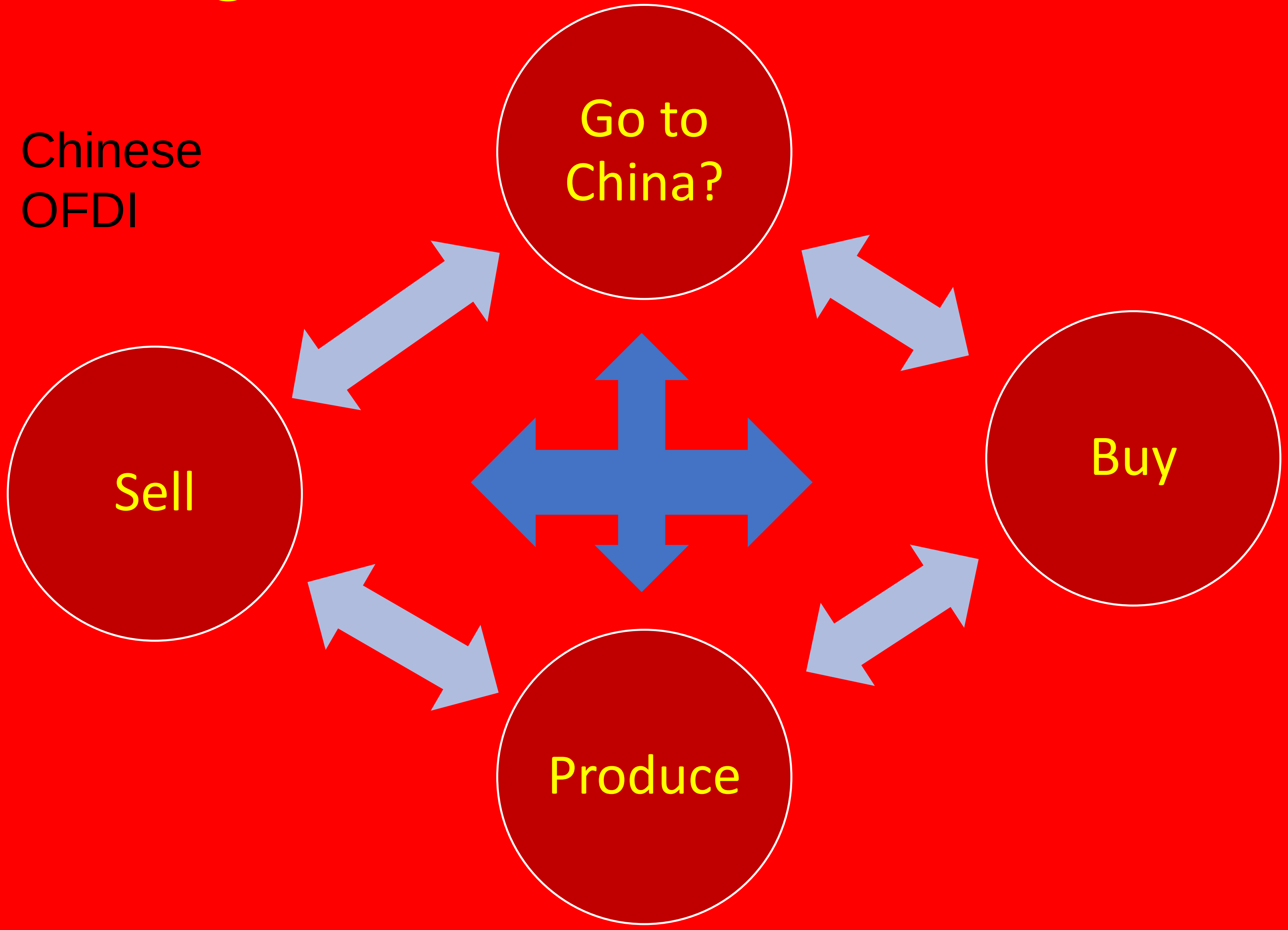
Doing business in China

Go to China

- Understand your industry in your home country and in China (am I ready to pay for a good research paper and to hire the right people like consultants, lawyers, etc?)
- Do you know your company? Who is going to manage entry and operations in China? Do you have the right people?
- Do you know China? (no you don’t, and even what you know will change fast)

Investing in China

Chinese
OFDI



Strategy

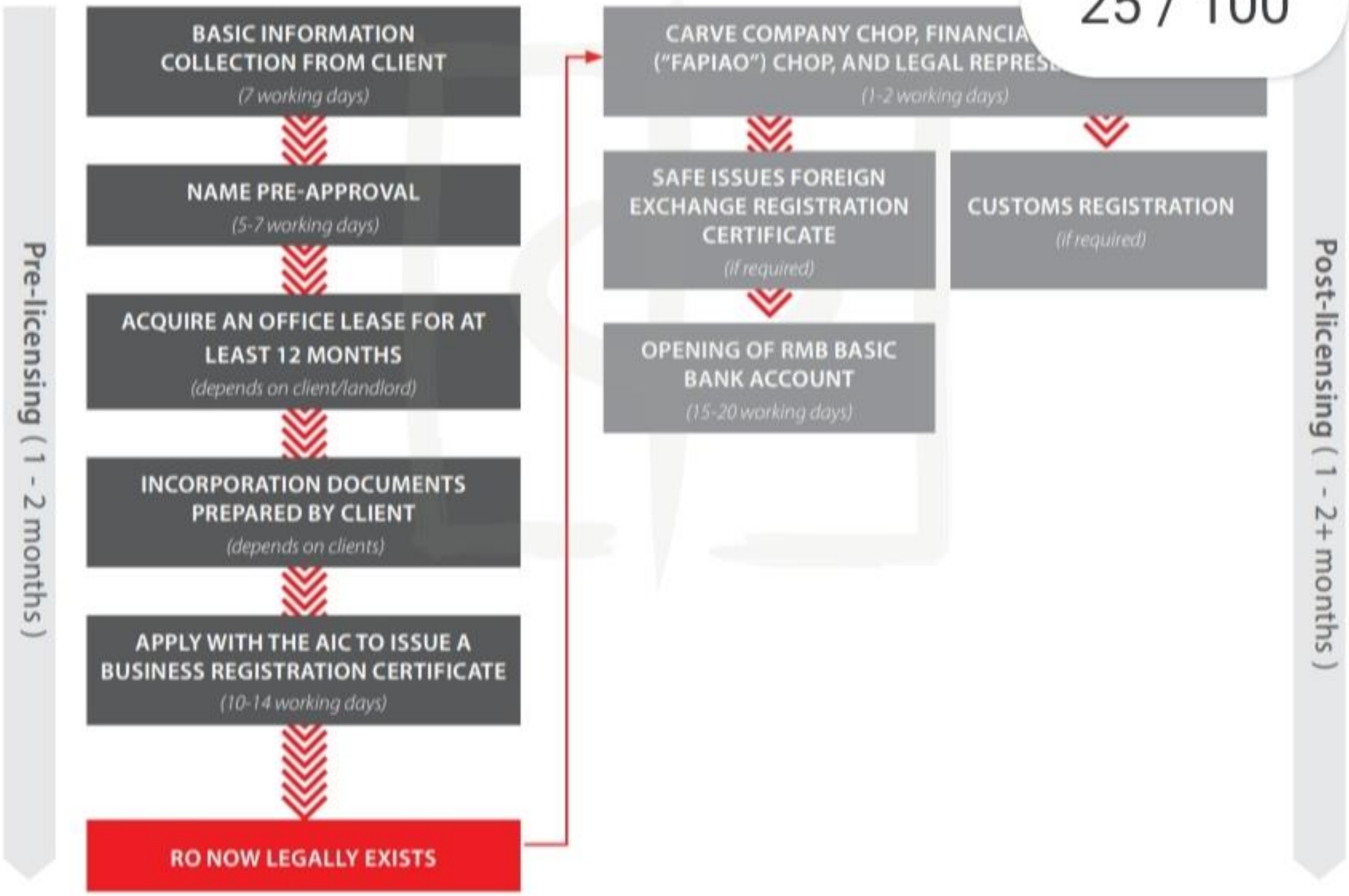
	Organization	Location	People	Institutions
Produce	(Jv / Wfoe/Rep Off?) Technologies	Production site?	Human resources Relations with suppliers and clients	Laws and regulations Taxes Institutional networks
Buy	Direct buying? Third parties? Supply Chain	Where to buy? Where to localize a purchasing office and warehouse?	Who are our supplier? Who are our buyers?	Laws and regulations Institutional networks Buy from Soes
Sell	Direct sales? Distribution networks	Where to sell?	Sales network Who are our clients?	Distribution Sell to Soes Public procurment

Business organization: entry model

- Rep. Off.
- Branch office
- JV
- Wholly Owned foreign enterprise (Wofe) - Foreign Invested Commercial Enterprises (FICE)

- M&A

RO Setup Procedure



Rep. Off.– Branch Office

Rep. Off.

- All operations have to be officially managed by the head quarter abroad (or any other official entity outside China).

Rep Off. Can only do:

- Management of clients
- Marketing
- Coordination activities
- Consulting activities
- More constraints since 2010

Branch Office

- Usually support for Wofe
- Can be a cost center (invoices)
- Opportunity for service companies like foreign banks in Pudong

JV

Pros

- You can exploit the network relations of your Chinese partner
- Local governs welcome more JV than Wfoe
- In some sectors is the only possibility to enter the Chinese market (see Catalog for the Guidance of Foreign Invested Enterprises)

Cons

- Less control on operations and strategies
- IPR under threat (not only if you do JV)
- Partner selection?
- Personal Relations are more important than shares
- Different goals and growth trajectories

Wofe

Pros

- Operations more under control (if you have the right people)
- IP protection
- You can choose where place your investment
- (easier shut down)

