International Business Guides

China

Welcome to China

We all know that today China is not just the second largest economy in the world, but also a heavyweight in global business. After four decades of transformative economic development, opportunities abound for companies that are looking to do business with or in China.

Its increasingly affluent middle class has growing demands for consumer goods, while its manufacturing sector is moving up the value chain. In addition, the Belt and Road Initiative and plans to develop the Greater Bay Area look set to sustain growth in the coming years.

HSBC was established in China over 150 years ago and the country is at the heart of HSBC's strategy today.

With a universal banking platform, over 7,000 staff and more than 170 outlets in 57 cities across the country, HSBC is one of the largest international banks with a wide network in China.

Our heritage in the country, together with our global network, makes HSBC the perfect partner to help international businesses embrace the many opportunities China has to offer.

Please get in touch to find out how we can help you and your business navigate China's vast economy and tap into its potential.

We look forward to seeing you here.

David Liao
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Essentials

Capital city
Beijing

Other major cities
Guangzhou, Shanghai, Chongqing, Hangzhou, Shenzhen, Chengdu, Tianjin, Xi'an

Population
1.4 billion[1]

Size
9,596,960 sq km

GDP
USD7,329.09 per capita[1]

Main languages
Mandarin Chinese is most widely spoken, although many other forms of Chinese are also used

Currency
Renminbi (RMB) is the official name, Yuan is the unit of the Renminbi

Top exports
Electrical and other machinery, including computers and telecommunications equipment, apparel, furniture, and textiles[2]

Top imports
Electrical and other machinery, including integrated circuits and other computer components, oil and mineral fuels, optical and medical equipment, metal ores, motor vehicles, and soybeans[2]

Time zone
UTC +8

Typical office hours
09.00 - 18.00, Mondays to Fridays and 09.00 - 17.00 for government offices

Unemployment rate
3.8%[3]

Corporation tax
25%[4]

Dialling code
+86

Emergency numbers
110 (police), 119 (fire) and 120 (ambulance)

China: The globe's blooming economy[1]

An economic giant
As the world's second largest economy, China cannot be ignored. Many economists forecast that the country will surpass the US economy in size over the coming decades.

The biggest contributor to growth
Ever since China introduced market reforms in 1978, the country's annual GDP growth has averaged an extraordinary 10%. The World Bank says that China has been the biggest contributor to global growth since the global financial crisis.

Vast country, vast appetite
China has a growing middle class, which is fuelling the nation's appetite for consumer goods – from smartphones and luxury goods to white goods and cars.

A country with a vision
From the Belt and Road Initiative to the latest Five-Year Plan, China's leaders tend to focus on long-term, large-scale projects, which is good news for potential investors.

China's opening up
One step at a time, China is opening up to investment, to outside influences and to overseas tastes. The potential for foreign involvement is huge.

Sources:
[1]World Bank Group, 2019
[2]Central Intelligence Agency, 2018
[3]Trading Economics, 2019
[4]PwC, 2019

Country profile

China is in a league of its own. A global behemoth of an economy, with a unique business culture that operates on an unprecedented scale – it is not only the world's largest exporter, it is also the second largest importer of merchandise.

And this has all been achieved at breakneck speed. Just 40 years have passed since China's reform and opening-up policy was initiated in 1978. Fast forward and China's now a major global player with the potential to drive growth in Asia and beyond in the decades ahead. It still posts enviable growth rates, despite a modest slowdown in recent years.

The Chinese economy is at a key point in its development, as the government is working to move the economy up the value chain. Future growth will be less dependent on heavy industry and manufacturing. Instead, services, domestic consumption and innovative business models will play an ever-greater role.

> Made affluent by years of economic growth, a new generation of consumers is being empowered by the booming digital economy.

China's latest Five-Year Plan and the Belt and Road Initiative will now spur the next stage of development - one that is focused on promoting more sustainable, inclusive and green growth.

There is little doubt that China will continue to enjoy strong growth in the coming years. Foreign businesses are particularly attracted to the country as a market for goods and services. There are challenges however, as international companies need to learn how to navigate its markets and local business culture.

Read on to discover more about the dos and don'ts of doing business in China. Also find out how trading in or with the country could help boost the future growth of your enterprise.

5 reasons to do business in China[1]

01 An essential part of the global trade system
Whether it is buying or selling, China is one of the most important trading nations - it is the world's largest exporter and the second largest importer of merchandise.

02 One of the world's largest digital economies
From artificial intelligence to cloud computing, China is now a leader in innovation. In 2016, for example, the Chinese spent USD5.5 trillion through mobile payment platforms – almost 50 times more than in the US.

03 An enormous market for consumer goods
There are 400 million young consumers in China. Not only is their spending power growing, they are increasingly interested in foreign brands.

04 Most attractive for inbound investment
China is one of the most attractive inbound investment destinations globally. If your strategy is aligned with China's economic development, then the potential is incredible.

05 An economy in transition
The country is transitioning – from high-speed to high-quality growth, exports to consumption, heavy industry to services and high-tech – as it aims to add value and become a high-income country by 2030.

5 key challenges[2]

01 Environmental issues
Five of the most polluted cities in G20 countries are in China. However, the government understands the value of sustainable growth, and it is implementing plans to green its economy and address air pollution issues.

02 More mature growth rates
China is in transition, from high-speed to high-quality growth, exports to consumption and heavy industry to services. Although this brings opportunities for businesses, it is also tempering growth.

03 Rising costs of doing business
As China's eastern seaboard becomes wealthier, the cost of doing business, setting up factories and employing workers is increasing. Many companies now look for cheaper labour in China's landlocked provinces or in Southeast Asia.

04 Corporate debt
Corporate debt has built up over the last decade. The government is working to reduce leverage and address other risks in the financial system.

05 Catching up with the coast
Development in China's inland provinces lags behind the more affluent coastal areas, making the west of the country a key focus of future development plans.

Sources:
[1]Deloitte, 2019
[2]Export.gov, 2018

Society & culture

In this section

The world's most populous country, with a history going back thousands of years, China boasts a rich and diverse culture. A traveller going from one end of the country to the other will experience different cuisines, local varieties of speech, as well as uniquely Chinese traditions that bind more than a billion people together.

> Getting to grips with China's language, customs and culture can be a challenge, but it is also one of the most rewarding aspects of doing business in this vast country.

