental coast 18,000 kilometers long, where there are excellent ports, characterized by the fact that

in the winter season, the water in many of them does not freeze. According to the entity, this country is bordered to the east and south by the Bohai, Huanghai (Yellow Sea), Donghai (East China Sea or East China Sea) and Nanhai (South China Sea or East China Sea) seas. Southern China). While the Bohai is a sea within the nation, the Huanghai, the Donghai and the Nanhai are marginal seas that are part of the Pacific Ocean.

Along with this, this Asian country has a land border of 22,800 kilometers, bordering to the east with Korea, to the north with Mongolia, to the northeast with Russia, to the northwest with Kazakhstan, Kyrgyzstan and Tadjikistan. To the west and southwest with Afghanistan, Pakistan, India, Nepal, Bhutan, among others. It is also bordered to the south by Myanmar, Laos and Vietnam.

The Chinese territory has quite fertile areas, for example, to the northwest in the coastal regions there are low hills and plains suitable for intensive agriculture and it is a highly populated area. Three important rivers flow into the region: the Yangtze, the Yellow River and the Pearl River. It should be noted that China has 50,000 km of navigable rivers that in most cases flow from west to east, emptying into the Pacific.

○ Investments

It is well known to the world that China is the largest commercial and economic power on the planet. This is due in part to the rethinking of trade and foreign relations that the country has been implementing for approximately three decades. Additionally, within this policy, guidelines have been established such as opening to foreign investments, exporting services, taking advantage of technological innovations and promoting vocational training.

In this context, it is understood why the Asian country is an expert in detecting and establishing important conditions for investments in places where there is abundant employment, low cost of land, a robust market and trade openness, and basic legislation for foreign investment. This, for example, was evidenced during 2010 when China enabled credit lines of around \$37 billion, surpassing the World Bank, the International Development Bank and the Import Bank. These monies were granted to Brazil, Argentina and Venezuela. The main characteristic of these transactions is the easy credit that attracts their clients and also helps them diversify their investments.

On the other hand, the Chinese government sees free trade agreements as ideal platforms both to open up to the outside world and to carry out internal reforms that allow effective integration with the world economy. Currently, the country has free trade agreements (FTAs) in force with Chile, Peru, Costa Rica, Pakistan, New Zealand, Singapore, Macau, South Korea, Iceland and is part of the Regional Comprehensive Economic Partnership (RCEP). Additionally, China has regional agreements such as the Asia-Pacific Economic Cooperation (APEC), the Shanghai Cooperation Organization (SCO), the Asia-Pacific Trade Agreement (APTA) and the Central Asia Regional Economic Cooperation Program (CAREC).



○ Modern maritime transport infrastructure

Every day the People's Republic of China positions itself as the greatest economic power in the world, thanks to the execution of its new economic plan called Belt and Road", also known as the New Silk Road, which is focused on the development of the internal consumption.

Initiatives such as those we have mentioned have allowed this Asian nation to grow foreign trade, becoming not only the largest exporter on the planet, but also the main importer of products such as food, fuel, mineral resources, medical equipment and chemical products. . After great work, China has managed to establish a large number of cutting-edge commercial ports on its coastline, with the capacity to handle the constant flow of goods arriving and leaving the country. Among the most important are: Port of Shanghai, Port of Ningbo, Port of Hong Kong, Port of Shenzhen, Port of Qingdao and Port of Xiamen.

Additionally, according to the Trade Logistics Unit of the United Nations Conference on Trade and Development (UNCTAD), this nation controls approximately 100 ports in more than 60 countries through its Maritime Silk Road, which continues to advance. For example, while the Chinese state-owned Cosco took control of 51% of the port of Piraeus in Greece and the Shanghai International Port Group controls the Israeli port of Haifa.

Through this port expansion, this nation has invested large resources in infrastructure works in different places around the world, as it considers it vital for its objective of controlling port concessions in geostrategic points on the planet. It is evident that in the container ports where this country has invested, an increase in its maritime transport connectivity has been generated. This is how the Chinese government permanently increases its loading and unloading capacity in its ports, especially in Shanghai and Shenzhen, which are in third and fourth place respectively worldwide. In fact, they have projected that in the near future the Shenzhen port is the most important in the world.