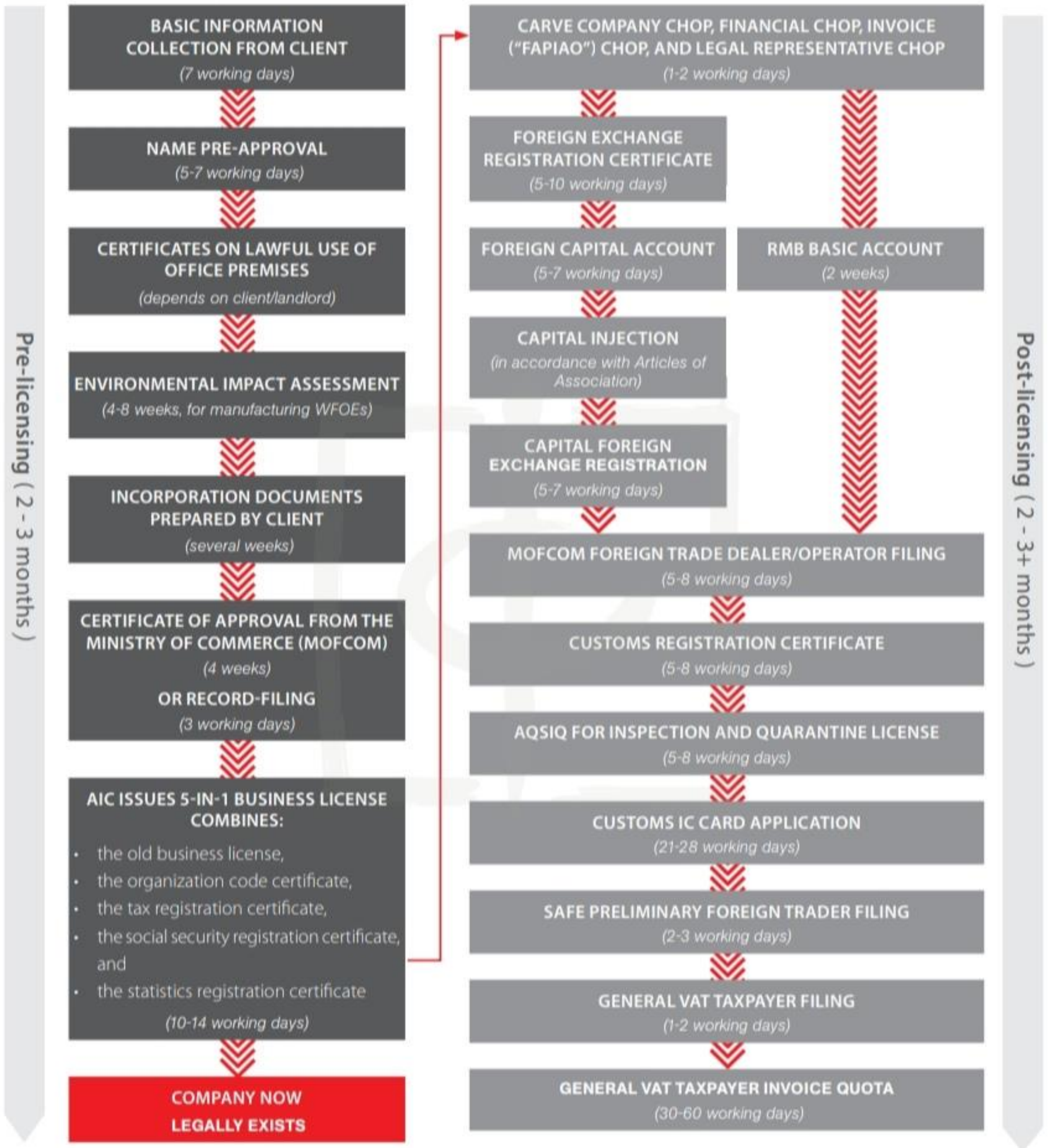
Cons

- Not very supported
- Lack of network relations, lack of market knowledge

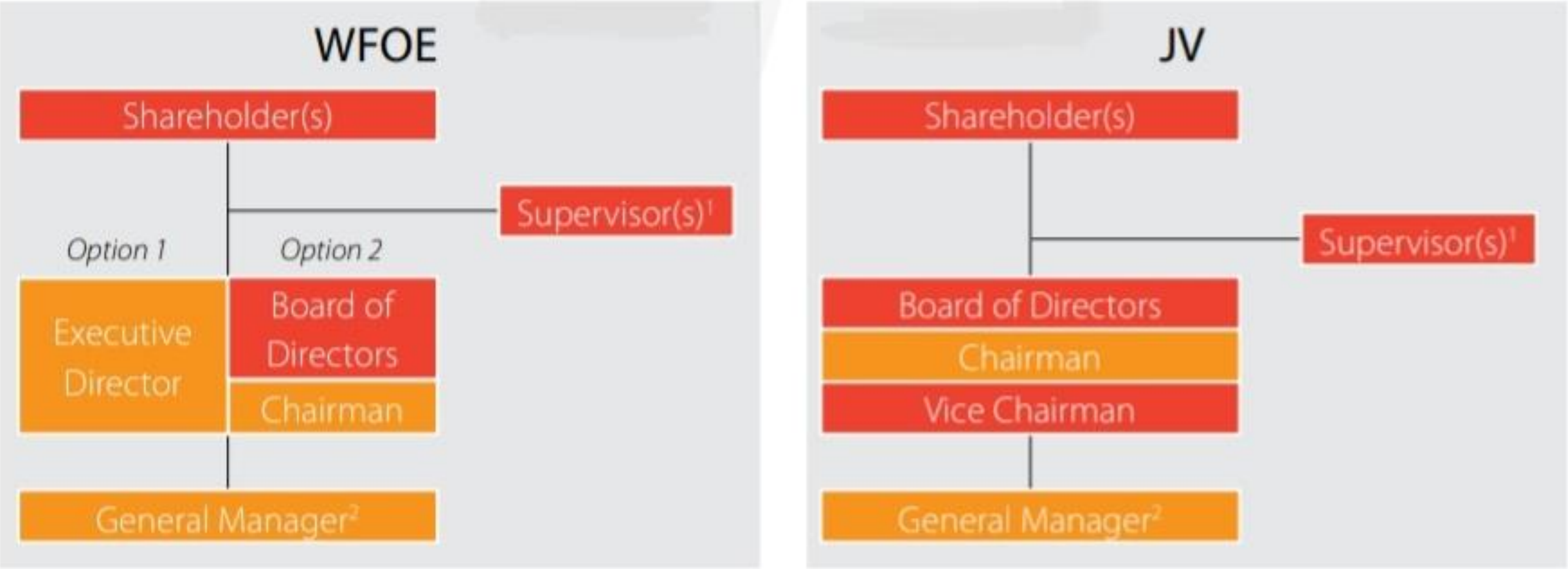
Wofe: what you need to start

- Legal Name and Structure
- Company Registration Document
- Proof of Shareholder Existence
- Name of WFOE in Chinese and English
- Lease of Space for the WFOE
- Scope of Business
- Feasibility Study
- Registered Capital
- Management
- Documentation for each person
- Proof of financial status

WFOE Setup Procedure



Key Positions in WFOE and JVs



1. *A supervisor or member of the board of supervisors cannot be a director or among senior management personnel. Larger companies require a board of supervisors composed of representatives for both shareholders and staff.*
2. *The general manager can also be a director or executive director. For JVs, in addition to the general manager, several deputy general managers can also be appointed, collectively referred to as the "management office."*

M&A

- Very complicated process.
- Antitrust is a policy tool
- Buy what?
- Why is it on sale?
- Shanghai stock Exchange very foggy

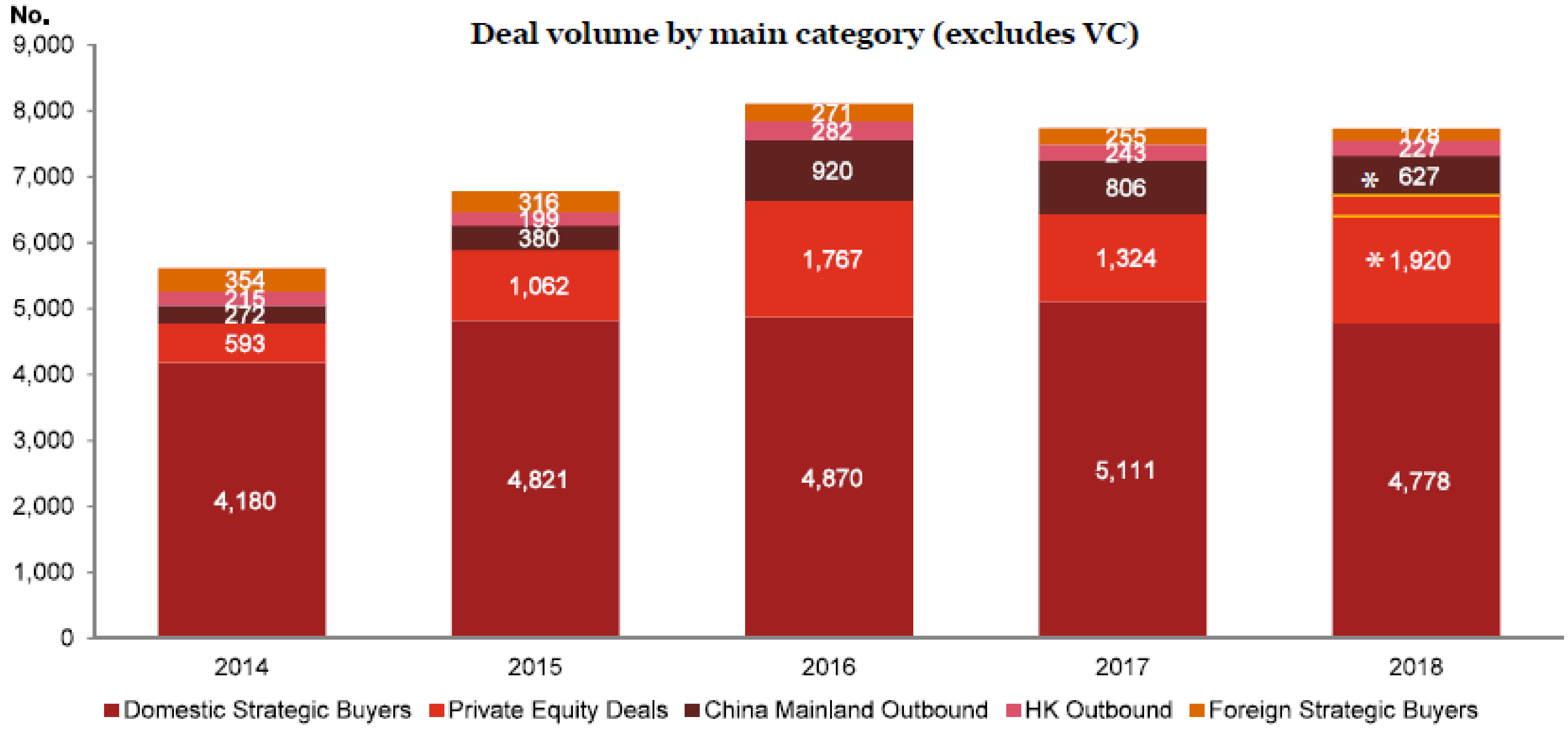
M&A

Due diligence:

- Need a strong team. You cannot outsource all the process but you need support of local expert in reading Chinese balance sheets.
- Senior managers have to be particularly involved In the process because, at the end you cannot take a decision only on numbers.
- You have to contact more people than you usually do in “easier” markets (managers, workers, costumers, distributors, suppliers, industry experts, consulting firms, go betweens that know the local environment)

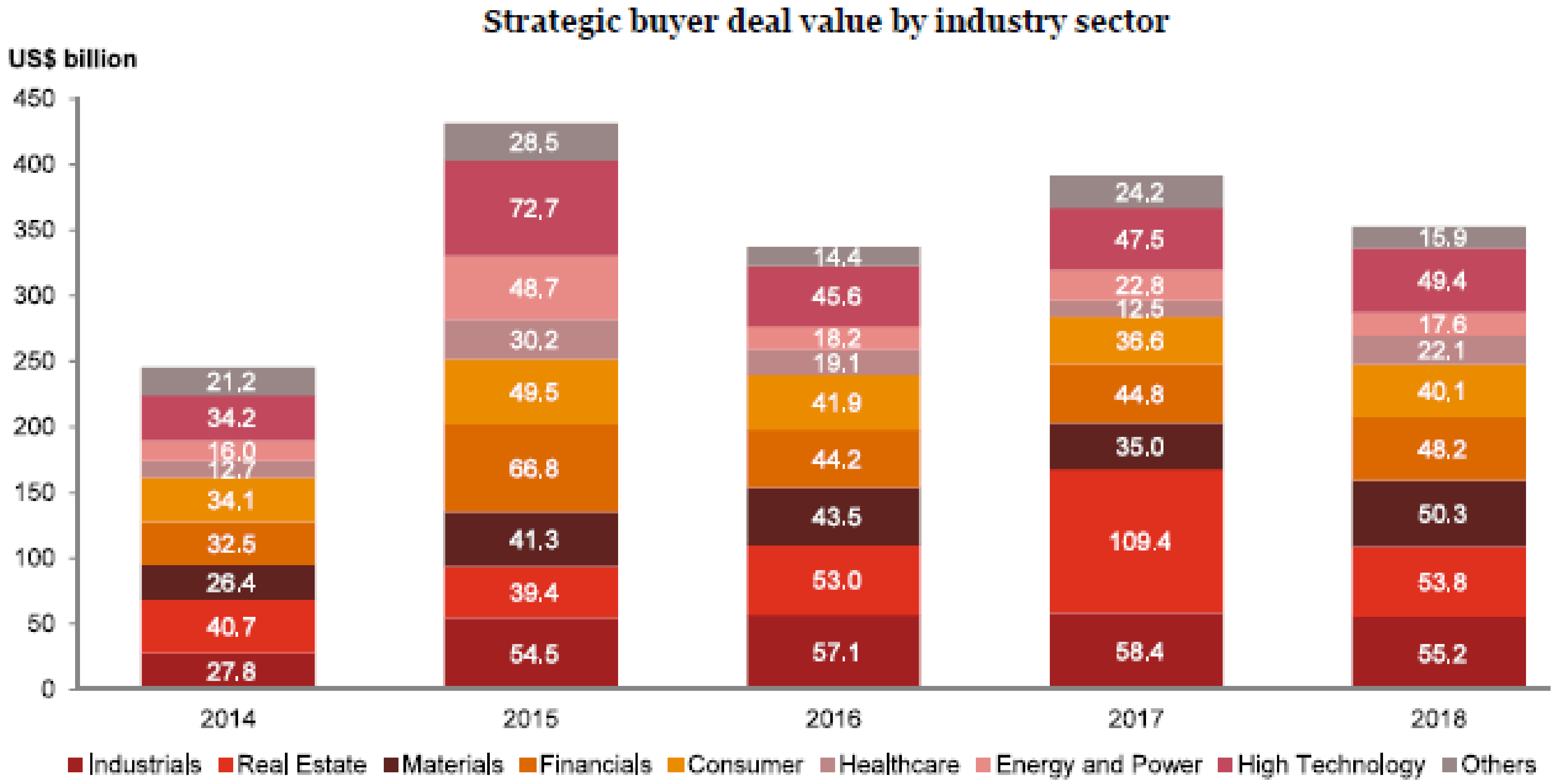
When you have to worry

- Unclear source of capital
- Opaque ownership structure (check also if they have other activities in the same industry)
- Inconsistent data
- Poor regulatory track record
- Weak internal controls regarding corporate governance and business ethics
- Dependency on political relationship
- Possible criminal links
- When things are too easy


No.
Deal volume by main category (excludes VC)
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
2014
2015
2016
2017
2018
354
215
272
593
4,180
316
199
380
1,062
4,821
271
282
920
1,767
4,870
255
243
806
1,324
5,111
178
227
* 627
* 1,920
4,778
Domestic Strategic Buyers
Private Equity Deals
China Mainland Outbound
HK Outbound
Foreign Strategic Buyers