Language

Mandarin, Standard Chinese or Putonghua, is the sole official language of China. It can be a difficult language to learn due to its tonal nature, which means that the tone used when saying a word combines with its pronunciation to determine its meaning. Learning Chinese can be a daunting prospect, and there is little doubt that it is a difficult language to master, but it can be achieved over time.

The written language is also notoriously difficult to learn. Instead of words being made out of a set of letters that represent sounds, the Chinese use complex logograms that represent a word or phrase. In order to read a newspaper, it is necessary to know up to 3,000 characters, while an educated Chinese person will likely know many more than this.

English is widely spoken in the larger cities – especially in hotels, restaurants and shops. Upon leaving the big urban centres, English speakers will be harder to find, so learning a few simple phrases will be helpful for getting around.

Away from Standard Chinese, there are numerous varieties of Chinese spoken around the country – such as Cantonese in Guangdong and Hong Kong, as well as the Min speech of Fujian. China's many ethnic minorities also have their own languages from Tibetan to Uyghur and Kazakh to Mongol.

Food

The term “Chinese food” fails to do justice to the extraordinary range eating experiences that China has to offer. A visitor to northern China will find steamed buns, pickles and roast duck on offer, while a trip to southern Guangdong will lead to meals consisting of choy sum, barbecue pork and steamed rice rolls. There are many culinary traditions in China, and these do not include the wide variety of ethnic minority foods that characterise places like Yunnan and Xinjiang. The visitor to a large city, will not be restricted to the local fare, and will be lucky enough to try restaurants that serve food from all over the country.

Exploring China’s culinary landscape is a great way to learn about the country, and a meal with business contacts provides an opportunity to get to know each other in a relaxed setting. It is advisable to get used to using chopsticks though, as many restaurants and eateries will offer nothing else in the way of utensils.

Customs & celebrations

The biggest date on the Chinese calendar, which sees the entire country shut down, is the Spring Festival (also known as Chinese New Year or Lunar New Year). Depending on the year, it can be between mid-January and mid-February and is not fixed. Check with your local Chinese contact and make sure you have the dates in your diary. The government now stipulates people have seven days off for the holiday and businesses shut down for at least a week. This is the equivalent of Christmas in the West in terms of its significance.

The second largest period of holidays is on 1st October, when the country celebrates China's National Day over three days. Other celebrations include Qingming, Dragon Boat Festival and Mid-Autumn Festival. There are also numerous colourful local and regional festivals.

Useful phrases

English
Chinese

Hello (general greeting)
Ni hao

How are you
Ni hao ma?

I am fine, and you?
Wo hen hao, ni ne?

Good morning
Zao an

Good afternoon
Xiawu hao

Good evening
Wanshang hao

Goodbye
Zaijian

I don't know
Wo bu zhidao

Do you speak English?
Ni hui shuo yingyu ma?

Do you speak Mandarin?
Ni hui shuo zhongwen ma?

Yes, a little (reply to above)
Hui, yidiandian

How much is this?
Zhege duoshao qian?

Sorry
Duibuqi

Thank you
Xie xie

Reply to thank you
Bu keqi

Working practices & values

China's economy has changed beyond recognition since it started to open up in 1978, kickstarting decades of extraordinary growth driven by foreign trade and investment in infrastructure.

Modern business practices have emerged, but centuries-old traditions persist and the working culture of China today is a mix of old and new ways.

The Chinese are pragmatic and have an incredibly strong work ethic. People are extremely willing to work long hours and devote themselves to their businesses. Thrift is paramount and high productivity and profitability are championed – as is the efficient use of resources.

> China's extraordinary progress since 1978 is testament to the longstanding values and entrepreneurialism of its people.

On a day-to-day basis, expect face-to-face meetings, email and phone conversations that are direct and to the point. Many issues and irritations experienced by foreigners can often be put down to misunderstandings, nervousness and unfamiliarity with the local culture, so it is worth familiarising yourself with Chinese working practices and values.

Business etiquette

In this section

Horizons lined with skyscrapers, a vibrant digital sector and the world's longest high-speed train network are just some of the products of China's economic dynamism.

All of this has been achieved in less than two generations. The Chinese are extremely proud of the success story that has now elevated their nation to the second largest economy in the world.

Despite the modern environment, foreign businesspeople will encounter age-old traditions in China. The ancient philosophy of Confucianism stresses loyalty, a sense of duty, respect for age and seniority, as well as sincerity. You will see this play a part in many business interactions, as it determines corporate hierarchies, consensus building, and the manner that people offer and receive respect.

Greetings

Building trusted relationships is crucial to doing business in China, so local partners, introductions and go-betweens can be very useful. Initial greetings can be very formal when people meet for the first time.

You can expect to be introduced to the most senior person first, followed by deputies. Initial meetings involve addressing people as Mr, Dr or Ms in a formal, respectful manner. Small talk is essential and it may be considered rude to dive straight into business.

A gift from your home country, or maybe a locally-made delicacy, will be a talking point and can help to break the ice. Ring ahead to find out what your business counterpart might like.

Dress code

Appropriate attire depends very much on the company being visited. Formal clothes are recommended when meeting someone from a professional services company or a state-owned enterprise, while a technology or consumer goods company might very casual.
It is perhaps best to dress conservatively on the first meeting and adjust one's outfit accordingly for future ones.

Negotiations

One concept that is often brought up in discussions about doing business in China is *guanxi*. Its English translation is “relationship” or “connections”, but that does not capture its rich meaning in Chinese, which denotes the interpersonal links and reciprocal obligations that come from one’s social network. Developing a strong network of trusted partners can be extremely helpful in China – especially when it comes to introductions and negotiations.

Guanxi is believed to be a major factor when it comes to being successful in China. Those personal questions about your family and children, or how you’re enjoying your time in China, is *guanxi* talk and is a sign of interest aimed at strengthening the relationship. Personal trust is crucial and it is earnt over time.

Business cards

Business cards are taken seriously in China and are usually exchanged after the initial handshake, introductions and greetings. Present yours with both hands and hold it out as if giving your host a gift. It will be received with respect and you should show the same deference in turn. It is good manners to read the business card. If the meeting is held at a table, keep the cards laid out in front of you.

