



# **Business Climate and Investment Regulations in China**

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Tbilisi, Georgia



# Content



**1** ➤ **Legal and judicial system**

**2** ➤ **Company registration**

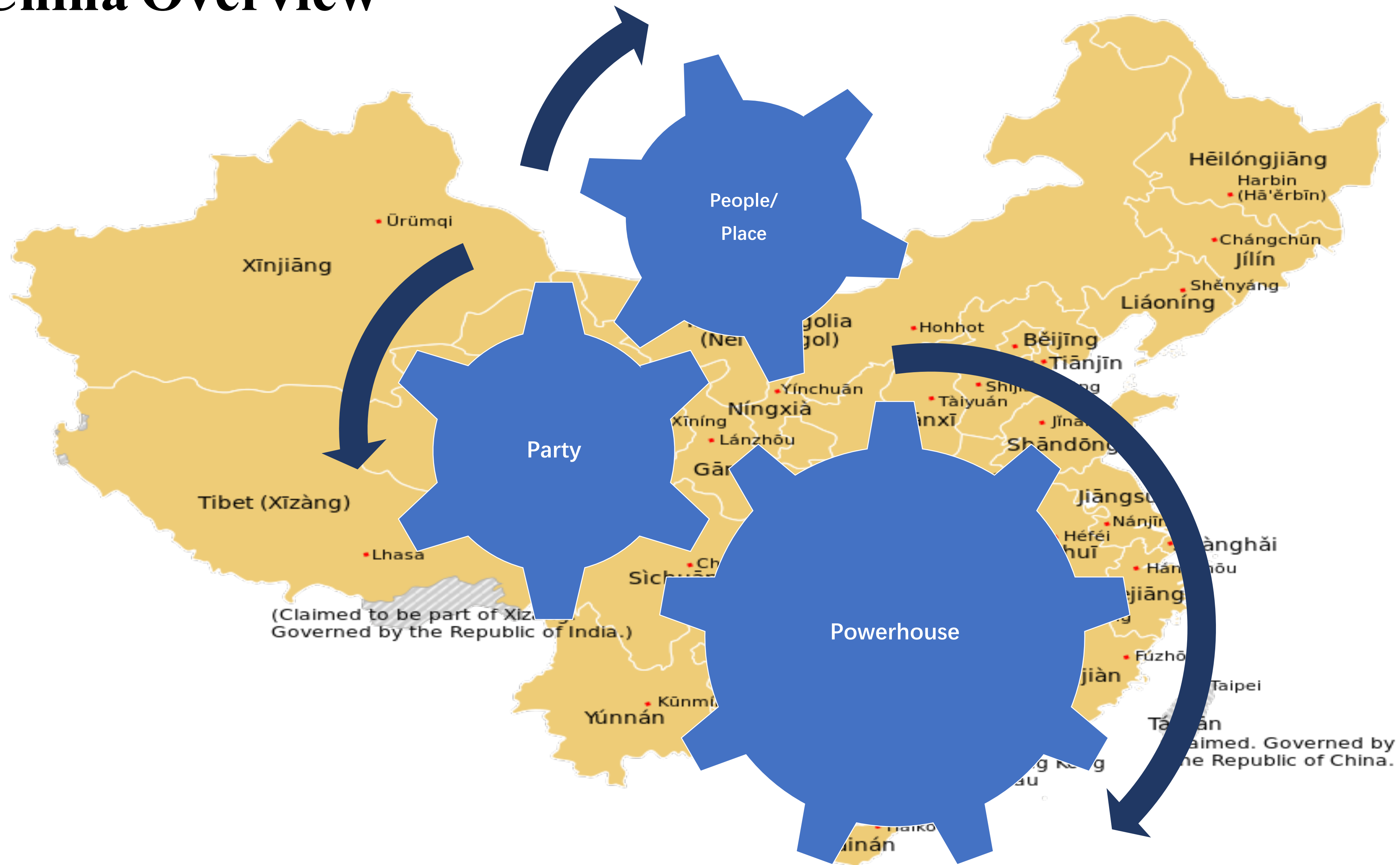
**3** ➤ **Tax regulations**

**4** ➤ **Customs regulations**

**5** ➤ **Free Trade Agreement**

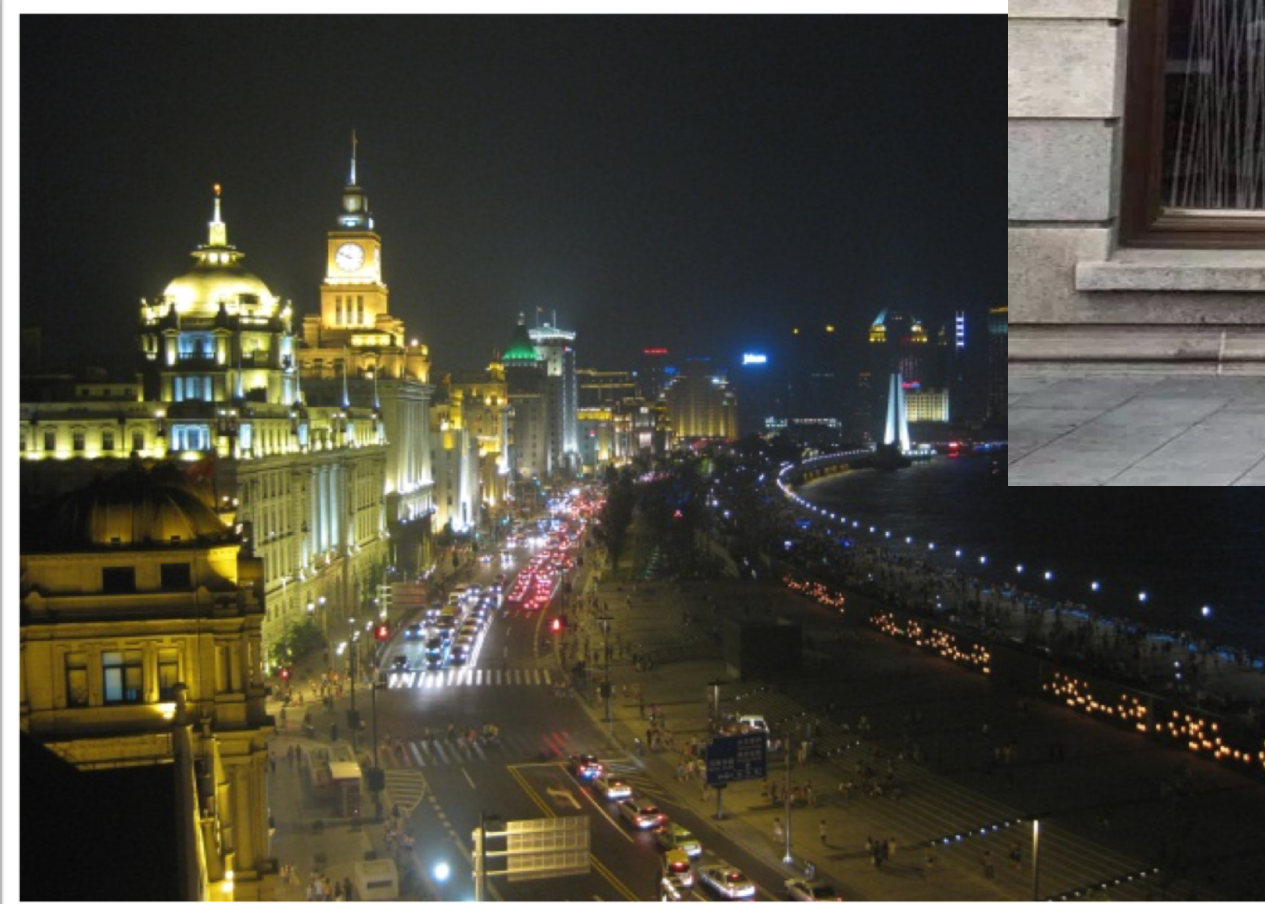


# China Overview





# People/Place





| Party





# Power House



China is divided into:

- 23 provinces
- 5 autonomous regions
- 4 direct-controlled municipalities

There are over 100 cities in China that have a population greater than one million

There are 56 ethnic groups (one majority and 55 minority groups)

Top cities to do business:

Shanghai, Beijing, Shenzhen and Guangzhou



## **13<sup>th</sup> Five Year Plan (2016-2020)**

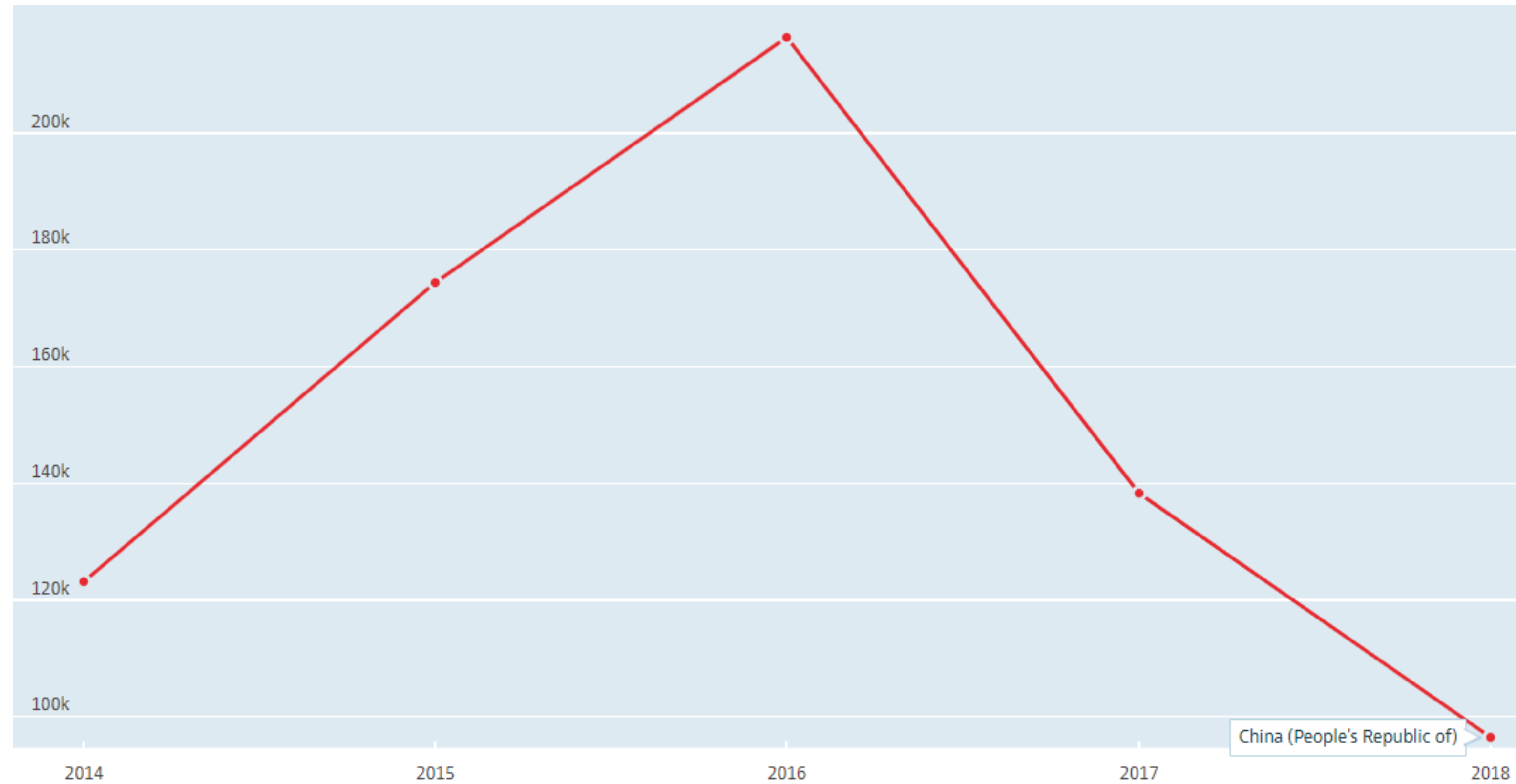
- Boost consumption
- Drive urbanization
- Move industry up the value added chain, increasing import substitution
- Develop central and western regions
- The greenest five-year plan