Total deal volume and value, from 2014 to 2018

		2014		2015		2016		2017		2018		% Diff vol. 2018 vs. 2017	% Diff val. 2018 vs. 2017
		Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)	Volume	Value (US$bn)		
	Strategic buyers												
	Domestic	4,180	223.5	4,821	418.1	4,870	330.0	5,111	376.9	4,778	332.0	*(7%)*	*(12%)*
	Foreign	354	22.0	316	13.4	271	7.0	255	14.4	178	20.6	*-30%*	*43%*
	Total Strategic buyers	**4,534**	**245.5**	**5,137**	**431.6**	**5,141**	**337.0**	**5,366**	**391.3**	**4,956**	**352.6**	***(8%)***	***(10%)***
	Financial buyers												
*	Private Equity	593	67.1	1,062	178.1	1,767	220.8	1,324	181.3	1,920	221.8	*45%*	*22%*
	VC	1,334	1.3	2,735	4.1	3,492	5.8	2,338	3.1	3,410	7.2	*46%*	*131%*
	Total Financial buyers	**1,927**	**68.4**	**3,797**	**182.2**	**5,259**	**226.7**	**3,662**	**184.5**	**5,330**	**229.0**	***46%***	***24%***
	China mainland Outbound												
	SOE	78	25.6	79	23.8	116	65.9	101	28.1	64	21.1	*(37%)*	*(25%)*
	POE	145	13.4	207	20.8	609	106.9	467	59.9	310	51.1	*(34%)*	*(15%)*
*	Financial buyers	49	13.1	94	12.8	195	37.7	238	34.4	253	21.9	*6%*	*(36%)*
	Total China mainland Outbound	**272**	**52.2**	**380**	**57.5**	**920**	**210.4**	**806**	**122.5**	**627**	**94.1**	***(22%)***	***(23%)***
	HK Outbound	**215**	**20.5**	**199**	**24.7**	**282**	**23.4**	**243**	**12.9**	**227**	**24.5**	***-7%***	***90%***
	Total	**6,899**	**373.5**	**9,419**	**683.1**	**11,407**	**759.8**	**9,839**	**676.6**	**10,887**	**678.3**	***11%***	***0%***

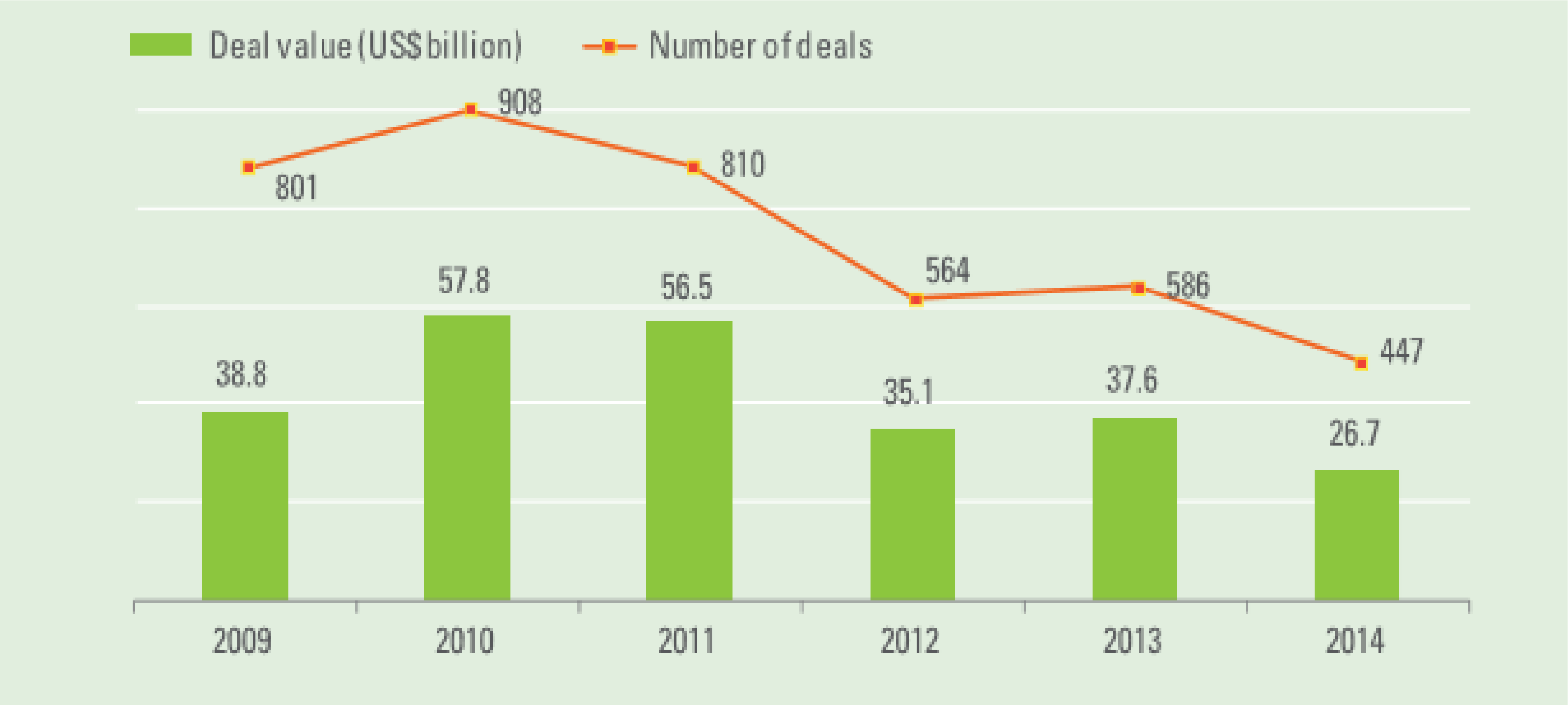


Source: ThomsonReuters, ChinaVenture and PwC analysis
PwC

Eastern, Central and Western China's share of total FDI, 2010-2014

Source: Ministry of Commerce, 15 January 2015, http://www.mofcom.gov.cn/article/ae/ai/201501/20150100868311.shtml, KPMG analysis

China's inbound M&A deal value and number of deals, 2009-2014



Source: Dealogic, accessed 16 January 2015, KPMG analysis

CHOOSING YOUR CHINA STRUCTURE					
Type of structure	Abbrev.	Legal status	Common purpose(s)	Pros	Cons
Representative office	RO	No legal personality	Market research, planning longer-term ventures, liaison with home country companies	Inexpensive to set up Allows exploration of the market and liaison activity	Complex registration for the size of organisation Cannot invoice locally in RMB Must hire staff from local agency
Joint venture	JV	Limited liability legal personality (in most cases)	When restrictions require a local partner, or when they can offer e.g. sales and tangible benefits distributions channels	Use of existing facilities and workforce Use of existing sales/ distribution channels	Management can be awkward Inheriting staff liabilities Over inflation of assets or sales in planning Exaggeration of assets or sales by the Chinese partner during JV setup negotiation Technology transfer/IP/ management risks Split profits
Wholly foreign-owned enterprise	WFOE	Limited liability legal personality	Most manufacturing businesses (for China sales or export), service businesses	100 percent ownership and control More flexible business scope Security of technology/IP Development of own infrastructure Insertion of existing company culture Allowed to convert RMB into foreign currency for profit repatriation	Need to fund total investment capital requirement Development of China sales operations on your own
Foreign-invested commercial enterprise	FICE	Limited liability legal personality	WFOE or JV mainly used for trading, distribution, and retail	A specialized structure for trading, retailing and distribution	High registered capital requirements for trading Still requires a proper organizational structure on the ground

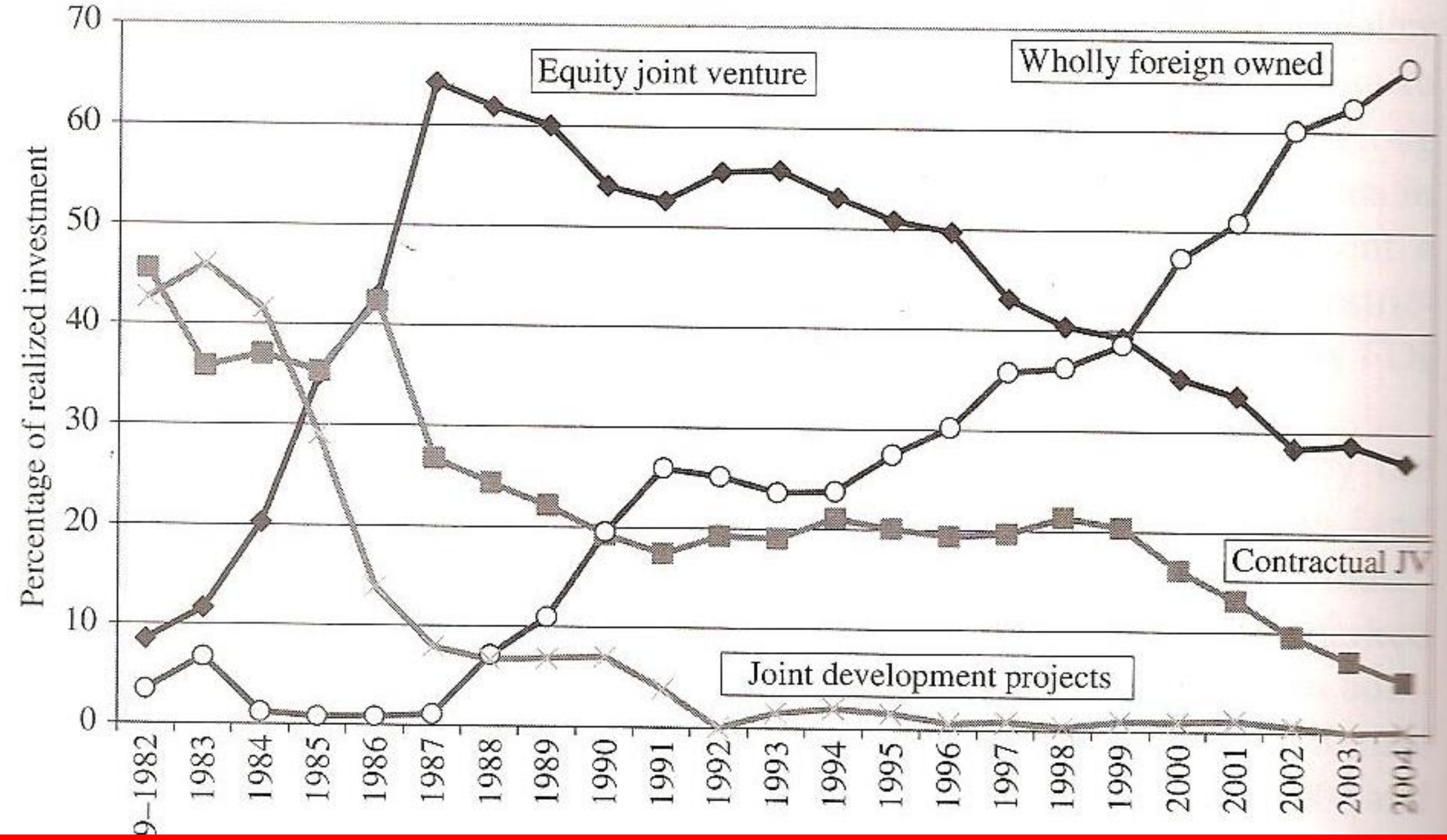
Dezan Shira

FICE vs. WFOE				
Structure	**Legal Status**	**Purpose**	**Pros**	**Cons**
Wholly foreign-owned enterprise (WFOE)	Limited liability legal personality	Most manufacturing businesses (for China sales or export)	100% ownership and control More flexible business scope Security of tech/IP Development of own infrastructure Insertion of existing company culture Allowed to convert RMB into foreign currency for profit repatriation	Need to fund registered capital requirement Development of China sales operations on your own
Foreign-invested commercial enterprise (FICE)	Limited liability legal personality	WFOE or JV mainly used for trading, distributing and retail	Same as normal WFOEs A specialized structure for trading, distribution and retail	Same as normal WFOEs Registered capital requirements for trading Still requires proper organizational structure on the ground

FDI by Vehicle Type						
Year	**Number of Projects**			**Utilized FDI Value ($ billion)**		
	2011	**2010**	**% Change**	**2011**	**2010**	**% Change**
Total FDI	27,712	27,406	1.12	117.7	108.8	8.16
EJVs	5,005	4,970	0.7	21.4	22.5	-4.81
CJVs	284	300	-5.33	1.8	1.6	8.69
WFOEs	22,388	22,085	1.37	91.2	81.0	12.63
Foreign-invested shareholding ventures	35	51	-31.37	1.6	0.6	152.83

Source: USCBC

Not included banking and financial services



Percentage of realized investment
70
60
50
40
30
20
10
0
Equity joint venture
Wholly foreign owned
Contractual JV
Joint development projects
9–1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
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1996
1997
1998
1999
2000
2001
2002
2003
2004

Catalog for the Guidance of Foreign Invested Enterprises

2017

The 2017 Catalogue develops and adjusts the old classification structure by:

Preserving the previous categories of "encouraged", "permitted", "restricted", and "prohibited" industries that are the basis for determining the availability of certain preferential policies for a foreign investment project (mostly tax-related) and the level of scrutiny required for approving the project.

Merging industries under the restricted category and the prohibited category into a section called "special management measures for the market entry of foreign investment" (that is, the negative list), where the restricted category is composed of:

industries that fall into the encouraged category but are subject to further investment restrictions (typically through setting a minimum domestic shareholding condition or investor qualification requirement, or having a senior management localisation requirement). These sectors can enjoy preferential policies for encouraged industries and must comply with the market entry restrictions set out in the restricted category as well.

other restricted industries where foreign investment is subject to restrictive measures.

Key Changes of the 2017 Catalogue

Compared with the 2015 Catalogue, the 2017 Catalogue further stimulates foreign investment and relaxes investment restrictions by:

Adding new sectors to the encouraged category, to drive foreign investment into businesses involving advanced manufacturing, energy saving technologies and environmental protection technologies.

Reducing the number of restrictive measures to foreign investors from 93 to 63.

Liberalising certain market access restrictions in the industrial sectors of manufacturing, mining and services.