In recent years, it has become common for people to add each other on messaging app WeChat when they first meet. While this is by no means a universal custom, do not be surprised if someone pulls out their phone and asks you to add them by scanning a QR code. WeChat is an extremely popular form of communication in China, in many ways replacing email, so make sure to download the app and learn how to use it before a business trip.

Sealing the deal

Developing strong personal relationships and figuring out who makes the decisions is essential to concluding deals in China.

Anticipating the communication gap is crucial, as messages can get lost in translation. Try to ensure emails are written in uncomplicated English. A local contact with good language skills can be very helpful, and if that is not available it might worthwhile hiring an interpreter.

Entertaining

Entertaining is an integral part of working and doing business in China. Be prepared to share a meal – or two – with your business colleagues and accept that this is all part of the process. These events can be somewhat formal and focused on business, or they can be more casual affairs where the goal is getting to know each other. Toasting can be a key part of an evening's entertainment, so be prepared to sample the fiery-hot local spirit known as *baijiu*.

The concept of face

Mianzi – face – is a concept you should understand if living and working in China. Face is like a scorecard relating to respect or honour. Saving face, losing face or giving face are crucial elements in business life. No Chinese person wants to be embarrassed or made to feel insignificant or laughed at in the office. Respect for people's feelings is crucial. Every person's reputation, dignity and prestige counts. Chinese corporations and entities have face, not just individuals.

You can give somebody face by flattering them or showing respect. Act patronisingly to another person and they can lose face. Certainly, humiliating people in a public arena or via email can cause huge amounts of face to be lost. Promoting harmony in the workplace or with business colleagues will be appreciated.

Golden rules

01 **Save face at all times in China**
'Face' is a heady mixture of social standing, influence, dignity and honour. The culture of face is a crucial part of many interactions.

02 **Hierarchy and reputation**
Hierarchy counts in China, whether it's a seating position in the boardroom or at the banqueting table, or who speaks first at a meeting.

03 **Attitude and respect**
Turn up on time, shake hands like you mean it and read business cards with interest. You may be judged on whether your attitude is suitably respectful.

04 **All about a harmonious experience**
From gift-giving and entertaining to asking about family and knowing when to be professional, promoting harmony when dealing with your Chinese counterparts will pay off.

Economy

In this section

Highlights

- China is the world's second largest economy and the largest by purchasing power parity. Its GDP growth rate is still one of the highest globally and is above 6%.
- The economy is evolving from one focused on an investment and export-led growth model to one driven more by domestic consumption, as Chinese people spend more on goods and service.
- China's Belt and Road Initiative is expected to support future economic growth as it improves connectivity with more than 60 countries in Asia, the Middle East, Europe and Africa.

GDP (Current USD) **$12.2 trillion**[1]	GDP Per Capita **USD7,329.09 per capita**[1]
Real GDP Growth **6.4%**[1]	Inflation Rate **1.5%**[2]

Economic Structure

Services (% of GDP)	**52%**[1]
Industry (% of GDP)	**40%**[1]
Agriculture (% of GDP)	**8%**[1]

The world's second largest economy is holding up extremely well. Its GDP growth rates are still some of the highest globally, above 6%. China's sheer size and its standing as a leading economy means it cannot be overlooked as an investment destination.

China is striving for higher quality growth while aiming for the economy to expand by around 6.5% by the end of 2018. Buoyant domestic consumption and rapid progress in high technology are also fuelling the economy. These are exciting times for China.

There are challenges on the horizon, though. Corporate debt has increased markedly since the financial crisis in 2008, while house prices in the biggest cities have surged. Looking to the long term, an ageing society is reducing the working-age population, while at the same time increasing the costs of caring for the elderly.

	Exports	Imports
Global Ranking	**1**[3]	**2**[3]
Value	**$2.1 trillion**[1]	**$1.6 trillion**[1]

Sources:
[1]World Bank Group, 2018
[2]Trading Economics, 2018
[3]World Trade Organization, 2018

Regional economies

Many countries in Asia have deepening economic ties with China. Singapore, Malaysia, and the Philippines, for example, all look to China as their principal trade partner. Growth across the region is being fuelled by China's expanding economic importance. For instance, China's outbound tourism market is buoying resorts, hotels and shopping malls all over Asia.

Property investments are a major target for China's outbound capital. So too is purchasing electronic components and equipment from countries like Thailand and Singapore, as well as buying raw commodities such as rice, palm oil, rubber and coal from places including Malaysia and Indonesia.

China invests heavily in Asian infrastructure, with large projects such as the Belt and Road Initiative. More than 60 countries have now partnered with China to create commercial links that track ancient trade routes to enhance the trading and infrastructure network that reaches out from China's borders.

The initiative is now enshrined in the Communist Party's constitution. The government, as well as its public and private enterprises, are all working hard to realise this vision.

Trade between countries that link the BRI already exceeded USD3 trillion between 2014 and 2016, with China's investment in these nations surpassing USD50 billion. Chinese policy banks and funds are now in place to support this plan, including the Asian Infrastructure Investment Bank (AIIB) and the Silk Road Fund, backed by USD100 billion and $40 billion respectively.

Exports & imports

China's extensive manufacturing sector makes it the world's largest exporter, as everything from children's toys to the latest smartphones are shipped from the country's many ports. The strong global economy means that demand for Chinese exports continue to grow. At the same time, China is the world's second largest importer. Natural resources account for a large chunk of the country's purchases, so too do consumer goods. Consumption at home is an increasingly important stabiliser for China, as it shifts away from an investment and export-led growth model.

Effective from 6th July 2018, the US imposed 25% tariffs on USD34 billion worth of industrial machinery and electrical products from China. In response, China announced measures of a similar magnitude, aimed at US agricultural and automobile products. Within a week of the first round of tariffs in July, the United States Trade Representative (USTR) had proposed another USD200 billion of Chinese products for an additional 10% tariff.

On 23rd August, China's additional tariffs on imported products from the United States worth around USD16 billion came into force.

Currency

Over the last decade, China has made extraordinary progress in making the renminbi an international currency. It has quickly gone from being a currency that was little used outside of China's borders, into an important global currency for both trade and investment. In 2012, for example, the renminbi was the 20th most active currency used in international payments. By the end of 2017, it had rocketed to fifth place.