# China Outbound Investment 2014-2018

FDI flows Outward, Million US dollars, 2014 – 2018, data from OECD

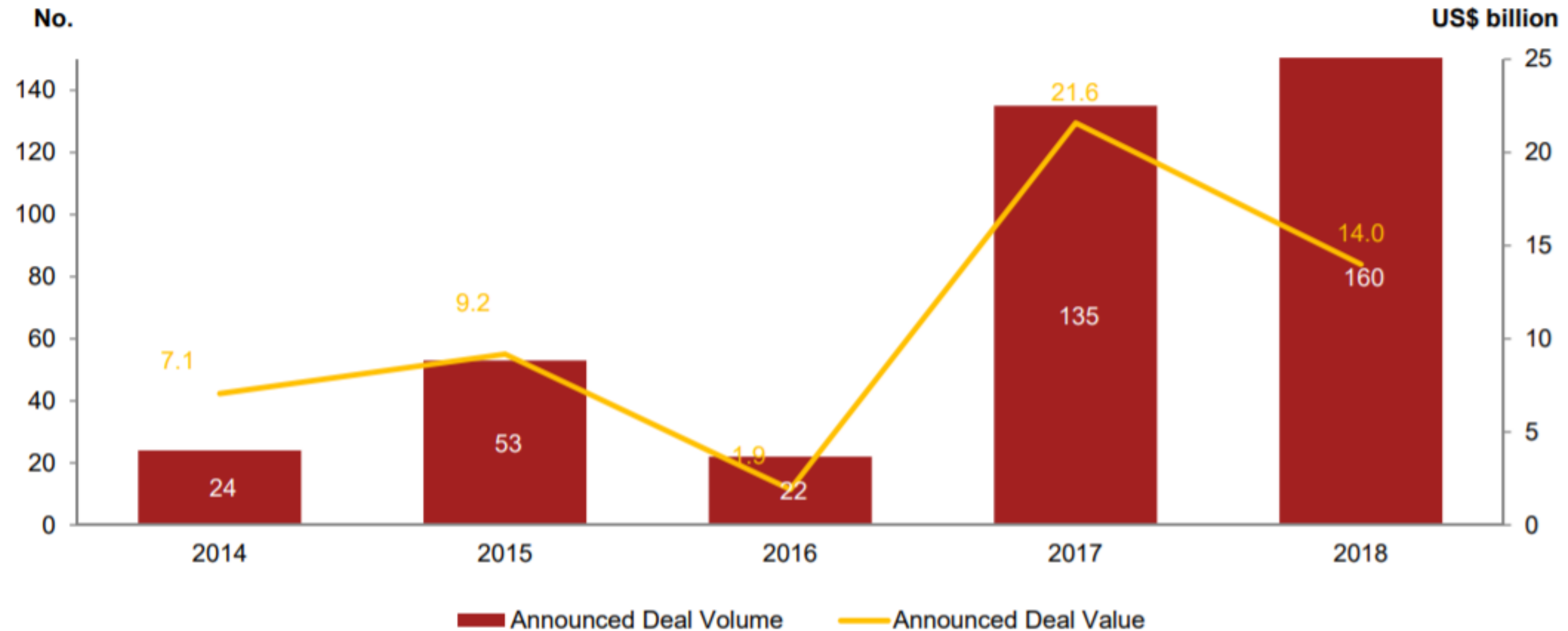


2014	2015	2016	2017	2018
123,130	174,391	216,424	138,293	96,472



# China Outbound M&A in B&R Countries 2014-2018

China outbound to B&R, by value and volume from 2014 to 2018



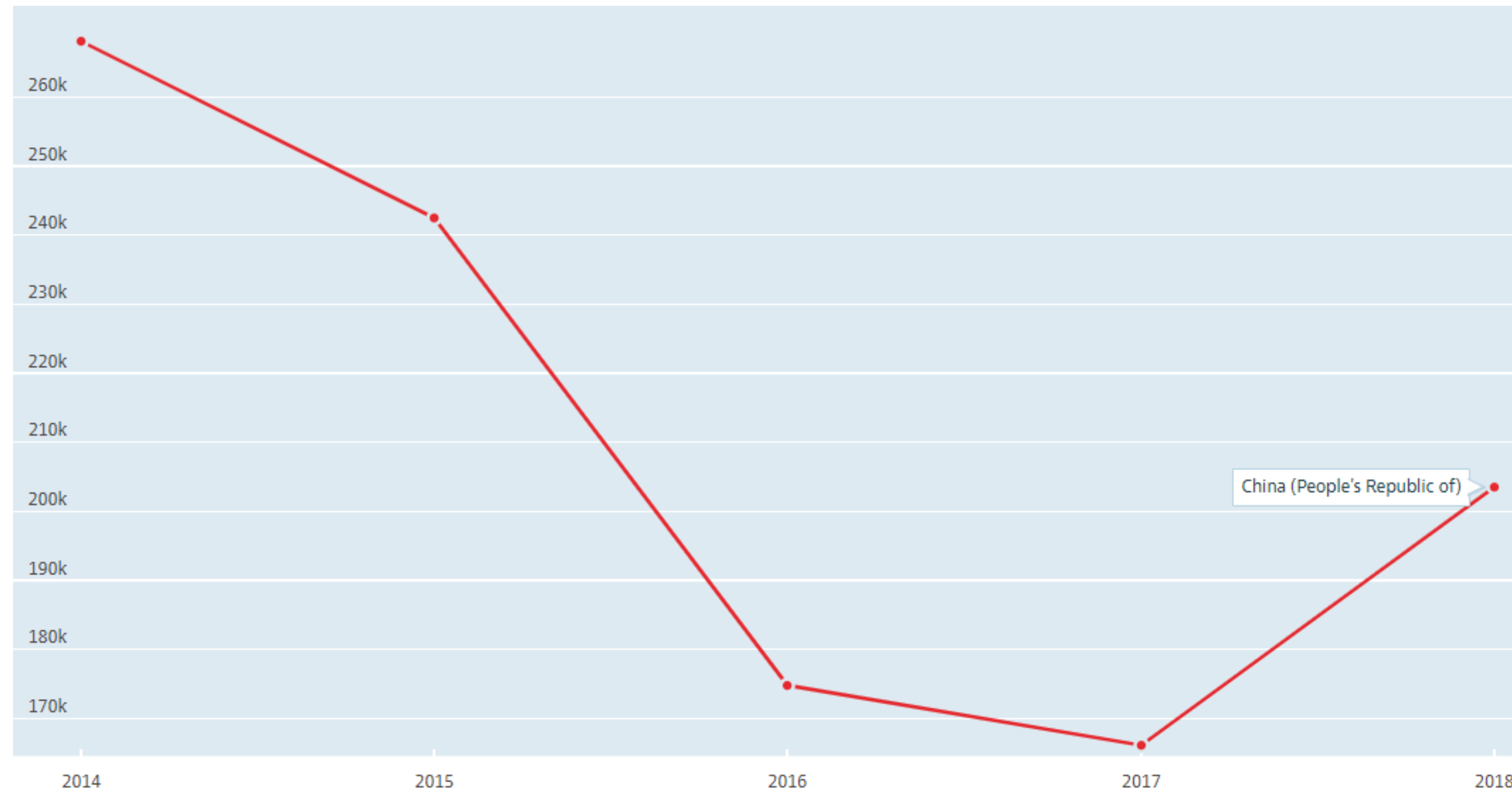
B&R (Belt and Road) includes 66 countries around 3 continents.

