China-Britain Business Council
英中贸易协会

# INCORPORATION AND GROWING A BUSINESS IN CHINA

CBBC CHINA BUSINESS GUIDE

Advice 建议 Analysis 解析 Access 渠道

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The exchange rate used in this document is £1 = RMB 8.7 = $1.3 = €1.1

# INCORPORATION AND IMPLICATIONS OF THE MAIN BUSINESS MODELS

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## CONSIDERATIONS FOR MARKET ENTRY

When entering the Chinese market, companies should answer a few key questions in order to find out which type of entity suits their operations best. Below is a series of questions that all companies should ask themselves about their project in China.

### WHO AM I GOING TO EMPLOY TO MANAGE MY CHINA BUSINESS?

» Should I start with a distributor or agent?
» Will I have a department responsible in my home jurisdiction?
» Will I second an expatriate to China? If yes, where are they from?
» Will I localise my business and only hire local employees?
» Will I have a mix of cultures to foster both the philosophy of the company and the culture of the local market?

### WHAT AM I GOING TO BE DOING IN CHINA – WHAT IS MY BUSINESS STRATEGY?

» Sourcing, sales, and service considerations;
» Do I have important IP which needs to be protected?

### WHERE IS MY BUSINESS IN CHINA GOING TO BE IN THE SHORT- AND LONG-TERM?

» Where is my short-term strategy focused on?
» Where do I want my business to be in 5-10 years' time?

## WHY AM I REALLY GOING TO CHINA?

- Have I done a market research study?
- Have I made a business plan putting in black and white my goals and strategies for market penetration?

## WHEN AM I PLANNING MY ENTRY?

- Laws and regulations change daily – your business plan needs to be updated regularly!

Given China's size, diversity, and complexity, it may make sense for investors to engage several companies to outsource a series of functions, such as market analysis, administration, finance, law, risk mitigation, logistics, and distribution functions. This is particularly the case during the start-up of the China operation to ensure full compliance. The key to entering China is to do your research – make sure there is an actual marketplace for sourcing, distributing, or even providing services. Discover who your prospective suppliers, customers and partners are and begin to establish, develop, and maintain these necessary relationships.

## BUSINESS MODELS

Based on the answers to the above questions you can decide which type of entity suits you best. This section outlines various structures that are available for your business.

## SELLING STRUCTURE FOR IMPORT INTO CHINA

For companies that are looking to sell into the Chinese market a limited liability company (LLC) in the form of a wholly foreign-owned enterprise (WFOE) or foreign invested commercial enterprise (FICE) would be required, especially if you are planning to sell in RMB to your customers. An LLC is a limited liability company wholly owned by the foreign investor(s). It allows foreign investors to manufacture, process, assemble, trade, distribute, or deliver services in China.

You need to remember that setting up a limited company does not necessarily mean that you can engage in any sort of activities, as may be the case in the West and certainly in Hong Kong. The limited company can only be operated within the scope of business as approved by the authorities.

## PROVIDING SERVICES IN MAINLAND CHINA

When providing any type of service in mainland China, the issue of whether to establish a limited consulting company comes down to whether the customers in China require you to have a limited company and/or require you to invoice them in RMB. Should you need to invoice your clients in RMB, it would be necessary to establish a limited consulting company. Should it be possible to invoice in foreign currency then an alternative could be to open the consulting company in Hong Kong.

## MANUFACTURING IN MAINLAND CHINA

Unlike most jurisdictions, incorporation in China requires the business entity to have a physical office (at an appropriate site befitting the type of business conducted) as its registered place of business. As a manufacturing company, the usage of such physical premises should be a factory/plant to produce semi-finished/finished products instead of general commercial or office functions. The relevant factory lease agreement and other related certificates are required to submit for the incorporation of the company. The authorities may also carry out a site-visit of the factory during the verification process of the company.

As a manufacturing company, an environmental report is required to be submitted for a pre-approval application and issued by a qualified environmental company. The purpose of this application aims to prove that the industrial emissions meet the requirement of the state environmental protection regulations. The environmental evaluation and report are a key procedure for the incorporation of a manufacturing company, as they require a full understanding of your business nature and its products, which can be communicated with the local authority and third parties.

## BUYING STRUCTURE FOR EXPORT

Enterprises that are looking to source products from China and export overseas are advised to establish a Hong Kong company rather than establishing a trading facility in mainland China. This will enable you to sell directly from Hong Kong to worldwide clients without involving your headquarters, and without goods burdening your warehouse. As a result, you can offer lower FOB Asia prices. In addition, you do not require bank credit since your clients would open a transferable Letter of Credit. This frees up your capital and improves cash flow.

## INVESTIGATING WHETHER A HOLDING COMPANY MAKES SENSE FOR YOUR CHINESE COMPANY

Foreign investors wishing to enter the China market generally ask the following questions:

» What ownership structures can they utilise?
» What funding arrangements can be put in place?
» What type of international tax planning should be considered?

A good holding structure not only streamlines the business of a group but could also enable future restructuring at low- or even no-tax costs. Complex structures on the other hand may be difficult to implement and administer.

There are no rules for the “best” model as each company should be analysed carefully under its own circumstances.

# TYPES OF ENTITIES

## REPRESENTATIVE OFFICES VERSUS LIMITED COMPANIES

An LLC is an independent PRC legal entity and is legally responsible for all its activities. Examples of such entities include:

- WFOE: They are owned solely by a foreign investor(s), e.g. management consulting, information technology, recruitment, architecture and design, and logistics companies, as well as restaurants.
- FICE: A WFOE which handles import and export functions, e.g. wholesale trading, retail trading, e-commerce trading, and manufacturing.
- Domestically invested enterprise (DIE): They are owned solely by mainland Chinese investor(s).
- Joint venture (JV): They are owned by a foreign and a mainland Chinese investor.
- Foreign invested partnership (FIP): An FIP is an enterprise where foreign companies and individuals are permitted amongst themselves or in partnership with China domestic individuals or entities to directly establish in China.
- Representative offices (RO): They are not independent PRC legal entities, but rather a type of liaison office with a limited range of authorised activities. The parent company of the RO is legally responsible for its activities. An RO can only be invested by an overseas corporate entity and this entity is required to have existed for over two years. An RO is prohibited from engaging in directly operational business activities which take revenue locally and can only observe local market conditions, for example through market research, liaison activities, or local procurement.

# CONSIDERATIONS WHEN ESTABLISHING A LIMITED LIABILITY COMPANY

## BUSINESS SCOPE

An LLC is a limited liability company wholly owned by the foreign investor(s). They allow foreign investors to manufacture, process, assemble, trade, distribute, or deliver services in China. The final applied business scope chosen for a company is approved by the relevant government authorities. They also indicate whether additional licences or sub-licences are needed pertaining to your specific product or service category.

## REGISTERED ADDRESS AND PHYSICAL PLACE OF BUSINESS

Unlike most jurisdictions, incorporation in China requires the business entity to have a physical office (at an appropriate site befitting the type of business conducted) as its registered place of business.

## OWNERSHIP AND REGISTERED CAPITAL

Over the past couple of years, China has made several changes to the rules for foreign company setup, investment, and operation. One major change that should be highlighted is the new requirement for all foreign companies to specify who has majority control, the so-called “actual controlling person” requirement. This involves the identification of the ultimate owners of the company. It is now required to identify all investors in a WFOE, down to the individual (if privately held) or public company level. Holding structures can still be used to facilitate complex ownership but not to hide the identity of the owner or owners, and this needs to be considered from the outset.