Major developments that will help the renminbi on the path towards internationalisation include the International Monetary Fund's decision to add the currency its Special Drawing Rights – a reserve asset managed by the organisation. There are also hopes that trade and payments along the Belt and Road Initiative will be made in yuan, further boosting the renminbi's role in global payments.

> The exchange rate of the renminbi is measured by the China Foreign Exchange Trade System (CFETS). The composite index measures the yuan against the value of 24 currencies, including the dollar, euro and yen.

The renminbi is backed by the world's largest foreign exchange reserves, totalling more than USD3 trillion, which the People's Bank of China (PBOC) uses to steady the renminbi. It does this partially by buying US debt. For instance, China remains the world's largest non-US holder of US Treasuries.

Labour & business

In this section

Highlights

- Rising labour costs and an ageing workforce weigh heavily on China's economic future. The country is keen to avoid the middle-income trap, with a new focus on innovation, higher-end consumption and services.
- China's burgeoning middle class represents many market opportunities for overseas businesses across a wide range of sectors of the economy. Wages are rising, as is purchasing power.
- China has an extremely vibrant private sector and the country is also ripe for a fresh productivity revolution. Government initiatives and value-added industries could help achieve this.

Population **1.4 billion**[1]	Unemployment Rate **3.8%**[3]
Workforce **785.4 million**[1]	Minimum Wage (Per Month) **RMB2,120**[3]
Human Capital Report (Rank) **34**[2]	Maternity Leave (Days) **98**[4]

China is already home to some of the world's largest and most innovative companies and there are hopes that technology will help drive the next stage of the country's development.

China is still the world's manufacturing hub, focused on labour-intensive, export-driven production of keenly-priced goods. But the country is losing its competitive edge. Wages are rising and China's growing middle class expects more. Its working population is decreasing and cheaper competition is just on its doorstep from Indonesia, Thailand and Vietnam. As a result, China is focused on producing more value-added goods and services.

The country is also conscious of falling into the so-called middle-income trap, where wages stagnate, cheaper countries erode its competitive edge and its economy is unable to advance to developed status. Growth in the service sector, revitalisation of industry and the move to greater innovation now present a real opportunity for China and businesses looking at this economy.

Sources:
[1]World Bank Group, 2019
[2]World Economic Forum, 2018
[3]Trading Economics, 2019
[4]Library of Congress, 2019

Workforce

The world's largest labour market is tight. Over 780 million people have jobs in China and unemployment rates are some of the lowest in a decade. The challenge for the world's second largest economy is the need to create a large volume of new jobs each year. China set out to create another 11 million in 2017, while keeping the registered unemployment rate below 4.5%, which it has largely achieved.

Certainly, the job market has remained robust and stable as has the unemployment rate, despite economic growth dipping. Wages are also rising, giving consumers more spending power at home and abroad. In a bid to ensure stable employment, China has also rolled out a number of pro-employment policies for redundant workers, university and college graduates, the disabled, as well as migrant workers.

Productivity

China has achieved incredible growth rates in the past by shifting traditionally agrarian workers into the industrial sector, manufacturing and global supply chains. This unleashed a torrent of productivity gains, however, those gains are now tapering off. There is also a global trend in dwindling productivity gains, not just in China.

> Chinese planners are trying to boost productivity through industrial policies that can drive the innovation that China needs to transform this Asian powerhouse into a high-income country by 2030.

China has an extremely vibrant private sector and is shifting investment away from industries that suffer from overcapacity to new businesses that have the potential to boost productivity and create new jobs.

Bankruptcy

China's legislature approved modern bankruptcy legislation, the Enterprise Bankruptcy Law, in 2007 and special bankruptcy lower-level courts were set up in 2015 to handle liquidation and bankruptcy cases. The ruling Communist party has increased calls for the courts to take on more cases but the country's corporate bankruptcy regime is still young.

According to Enterprise Bankruptcy Law, creditors can apply to the court for bankruptcy liquidation or reorganisation of a company it cannot pay due debts. Individuals cannot declare bankruptcy in China. On average, it takes 1.7 years to close a business through insolvency in China. This is better than the East and South Asia average of 2.6 years.

Chinese bankruptcy documentation is similar to that used in the US and Europe. However, businesses typically reject bankruptcy in favour of informal resolutions that they have used for decades.

Audit & accounts

The Ministry of Finance (MOF) is responsible for regulating accounting matters. China's accounting standards are close to, but not entirely the same as, international financial reporting standards (IFRS). However, the authorities have made significant progress in harmonising Chinese accounting standards with that of the IFRS.

When preparing annual financial reports, all corporations must follow the Chinese Generally Accepted Accounting Principles (GAAP). These are also known as Chinese Accounting Standards (CAS).

Differences between the IFRS and GAAP do exist, such as reporting in RMB not foreign currencies and all financial reporting must be made in Chinese. The accounting year runs from 1st January to 31st December.

The Chinese Institute of Certified Public Accountants or CICPA is the professional accounting organisation, headquartered in Beijing with oversight and responsibility for accountants in China.

If you are operating a representative office (RO), or a wholly foreign-owned enterprise (WFOE) in China, you must have your audits and accounts located in your China office. This is due to random government inspections and processing the annual audit.

Taxes & wages

In this section

Highlights

- China is a relatively high tax jurisdiction. However, according to the World Bank, it has been a reformer in this category. Improvements can still be made with regards to ease of doing business.
- China's tax code is complicated and involves presenting filings in Chinese and in renminbi, rather than international currencies.
- The country also has a definitive and broad tax treaty network in order to eliminate double taxation, allowing for reduced rates of withholding tax on dividends, royalties and interest.

Ease of doing business – Paying Taxes (Rank)
114[1]

Personal Income Tax (Rate)
3-45%[2]

Corporate Income Tax (Rate)
25% (flat rate)[2]

Value Added Tax (Rate)
3-16%[2]

Sources:
[1]World Bank Group, 2019
[2]PwC, 2019

In China, different investments trigger different types of taxes. This is also a relatively high tax jurisdiction in global terms, involving a wide range of taxes including corporate, personal, indirect and withholding.

There are various other taxes, from turnover taxes to those on real estate and customs duties. Failure to comply with Chinese tax legislation can lead to substantial penalties. Seeking local advice from professionals and liaising with the tax authorities directly in China is advised.