Source: ThomsonReuters, ChinaVenture and PwC analysis



# China Inbound Investment 2014-2018

FDI flows Inward, Million US dollars, 2014 – 2018, data from OECD



2014	2015	2016	2017	2018
268,097	242,489	174,750	166,084	203,492

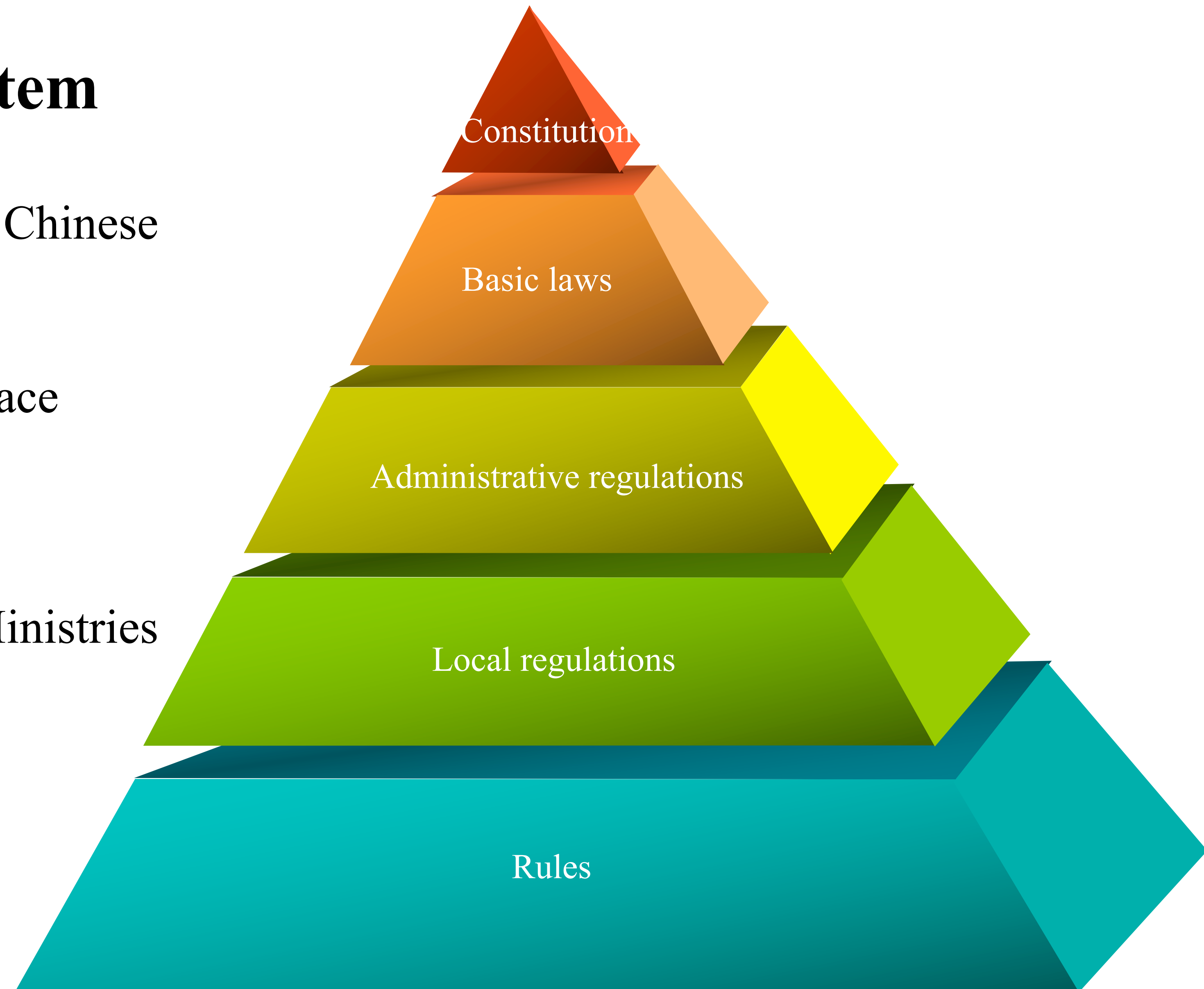


## Hierarchy of laws and rules

### 1. Legal and judicial system

The socialist system of laws with Chinese characteristics

- The Constitution is in the supreme place
- Central vs. Provincial
- State Council, with Nineteen Ministries (including People's Bank of China)