As a limited company refers to the structure being wholly foreign owned, the shareholder(s) on record would reveal the overseas parent company to be the beneficial owner of such a structure in China. As a result, registered capital should be contributed by the parent company in amounts determined prior to the initiation of the incorporation and filing process. Registered capital in this instance will refer to the shareholders' contributions or investments into the limited company as funds for use towards the running of the business and its overheads. A minimum registered capital is no longer required in China; however, it is suggested that you take into consideration setting a realistic amount of registered capital in the limited company at the time of application. A recommended amount would be a sum equivalent to 8-12 months of working capital to rent office space, pay salaries and expenses, and run the operations in China.

It is not required by the Chinese authorities to inject all the registered capital at the time of incorporation. The number of instalments and terms of each instalment injection are decided by the company and recorded in the Articles of Association (AoA) that will be submitted to the authorities at the time of the application.

## CHINA CORPORATE STRUCTURE

The key positions which need to be appointed in the Chinese company are as follows:

- A shareholder has the highest authority of power. The shareholder appoints the Board of Directors (minimum of three people) or Executive Director (one person only). The Board of Directors or Executive Director set the agenda of the company's operations according to the shareholders decisions.
- The shareholder also appoints the Legal Representative who holds all power within an entity in China. This person will be held accountable for any issues that arise within the China entity.*
- The Board of Directors or Executive Director appoints the General Manager. The role of the General Manager is to perform the day-to-day operations of the China entity.
- A Board Member/Executive Director can hold the position of Legal Representative and/or General Manager.
- The shareholder appoints the Supervisor. The role of this position is to supervise the execution of company duties by the directors and senior personal management. To ensure there is no conflict of interest, a Supervisor cannot concurrently hold the position of a Board of Directors/Executive Director, Legal Representative, and General Manager.

*(*) The Legal Representative should also be appointed as a Board Member (or Executive Director) or the General Manager.*

## BANK ACCOUNTS

Each limited company is required to establish a capital account normally denominated in the foreign currency of the country of origin or an internationally accepted currency such as the US dollar, Euro, or Hong Kong dollar. This bank account will be used to receive the registered capital prior to the required capital verification by the bank and can be setup in any local or foreign bank permitted to hold such accounts in the PRC.

Further to this, limited companies will be required to have a further settlement account denominated in RMB and other international currencies for local inbound and outbound transactions with customers and suppliers, and for payment of regular administrative expenses. Such an account can allow for cheques and internet banking but the limitations and extent of such banking services will be determined by the bank of choice and limited companies can choose to have their settlement account established in either a local (PRC) bank or any foreign (international) bank.

Finally, limited companies will be required to open a tax account denominated in RMB for payment of all China-related tax liabilities.

## DURATION FOR INCORPORATION OF A LIMITED COMPANY

Finally, it takes approximately 4-6 months to set-up the limited company (the calculation starts from the first application submitted to the government authority). Note that the notarisation of original investor documents may require additional time, depending on the location and jurisdiction of the parent company. However, upon receipt of the business licence you will be able to hire people on behalf of your China entity.

## ONGOING ACCOUNTING AND TAX COMPLIANCE CONSIDERATIONS

As an LLC, your Chinese entity will be required to comply with PRC taxation and compliance regulations in its bookkeeping, accounting, and tax-filing activities. The full financial year in the PRC, according to Chinese Accounting Standards, runs corresponding to the calendar year from 1st January to 31st December. General books of accounts of the limited company will have to be made up and kept in accordance with PRC GAAP, whereby it is mandatory for accounts to be filed, VAT declared and paid on a monthly basis and taxes on profits to be declared quarterly.

Further to the above, an annual financial audit of the accounts of the limited company will have to be performed upon completion of activities of each financial year by an appointed third-party CPA firm and, once completed, the limited company must:

1. File annual returns and perform its tax settlement before 30th April of the following year; and
2. Participate in the mandatory unified annual inspection for companies before 30th June. CSC can assist in the processing, support, execution, and management of these compliance activities from an accounting and tax-filing perspective.

## DUE DILIGENCE

Because of the complexity and opacity of Chinese market structures and enterprises, conducting due diligence is of great important for foreign investors who wish to partner with a Chinese company through a joint venture. Due diligence is not as common in China as it is in western countries, and you may face several obstacles such as language, lack of documentation, or reluctant Chinese partners in this process.

## CONCLUSION

Establishing a legal presence in China can be a challenge without having profound knowledge of the country and its legal system. Companies without extensive experience should consider thorough, independent consulting beforehand.

*CSC is an industry leader in administration services with a track record of more than 120 years in the United States and more than 45 years Asia. We are a specialist corporate services provider providing corporate establishment, business advisory, tax advisory and compliance, accounting, audit liaison, payroll, trade and supply chain solutions, fund administration and international expansion services to multinationals expanding and investing into Asia - situated in Singapore, Shanghai, Shenzhen and Hong Kong in Asia and servicing other parts of Asia, and we continue to grow our presence in the APAC region.*

*As one of the world's largest privately owned companies and as an established brand for the past century as the largest corporate services brand in the US, we are confident and committed to continue to be a leading brand in Asia.*

*We are the business behind business. We are ready to talk*.

# RECRUITMENT AND LABOUR LAWS

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Global reach
Local knowledge

## EMPLOYMENT CONTRACT

Under the PRC Employment Contract Law (effective from 1st January 2008), employers are required to have individual written employment contracts with each of their employees, subject to a limited exemption. Also, under the law, employee termination must be due to cause or based on mutual agreement. An employer may terminate an employment contract without notice if the employee does not fulfil their requirements during the probation period; if they "seriously" violate labour discipline or company regulations; if they are "seriously" derelict in their duties; or if they engage in graft, favouritism, or other activities that cause "serious" damage to the employer.

An employer may terminate an employment contract by giving an employee 30 days prior written notice or one month's wage in lieu along with severance payment if the employee is incompetent and remains incompetent after training or adjustment of his or her position.

It is worth noting that the Chinese labour law prohibits employers from dismissing workers without legitimate reasons and sufficient evidence.

Employment contract may be bilingual, but in the event of a conflict the Chinese version shall prevail.

An employment contract is required to be signed by both the employer and employee within 30 days from the onboarding date. Failing that, the employer is required to pay 200% of the basic salary.

## EMPLOYEE DOCUMENTS*

New employees who are local personnel require a letter of release from their previous employer. A reference letter from the previous employer, personnel file, and proof of employment history are optional but serve as important references to validate the information provided by the employee.

In cities like Shanghai, a permanent employee handbook will be transferred from one employer to another when a resident Shanghai employee changes jobs.

For new employees who are foreign residents, a work permit and residence permit must be available before they can commence work.

**This is an indicative list and not comprehensive.*

## TYPICAL FORMS OF EMPLOYMENT

There are five typical forms of employment in China.

- Employment contract: Must be signed by full time employees;
- Internship agreement: Students before graduation;
- Part-time employment: Part time employees;
- Dispatch agreement: Chinese national employees who are hired by a licensed agent and dispatched to another company;
- Service agreement: For retirees and freelancers.

## FOREIGN PERSONNEL

The Chinese government welcomes foreign investors, high-level administrators, and technical staff to work in the country. However, “regular” vacancies are given priority to local personnel. Foreigners who intend to work in China should have more than two years of relevant work experience and a documented educational background.

Foreigners are required to meet Chinese employment requirements such as:

- Be aged from 18-60 years old if male, and 18-55 years old if female;
- Be in good health;
- Have no criminal record;
- Have a definitive employer;
- Hold a valid passport.

Foreign employees need to obtain a work visa type Z prior to entering China – except under special circumstances – and obtain a work permit and a resident permit upon arrival in the country. Without a valid work permit, a foreigner’s employment in China will be deemed illegal.

## WORK PERMITS

The two main visas for business and work in China are the M visa and the Z visa.