There is no capital gains tax as such in China. The main law relating to businesses is the 2008 Enterprise Income Tax Law, which applies to both domestic and foreign-invested enterprises. Tax laws are developed jointly by the State Administration of Taxation and the Ministry of Finance.

Corporate taxes

A decade ago China lowered its tax rate from 33% to 25%, however it still has one of the highest tax rates in the world. Corporate income tax is handled by local branches of the State Administration of Taxation (SAT). Corporation taxes can be lowered with reductions, exemptions and tax holidays if income is derived from certain sectors of the economy including agriculture, forestry, infrastructure and high-technology.

According to the World Bank's Ease of Doing Business Index 2018, China has made paying taxes simpler by introducing several measures for easing compliance. Companies conducting business here must also make social security payments.

There are also investment tax credits, and tax deductions for depreciation on fixed assets. Charitable donations meeting certain criteria can enjoy tax deductions in China as can investments in research and development for new technologies, products and craftsmanship. Annual tax returns must be filed on or before 31st May following the end of the tax year.

Individual taxes

Income derived from individual industrial, commercial production and operating activities, and income derived from contracting or leasing operations by any enterprise or institution are consolidated into income derived from business operations.

The most important amendment to the law is the implementation of deductible expenses. Up to now expatriates have been allowed to deduct certain expenses, but, under the revised law, all individuals will be able to lower their monthly/yearly payment by offsetting their income against 'special additional deductions' including:

- Education expenses for children
- Expenses for further self-education
- Health care costs for serious illness
- Housing loan interest
- Housing rent

As part of the new law, the statutory deduction increases to CNY 5,000 (from CNY 3,500 for Chinese employees, and CNY 4,800 for foreigners) with a lowering of income tax rates for employees with taxable income of up to CNY 35,000.

Current Bracket	Amended Bracket	Tax rate %
up to 1,500%	up to 3,000	3
1,501-4,500	3,001-12,000	10
4,501-9,000	12,001-25,000	20
9,001-35,000	25,001-35,000	25
35,001-55,000	35,001-55,000	30
55,001-80,000	55,001-80,000	35

Withholding taxes

There is a withholding tax of 10%. This applies to overseas enterprises that do not have establishments or places of business in China. This is applied to China-sourced income derived from dividends, interest, royalties and property leases, as well as other sources of passive income.

It is worth checking tax treaties in order to see how this applies depending on where the business is based and what type of tax it is. The tax treaty can reduce the amount of withholding tax that needs to be paid. As of 1st July 2017, China had finalised tax treaties with 105 countries and regions.

Indirect taxes

There are value-added and consumption taxes that apply in China. These are also administered by local branches of the SAT. Value-added taxes apply to both corporations and individuals and range from between 3% and 16%. Services are subject to 6% tax. The sale and importation of goods can attract as much as 16%, while the rate for small-scale taxpayers can be as low as 3%.

A consumption tax is levied on 14 types of luxury and environmentally unfriendly products including alcohol, cigarettes, petroleum, vehicles and jewellery. There are also other taxes in this category such as the business tax, which is levied on the provision of services, property taxes, land appreciation taxes and customs duties. It varies greatly from 1% to 56%.

Foreign-owned enterprises

Foreign enterprises should assess whether the sector they are investing in is encouraged, restricted or prohibited in China. Foreign investment enterprises (FIEs) are considered resident under China's tax law and are therefore subject to tax on their worldwide income. FIEs are subject to a corporate income tax rate of 25%. Non-resident foreign enterprises (FEs) pay 10% on their China-derived income. There is now a simplified online filing regime for FIEs.

One of the best choices is to establish a wholly foreign-owned enterprise or WFOE. You still pay 25% in corporate tax, but the involvement of a mainland Chinese investor is not required.

There are still tight controls on how much money can leave China. Corporations must apply for permission to take out more than USD50,000 and approval can take months.

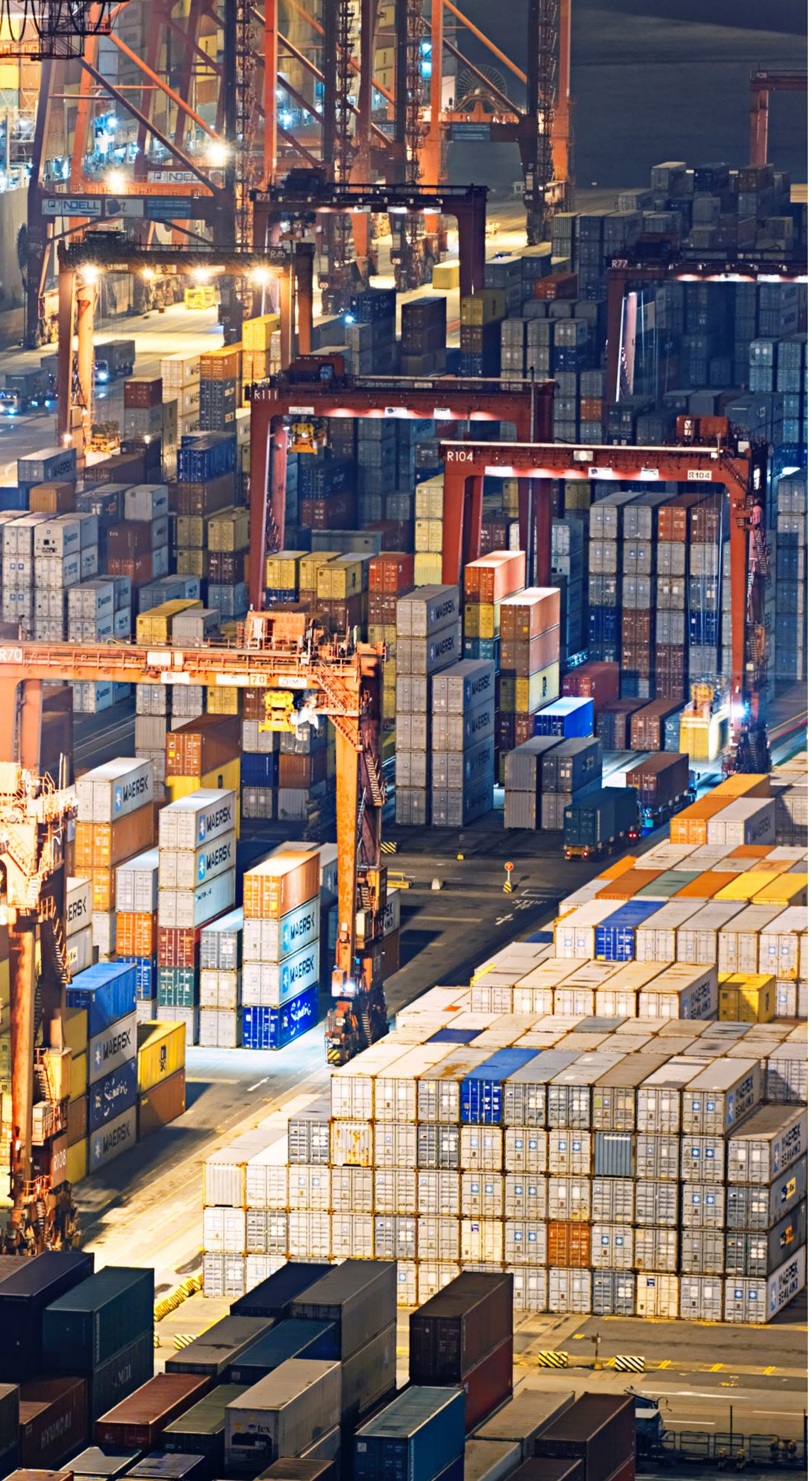
China is making efforts to stimulate growth by encouraging foreign investment. It is in the process of offering overseas companies exemptions on paying income tax on profits if they reinvest these monies into the economy. However, certain conditions must be met.