# Names of legislation

法规用语 Terms	英文翻译 English translation	主要制定机关 Main issuing bodies	
法	Law	全国人大及其常委会	NPC and its Standing Committee
法律解释	Legal interpretations	全国人大常委会	Standing Committee of the NPC
行政法规	Administrative regulations	国务院	State Council
行政措施	Administrative measures	国务院	State Council
条例	Regulations	国务院	State Council
方法	Measures	国务院各部委	Ministries and Commissions under the State Council
实施条例	Implementing regulations	国务院、各部委及行政部门	State Council and also ministries and administrative agencies
施行细则	Implementing rules	国务院、各部委及行政部门	State Council and also ministries and administrative agencies
规则	Rules	各类主体，包括各部委及行政部门	Various bodies, including ministries and administrative agencies
决定	Decisions	各类主体，包括国务院及其行政部门	Various bodies, including State Council and administrative agencies
指示	Instructions	各类主体，包括国务院及其行政部门	Various bodies, including State Council and administrative agencies
规定	Provisions	各类主体	Various bodies
地方性法规	Local regulations	地方人民代表大会及其常委会	Local people's congresses or their standing committees
地方政府规章	Local rules	地方人民政府	Local government
命令	Orders	各类主体	Various bodies
指令	Directives	各类主体	Various bodies
决议	Resolutions	各类主体	Various bodies
决定	Decisions	各类主体	Various bodies



# Judicial system and legal proceedings

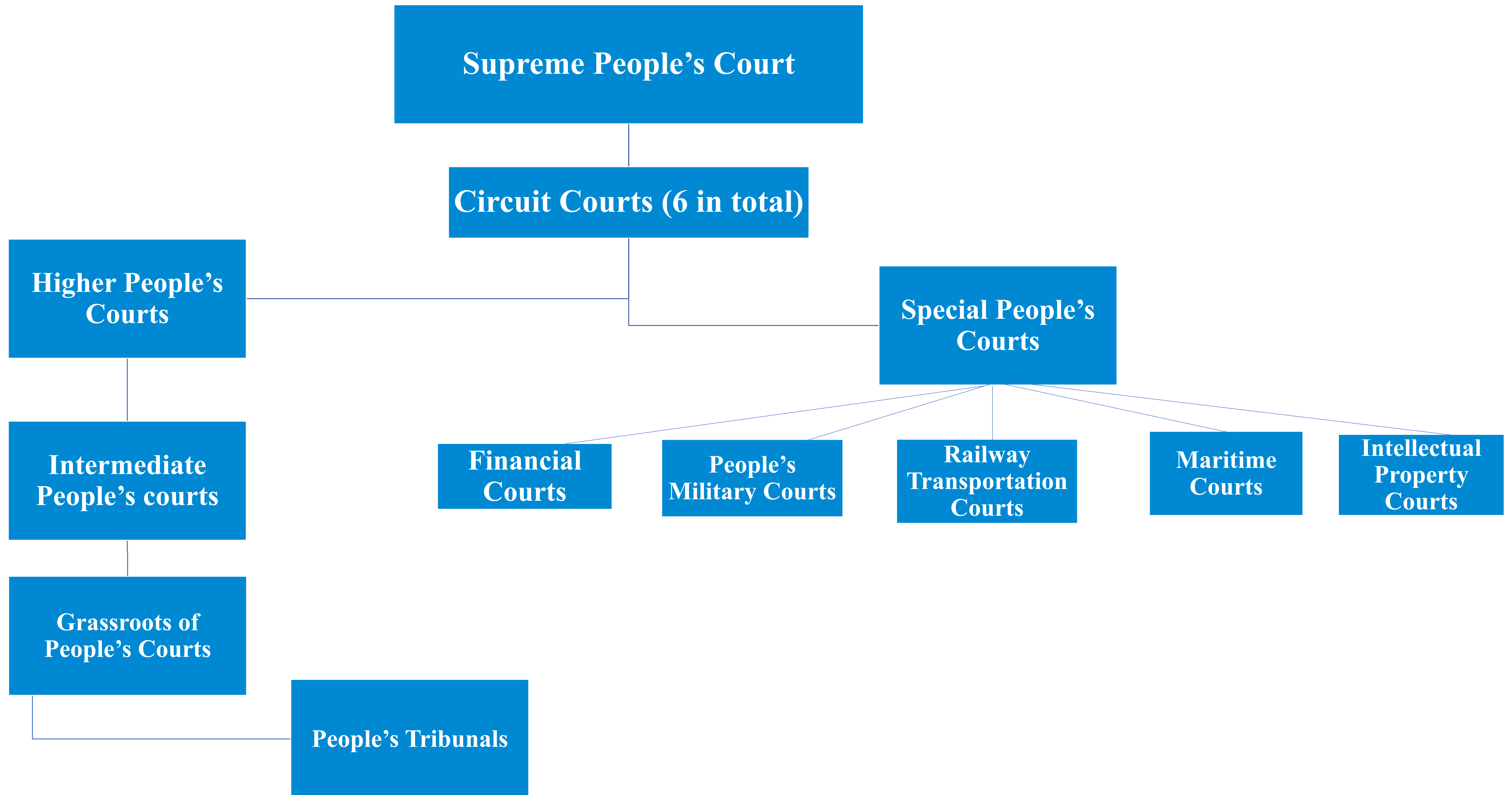


## Three most important components of the judicial system:

- People's Courts: judicial organs exercising judicial power on behalf of the state.
- People's Procuratorates: the state organ for legal supervision.
- Public Security Authorities: both an administrative arm and a judicial organ.
- International Arbitration / domestic arbitration
- Mediation: International commercial disputes