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○ Growing market

According to statements given by the Chinese Prime Minister, Li Keqiang, to various media outlets, the Government of his country aims for an economic growth of its Gross Domestic Product of approximately 5.5%. With this, it seeks to promote its economic stability, and generate 11 million urban jobs this year. With this, it will also be possible to keep the unemployment rate below the proposed growth goal and control inflation at 3%.

Despite this moderate growth, it is important to highlight that China currently owns the second most important economy in the world and is in an interesting process of strategic transformation. Likewise, China's internal market is the largest on the planet both in number of consumers and in purchasing power and continues to grow despite the health emergency that the world is going through. In addition, it has more than 1.3 billion potential clients, which represents approximately 19.5% of the world's population and of which 400 million already have a per capita income equal to the European average.

According to the Chinese government and thanks to the scope of its New Silk Road, it is currently the second most important investor in Latin America, with which it has signed more than 13 double taxation and investment protection agreements, leading among other countries as the nation with the largest number of tax treaties signed in the region.



○ Highly qualified workforce

According to World Bank estimates, the total active population in China last year reached 792,401 people, which shows why this nation, in addition to being the factory of the world, is also the study and business center of the large international companies. The country has a low-cost productive base and enormous potential for skilled workers with the attitude to learn.

Along with these attributes that make manufacturing competitive, there is also the enormous potential of its workers who, in addition to being highly industrious, are also highly qualified. The comprehensive Chinese infrastructure with which the country is equipped is conducive to producing and developing any type of product on a large scale, having the components used to manufacture or produce within the reach of manufacturers.

At this moment, according to the report carried out by the consulting firm McKinsey, the Asian nation is in a process of employment automation that will require that nearly 30% of its population, that is, about 220 million Chinese workers, must carry out a requalification process to change their occupation to 2030, to achieve their labor inclusion in the new job offers that will be generated in this process.

In this new scenario, technological skills will be essential to guarantee the performance of workers, in the new jobs that will emerge, such as innovation and development technicians, qualified professionals, personnel for the service sector, manufacturing workers. and those employed in construction and the agricultural sector.



02

Taxes in China

○ Corporate taxes

According to the State Administration of Taxes (SAT), the standard corporate tax applies at 25%, while the small business tax applies between 10-15%.

Resident companies are taxed on their worldwide income and non-resident companies are taxed on their income in China.

A foreign company in China is generally only allowed to carry out indirect business activity through a representative office in the country. These offices are taxed like Chinese companies, with the difference that they are not authorized to sign contracts with Chinese clients or carry out commercial operations directly.

○ Taxes on capital gains and dividends

According to the State Administration of Taxation (SAT), there is no additional tax on capital gains in China and capital gains are generally taxed at a rate of 25%.

○ Inheritance and gift taxes

In China, inheritances and donations are exempt from taxes, according to the website of the State Tax Administration of China.

○ Value added tax / VAT

VAT applies to all those dedicated to the sale or import of goods, and the provision of services. Rates vary depending on taxpayers' earnings, type of assets, and type of sector.

Taxpayers are subject to a standard 13% VAT rate on their taxable sales or imported products, and a lower 9% rate applicable to certain foods, goods, books and public services.



○ Employment taxes

The salary and minimum wage are set by the Municipal Human Resources and Social Security Office (“MHRASSB”) where each local city has its own minimum wage.

The basis for calculating the monthly social welfare threshold is three times the city's average annual salary.

Regarding social charges, the employer is required to contribute approximately 20% of the basic payroll to the state-administered retirement plan, as well as health insurance, maternity insurance, unemployment insurance and related injury insurance funds. with work. The total employer contribution can be up to 40% of the employee's base monthly salary, although rates may vary across the country. The employee must also contribute a certain percentage of his/her monthly salary to the above funds.

Beijing*	Maximum Base	Employer	Employee
Pension	25401 RMB	14% - 19%	8,0%
Unemployment Insurance		0,5% - 2%	0,5%
Medical Insurance		5% - 2%	2% +3
Injury Insurance		0,5% - 2%	N/A
Maternity Insurance		0% - 1%	N/A
Housing Fund		5 - 12%	5- 12%

○ Personal Taxes

Residents of China are subject to world-wide personal income tax. Non-residents are subject to personal taxes only on their income generated within the country.