Changes in Encouraged Category

In the encouraged category, compared with the 2015 Catalogue, the 2017 Catalogue:

Adds a few new industrial sectors, including:

development and manufacture of formula food products for special medical purposes;

manufacture of intelligent emergency medical rescue devices;

research, development and manufacture of virtual reality (VR) and augmented reality (AR) devices;

construction and operation of hydrogenation refuelling stations;

manufacture of flue gas desulfurisation equipment and flue gas dust removal equipment;

establishment and operation of city parking facilities; and

development and manufacture of key components for 3D printing devices.

Removes the joint venture or minimum domestic shareholding conditions imposed on certain industrial sectors (but still keeping these sectors within the encouraged category), including:

exploration and exploitation of unconventional oil and gas such as coal-bed methane, oil shale, oil sands, shale gas and so on;

utilisation of mine gas;

automobile electronic bus network technologies;

electronic controllers for electric power steering system; and

design and manufacture of civil satellites and manufacture of civil satellite payloads.

Removes a few industrial sectors (including the minimum domestic shareholding conditions or senior management localization requirement associated with each of them) completely from the encouraged category and the catalogue, including:

track transportation equipment;

manufacture and maintenance of marine engineering equipment;

manufacture of low and medium-speed diesel engines of vessels and bent axle;

accounting and auditing; and

construction and operation of comprehensive water control projects.

Changes in Restricted Category

In the restricted category of the 2017 Catalogue (and compared with the 2015 Catalogue):

The number industrial sectors subject to restrictive measures is reduced from 38 to 35.

Of the 35 sectors, ten appear in the encouraged category as well but are subject to further investment restrictions. (For a list of these sectors and the attached restrictive measures, see Sectors appear in both encouraged and restricted categories: table next slide)

Certain industrial sectors are completely removed from the catalogue (which means that they have moved to the permitted category). Key sectors of this type include:

manufacture of motorcycles;

processing of edible oils and fats, rice, flour and crude sugar, and deep processing of corn;

production of biological liquid fuels;

exploration and mining of precious metals and lithium ore, and smelting of certain rare metals; and

services in relation to road passenger transport, ocean tally cargo, credit enquiry and ratings firms, and construction and operation of large-scale agricultural products wholesale markets.

Sectors appearing in both encouraged and restricted categories

<table>
<tr><th>Industry</th><th colspan="2">Sectors</th><th>Restrictive measures</th></tr>
<tr><td>Mining</td><td colspan="2">Exploration and exploitation of oil and natural gas (excluding unconventional oil and gas such as coal-bed methane, oil shale, oil sands, shale gas and so on).</td><td>EJV or CJV.</td></tr>
<tr><td rowspan="4">Transportation equipment manufacturing</td><td rowspan="2">Design, manufacture and maintenance of civil aircraft.</td><td>Aircrafts for trunk and regional lines.</td><td>Absolute Chinese control (that means the investment must be structured as a joint venture in which domestic Chinese investors collectively control 51% or more of the joint venture’s equity).</td></tr>
<tr><td>General aircraft.</td><td>EJV or CJV.</td></tr>
<tr><td colspan="2">Design and manufacture of civil helicopters of three tonnes or more.</td><td>Absolute Chinese control.</td></tr>
<tr><td colspan="2">Manufacture of ground-effect and water-effect aircrafts, and design and manufacturing of unmanned aerial vehicles (UAV) and aerostats.</td><td>Absolute Chinese control.</td></tr>
<tr><td rowspan="2">Power supply</td><td colspan="2">Construction and operation of nuclear power stations.</td><td>Absolute Chinese control.</td></tr>
<tr><td colspan="2">Construction and operation of power grids.</td><td>Absolute Chinese control.</td></tr>
<tr><td rowspan="5">Transportation</td><td colspan="2">Construction and operation of network of trunk railway lines.</td><td>Absolute Chinese control.</td></tr>
<tr><td colspan="2">Construction and operation of civil airports.</td><td>Relative Chinese control (that means the investment must be structured as a joint venture in which domestic Chinese investors collectively hold more of the joint venture’s equity than any individual foreign partner).</td></tr>
<tr><td colspan="2">Public air transportation companies.</td><td>Absolute Chinese control.
Investment of a single foreign investor and its affiliates not exceeding 25%.
Legal representative having Chinese nationality.</td></tr>
<tr><td colspan="2">General airline companies for agriculture, forestry, and fishery.</td><td>EJV.
Legal representative having Chinese nationality.</td></tr>
<tr><td colspan="2">International marine transportation companies.</td><td>EJV or CJV.</td></tr>
</table>

In the prohibited category, compared with the 2015 Catalogue, the 2017 Catalogue

Reduces the number of prohibited items from 36 to 28.

Removes ten prohibited sectors from the catalogue because these common restrictive measures would apply equally to domestic and foreign-invested businesses and will be reflected in the negative list for market access. These ten sectors are:

processing of traditional Chinese medicinal materials;

ivory carving;

tiger bone processing;

construction and operation of certain power plants using coal-fired and steam condensation thermal generator sets within grand grids;

construction and operation of natural reserves and internationally important wetlands;

education institutions in military affairs, police, politics and other special fields, and CCP party schools;

construction of golf courses and villas;

projects endangering the safety and performance of military facilities;

gambling and lottery industry (including horse race tracks for gambling purposes); and

pornography industry.

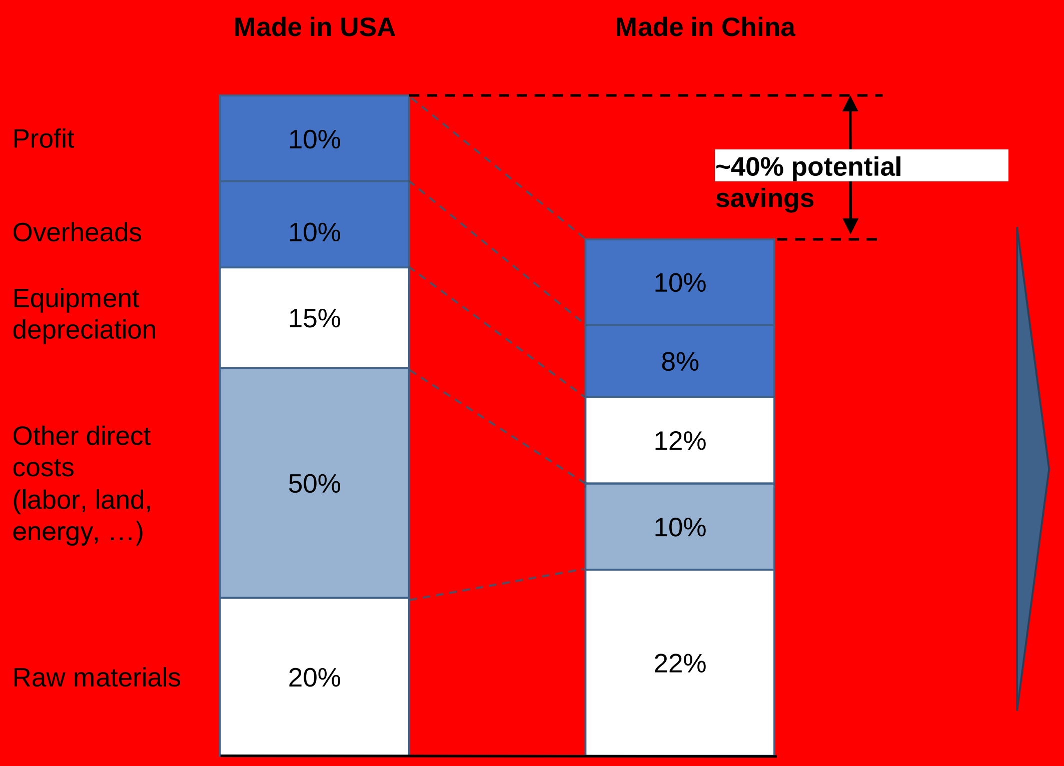
- Strengthens the restrictions on foreign investment in cultural areas by prohibiting foreign investors from engaging in the businesses of: editorial of books, newspapers, periodicals, audio-visual products and electronic publications;
- radio and television video-on-demand services and services for installing satellite television and radio ground receiving facilities;
- radio and television program imports;
- internet news information services;
- internet public information release services; and
- humanities and social sciences research institutes.

Produce in China:

- Produce in China?
- Where to produce,
- Alone or in JV?
- What to produce,
- For who?....

Structural differences in China cost structure

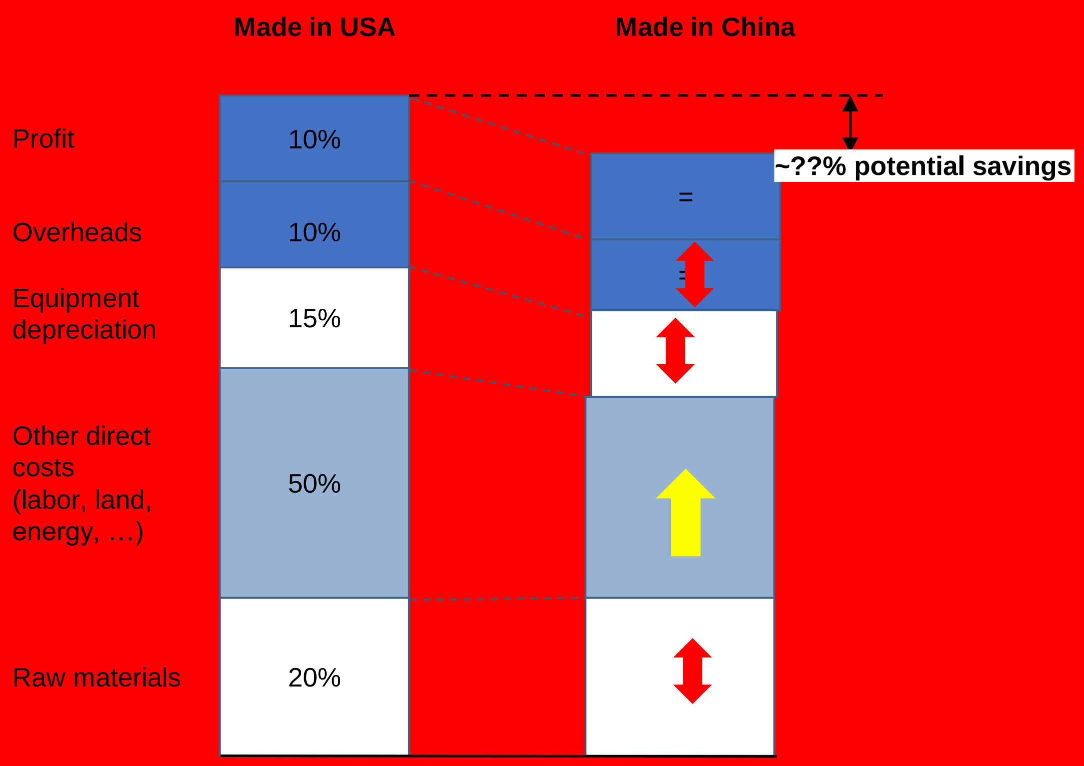
Savings depend on cost structure and can vary across product categories. Categories with high labor content are the ones that benefit most from sourcing in China

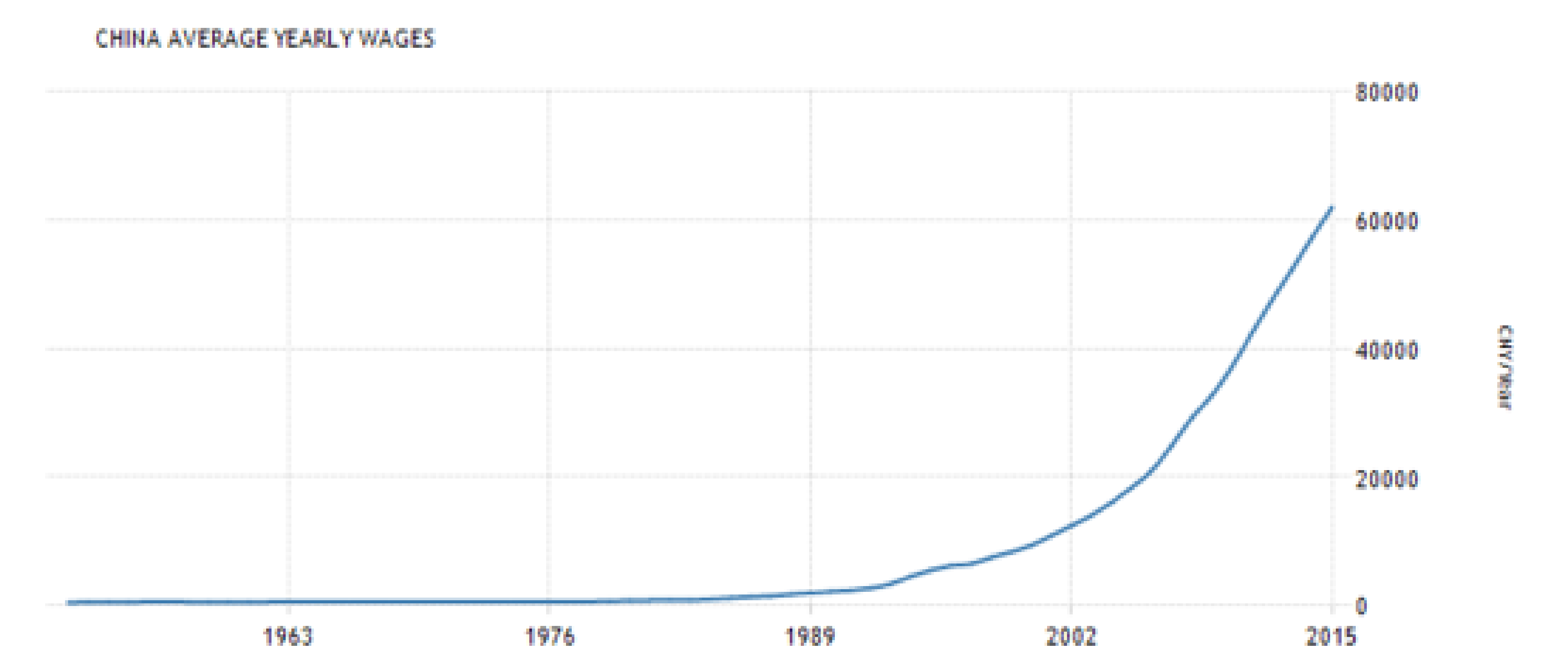


- On raw materials there might be some cost disadvantages in China
- Labor cost is the major cost advantage
- Some opportunities for equipment cost reduction exist but are still untapped