# Court System of China





## **Legal development trends**

- Focus on corporate/individual credit systems
  - Continue to relax government approvals => services
  - Less restriction for foreign investment => reduce sectors in negative lists
  - National treatment
  - Continue battle against corruption / unfair competition
  - RMB internationalization => bring more liquidity and challenges to market
  - Better enforcement
- 
- The new Foreign Investment Law, which will come into effect on 1 Jan, 2020, will unify the FDI activities



# **Legal development trends**

## **The changes to be brought by the new Foreign Investment Law:**

- The aim is the equal treatment of Foreign Invested Enterprises (“FIE”/“FIEs”) and domestic companies
- Reform on the existing FIEs – five-year interim period for unification
- General rules given on technology transfer, market access, local legislation-making
- Detailed implementation rules and local rules to be made
- The negative lists are updated frequently, the latest versions issued on 30 June 2019
- Detailed Shareholders agreement and Articles of Association required to operate



## 2. Company registration



- FIE is welcomed
- Current forms: wholly foreign-owned enterprise (“WFOE”); joint venture (“JV”); branches; representative offices.
- Investment categories => negative list
- Filing to establish a company, no approvals needed, except under certain limited circumstances



# Filing process

What is the registration process?





### 3. Tax regulations



- Tax residents to pay tax : corporate and individual
- FIEs and domestic company: same tax system
- Battle against fake invoices intensified
- Continuous tax reform
- With technologies, regulatory control becomes more digital and transparent



# Tax regulations

## Tax Incentive Policies and deductions

Enterprise Income Tax may be reduced or exempted in different ways:

- Exemption – 0%

applies to certain agriculture, animal husbandry, forestry and fishery projects

- Reduction – usually 50% off

applies to certain agriculture and fishery projects

- Tax holiday: exemption for the first years (2-5) + reduction of 50% for the next few years (3-5)

applies to qualified tech companies (including software, integrated circuits, energy-saving service), etc.





# Tax regulations

- The enterprise income tax legal regime covers rules on transfer pricing, advance pricing arrangements, anti-avoidance investigations, etc.
- General Anti-Avoidance Rule (GAAR)



## Tax filing

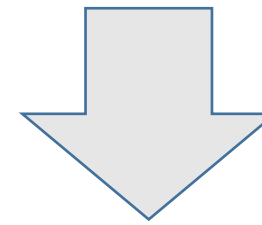
- Tax period is the calendar year
- Annual tax return has to be filed on or before 31 May following the end of a tax year.



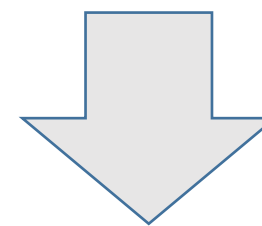
## 4. Customs regulations

- Customs of the People's Republic of China implements vertical management system

General Administration of  
Customs PR CHINA



Special Commissioner's Office in Tianjin, Special Commissioner's  
Office in Shanghai, Guangdong Sub-Administration of China  
Customs, 42 Customs Districts and 2 Customs schools



More than 500 customs agencies directly under the Customs Districts





# Customs regulations

- 42 customs offices directly under the General Administration of Customs, critical ones including



- The main functions of the Customs are:
  1. exercise supervision and control;
  2. collect customs duties and other taxes and fees;
  3. uncover and suppress smuggling;
  4. collect customs statistics and handle other customs operations.



# Customs regulations



- The core content of the customs law in China is to regulate the import and export of the country
- Tariff is levied based on the Customs Law and customs import/export tariff schedule
- Since China's accession to WTO, the average tariff has dropped from 15.6% in 2000 to 7.5% in 2018
- Customs valuation is subject to WTO Agreement on Customs Valuation (Article VII of GATT)
- Export control: military-related items, technology and services
- Enterprise credit system: the Customs has implemented relevant measures since May 2018 - a legal foundation for the mutual recognition of AEO and C-TPAT



## 5. Free Trade Agreement



### **FREE TRADE AGREEMENT BETWEEN THE GOVERNMENT OF THE PEOPLE'S REPUBLIC OF CHINA AND THE GOVERNMENT OF GEORGIA**

Came into effect on 1 January 2018

On the basis of WTO rules, China-Georgia FTA further opens the markets of trade in goods and services, improves trade rules, promotes bilateral trade liberalization and facilitation, and creates a more transparent, stable and fair business environment for enterprises.