An individual is considered a resident of China if he or she spends more than 183 days of a tax year in Chinese territory, or if his or her center of economic and professional activities is located in China.

There are seven progressive tax rates that range between 3% and 45%. Dividends, interest, income from rental property, income from the transfer or assignment of property, and contingency income are taxed at a rate of 20%.

○ Tax rate by monthly income

Greater than:	But not more than:	Income Tax Rate:
0	36.000	3%
36.001	144.000	10%
144.001	300.000	20%
300.001	420.000	25%
420.001	660.000	30%
660.001	960.000	35%
960.001	En adelante	45%

Amounts in Chinese renminbi (RMB)

<https://santandertrade.com/es/portal/establecerse-extranjero/china/fiscalidad>



03

**How to establish
and incorporate a
company in China**



Process to establish a company in China

According to the Ministry of Commerce of the People's Republic of China (MOFCOM), an entrepreneur or investor interested in establishing a business entity in China needs to manage 4 procedures, which will take an average of 9 days. This places the country 31st in the world in terms of regulatory favorability for starting a business.

Procedure	Time to complete
1. Register the company and apply for a Business License Certificate	5 days
2. Make a company seal	1 days
3. Obtain tax filing control equipment and request authorization to print or purchase financial invoices	2 days
4. Register employees in the Social Welfare Insurance Center	1 days
Total number of days	9 days

Requirements to establish a company in China

The Ministry of Commerce of the People's Republic of China (MOFCOM) highlights that the freedom to establish in Chinese territory varies depending on the sector, and it is necessary to present an operations plan that must be approved before being established.

○ Corporate types

Foreign investors interested in establishing themselves in this Asian giant can select between the following three forms of corporation in China: Wholly Foreign-Owned Enterprise - “WFOE”), joint ventures (Joint Venture - “JV”) and representative offices. Registered limited liability companies (WFOE) are the most popular companies in mainland China.

It should be noted that the National People's Congress (legislative body) of the People's Republic of China approved the Foreign Investment Law on March 15, 2019, which was implemented as of January 1, 2020.

○ Foreign companies

A WFOE registered in China does not require a local partner and its incorporation process usually takes between 2 to 3 months. The capital is contributed by the partners and must be sufficient to operate for 2 years.

The corporate purpose to which the company may be dedicated must be outside of those registered in the Negative List, a directory of activities established by the Chinese State Council, which establishes the sectors restricted or prohibited for the access of foreign investment, such as for example military activities and the media.

○ Shareholders

All shareholders of a company registered in China can share in the profits of their companies. One of the most important benefits is that shareholders or owners do not need to respond with their private assets in case the company goes bankrupt, according to the Ministry of Commerce of the People's Republic of China (MOFCOM).

○ Administration

According to the National Development and Reform Commission (NDRC), WFOEs in China must have a duly constituted board of directors and elect a legal representative to guard the company's seals, who must be accompanied by a general manager and a supervisor. Along with this, it is essential to determine aspects such as:

- Establish the social and physical address prior to the incorporation of the company. The legal representative must rent an office through a lease contract with the owner of the property. This document must be attached when establishing the company.
- Select the name, corporate purpose, organic structure and share capital. The authorized name for the company must be Chinese and written in the official language. Regarding the corporate purpose, the activity that the company will have must be correctly specified.



04

**Market opportunities
and business sectors**



Manufactures

China is currently an important player in the metals market both as a demander and as a supplier. This Asian country is the largest steel producer in the world, which places the steel industry as an important cog within the Chinese economy, which is controlled by state industrial groups. In fact, 1,053 million metric tons of steel were produced last year, representing 56.5% of global production.

On the other hand, an increase in natural gas has been evident, reaching 8.4% last year, which is a product of support for the sector through the Government's environmental policy and its competitive costs in the industry sectors. and the transport. At this moment, the Chinese Government is in a strong process of construction of gas pipelines and other infrastructure that has allowed them to have significant growth in their production with a view to energy independence from external sources.