Structural differences in China cost structure

things change fast




CHINA AVERAGE YEARLY WAGES
80000
60000
40000
20000
0
1963
1976
1989
2002
2015
CNY/Year


CHINA AVERAGE YEARLY WAGES
24932
29229
32736
37147
42452
47593
52388
57361
62029
70000
60000
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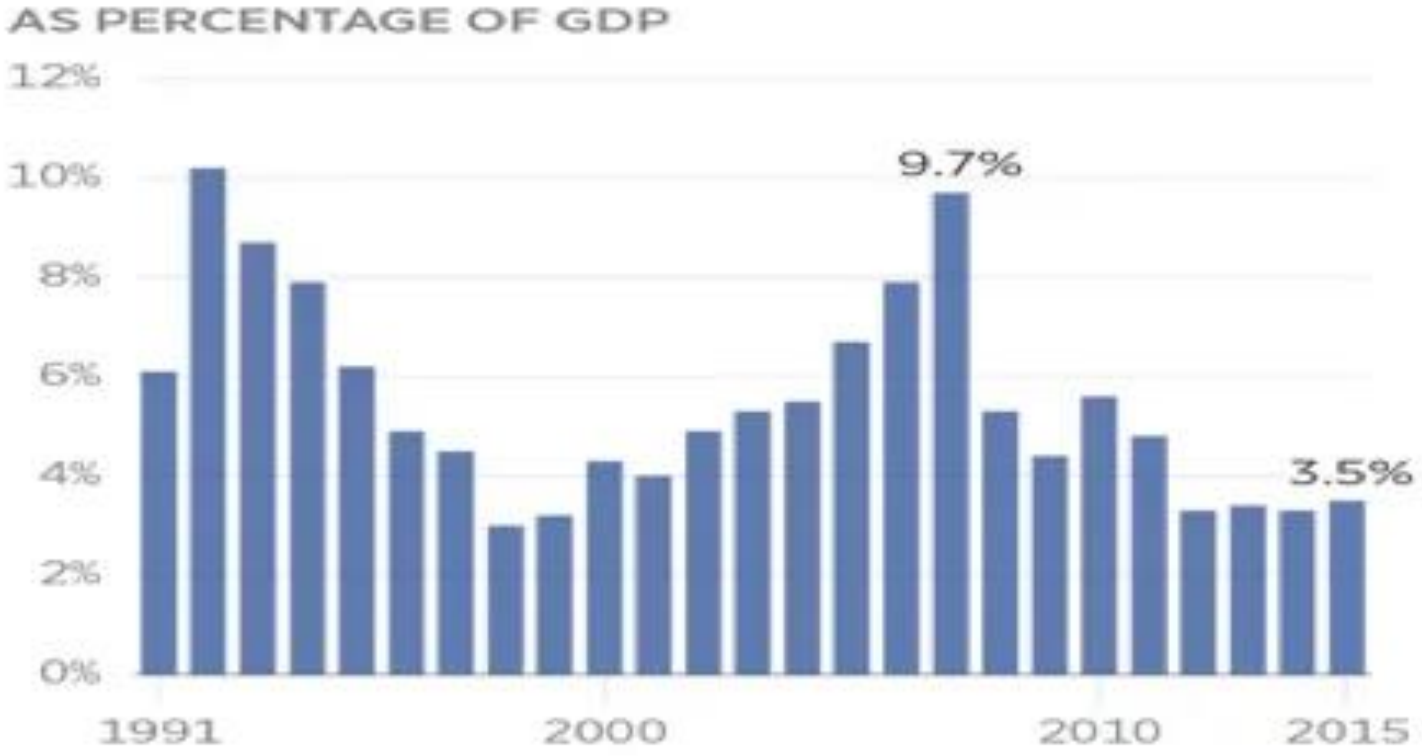
40000
30000
20000
2006
2008
2010
2012
2014
2016
CNY/Year
SOURCE: WWW.TRADINGECONOMICS.COM | MOHRSS, CHINA

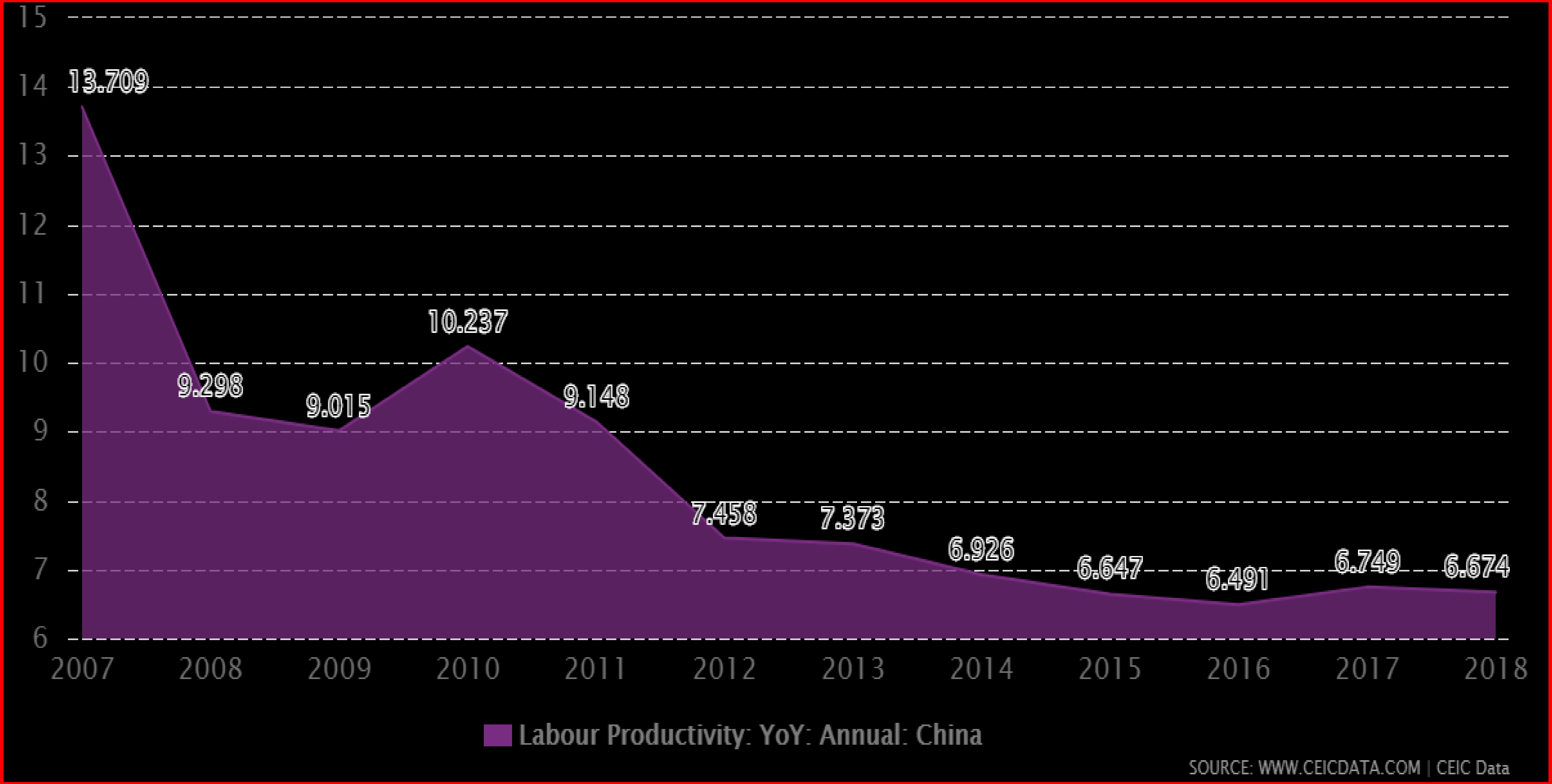
CHART 5

China's Multifactor Productivity Growth Drops



SOURCE: The Economist Intelligence Unit, http://www.eiu.com (accessed April 19, 2016).

BG 3112 heritage.org



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13.709
9.298
9.015
10.237
9.148
7.458
7.373
6.926
6.647
6.491
6.749
6.674
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Labour Productivity: YoY: Annual: China
SOURCE: WWW.CEICDATA.COM | CEIC Data

Where to produce

Geography of industrial clusters

Coastal regions of East China are the aggregation area of manufacturers across a number of sectors

Source: ISI, China Info Bank

PROVINCES	**STRENGTHS**
•TIANJIN •HEBEJ	*General:* · Used to be one of China's major industrial base *By Industry:* · Heavy machinery · Metal products & components

GUANGDONG	**STRENGTHS** *General:* · Many factories invested by HK companies · Export-oriented · Cheap imported material & components (free of import duties due to export-processing arrangement or smuggling) · Medium to high end products · Benefit from services of HK (financial logistics, R&D) *By Industry:* · Home electrical appliances · Watch & clock · Furniture · Building material · Textile & garment · Electronics &telecom equipment · Metal products
•SHANGHAI **•JIANGSU** **•ZHEJLANG**	*General:* · Used to be one of China's major industrial base · Concentration of key strategic industries (eg. Iron & steel, petrochemical) · Strong MNC presence & industrial investments · High domestica market share for many industries · Shanghai growing into the service center (financial, logistics, R&D) *By Industry:* · Automotive · Iron & steel · Petrochemical · Electronics & telecom equipment · Power equipment · Heavy machinery · Shipbuilding · Textiles

•SHANDONG	*General:* · A lot of Korean investments · Used to be one of China's major industrial base *By industry:* · Rubber & tyre · Watch & clock · Wine · Fitness equipment

Investment zone
Special Economic Zone

Pros

- Infrastructure
- Location
- Test Lab for new reform
- Flexibility
- Status
- Cluster
- (taxation)

Cons

- Cost of land
- Cost of labour
- Few local partner
- Control for limitations on local market
- Some are in disadvantaged areas
- Double check if it is real

Investment zones

Free Trade Zone (FTZ)

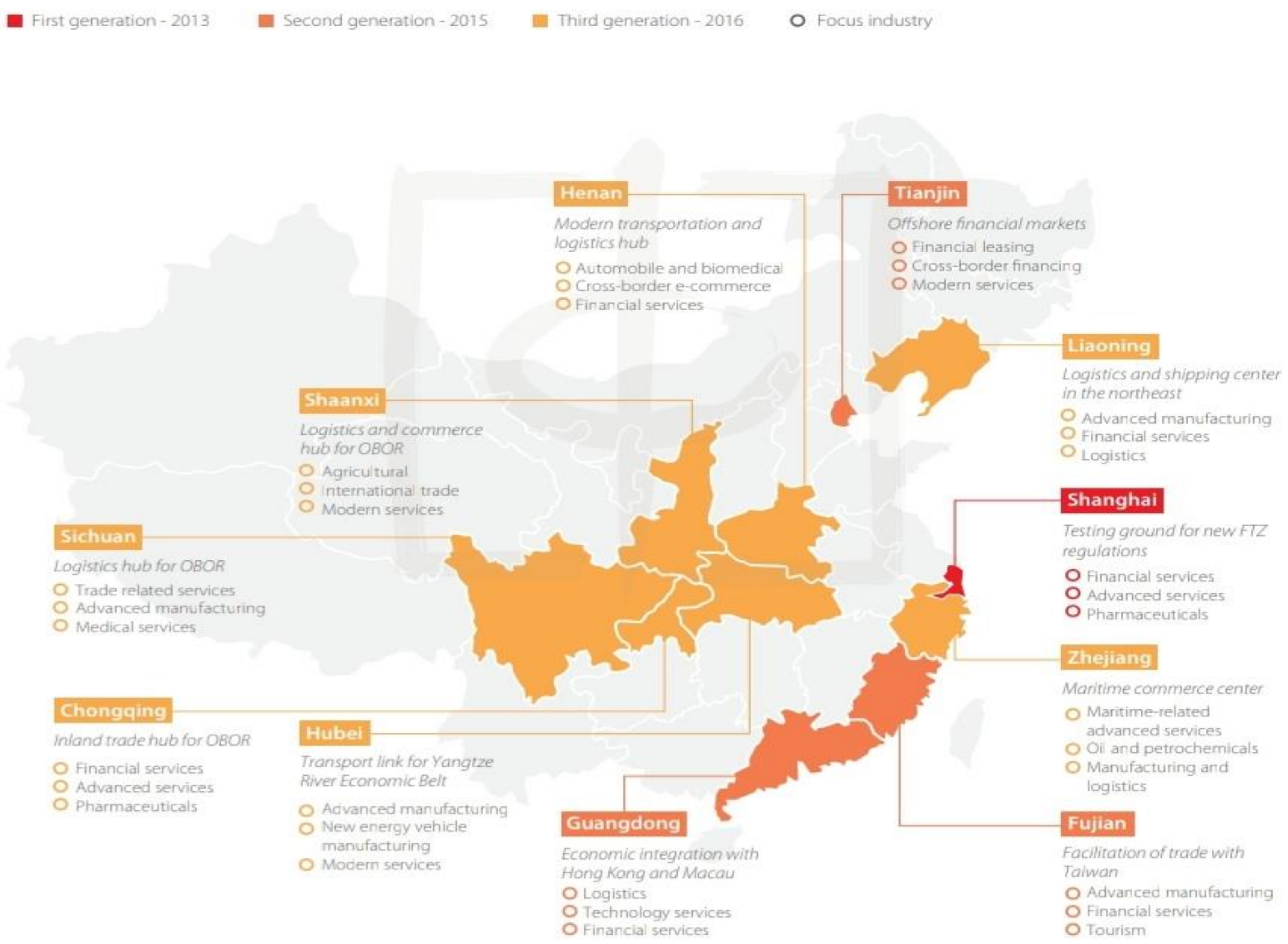
- Close to port industrial areas, technology parks
- Support incentives, easier burocracy for foreign companies

Export Processing Zones (EPZ)

- No import duty, vat exemption.
- You can trade within the zone.
- Generally, you cannot sell in China
- Need to transform products
- There are zone where you can store and modify products and you pay duties only when you sell products in China

Economic Technological Development Zone

Evolution of China's FTZs and Focus Industries



New Shanghai Free Trade Zone

- Waigaoqiao Free Trade Zone;
- Waigaoqiao Free Trade Logistics Park;
- Pudong Airport Comprehensive Free Trade Zone;
- Yangshan Free Trade Port Area.