Foreigners coming to China for a short-term business visit (not for employment by either a domestic or foreign entity) of less than 90 days can apply for an M visa.

M visas can be single, double, or multiple entry. The visa normally allows a stay of 30 days per entry. The validities of single, double, and multiple entries are three months, six months, and six months/12 months respectively.

The Z visa is commonly referred to as the working visa. It is used by foreigners who are employed by a company that has been incorporated in China: either domestic or foreign invested enterprises (FIEs). The employee must submit their passport with a Z visa and a work permit to obtain a residence permit and legally work in China.

## SOCIAL SECURITY SYSTEM

To achieve the goal of improving the social security system as proposed in the 13th Five-Year Plan (2016-2020), China's top legislature enacted social insurance reform, which took effect on 1st July 2011.

The five social insurances covered by China's mandatory welfare system include pension, medical, work-related injury, unemployment, and maternity; which were part of the existing social security framework in China. Typically, housing fund contributions are included in the scope of mandatory welfare because the additional costs are mandatory and come from both the employer and the employee.

The rate and thresholds for social insurance contributions vary by municipality. The table below summarises details for Shanghai, Beijing, Guangzhou, and Shenzhen:

Note: Percentages may vary for other cities.

| City | Shanghai (May 2019 to March 2020) | | Beijing (July 2019 to June 2020) | |
|---|---|---|---|---|
| Social insurance | Paid by employer (salary %) | Paid by employee (salary %) | Paid by employer (salary %) | Paid by employee (salary %) |
| Endowment insurance | 16% | 8% | 16% | 8% |
| Medical insurance | 9.5% | 2% | 10% | 2%+3 |
| Work-related injury insurance | 0.16% to 1.52% (as of May 2019) | 0% | 0.2%-1.9% | 0% |
| Unemployment insurance | 0.5% | 0.5% | 0.8% | 0.2% |
| Maternity insurance | 1% | 0% | 0.8% | 0% |
| Ceiling for monthly salary base | RMB 24,633 | | RMB 23,565 ~ RMB 27,786 | |

| City | Guangzhou (July 2019 to June 2020) | | | | Shenzhen (July 2019 to June 2020) | | | |
|---|---|---|---|---|---|---|---|---|
| Social insurance | Paid by employer (salary % ) | Paid by employee (salary %) | Ceiling of contribution base | Floor of contribution base | Paid by employer (salary %) | Paid by employee (salary % ) | Ceiling of contribution base | Floor of contribution base |
| Endowment insurance | 14% | 8% | 19,014 | 3,803 | 14% / 13% | 8% | 19,014 | 2,200 |
| Medical insurance | 5.5% | 2% | 27,960 | 5,592 | 5.2% | 2% | 27,927 | 5,585 |
| Severe Illness | 0.26% | / | 9,320.00 | | / | / | / | / |
| Work-related injury insurance | 0.2%; 0.4%; 0.7%; 0.9%; 1.1%; 1.2%; 1.3%; 1.4% | / | Cancelled in July 2019. The contribution base hasn't been confirmed yet. | | 0.07%; 0.14%; 0.245%; 0.315%; 0.33%; 0.39%; 0.48%; 0.57% (effective from 1st May, 2019 to 30th April 2021) | / | 19,014 | 2,200 |
| Unemployment insurance | 0.64% | 0.2% | 27,960 | 2,100 | 0.7% | 0.3% | 2,200 | 2,200 |
| Maternity insurance | 0.85% | / | 27,960 | 5,592 | 0.45% | / | 27,927 | 2,200 |

## SOCIAL INSURANCE CONTRIBUTION FOR FOREIGN NATIONAL EMPLOYEES

According to the Interim Measures for Foreigners' Participation in the PRC Social Security Schemes (the "Interim Measures"), effective from 15th October 2011, foreign national individuals lawfully working in China and holding appropriate work permits in China are required to participate in the social insurance schemes unless there are social insurance treaties between the home countries of the employees and China.

In general, the employer should carry out social insurance registration for the individuals within 30 days after the individuals obtain the work permit, subject to practical limitations which the employer should either consult or notify the social insurance authority about on a timely basis. In addition, the insurance premiums should be contributed from the first month of the individuals working in China subject to practical limitations and the relevant social insurance authority should be consulted on a timely basis.

## INDIVIDUAL INCOME TAX (IIT)

In China, the tax year is from 1st January to 31st December. IIT is generally administered on a monthly basis but certain types of tax resident individuals must file an annual IIT reconciliation return on comprehensive income between 1st March and 30th June of the following year.

## EMPLOYER'S IIT WITHHOLDING OBLIGATION

For employment income, the employer has the obligation to withhold IIT from employees' salary and wages and file the provisional IIT withholding returns with its tax authority on a monthly basis, and settle the payable IIT within 15 days of the following month.

Monthly provisional IIT withholding amounts for a China tax resident employee shall be calculated on an accumulative basis with the annual IIT table on comprehensive income* (see the table below).

**Employment income, remuneration for labour services, author's remuneration, and royalties are combined as "comprehensive income" for accumulative IIT calculation purpose on an annual basis.*

| Annual taxable comprehensive income, RMB | Tax rate (%) | Quick deduction, RMB |
|---|---|---|
| 0 to 36,000 | 3 | 0 |
| Over 36,000 to 144,000 | 10 | 2,520 |
| Over 144,000 to 300,000 | 20 | 16,920 |
| Over 300,000 to 420,000 | 25 | 31,920 |
| Over 420,000 to 660,000 | 30 | 52,920 |
| Over 660,000 to 960,000 | 35 | 85,920 |
| Over 960,000 | 45 | 181,920 |

Please note:

» Annual taxable comprehensive income = annual gross income – RMB 60,000 annual standard basic deduction – specific deductions – specific additional itemised deductions and other allowable deductions

» Annual IIT payable = annual taxable income X applicable tax rate – quick calculation deduction

For non-China tax residents, the IIT on their employment income, remuneration for labour services, author's remuneration, and royalties shall be calculated by each category on a monthly or transaction basis at the below progressive tax rates (see the table below).

| Monthly taxable employment income (RMB) | Tax rate (%) | Quick deduction (RMB) |
|---|---|---|
| 0 to 3,000 | 3 | 0 |

| | | |
|---|---|---|
| **Over 3,000 to 12,000** | 10 | 210 |
| **Over 12,000 to 25,000** | 20 | 1,410 |
| **Over 25,000 to 35,000** | 25 | 2,660 |
| **Over 35,000 to 55,000** | 30 | 4,410 |
| **Over 55,000 to 80,000** | 35 | 7,160 |
| **Over 80,000** | 45 | 15,160 |

Please note:

- Monthly taxable employment income = monthly gross employment income – RMB 5,000 monthly standard basic deduction
- Monthly IIT payable = monthly taxable employment income X applicable tax rate – quick calculation deduction

## PERSONAL PRE-TAX DEDUCTIONS FROM COMPREHENSIVE INCOME

When the employer calculates the taxable income for tax resident employees, the following personal deductions are generally allowed (accumulated monthly) in calculating the monthly provisional IIT withholding amount:

- Standard basic deduction: RMB 60,000 per annum (i.e. RMB 5,000 for monthly tax withholding purpose).
- Specific deductions: Chinese social security contributions (employee portion) made in accordance with the Social Security Law and contributions (employee portion) made to the statutory Housing Fund are deductible for IIT purpose.
- Specific additional itemised deductions (SAID):

| SAID item | Deductible amount, RMB |
|---|---|
| **Mortgage interest** | 1,000 per month |
| **Rental expenses** | 800, 1,100, or 1,500 per month depending on the location |
| **Child education** | 1,000 per child per month |
| **Continued education** | 400 per month or 3,600 per year depending on the type of qualified continued education |
| **Elderly care** | Up to 2,000 per month depending on the status of the taxpayer |
| **Major medical expenses** | Qualified self-paid portion above 15,000 and capped at 80,000 per year for each eligible individual, which is only deductible through annual IIT reconciliation filing. |

The resident taxpayer can also choose to claim the SAIDs above through the annual IIT reconciliation filing instead of having them included in the monthly provisional withholding tax calculation by the employer.