Foreign enterprises must make investments into sectors encouraged by the government. Set-up funds must be transferred directly to invested companies.

Tax incentives

The principal incentive is a reduced tax rate of 15% for investments made in industries that have been singled out by the Chinese government. These include high-new technology enterprises and certain integrated circuit enterprises.

Tax holidays are given to enterprises started or engaged in particular 'encouraged' industries. There is also a 'super deduction' of between 50% and 75% for investments made in R&D.



Investment & trade

In this section

Highlights

- China can still be a challenging place to do business, even though the country's reform agenda is helping provide more clarity with a number of investment and trade-friendly reforms.
- The country's GDP continues to grow at enviable rates with more industries and sectors open to foreign investment than ever.
- If your investment agenda is aligned to China's direction of travel, the potential is incredible.

FDI Net Inflows (Current USD)
$12.41 billion in January 2019[1]

Ease of doing business - Starting a business (Rank)
28[1]

Ease of doing business - Trading across borders (Rank)
65[1]

Enabling Trade Index (Rank)
61[2]

Sources:
[1]World Bank Group, 2019
[2]World Economic Forum, 2018

China is one of the most attractive inbound investment destinations globally. The UN Global Investment Report ranks China at the top. This is due to the country's rapidly expanding market for goods and services and its prospects for growth.

In 2019, a new foreign investment law was passed, predominantly to prohibit the forced transfer of technology from foreign-invested businesses in China, increase protection of intellectual property and put international companies on an equal footing with domestic businesses.

Included in the change of rules is a list of 48 sectors that will not be open to foreign investment without special conditions. Partial investment will be allowed in other sectors.

For industries not on this list, the intention is that foreign companies and their Chinese counterparts will receive the same treatment.

Ease of doing business

In the World Bank's Ease of Doing Business Index 2018, China is ranked 78th, which is above the regional average for the East Asia & Pacific region. China scores highly - fifth globally - regarding the enforcement of contracts.

The Chinese authorities have made it easier to start a business by streamlining the registration process. Just one form is needed to obtain a business licence, organisation code and tax registration. China has also made it easier for corporations to pay taxes by introducing a number of measures that ease compliance.

Foreign investment

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Competitiveness

China is striving at all levels to become more competitive on the global stage. It is trying to raise innovation and push forward high-quality development. At present, it ranks 27th in the Global Competitiveness Report from the World Economic Forum, gaining one place as a result of steady, incremental changes. The IMD World Competitiveness Ranking for 2018 puts the economy at 18th place, moving up seven places in just one year.

China's leaders, via the State Council, are keen to boost the country in this regard by optimising the business environment. The government is already talking of further moves to cut red tape, reduce taxes and slash fees for enterprises, as well as offer further equal treatment for local and foreign businesses.

Government incentives

These generally take the form of tax policies offered to incentivise foreign investment, including tax holidays and exemptions. They are directed at industries, sectors and regions of China that the government wants to promote and encourage. For instance, investors in integrated circuit products can enjoy a tax holiday of up to five years. Incentives are even more attractive if you invest in the less developed western regions of China, such as Xinjiang province.

China's Ministry of Finance went one step further at the end of 2017 by saying it would exempt foreign enterprises from paying provisional withholding income tax on profits that are reinvested in the country. Again, this applies only to certain sectors and industries.

Capital markets & banking

Once closed off to overseas capital, foreign investors now enjoy a wide range of channels to invest in China's financial markets. This comes at a time when China has ambitions to internationalise its currency and liberalise its capital markets.

Considering the size of the Chinese economy, as well as the scale of its equity and bond markets, it is still severely under-represented in many foreign portfolios. There is good reason to think that international investors will buy more Chinese securities. The 2018 inclusion of domestically-listed Chinese companies into a major international index for example will likely result in fund managers increasing their exposure to so-called A shares.

> China established the Bond Connect scheme in 2017 with Hong Kong, creating a trading link that connects China's bond market with global investors. There are now three schemes in place - Bond Connect, Shenzhen Stock Connect and Shanghai Stock Connect.