Task 1: Further Opening Up Investment Sectors

According to the Plan, the Shanghai FTZ will offer easier investment access to both foreign and domestic capital and further open up the following 18 service sectors:

Finance Services

1. Banking services

- Allowing qualified foreign finance organizations to set up foreign banks in the Shanghai FTZ and permitting qualified private capital and foreign finance institutions to set up joint venture banks
- Allowing qualified Chinese banks to conduct offshore business in the Shanghai FTZ

2. Professional healthcare medical insurance

- Allowing wholly foreign-owned professional healthcare medical insurance organizations to be established in the Shanghai FTZ

3. Financial leasing

- Cancelling the minimum capital requirements for the establishment of single aircraft or single vessel company subsidiaries in the Shanghai FTZ by financial leasing companies
- Allowing financial leasing companies to concurrently operate factoring businesses that are associated with their primary business

Shipping Services

4. Ocean cargo transportation

- Relaxing the restriction over the proportion of foreign equities in joint venture international shipping enterprises

5. International ship management

- Allowing wholly foreign-owned shipping management enterprises to be established in the Shanghai FTZ

Trade and Commerce Services

- *6. Value-added telecommunications*
- Allowing foreign enterprises to run certain designated telecommunication businesses in the Shanghai FTZ

7. Selling and servicing of gaming consoles

- Allowing foreign enterprises to produce and sell gaming consoles in the Shanghai FTZ

Professional Services

8. Legal services

- Exploring mechanisms to enhance cooperation between mainland Chinese law firms and foreign law firms

9. Credit investigation services

- Allowing foreign investigation enterprises to be established in the Shanghai FTZ

10. Travel agency

- Allowing Sino-foreign joint venture travel agencies registered in the Shanghai FTZ to provide overseas travel services (with the exception of Taiwan)

11. Human resource agencies

- Allowing Sino-foreign joint venture human resource agencies to be established in the Shanghai FTZ (provided that the foreign shares thereof do not exceed 70 percent of the total shares)
- Hong Kong and Macau service provides are allowed to establish wholly self-owned human resource agencies
- Reducing the minimum registered capital for foreign human resource agencies from US$300,000 to US$125,000

12. Investment management

- Allowing joint stock foreign investment companies to be established in the Shanghai FTZ

13. Engineering design

- Cancelling the engineering design performance requirement for foreign engineering design enterprises (excluding engineering investigation enterprises) in the Shanghai FTZ when applying for the qualification to provide services in Shanghai for the first time

14. Construction services

- Cancelling the equity caps for Sino-foreign construction projects in Shanghai taken over by wholly foreign-owned construction enterprises established in the Shanghai FTZ

Cultural Services

15. Performance brokerage

- Cancelling the equity caps for foreign performance agencies and allowing wholly foreign-owned performance agencies to be established in the Shanghai FTZ

16. Entertainment venues

- Allowing wholly foreign-owned entertainment venues to be established in the Shanghai FTZ

Social Services

17. Educational and vocational training

- Allowing Sino-foreign education and vocational training organizations to be established in the Shanghai FTZ

18. Medical service

- Allowing wholly foreign-owned healthcare organizations to be established in the Shanghai FTZ

- Moreover, the Plan provides that the Shanghai FTZ will adopt a “negative list” approach towards foreign investment management, meaning foreign investment in all sectors should be allowed unless listed as prohibited or restricted under the “negative list.” A “negative list” which details the different treatment of foreign investors and Chinese investors will be created and issued by the Shanghai government at a later date.

Source: Dazen Shira

Task 2: Deepening the Opening-up of the Financial Services Sector

- According to the Plan, the Shanghai FTZ will implement the following measures to deepen the opening-up of the financial service sectors:
- The Shanghai FTZ will start trial programs of RMB convertibility under the capital account, market-oriented interest rates, and cross-border RMB transactions;
- The Shanghai FTZ will facilitate market-oriented pricing of financial institution assets;
- The Shanghai FTZ will pilot a new mechanism for the management of foreign exchange to facilitate trade investment;

- The Shanghai FTZ will encourage enterprises to take advantage of both onshore and offshore markets;
- The Shanghai FTZ will deepen foreign debt management reform to facilitate cross-border financing; and
- The Shanghai FTZ will encourage multinationals to establish regional or global capital management centers within the zone.
- Moreover, the Shanghai FTZ will gradually allow foreign companies to engage in commodity futures trading.

Task 3: Improving and Perfecting the Legal System

With the view to accelerate the formation of a high-standard investment and trade rule system, starting from October 1, 2013, 11 administrative examination and approval items regulated under the following three laws will be suspended in the Shanghai FTZ on a three-year trial basis.

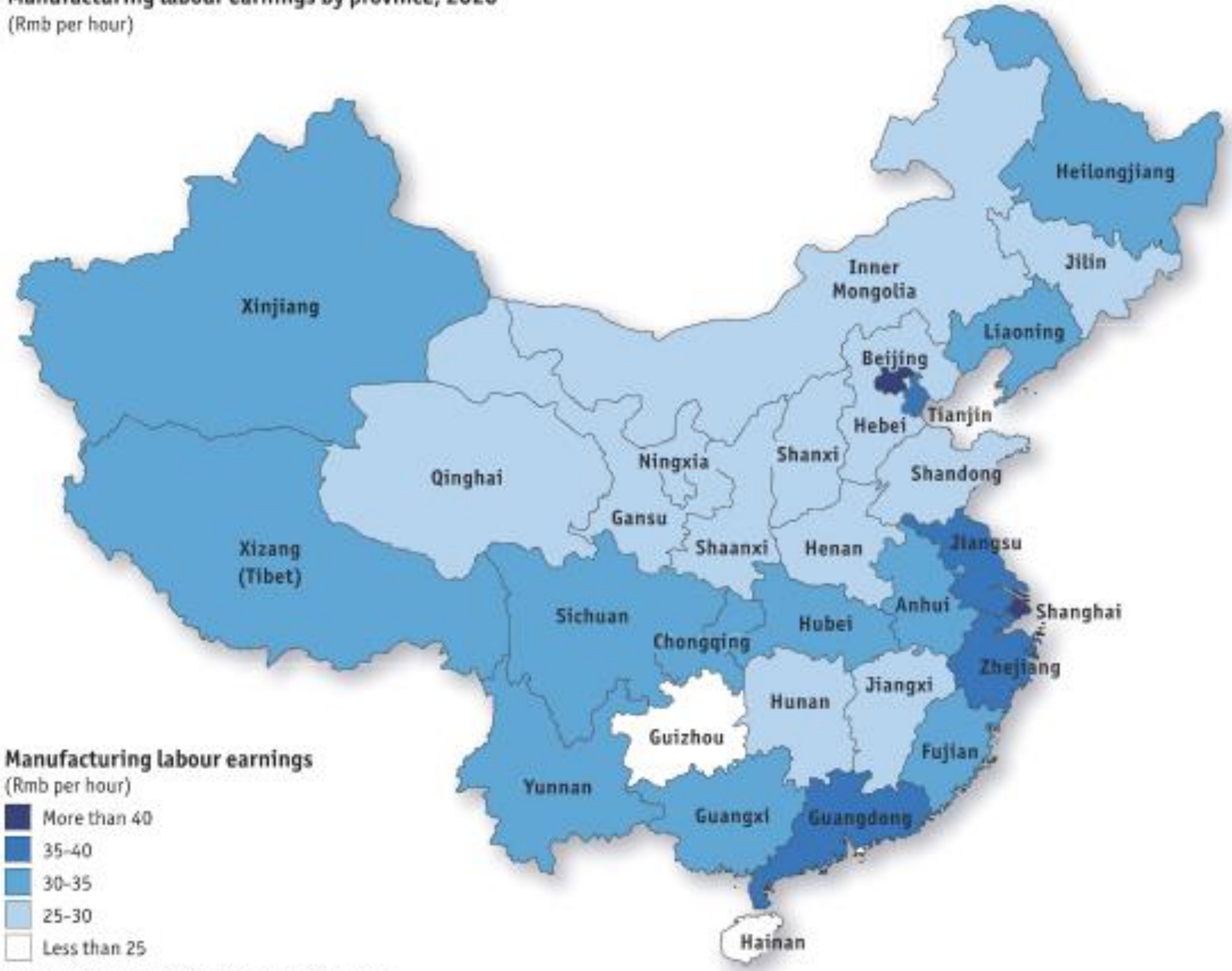
- The Law of the People's Republic of China on Wholly Foreign-Owned Enterprises;
- The Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures; and
- The Law of the People's Republic of China on Sino-Foreign Cooperative Joint Ventures.
- In addition, in order to better promote investment into the Shanghai FTZ, the Plan also allows enterprises or individual shareholders registered in the Shanghai FTZ to pay income tax in installments within a five-year period for value-added assets arising from asset restructuring

To start with…..

The ban on game console was in place since 2000. now consoles assembled in the Zone can be sold nationwide. It is roughly 15 billion US$ market!

Is cost of labour still a competitive advantage?

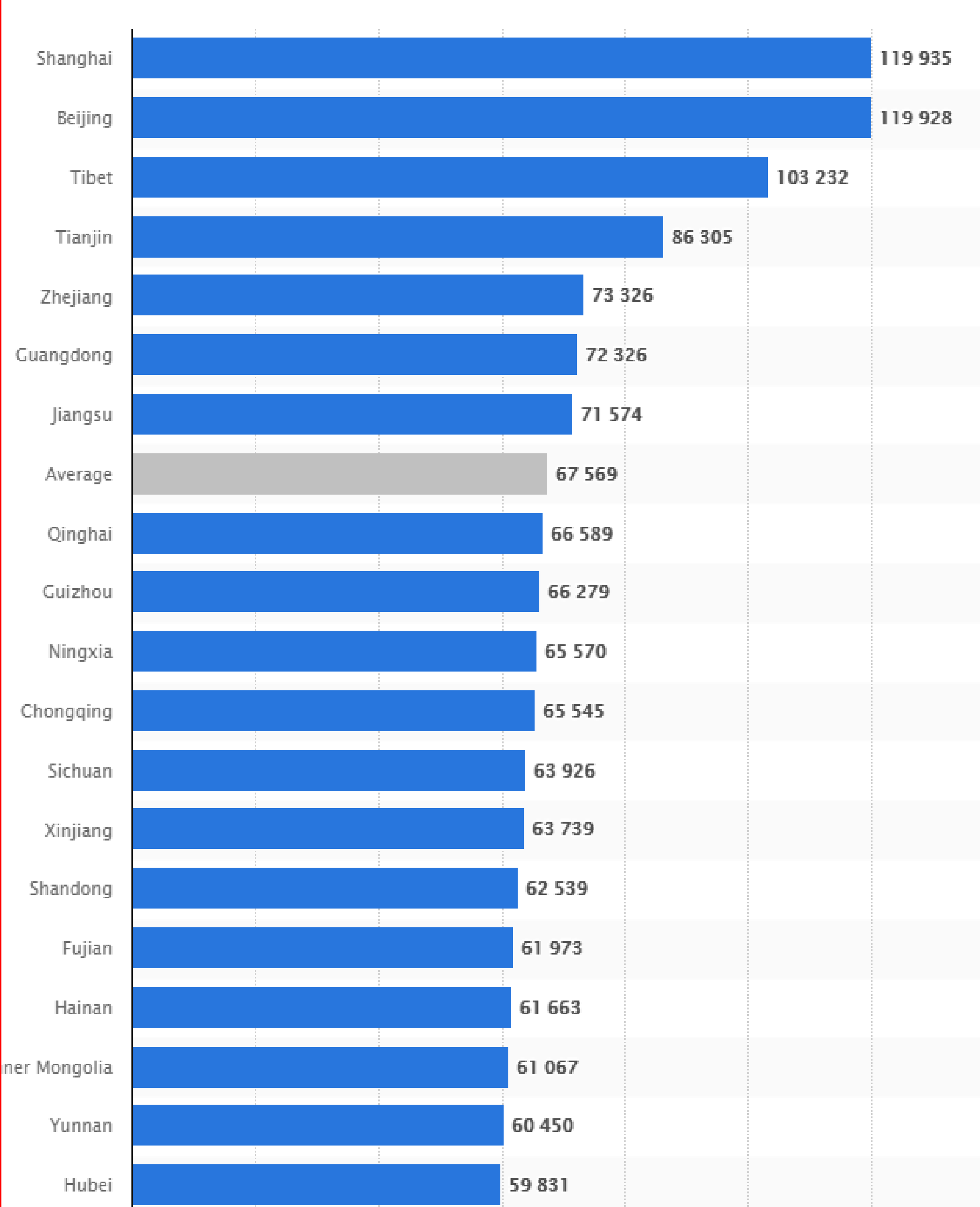
Manufacturing labour earnings by province, 2020
(Rmb per hour)