- Other allowable deductions: Certain deductible items specifically provided by the specific IIT regulation and circulars, such as employee contributions to qualified corporate annuities and premiums paid to commercial health insurance eligible for IIT incentives, etc.

## IIT INCENTIVES FOR FOREIGN NATIONAL EMPLOYEES

Based on the PRC IIT Law and regulations, cash allowances are subject to IIT. However, certain cash allowances or reimbursements of expenses in relation to a foreign national employee's expatriation to China (e.g. housing, relocation, children's education, language training, etc.) can be claimed as IIT exemptions if the amounts can be substantiated with valid invoices and other required supporting documents which would be subject to the tax official's review.

Foreign national employees are entitled to choose to either apply for the SAIDs on children's education, taxpayer's continued education, mortgage interest, and rental expense applicable to all resident employees, or apply for the IIT exemption on children's education, language training, and housing subsidy that are specifically offered to foreign national employees, but one cannot apply for both.

## LOCAL OFFICE WORKING HOURS AND TIME ZONE

China has a five-day work week (from Monday to Friday) consisting of 40 hours. Normal working hours are 08.30-17.30 or 09.00-18.00:

- Corporate banks are open Monday through Friday 9:00am-5:00pm;
- Shops are generally open every day;
- Standard Time Zone: UTC/GMT +8 hours.

## HOURS OF WORK

There are three types of working hour systems in China.

- Standard working hour system: Workers should not work more than eight hours per day, and no more than 40 hours per week. They should have at least one day off per week.
- Flexible working hour system: this applies to areas of work that require flexible workers. There is no fixed working hours limit under this system, and it includes occupations such as senior management, outdoor staff, salespeople, operators on duty, long-distance transport workers, taxi drivers, and stevedores in railway stations, ports, or warehouses.
- Comprehensive working hour system: under this system, working hours are calculated weekly, monthly, quarterly, yearly, or by other time durations. However, the average daily working hours and average weekly working time should be met by the requirements of the standard working hours system. The comprehensive working hours system applies to industries such as transportation, telecommunications, shipping, fisheries, geology and resources exploration, construction, food production, and tourism.

Overtime should not be made compulsory to employees. Any overtime should not exceed three hours per day, subject to a ceiling of 36 hours in one month.

For part-time employees, the average working hours per day should not be more than four hours, and the cumulative working hours per week for the same employer should not be more than 24 hours.

Overtime payments under the standard working time system in China are calculated as follows:

- Employees who work extra time on work days must be paid 150% of their basic salary.
- Employees who work on public holidays are entitled to triple salary, and employers are not allowed to offset the overtime salary with a day off.
- Employees who work on a weekend can have a complementary day off. If the employee cannot take the complementary day off due to work, the employer must pay double salary.

The employer is legally allowed to offer more annual leave days to foreign employees. These employees can be paid triple the basic salary for a normal work day if they do not utilise their annual leave.

## TYPICAL WORKER BENEFITS

State benefits are provided from localised funds in urban areas such as Beijing, Shanghai, Guangzhou, and Chengdu, so rural employees are not usually covered. Mandatory benefits are based on the employer and employee contributions to the “five social insurances” (maternity, medical, unemployment, pension, and work-related injury). It is common for foreign investors to grant commercial insurance to their employees.

The state retirement age is 60 for men, 55 for professional women, and 50 for non-professional women. The state pension is provided from the unified pension system and is made up of a basic pension of 1% of average earnings for each year of contributions; a monthly pension from an individual account from 1997, and a transitional pension to cover the period before 1997.

For state retirement benefits, employers typically pay between 19% and 20% of covered earnings to a local social fund, and employees between 6% and 8% to individual accounts, from which the government of China will distribute social benefits consisting of a certain sum of money each month.

Medical care is provided from individual medical accounts and pooled public medical funds. Patients are required to pay the cost of medical treatment, which is then reimbursed, subject to deductibles and benefit limits.

For medical insurance, employers pay between 9.5% and 10% of covered earnings, depending on the area, and employees contribute 2% of covered earnings.

Maternity benefits consist of 98 days of leave, medical care expenses, and an extra salary from the maternity fund. In some regions, local governments offer more maternity leave days.

Employers also pay premiums for worker compensation insurance.

All employment benefits are subject to IIT except for state benefits, which are tax deductible from employee prospective.

## PUBLIC AND PAID HOLIDAYS

There are 11 statutory holidays (public holidays) in a calendar year in China, including:

- New Year's Day (1 day)
- Spring Festival (3 days)
- Tomb Sweeping Day (1 day)
- Labour Day (1 day)
- Dragon Boat Festival (1 day)
- Mid-Autumn Day (1 day)
- National Day (3 days)

Employers also have to offer paid holidays/annual leave if employees work for an employer for one full year. The duration of leave for each employee is determined by reference to his or her accumulated years of work (with all employers, not just the current employer). An employee who has worked for one year or more but less than 10 years is entitled to five days of paid annual leave, an employee who has worked for 10 years or more but less than 20 years is entitled to 10 days of paid annual leave, and an employee who has worked for 20 years or more is entitled to 15 days of paid annual leave.

## PAYROLL CYCLES

It is suggested to calculate daily wages based on 21.75 work days per month under a typical eight-hour per day 40-hour work week. The regulations permit payment on an hourly, daily, weekly, or monthly basis.

Housing and schooling allowances, perks, and hardship pay are added to one's salary. Wages and salaries for Chinese staff vary widely by-region.

## THE MINIMUM WAGE

Under the Provisions on Minimum Wages issued by the Ministry of Human Resources and Social Security (effective 1st March 2004), labour authorities at the provincial level determine and adjust the minimum wage standard for their jurisdictions. Employers are not allowed to pay wages that are less than the stipulated standard. Minimum wages for some locations are as follows:

- In July 2019, Beijing's Human Resources and Social Security Bureau increased its minimum wage (monthly) from RMB 2,120 (£244) to RMB 2,200 (£253), and the hourly minimum wage remains at RMB 24 (£2.80).
- In July 2018, the monthly minimum wage in the provincial capital of Guangzhou increased by about 10%, from RMB 1,895 (£218) to RMB 2,100 (£241).
- In July 2018, the monthly minimum wage in Shenzhen increased from RMB 2,130 (£245) to RMB 2,200 (£253).
- In April 2019, the monthly minimum wage in Shanghai increased from RMB 2,420 (£278) to RMB 2,480 (£285).

## HR LEGISLATION

The Labour Law of the People's Republic of China is formulated in accordance with the Constitution to protect the legitimate rights and interests of labourers, readjust labour relationships, establish and safeguard the labour system suiting the socialist market economy, and promote economic development and social progress. The law applies to:

- Enterprises, individually-owned economic organisations (employer), and labourers who form a labour relationship with them within the boundary of China;
- State departments, institutional organisations, social groups, and labourers who form a labour relationship with them.

According to the law, labourers have the right to be employed on an equal basis, choose occupations, obtain remuneration for labour, take breaks, have holidays and other leave entitlements, receive labour safety and sanitation protection, get training in professional skills, enjoy social insurance and welfare treatment, and submit applications for the settlement of labour disputes.