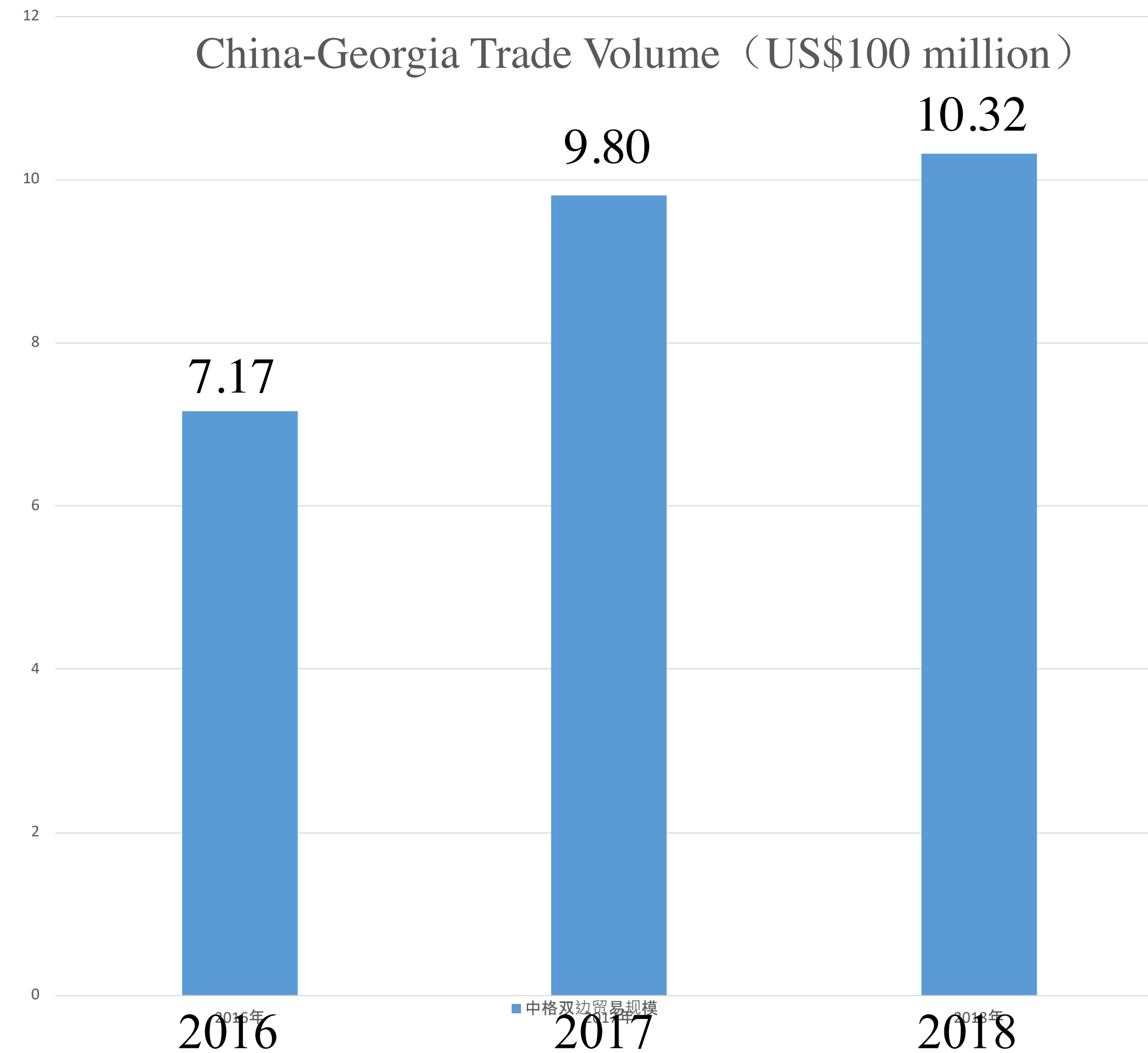
# Free Trade Agreement

Chapter II and Annex I of the China-Georgia FTA provide for tariff concessions on trade in goods

Tariff concessions of the China-Georgia FTA	
Tariff concessions for China	From the entry into force of the China-Georgia FTA, Georgia immediately imposed zero custom duty on 96.5% of China's products, covering 99.6% of total imports from China.
Tariff concessions for Georgia	From the entry into force of the China-Georgia FTA, China imposed zero custom duty on 93.9% of Georgia's products, covering 93.8% of total imports from Georgia . Among them, China immediately imposed zero custom duty on 90.9% of abovementioned products (42.7% of total imports), while the custom duty of remaining 3% of products (51.1% of total imports) will be reduced and bound at zero over five (5) equal annual stages.



# Bilateral Trade between China and Georgia



Data from National Bureau of Statistics of China, Embassy of PRC in Georgia and MOFCOM



An aerial photograph of the Shanghai skyline at dusk. The Huangpu River flows through the center, with the dense financial district on the north bank. The Oriental Pearl Tower, Shanghai Tower, and Jin Mao Tower are prominent. The city extends to the horizon under a soft, hazy sky.

**THANK YOU**

6 September 2019