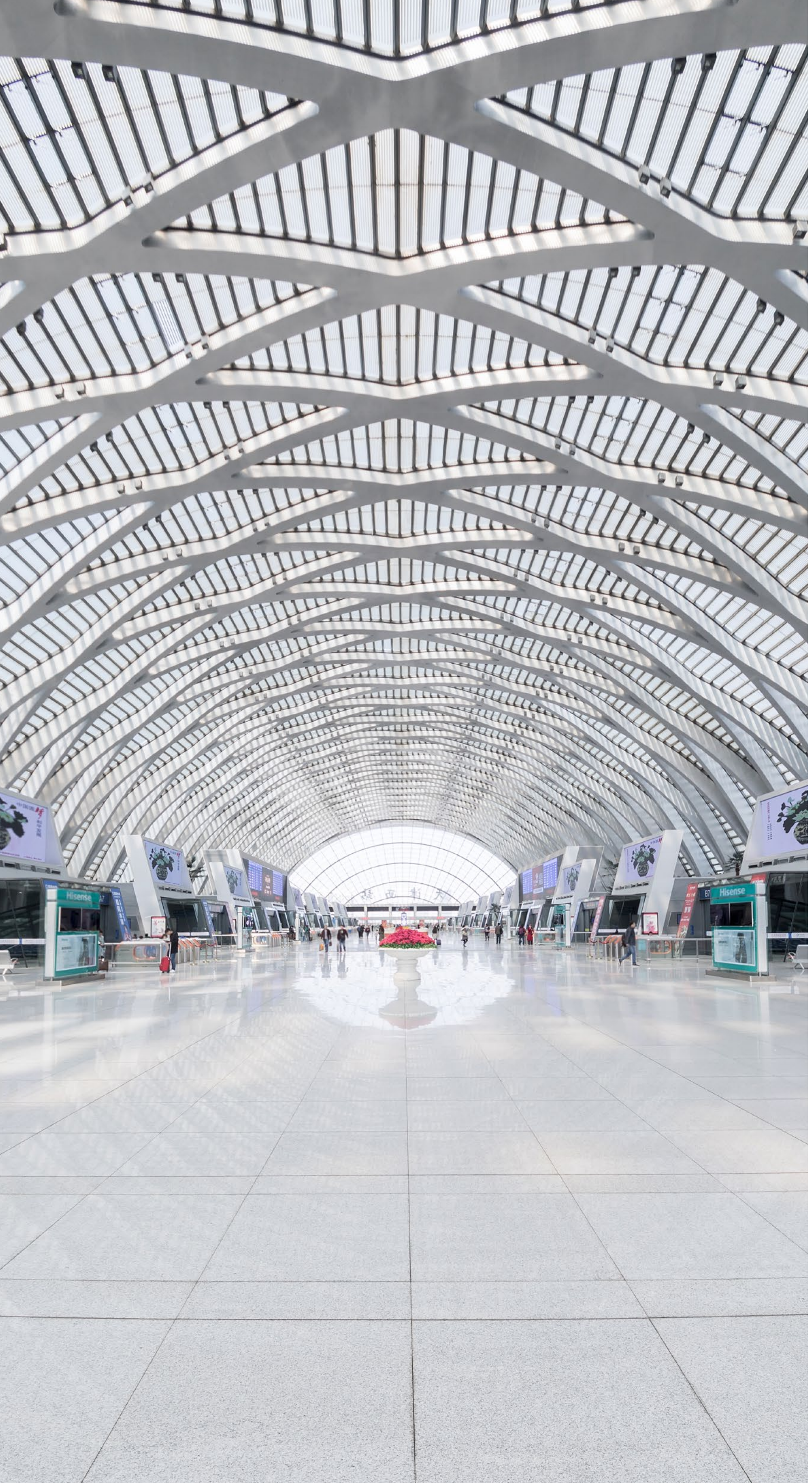
Intellectual property rights

China recognises the importance of protecting Intellectual Property Rights (IPR), which include patents, trademarks and service marks, copyright and industrial designs. Having been a member of the World Trade Organisation (WTO) since 2001, China is obliged to include intellectual property protection in its national laws. Furthermore, China is also a signatory to a number of other international agreements, including: the Paris Convention, Berne Convention, Madrid Protocol and Patent Cooperation Treaty. China's legal framework for the protection of intellectual property is built on three national laws: the Patent Law, the Trademark Law and the Copyright Law.

The State Intellectual Property Office (SIPO) is the authority responsible for the registration of Patent and the relevant rights, while SIPO offices at the provincial and municipal level are responsible for administrative enforcement. SIPO was originally set up to merge the patent, trademark and copyright offices, but this is yet to happen. Trademarks can be registered with the National Trademarks Office. The National Copyright Administration is responsible for copyright administration and enforcement.

China launched a nationwide campaign in 2017 to protect the intellectual property rights of foreign businesses, which shows how seriously the authorities are taking IP infringement. There has been a crackdown on the theft of trade secrets, trademark infringement, patent violations and online property rights violations.

China has already broken the patent application record, accounting for 1.3 million domestic submissions, according to an annual report by the World Intellectual Property Organisation - more than the US, Japan and South Korea combined.



Infrastructure

In this section

Highlights

- Infrastructure spending, whether on roads, rail, ports or information and communications technology (ICT), is a key driver of growth in the Chinese economy. More investment is expected in the years ahead.
- The Belt and Road Initiative will allow the government and Chinese enterprises to boost infrastructure in a bid to link China with historical land and sea trade routes.
- China is a global powerhouse when it comes to digital infrastructure. It is the biggest market for mobile phones, ecommerce and mobile payments.

Motorway Network **123,500 km**[1]	Quality of Overall Infrastructure (Rank) **47**[2]	Quality of Port Infrastructure (Rank) **49**[2]
Waterway Network **110,000 km**[1]	Quality of Roads (Rank) **42**[2]	Quality of Air Transport Infrastructure (Rank) **45**[2]
Railway Network **124,000 km**[1]	Quality of Railroad Infrastructure (Rank) **17**[2]	ICT Infrastructure – Network Readiness Index (Rank) **73**[2]

China has been on an infrastructure drive for decades – and is a global leader in this sector. It has reshaped connectivity across the country by investing heavily in roads, ports, power and digital.

Infrastructure still remains a significant contributor to China's output, despite a slowing down of investment. Yet the upcoming Belt and Road Initiative looks set to refocus efforts of the country's builders and engineers for many years to come.

Infrastructure and its investment is the cornerstone of President Xi Jinping's plan to boost connectivity and trade with more than 60 countries. The aim is to revive ancient Silk Road corridors that span out from China's borders to Asia, the Middle East, Europe and Africa.

Transport infrastructure

China's transport infrastructure, especially in terms of air and port connectivity, scores extremely well (12th globally) according to the World Economic Forum. By the end of 2018, China aims to construct another 5,000 km of motorways, including the renovation of 216,000km of roads, and to bolster container ports by 15%. China spent over USD300 billion upgrading transport infrastructure in 2017.