The law also states the labour rights and conditions related to the promotion of employment, labour contracts, working hours, leave, wages, safety and sanitation, protection for female staff and juvenile workers, professional training, social insurance and welfare, labour disputes, supervision, and inspection and legal responsibilities.

# TAXES AND COSTS OF RUNNING YOUR BUSINESS

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Grant Thornton

Differences in terms of business environment, regulation, and culture can present a range of challenges as you sell your products and services in China. This is also the case when dealing with the Chinese tax system.

There are a range of taxes that affect operations in China, and due to the combination of direct corporation tax, indirect taxes, and withholding taxes, China can be a relatively high tax jurisdiction. The application of legislation can vary and the risk of non-compliance can be substantial, so businesses must ensure that they properly understand the issues that may affect their plans.

While the main categories of tax appear broadly familiar, there are differences to their UK equivalents. Here we outline the general issues that UK companies may face in China. In practice, each business is unique and the application of legislation may vary, so we recommend that professional assistance is sought in organising your Chinese tax affairs and liaising with the local tax authorities.

The following is a summary of the main taxes incurred during the lifecycle of a business entering China.

## VAT AND CUSTOMS DUTIES

The standard VAT rate for goods is currently 13%, which has decreased from 17%. 9% VAT is applicable for the trade of some specific types of goods or labour services including sale of transportation, postal, basic telecommunications, construction, lease of immovables, sale of immovables, transfer of land use rights, sale or importation of the specific goods such as agricultural products, edible vegetable oil and edible salt, etc. The rate for services is 6%. Local levies (around 12% depending on the jurisdictions) will be additionally levied on the VAT payable.

Credits for input VAT are available to general VAT payers in a similar way to the UK.

There is also a “small scale VAT payer” regime for some businesses. The enterprises qualify for general VAT payer status if their turnover is above RMB 5,000,000 (£575,000). Businesses with a turnover below or equal to RMB 5,000,000 (£575,000) shall be recognised as a small-scale VAT payer. Small-scale VAT payers charge VAT on services at 3% but cannot claim a VAT credit.

The approach in China to identifying the place of supply of services differs to the UK, which can in some circumstances lead to sales taxes being payable in both countries.

There is no trade agreement between the UK and China. Customs duties are similar to most international systems based on the HS code of the product and currently the UK has favoured nation status.

# INDIVIDUAL INCOME TAX AND SOCIAL INSURANCE

## TAX

China's main employment tax, individual income tax (IIT), is charged at a progressive rate based on salary bands with a top rate of 45% (similar to the UK). However, the respective bands apply at an earlier stage than the UK and the equivalent of the personal allowance is much lower.

An expatriate seconded from the UK will be subject to Chinese IIT if they become a Chinese tax resident. In addition, they will be subject to Chinese income tax on any days working in China if they are employed by a Chinese entity or their UK employer has a Permanent Establishment in China (see below). Double tax relief should be available; and the individual will pay the higher of the Chinese tax or the equivalent UK tax. There is an expatriate regime for individuals so they do not need to pay Chinese income tax on non-Chinese days.

## SOCIAL INSURANCE

Under the state-level Social Insurance Law, rules around compulsory contributions to China's social security system now also apply to non-Chinese nationals with work permits. However, detailed implementation is determined by the local authorities, meaning the application of these rules can vary in practice. Advice should be sought on whether activities will create a social security liability. In many cases no Chinese social insurance is being applied to expatriates.

An individual seconded from the UK to China may remain subject to UK National Insurance (employers and employees) if they retain a UK employer.

It is important to review the position in case there is a double hit.

## PAYROLL

If staff are subject to Chinese IIT, monthly payroll will need to be operated.

The UK payroll implications will also need to be considered if the individual remains on the UK payroll, particularly if double tax relief is obtained through the payroll. This can be a complex process.

## CORPORATION TAX

Chinese corporation tax on Chinese profits is a flat 25% rate. There are certain incentives available that may reduce this rate particularly for high-tech companies. If the company is qualified as a small sized and thin profit company, it will be subject to a reduced effective rate of 5% or 10% depending on the annual taxable income.

There are significant filing requirements including quarterly returns and an annual return.

If dividends are remitted out of China, these will generally be subject to 5% withholding tax (10% if certain conditions of double tax treaty between China and the UK are not met), so that the overall effective tax rate is 28.75% (compared to 19% in the UK).

All payments out of China (services, royalties, interest, and dividends) will be subject to withholding tax up to a maximum rate of 10%. UK double tax relief may be available for this withholding depending on the status of the UK taxpayer, although in practice relief is restricted.

## ADMINISTRATION OF THE CHINESE TAX SYSTEM AND TAX LAW

Virtually no tax law is passed through legislation; instead, circulars are issued regularly by the State Administration of Taxation, which are then interpreted by the local tax bureau.

There are approximately 1,500 tax bureaux across China with up to 500 people working in each one in total (compared to 13 regional super centres in the UK). The tax bureaux are now working much closer together in respect of the different areas of tax. A city such as Shanghai, Beijing, or Nanjing could have up to 20 tax bureaux, and it is possible that different tax bureaux can interpret the tax circulars differently.

Remittances for services, interest, royalties, and dividends out of China are subject to strict foreign exchange control. For any amount above US$50,000, the tax treatment of the payment (i.e. withholding tax, VAT etc.), will have to be agreed by the local tax bureau before payment can be remitted out. This can be quite time consuming. For payments less than $50,000, it is a case of remit now, file later, but tax will still need to be accounted for. During the remittance process questions may be asked about how the contract has been delivered and therefore the position of employees. The remittance process can be undertaken by the customer in China, the UK business, or an appointed adviser.

## LIFE CYCLE OF A BUSINESS

We have briefly set out how the above taxes relate to the life cycle of a business considering the following:

- Selling goods into China;

- Selling services into China;
- Having people on the ground in China and creating a permanent establishment;
- Setting up an entity;
- Exiting China.

Of course, each stage of the process cannot be considered in isolation and there may be interaction. We have provided a few high level points below.

## SELLING GOODS INTO CHINA

- This should be relatively straightforward. The goods will typically be subject to Chinese customs duties and VAT.
- Typically, taxes will be dealt with by the local Chinese importer. Provided the importer is registered for VAT, they should be able to reclaim it as an input VAT credit.

## SELLING SERVICES INTO CHINA (E.G. SOFTWARE SERVICES)

The rules are more complex in respect to selling services.

There is likely to be VAT at the service rate of 6.72% including local levies. As for goods, the customer may be able to claim the VAT as an input credit depending on their status.

In addition, there is likely to be withholding tax even if all of the services are provided from the UK. Any payments to the UK will need to be approved by the tax bureau before being made and so the rate of withholding tax can vary depending on the tax bureau involved. This is because the withholding tax is based on a deemed profit or deemed expenditure basis regardless of the actual profit made. The typical rate of withholding tax is likely to be anywhere between 3.5% and 10%.

It may be possible to take double tax relief in the UK for this tax suffered, although the calculation is complex and full relief may not be available.

## FORMING A TAXABLE PRESENCE

If the UK company has people visiting China and working on the ground then it may create a permanent establishment. This arises in one of three ways:

- It has a fixed place of business through which the business is carried on. This would include an office but can include attending client premises, or working from a hotel room if there is sufficient permanence, etc.
- Dependent agents negotiate and conclude contracts habitually.
- Dependent agents (i.e. typically employees) spend more than 183 days in a 12-month period in China. This is on a cumulative basis so includes the days of all employees in China. However, if more than one employee is there on the same day that is included as one day only.

The consequences of having a permanent establishment are as follows:

- If the UK company receives income from a Chinese client, this is still likely to be subject to VAT and withholding tax as above for services and will be subject to the remittance process. There may be no filing requirements.