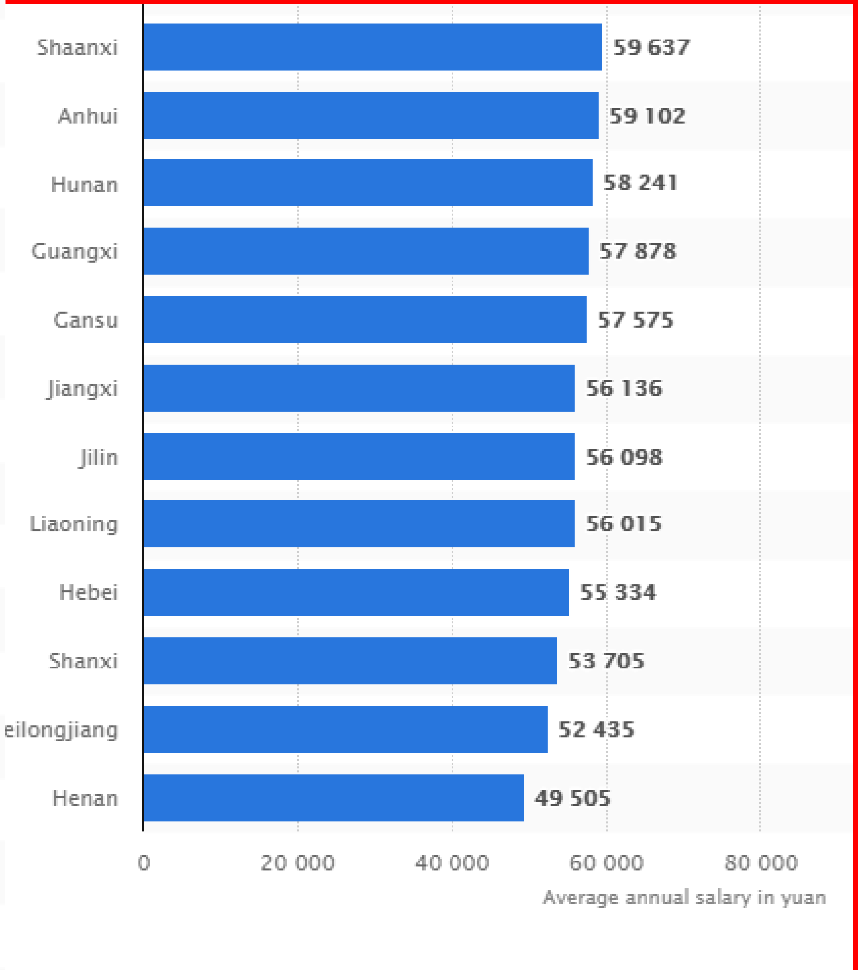


Source: The Economist Intelligence Unit forecasts.

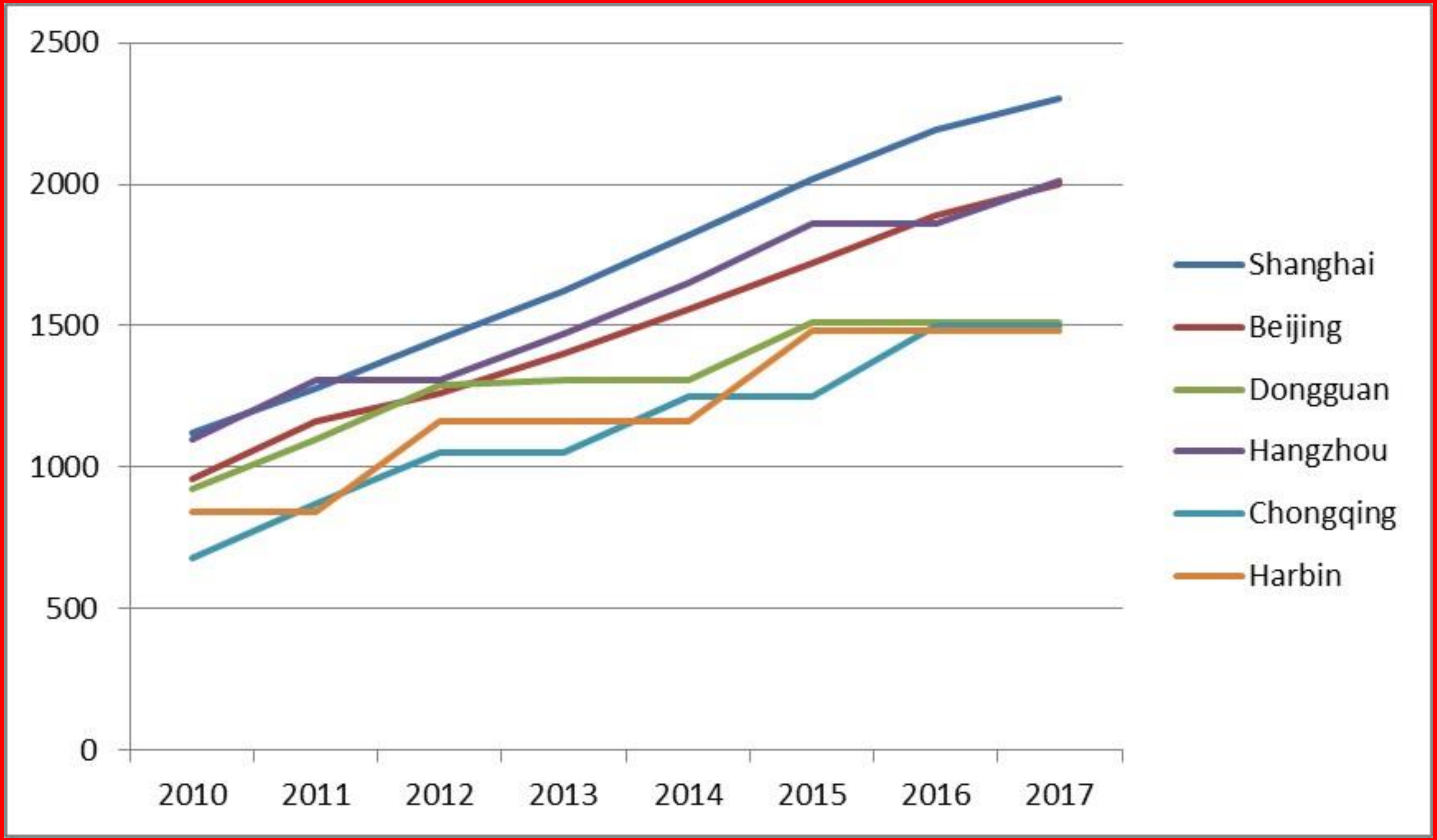
CHINA AVERAGE YEARLYWAGES IN MANUFACTURING
24192
26599
30700
36665
41650
46431
51369
55324
59470
64452
70000
60000
50000
40000
30000
20000
CNY/Year
2008
2010
2012
2014
2016
2018
SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