Transport infrastructure is a key driver of growth in the Chinese economy and will be in the years ahead. There are further plans to integrate Beijing and Tianjin with the surrounding Hebei province by boosting road and rail links. At the end of last year, the world's longest sea bridge, spanning 55 km, was completed, connecting Hong Kong and Macau to Zhuhai in mainland China. The bridge will cut down road travel journeys between Hong Kong and Zhuhai from three hours to 30 minutes. The world's largest automated container terminal has also been completed at Yangshan, the deep-water port of Shanghai.

Sources:
[1]Central Intelligence Agency, 2018
[2]World Economic Forum, 2018

Digital infrastructure

China is a global powerhouse regarding digital infrastructure and consumer-orientated digital technologies, owing to the sheer size and scale of its domestic market. Digital wallet services are so widely accepted that 40% of Chinese people regularly hold less than RMB100 in cash[1]. It is now the world's largest ecommerce market and the mobile payment market is bigger than the US.

China has also been bolstering its technological infrastructure, with higher penetration rates, especially in rural areas. Three out of the top five smartphone makers in the world are now Chinese companies in terms of the volume of shipments, according to data from the International Data Corporation.

More than 8,000 incubators and accelerators exist across China. The government is now looking to invest USD180 billion in building China's 5G mobile network over the next decade.

Sources:
[1]2017 Mobile Payment Usage in China Report, China Tech Insights

Infrastructure investment

China's programme of infrastructure development has helped keep its growth rates high. It has also seen nationwide electrification, pioneering high-speed rail links and state-of-the art airports come into operation through high levels of investment. Many projects are public-private partnerships.

The Belt and Road Initiative is giving new impetus to building as China connects up a series of trade corridors both near and far. It also helps fill a gap in infrastructure funding. The Asian Development Bank estimates that USD1.7 trillion is needed in infrastructure spending every year through to 2030, in emerging Asia alone.

Participation in the Belt and Road Initiative and other state-endorsed infrastructure projects brings with it the opportunity to access infrastructure funding from Chinese-led financial institutions, such as the Asian Infrastructure Investment Bank, the Export-Import Bank of China, the China Development Bank and the Silk Road Fund. This is beneficial to both domestic projects and China's overseas initiatives.

China is also focusing on the development of the Greater Bay Area in the south. This involves a globally competitive cluster of metropolises in the Pearl River Delta region including Guangzhou, Hong Kong, Macau and eight other cities. This area alone accounted for $1.4 trillion in GDP and 12% of China's economy in 2016.

This is an important cluster for innovation, finance, shipping and trade. Historically it has been at the forefront of China's policy of reform and opening up. The region accounts for nearly 68 million people, which is greater than the Tokyo metro area in Japan.

> By 2030, it is expected that this southern Chinese region's GDP will reach USD4.6 trillion, surpassing similar bay areas such as those of San Francisco, Tokyo or New York. It will then become the world's largest in terms of economic size.

Cost of living

In this section

Highlights

- Relocating to China can represent a series of challenges even for the experienced expatriate. However, it is a chance to be part of a fast-evolving country that's dynamic and exciting.
- The cost of living in many Chinese cities is favourable compared with others globally. The country is still developing, so living costs can be low, while the salaries of many expatriates are internationally competitive.
- Considerable investment has been pumped into the country's infrastructure, from world-class airports to high-speed trains, top-notch hotels, eateries, entertainment and services.

Cost of Living Country Index (Rank)
73[1]

Quality of Living City Index (Rank)

Shanghai	**103**[2]
Beijing	**119**[2]
Guangzhou	**119**[2]

International Property Rights Index (Rank)
52

This complex country can represent a challenge for even the most experienced expatriate looking to relocate. However, China is in an incredible period of change which provides a wealth of opportunities for those who do.

For those unfamiliar with Asia, the culture shock can be quite significant, while the language can certainly be a challenge. But if you can overcome these hurdles, you will not be disappointed.

Relocation

China's booming economy and potential for future growth means that it is an increasingly popular spot for international relocation, whether it is working for a multinational company, starting a branch office for an overseas foreign enterprise or working directly for a local Chinese company. Most expatriates find that it takes a significant period of time to settle in and adjust to life here. Make sure you know exactly what your package includes in terms of healthcare, allowances and any perks.

When relocating to China it is advisable to get help from local Chinese contacts to find an apartment, settle in and get your bearings.

Long dinners, extravagant weddings – as well as drinking baijiu, distilled grain liquor – are all part of the rich tapestry of relocating here. It is also a chance to explore this incredible country from Xinjiang to Tibet and from Inner Mongolia to Heilongjiang.

Sources:
[1]Numbeo, 2019
[2]Mercer, 2019
[3]Property Rights Alliance, 2018

Quality of life

Many cost of living indices for China’s cities and provinces are favourable when compared with others across the globe. The country is still developing, and many people’s living standards are low, while the salaries of many expatriates are internationally competitive.

The cost of living in China will depend on the lifestyle you adopt and how many home comforts you want. Many brands from North America and Europe are expensive in China when compared with locally made products. However, fresh food, clothing and entertainment and domestically produced electronic goods are reasonably priced.

Public transport is also cheap compared with the US and Europe, as are taxis and meals in restaurants and cafes. The fees for some international schools can be extremely high and the largest expense for expatriates is accommodation.

Commercial real estate

China’s red-hot economic growth is reflected in its commercial property market. What moderates prices for office space is the volume of supply that is also coming on to the market.

In Shanghai in 2017 expanding supply pushed rents down in a number of areas. Beijing and Shenzhen are also seeing new office space coming online. It is one of the reasons why rents have been flat in Beijing’s central business district for the last three years. Fresh projects have led to corporations moving into new, higher-quality buildings over time. With each wave of new supply landlords are keen to keep their tenants with competitive prices as well.

HSBC in China

In this section

Highlights

HSBC is one of the largest international banks with a wide network in China, including 178 outlets across 57 cities and strong relationships with various banking authorities.

Profile

HSBC has had a continuous presence in mainland China for over 150 years and has been locally incorporated since 2007.

We serve customers through the following businesses in China:

- Global Banking & Markets
- Commercial Banking
- Retail Banking & Wealth Management
- Private Banking

Key products & solutions

- Investment Banking and Financing Solutions
- Global Markets
- Transaction Banking: Global Liquidity and Cash Management (GLCM); Global Trade and Receivables Finance (GTRF); Securities Services

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