- If the UK company does not receive income then it may have to pay Chinese tax based on a deemed expense basis being grossed up. It may also have to file returns. Again, double tax relief may be available in the UK.
- All employees of the UK company will be subject to Chinese income tax on their duties in China regardless of the number of days spent there. For individuals who do not break UK tax residence, this can make operating payroll much more complex.

## SETTING UP AN ENTITY

If the UK company decides to set up a Chinese entity, it is most likely to set up a wholly foreign-owned enterprise (WFOE). Alternatively, it can set up a representative office (RO), or enter into a contractual or equity joint venture (JV).

Points to note in respect of setting up a WFOE are as follows:

- Setting up a WFOE can take between three and six months.
- It is necessary to agree the amount of capital that will be initially injected when preparing the business plan for the licence. There are prescribed ratios between equity and debt depending on the amount invested.
- It may be possible to obtain certain incentives to set up in a particular province.
- Profits will typically be subject to 25% corporate income tax and 5% withholding tax on remitting a dividend to the UK, i.e. 28.75% (compared to 19% in the UK).
- If expenses are being charged between China and the UK then there is likely to be VAT and withholding tax of up to 10% on charges such as royalties, interest, and head office expenses.

## LIQUIDATING OR SELLING THE ENTITY

The final stage in the lifecycle will be either closing down the entity or selling the entity. Liquidating an entity in China can be a complex process as it can take up to 18 months.

Care also needs to be taken if shares in a Chinese company are sold as a capital gains tax of 10% can be due on the proceeds of sale. This may be the case even if there is a non-Chinese company holding the company and the shares of that holding company are sold.

*The above is not intended as advice, and advice should be taken in all cases.*

# GETTING MONEY OUT OF CHINA

This section was written by CBBC

The Implementing Regulations of the Foreign Investment Law and the Foreign Investment Law came into effect on 1st January 2020.

According to Article 21 of the Foreign Investment Law, a foreign investor may, in accordance with the law, freely transfer inward and outward its contributions, profits, capital gains, income from asset disposal, royalties for intellectual property rights, lawfully obtained compensation or indemnity, income from liquidation, and so on within the territory of the PRC in RMB or any foreign currency.

Article 22 of the Implementing Regulations adds that such transfers shall not be subject to any illegal restriction by any unit or individual with regard to the currency, the amount, and the frequency of the transfers. Article 22 of the Implementing Regulations further states that the remittance of the income of individuals employed by foreign invested enterprises (FIEs), i.e. salary income and other lawful income of foreign employees and employees from Hong Kong, Macao, and Taiwan, may be transferred out of the PRC freely after taxation according to PRC tax laws and regulations.

However, these remittances are still subject to foreign exchange control regulations. China’s foreign exchange controls have been gradually opened up since the 1990s. Currency convertibility under current accounts have been made possible in 1996, and some convertibility under capital accounts have been made possible since early 2000s. The repatriation of dividends falls under current accounts and there is no restriction stipulated by policies. However, it must meet the requirements of truthfulness and compliance. Although there is no restriction from the state level, there might be various interpretations from the different levels of tax bureaux.

The dividends of foreign invested companies in China can be remitted out of China as long as certain criteria are met, including:

- All registered capital has been injected;
- The corporate income tax has been paid;
- The loss carried forward from previous years has been settled;
- The annual audit report has been completed;
- The profit allocation programme has been approved by the board;
- 10% of the after-tax profits have been put into a capital fund each year and the fund reaches 50% of the registered capital.

# UNLOCKING CHINA: USING YOUR .COM WEBSITE TO ACCESS THE CHINA MARKET

This section was written for CBBC by Backbone IT Group. For more information, please contact enquiries@backboneitgroup.com

With China set to become the world's largest economy, it has extraordinary purchasing power in both business and consumer markets. Censorship, legal issues and cultural differences can make starting or maintaining a business challenging, but the opportunities for those successfully overcoming them are huge. How can you knock down the barriers? We offer some tips to give your business visibility in China.

## USING YOUR EXISTING WEBSITE

For both the business-to-business (B2B) and business-to-consumer (B2C) sectors, using your existing website has the huge advantage that it is simple to get started. Most website platforms have the ability to generate additional language websites within the same system, or easily spin off a separate China version.

A big advantage here is that your company website is a known quantity; there is no need to invest staff time in learning to use a new system. This will save time and money in terms of getting going and in maintaining the Chinese website offering - editing content or uploading products, it is all familiar.

Using your .com (or similar) also helps solve the issue of user trust – if the site is on your main domain then it is much clearer that it is official. Counterfeit products are a huge problem in China – both on the major e-commerce platforms (Taobao, Tmall etc.) and copycat sites. As Chinese consumers look to ensure they are buying the genuine article, they are increasingly heading to the brand's own website.

The counterfeiting problem is not restricted to B2C; many western B2B companies have gone to enter the market only to find websites passing themselves off as official, festooned with unauthorised usage of genuine company logos. The presence of a Chinese-language version on your own domain helps give users clarity and confidence.

Using your own .com also means you are always in control. E-commerce platform account suspensions, take down scenarios and third parties denying access to your digital assets in China are not uncommon, and controlling your own web presence protects you from this. When you consider that the application process for leading e-commerce platforms can be complex and the costs running into six figures, the risk is not inconsiderable.

## OPTIMISING WEBSITE SPEEDS

In considering China as a market, one fact soon becomes apparent to many companies: western websites are generally slow in China. The Chinese internet censorship, officially called the Golden Shield project but often referred to as the "Great Firewall of China", has a slowing effect on many websites hosted in the West when viewed from China.

It goes without saying that if you want to sell and be seen by users within mainland China, you need a website that performs for them. This is equally true whether e-commerce, the service sector or industrial and corporate websites.

Website load speed is an issue too for search optimisation rankings on Chinese search engines such as Baidu (remember, Google is not visible here), and for companies engaging in Pay-Per-Click or integrating website pages into campaigns linked to WeChat social media.

Conversion rates (what percentage of visitors buy or enquire) will be significantly higher when linked to a quick performing website.

## CHECKING IF YOUR WEBSITE WORKS IN CHINA

It helps to know first if you have a problem or not. Some companies presume automatically they have performance issues in China when they don't and vice versa.

The only real way to know how visible and fast your website appears in China is to perform multiple tests. Naturally, if you have colleagues, partners or contacts in China, ask them to test. China is not homogeneous in terms of infrastructure or censorship – sites can be slow or invisible in one region and quick and problem-free in another. Have people from different cities and regions try to access your website to see if it loads, and if it does, how long it takes.

If you have no partners in China, a quick Google search for a China speed test will throw up a couple of websites which offer browser-based Chinese speed testing. They can give a basic idea of your website speed.

It's a good idea to check all your content, not just your home page – if you have a service information page or shopping carts, how quickly do they load? Do your enquiry and purchase methods all work seamlessly for a Chinese audience?

## SOLVING CENSORSHIP ISSUES

The internet censorship in China causes different problems for different websites. Drawing on our 20 years of experience, we categorise these into three main types:

## SLOW DATA TRANSFER

This is by far and away the most common issue for western company websites. It is not usually as a result of any censorship being applied to the website, it is more that the website was coded with western markets in mind. Many companies with these issues wrongly assume their site is censored, when a few changes to the website code can solve their problem.

### HOW TO SOLVE THIS?

When serving websites from outside China, there is a limit to the amount of data, files and images you can effectively present to a web user in China, because the Great Firewall has a restricting effect on how quickly data can flow. Consider adapting your website for China by producing a lighter version with pages made up of fewer files, fewer images, smaller sized images etc. – the less data and files needed to load webpages, the quicker Chinese users will see them.