In accordance with the "Made in China 2025" plan, designed by the Government, innovation is sought in its industrial sector. In this area, the machinery and machine tool industry ranks as the second largest industry in the nation, since it is currently the largest manufacturer and consumer of high-end machines and tools. This is due to the migration of a market economy that pushed the sector to restructuring through privatizations and merger and acquisition processes.

China has combined the development of its large internal market with an aggressive and successful export strategy, which gradually varied from simple manufactures to more sophisticated products, progressively increasing the participation of Chinese capital in them.

The sector's considerable growth was partly supported by new orders for Chinese manufacturers, with a solid increase in new orders received and an increase in exports.



Energies

For the Chinese Government, investment in this sector is a priority, since through renewable energies the country seeks to mitigate and eradicate air and water pollution. As of December 2021, China reached the maximum wind energy production in the world. In fact, the nation connected the production of its largest wind farm to its electrical grid, made up of 134 turbines located off the coast of Shanghai, which already has the capacity to supply 900,000 Chinese homes.

For its part, according to Carbon Brief calculations, the Asian giant added nearly 17 gigawatts (GW) of offshore wind capacity, producing a total of 26 GW. Additionally, China has 21 GW of onshore wind energy.

China has also seen a significant increase in solar energy generation, where the country installed 54.9 GW of solar energy in 2021 and produced more than 305 GW last year. Chinese interest in this topic is so great that scientists from several universities in their country developed a photovoltaic module, composed of organic solar cells that are more efficient and have an active area of more than 110 square centimeters.

This is how the Government of China has been working for several decades on energy innovation, through the management and development of technologies to take advantage of the potential of its alternative energies and thus, in addition to covering internal demand, also achieve the decarbonization of its sector. electricity in 2050. In fact, in its Five-Year Year for Electricity (2016-2020), it was planned that by 2030, one fifth of the country's electricity consumption would come from non-fossil fuel sources. According to the International Energy Agency, 36% of solar energy and 40% of wind energy will be generated in the next five years in China.

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Telecommunications

During the last mobile world congress in Barcelona (MWC), the state giants China Mobile, China Telecom and China Unicom, expressed their projections in the 5G sector, where by the end of this year they hope to be able to implement more than one million 5G base stations to supply nearly 330 million users. Access to this faster and more efficient technological mobile network is important for the development of new technologies, such as self-driving vehicles or cutting-edge industrial machinery.

It is well known that the growth of telecommunications and the internet in China has been one of the fastest experienced by a nation in the world. In recent years, the Government of the Asian country has given a strong boost to its development of telecommunications satellites, for which it has established alliances with several Latin American countries.

The Chinese authorities have built a network of georeferencing and telecommunications satellites, called Beidou, of which two entered orbit in October 2018, thus accumulating 16 devices in the same series. With the improvement of infrastructure and vigorous consumption of information, the telecommunications sector maintained stable growth and played a more important role in promoting the country's economic and social development.

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In this scenario, it is clear that China seeks to structure its economic recovery both through a program that encourages the construction of large infrastructures and by supporting its telecommunications operators in the massification of 5G. Likewise, China will also promote digital transformation within its industrial sector.



Services

Without a doubt, this segment has had dynamic development in the country, reaching a share of 47.2% in the nation's GDP, in addition to being the industry with the largest job creation, reaching 358 million jobs. . This result has been the product of the Government's implementation of a sustainable and quality growth model focused on domestic consumption and the services sector.

The construction subsector belongs to this sector, which reached a 7.2% share of the Chinese GDP and employed nearly 21 million people. Thanks to the government policies implemented, it has experienced great activity, which has been of vital importance in the development of infrastructure, an activity that promotes the growth and competitiveness of all the nation's economic sectors.

On the other hand, tourism and hospitality have had great development, since China has become an important destination for national and foreign visitors. In order to supply the growing demand, the Government has improved the quality of its facilities and services. In this sector there are interesting business opportunities for hotel management and development, as well as for the professionalization of this segment.

We can see how every day this sector is strengthening and becoming an epicenter of economic development and a generator of job offers.



Agriculture

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