Take a quick audit of your website. It is possible there will be links left to prohibited websites – Facebook, YouTube, Twitter etc. Removing these always helps. The same goes for third-party user tracking scripts and payment methods embedded into any website. They often link out to western servers which are very slow for users to access from within China.

## CONTENT FILTERING

Similar to how a home wifi router can block certain kinds of content, the Chinese censorship filters out content that is objectionable to the authorities on a massive scale. It is an automated procedure, so any accidental mentioning or linking to content which is not permitted could cause problems. This is more likely to be a problem for website content in the Chinese language rather than in English.

### HOW TO SOLVE THIS?

It is a case of hunting down and removing the content or links which may be causing the problem. Selling services which would be restricted in China, linking out to a website with gambling connections, references to Taiwan or Hong Kong's legal status, access to western news content – these are a few examples of things which may cause websites to disappear from Chinese view.

## URL OR IP BANNING

IP ranges and domain names can become blocked by the authorities. With IP banning, entire IP ranges can be banned. Sharing server space or data centres (often unknowingly) with blocked websites or IP ranges will mean, no matter how hard you try, your website will not load in China. In rare cases, a company's own website URL can be blocked.

### HOW TO SOLVE THIS?

Changing your web hosting is the easy fix if the problem is not linked directly to your own company URL. Otherwise, a new URL for China will help.

Remember that certain aspects of this are applied regionally, so censorship issues are not always consistent across the country.

## USING SUITABLE WEB HOSTING

The most common advice given to businesses wanting to access the China market is “host your website in China”. Taking this advice is supposed to solve your issues of a slow performing website. But is it true?

Well, yes and no. Some websites moving to host in China see speed improvements and do load quickly. Many more stay more or less as slow as they were before. Conversely, websites hosted outside China can be made to be lightning fast. Hosting in China can help, if your site has been fully optimised for China and is no longer linking out to files and websites outside the Chinese firewall.

Websites in China can also make use of content delivery networks (CDNs) within the country. This refers to a network of additional web servers spread geographically through the country which copy (or cache) website content and always serve files from a server as near to the user as possible. China is a big country, so this enables quick download speeds for users. Many western websites use CDNs, but it is important to note that Global CDNs do not include China. To use a Chinese CDN, you need to legally be allowed to host in China.

If the website has not been optimised for China, for example it is still linking out to the West for content, moving to China may not help much. Always optimise the website code for China, whether hosted in or out of the country.

## CAN I HOST MY WEBSITE IN CHINA?

Under Chinese law, all sites hosted in mainland China need an ICP (Internet Content Provider) licence. To apply for an ICP licence your business needs a Chinese company or needs to have formed a legal partnership with a Chinese company. If you have this or are planning to set this up, China hosting is an option. If not, then you are limited to hosting outside China.

As mentioned previously, provided your site is coded efficiently to serve quickly to Chinese users, most performance issues can be avoided without local hosting. In summary, do you need to host in China? No. But if you are able to do this legally, it can help.

## WHAT DO I NEED TO HOST IN CHINA?

If you have legal Chinese status as a business, then the process of acquiring an ICP (Bei’An) filing requires an application to the Chinese Ministry of Industry and Information Technology at provincial level. This will usually be the province where your business is legally registered.

The application process requires the submission of paperwork and can also require official company staff to submit proof of identity. The domain name or URL being used must be one which is registered in China to the company which is applying for the ICP (so you cannot get an ICP licence for a sub-domain of your .com registered outside of China). Once processed and the ICP is issued, this can be linked to a Chinese hosting provider and the website can be activated.

## DOES HOSTING IN HONG KONG HELP?

Hong Kong lies outside the Chinese internet censorship region. No ICP or Chinese company is needed to setup hosting in Hong Kong. This is a huge advantage. But does this help with website speed in Mainland China?

Even though we think of the internet working in milliseconds, it is still true through that a website hosted in London will load quicker for a Londoner than one hosted in Australia. The same is true for a Chinese user and Hong Kong – it is nearer than other western locations and this can make it quicker. However, as Hong Kong lies outside the Chinese internet censorship region, if a website is slow on account of the Chinese Firewall, then Hong Kong hosting will not help much. It is back to the job of optimising the website.

## SUMMARY

Even though internet censorship in China can represent challenges for western firms, 99% of the time there are solutions. The toolbox used to ensure performance varies slightly depending on whether legally able to host in China or not. Those who can have more options to increase web performance, however there's no reason why any company cannot achieve good web speeds in China wherever they are hosted.

Backbone IT Group is a specialist, China-focused provider of digital services including hosting, server configuration, web development and performance consultancy. Established for over 20 years, Backbone IT Group has offices in the UK, US and China. For more information and assistance, visit www.backboneitgroup.com, contact us on +44 (0) 845 057 3371 or email enquiries@backboneitgroup.com.

# MARKETING SERVICES IN CHINA

This section was written for CBBC by Racepoint Global. For more information, please contact mark.fowler@racepointglobal.com

It is often said that China is a land of contrasts; rich in history and tradition yet always innovating and looking forwards. Twenty years of globalisation and modernisation has created many more commonalities between the Chinese and western publics than is often thought. However the arena in which they operate is still substantially different. The corollary of this is that while the core of your approach to marketing should be transferable to the Chinese market – an emphasis on multimedia content, for instance – the reality is that it has to be fine-tuned and tailored to work in what is a fairly unique environment.

This document will outline some of the first things you should consider when building your marketing strategy and engaging with marketing services in China.

## SIZE MATTERS

In terms of size and spending power, China is a market like no other. With a population of over 1.4 billion people, China is the most populous country on the planet. Modern day China has a large and growing urban population, boasting four of the world's 10 biggest cities.

To put that into perspective, the combined population of Europe and North America sits at just over 1.3 billion. Treating the US, UK and continental Europe with a blanket approach would not work, so doing the same with China is merely inviting failure. Understanding the differences across the Chinese population is not simple and when making your first steps into the market, seeking the counsel of those who know it and appreciate its nuances is wise. These partners will help you build an effective strategy that can reach different audiences, effectively.

## POSITIONING IS KEY

A USP which has underpinned sales and marketing in the UK will not necessarily translate to China. Pushing a brand as low-cost or budget conscious is likely to backfire in a fiercely competitive market awash with budget options. Heritage brands that emphasise quality and status are far more likely to connect with consumers due to their associations with business and financial success. As such, defining a clear proposition that will appeal to Chinese sensibilities and attitudes is hugely valuable.

Defining a position should be informed by the cultural landscape of China and the characteristics it values. The country has worked hard to shake its tag as solely being the manufacturing capital of the world and as such intelligence and innovation have become highly valued qualities. Companies which are able to focus on what sets them apart – particularly in terms of invention and industry leadership – will find themselves in a stronger position than those who focus on areas such as price.

Defining a clear position which resonates locally will provide a robust platform on which to build a wider marketing strategy and tactics.

## SPEAK THE LOCAL LANGUAGE

In recent years, increased travel and greater economic cooperation, has seen Chinese expectations and demands with regards to media and how it is consumed become more aligned with those of the West. There remains, however, a significant disconnect in the language and tone of content which is successful.

Just as a company's positioning will need fine-tuning and tweaking when it enters China, so too will its messaging. A simple translation will not offer the same results as building messaging specifically tailored to Chinese cultural preferences.

This might mean avoiding certain numbers – four, for instance, is the corollary of number 13 in the West which happens to be quite lucky in China – while showing preference for others, such as the lucky number eight. Similarly, use of colours in marketing materials such as red is preferable over those such as white which is associated with mourning. Likewise, green which is a popular choice for branding in the West as it evokes ideas of growth and freshness does quite the opposite in China due to its use in indicating falling stock market prices. The same applies for analogies and imagery – while we might consider the owl the best way of depicting learning or wisdom, the tortoise would be far more suitable for a Chinese audience.

Awareness of these cultural factors will ensure that marketing is much more effective and that the desired message is conveyed.

## THREE KEY SOCIAL MEDIA CHANNELS TO REMEMBER

China, just like everywhere else in the world, is addicted to social media. However, the way China does it is different to elsewhere. Western mainstays such as Facebook, Twitter and YouTube are nowhere to be seen, and a rich and varied ecosystem of platforms tailored to the Chinese market have sprung up to fill the vacuum. Social media is essential to any successful marketing campaign in China, a vital tool for ensuring your content reaches its audience. Here are three key platforms to consider when building your marketing strategy in China:

## WECHAT

The “everything platform”. Regularly dismissed as a WhatsApp clone in the UK, in China you can live your life by it. It combines elements of Facebook with Twitter and Instagram, plus a dash of Pinterest. It also goes beyond the social platforms we know to include payments, services and a kind of marketplace. With 768 million users, it is a mainline to Chinese consumers across different demographics. Businesses need to set up official accounts to promote their products and invest in them accordingly. While organic growth is extremely difficult, as a platform for paid third-party endorsement, WeChat is unparalleled.

## WEIBO

A micro-blogging platform, broadly comparable to Twitter and used by businesses in largely the same way. A great medium for the dissemination of news and information, Weibo has always embraced rich content formats such as images, video and emoticons. Around 200 million people actively use it daily and it has proved extremely popular with Key Opinion Leaders (KOLs), brands and celebrities looking to reach the public.

## YOUKU

China’s leading video hosting and streaming service, filling the hole left by the ban on Google’s YouTube. Owned by Alibaba, it is a key tool in the e-commerce giant’s recent emphasis on content. Just like in the UK, Chinese consumers are more likely to engage with video content. Consumer and luxury brands looking to expand their brands in China have found success working with Youku to reach consumers across the country, outside of the first-tier cities such as Beijing and Shanghai.

## THE IMPORTANCE OF ENDORSEMENT

The political environment in which China operates has a pronounced effect on how marketing works too. Factors such as a state-run media, censorship and a culture which values collaboration over confrontation mean that any business marketing in the region needs to follow certain rules. While a brand breaking into the UK market might look to punch above its weight via an “in-your-face”, even abrasive approach, this is not a viable option in China.

Rather than challenge the status quo or engage in tactics such as lobbying, the state-run economy means businesses should employ partnership programmes to gain a foothold in the market, by leveraging local endorsement. For companies working in the B2B space, alignment with central government policy and cooperation with municipal, provincial and even national government will help secure success. For B2C businesses, working with respected celebrities and KOLs will achieve the best results. Sensible investment in partnerships is fundamental to successfully enter the China market.

## PLAY THE LONG GAME

Many foreign companies over the past twenty years have had their fingers burned when trying to crack China, being punished for lazy and arrogant approaches. Chinese companies and consumers want to be seen as peers to their western counterparts, and businesses that can bring real invention and leadership are welcomed with open arms. By the same token, the country looks dimly on what it considers calculated “smash-and-grab” tactics that fail to show respect for a thriving and sophisticated market.

There are rarely, if ever, quick wins to be had and so patience should be at the heart of any business’ marketing campaign. It should be built with a long-term view in mind and that long-term view should be evidenced too. Showing commitment and investment in China is always well received.

There is a huge opportunity for UK and western companies in China, but it must be understood that success will take time. However, when the rewards are so great, it is worth the investment.

# CLOUD SERVICES IN CHINA

This section was written for CBBC by China Mobile. For more information, please contact claudia@cmi.chinamobile.com

## INTRODUCTION

The UK and China share a history of bilateral trade and investment, strong business and financial links, and collaborations spanning education, research, culture, and sport. Many UK companies are already succeeding in China, and many more are now preparing to make a move into the market.

Until recently, the IT infrastructure deployment associated with such a move would involve significant time and capital expense. Challenges begin with determining the level of computer resources required and include installing local servers, budgeting for operations and maintenance, recruiting local personnel in the midst of a tech talent shortage, and finding the best ways to connect with headquarters and other overseas offices. Demand spikes, as around China's famous Single's Day shopping event, also need to be considered.

With the availability of cloud computing solutions these challenges can be overcome, making setting up in China easier than ever before for international companies. By opting to use cloud services from the start, companies can avoid having to set up their own local data centres while also gaining the ability to deploy computing resources flexibly and get up and running much faster.

There are several aspects overseas businesses need to consider when selecting a cloud solution for your China business:

## CLOUD SERVICES & SOLUTIONS

The major global suppliers of cloud service providers all have a presence in China, including Amazon Web Services (AWS), Microsoft Azure, and Google Cloud, along with their sophisticated domestic counterparts: Alibaba Cloud, Huawei Cloud, Tencent Cloud, Baidu Cloud Engine, and UCloud.

Like overseas multinationals, China's global players tend to use a mix of cloud delivery models and strategies and rely on multiple vendors for private, public, and hybrid cloud solutions. This complexity increases the cost of IT management, requiring a skilled in-house team with the ability to manage multiple products and services in China and worldwide.

## STANDARDS & SECURITY

You must ensure that your cloud provider's Service Level Agreement (SLA) can meet your business requirements. It is recommended that companies ask potential vendors about their security standards: your business is responsible for the safety of your data in an enterprise cloud, so you must review the protocols in place to prevent data loss and leakage. Your service provider also has an important compliance role and must understand and adhere to all relevant regulations in China and your other markets.

## INTEGRATED CLOUD SOLUTIONS

Designed to help multinationals deploy and manage innovative cloud solutions, an integrated cloud network platform can provide a seamless experience for connectivity services, cloud services, and other enterprise products. You can easily subscribe, manage and monitor all your cloud services online from a single platform.

Businesses ideally should use a platform that can provide secure connections to other cloud service providers to create an integrated cloud-network system that supports your business expansion in China. To respond to the market promptly, fast deployment is critical. Using an integrated single platform enables companies to run workloads across multiple cloud providers such as AWS, Alibaba Cloud, Google Cloud and Huawei Cloud. Businesses can then manage their multi-cloud platforms efficiently through one single integrated platform.

Through an integrated platform, provisioning can take seconds rather than days. Plus, you get anytime access to the platform to: research, purchase and deploy cloud services; track and monitor service status and usage; review logs and troubleshoot problems; manage the product life cycle; and customize your bills and notification services.

## EXPANDING YOUR INTERNATIONAL REACH

mCloud developed by China Mobile International, provides a single platform from which to manage all your cloud and network products around the world. The mCloud network currently spans major cities, including London, Beijing, Hong Kong, Singapore, Tokyo, and Los Angeles. It uns on China Mobile International's extensive global network, with an unprecedented 99.99 percent guaranteed uptime SLA.

China Mobile International has eight self-built submarine and eight terrestrial cable resources, four self-owned data centres, 170+ points of presence (PoPs), and 72 Cloud Connect PoPs globally. It also leverages the fibre infrastructure of its parent China Mobile, which boasts the world's largest mobile network and the world's largest mobile customer base. This allows it to provide comprehensive data services across more than 300 cities in 31 provinces and regions throughout Mainland China, plus 24x7 support.

mCloud is part of China Mobile International iSolutions, which delivers one-stop customized services across connectivity, cloud, ICT, data centers and IoT to enterprises serving a wide range of industry sectors. Together, these services enable enterprises to expand globally, seamlessly and securely.

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