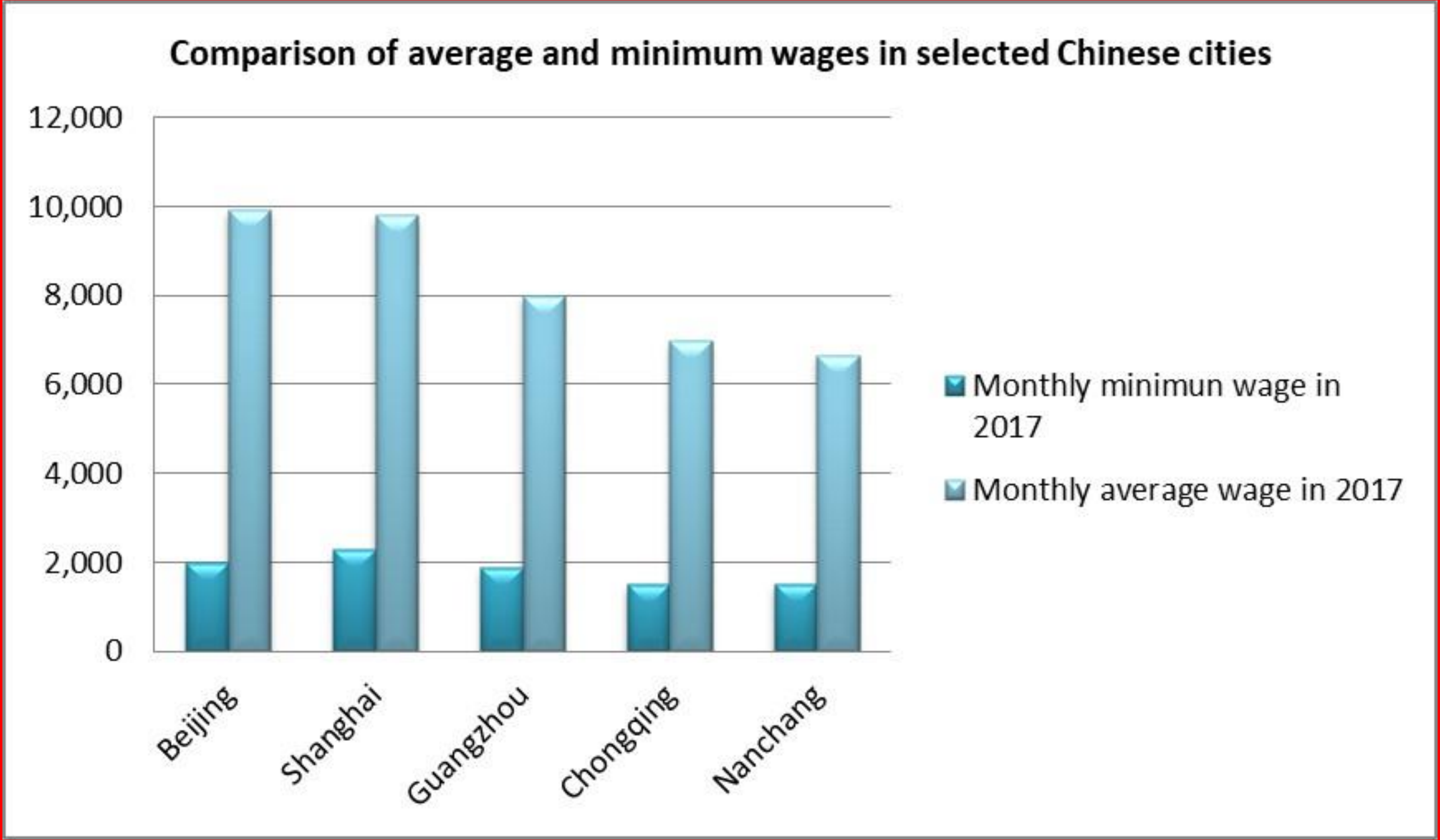
Average salary

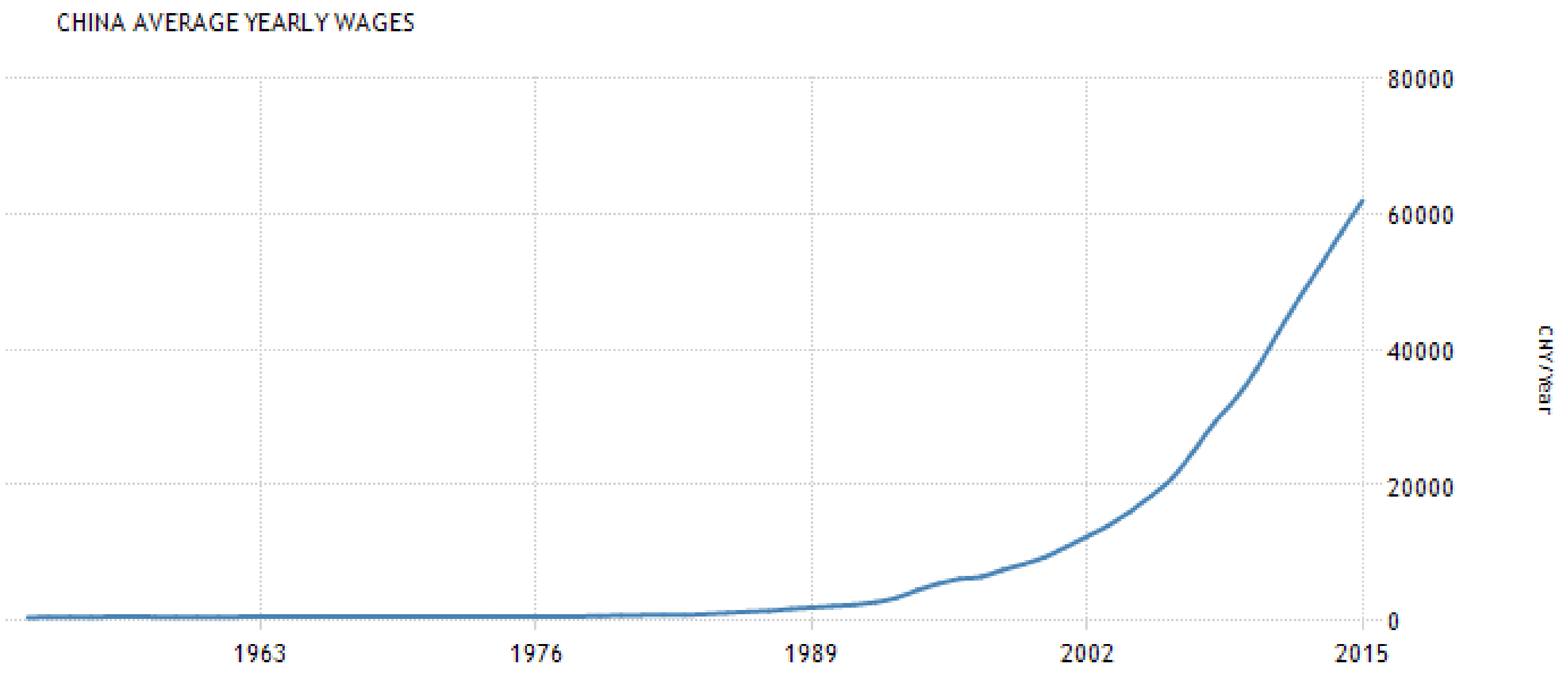




Minimum Wage




Comparison of average and minimum wages in selected Chinese cities
12,000
10,000
8,000
6,000
4,000
2,000
0
Beijing
Shanghai
Guangzhou
Chongqing
Nanchang
Monthly minimun wage in 2017
Monthly average wage in 2017

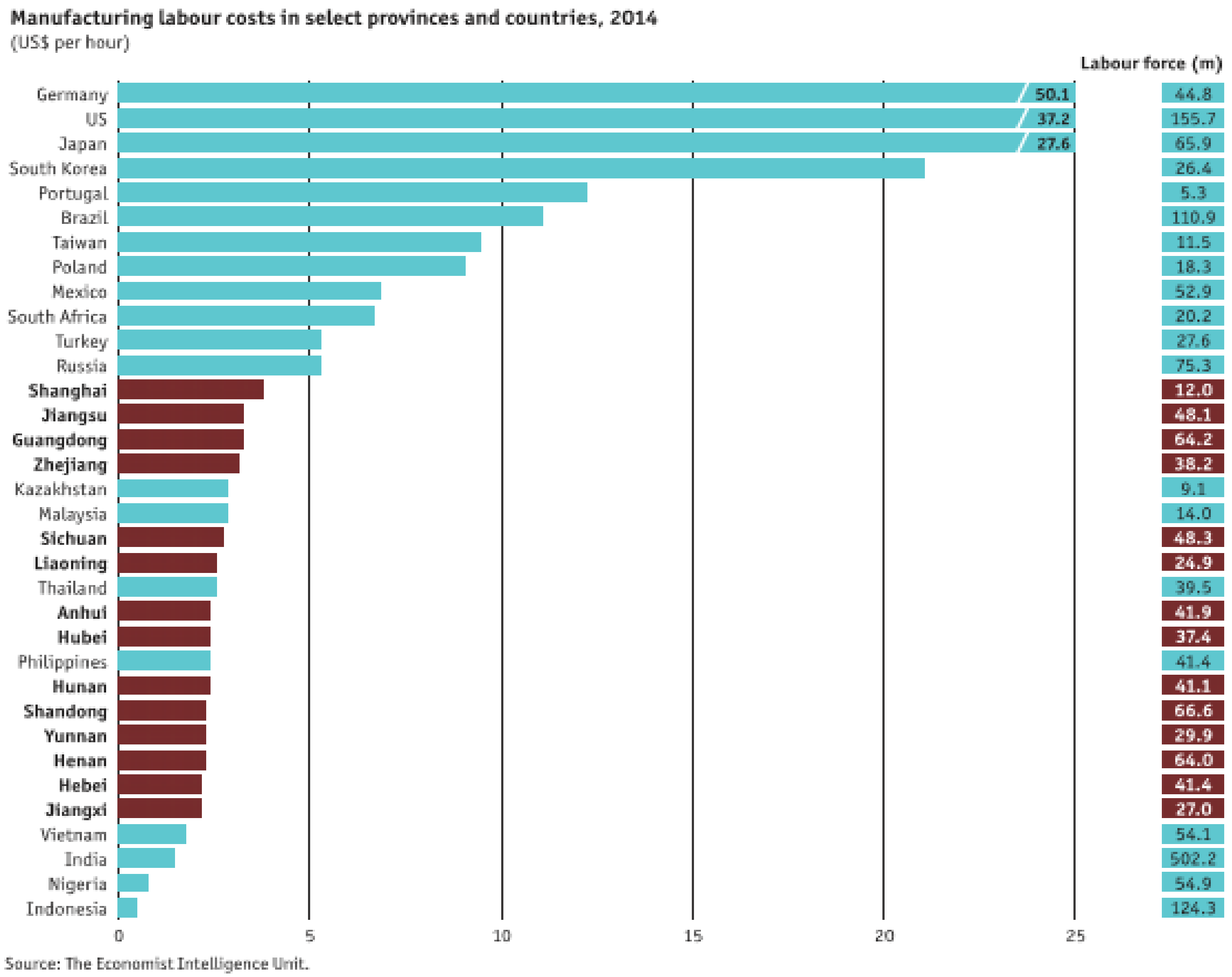

CHINA AVERAGE YEARLY WAGES
80000
60000
40000
20000
0
CNY/Year
1963
1976
1989
2002
2015

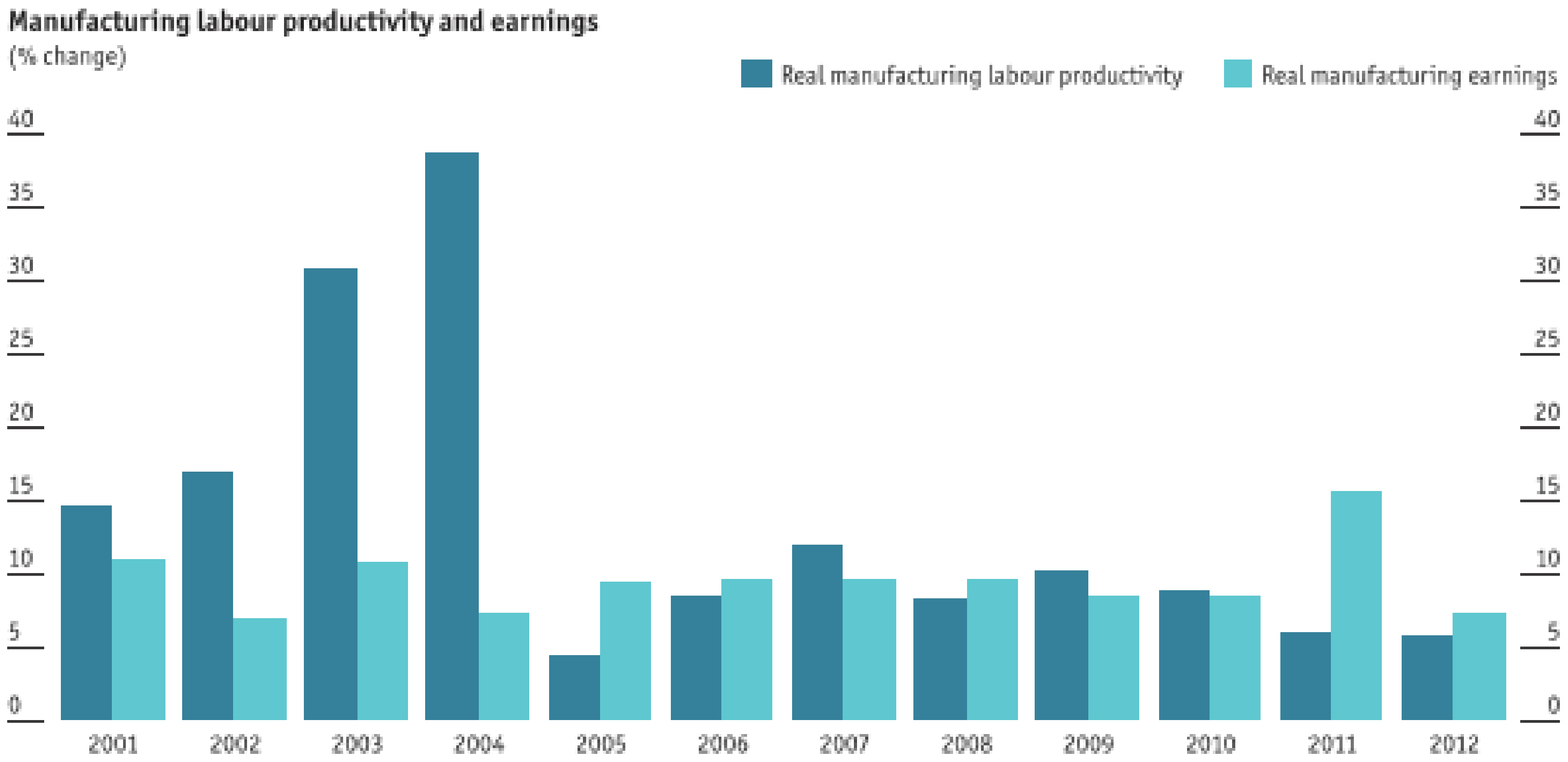

CHINA AVERAGE YEARLY WAGES
70000
60000
50000
40000
30000
20000
CNY/Year
24932
29229
32736
37147
42452
47593
52388
57361
62029
2006
2008
2010
2012
2014
2016
SOURCE: WWW.TRADINGECONOMICS.COM | MOHRSS, CHINA

Provincial Wage Levels

2016-2018. Average Monthly Wages, in RMB

Province	2016	2017*	2018*	Factor**
Shanghai	9,995	10,967	12,035	1.77
Beijing	9,994	10,965	12,030	1.76
Tibet	8,603	10,109	11,879	1.74
Tianjin	7,192	7,852	8,573	1.26
Zhejiang	6,111	6,733	7,419	1.09
Guangdong	6,027	6,627	7,286	1.07
Jiangsu	5,965	6,532	7,153	1.05
Guizhou	5,523	6,237	7,044	1.03
Qinghai	5,549	6,104	6,715	0.99
Chongqing	5,462	6,047	6,695	0.98
Sichuan	5,327	5,933	6,608	0.97
Xinjiang	5,312	5,886	6,523	0.96
Ningxia	5,464	5,954	6,488	0.95
Shandong	5,212	5,770	6,387	0.94
Hainan	5,139	5,717	6,361	0.93
Yunnan	5,038	5,653	6,344	0.93
Fujian	5,164	5,680	6,246	0.92
Hubei	4,986	5,516	6,102	0.90
Gansu	4,798	5,395	6,066	0.89
Guangxi	4,823	5,397	6,040	0.89
Hunan	4,853	5,387	5,979	0.88
Inner Mongolia	5,089	5,509	5,965	0.88
Shaanxi	4,970	5,435	5,945	0.87
Anhui	4,925	5,344	5,798	0.85
Jiangxi	4,678	5,196	5,772	0.85
Jilin	4,675	5,180	5,740	0.84
Hebei	4,611	5,045	5,520	0.81
Liaoning	4,668	5,041	5,444	0.80
Heilongjiang	4,370	4,847	5,376	0.79
Shanxi	4,475	4,768	5,079	0.75
Henan	4,125	4,459	4,819	0.71


Manufacturing labour costs in select provinces and countries, 2014
(US$ per hour)
Labour force (m)
Germany 50.1 44.8
US 37.2 155.7
Japan 27.6 65.9
South Korea 26.4
Portugal 5.3
Brazil 110.9
Taiwan 11.5
Poland 18.3
Mexico 52.9
South Africa 20.2
Turkey 27.6
Russia 75.3
Shanghai 12.0
Jiangsu 48.1
Guangdong 64.2
Zhejiang 38.2
Kazakhstan 9.1
Malaysia 14.0
Sichuan 48.3
Liaoning 24.9
Thailand 39.5
Anhui 41.9
Hubei 37.4
Philippines 41.4
Hunan 41.1
Shandong 66.6
Yunnan 29.9
Henan 64.0
Hebei 41.4
Jiangxi 27.0
Vietnam 54.1
India 502.2
Nigeria 54.9
Indonesia 124.3
0 5 10 15 20 25
Source: The Economist Intelligence Unit.



Manufacturing labour productivity and earnings
(% change)
Real manufacturing labour productivity
Real manufacturing earnings
40
35
30
25
20
15
10
5
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012

(curse of) labour

- Chinese workers prefer to work either for large domestic Soe or large Chinese private company. Second, they want to work for large MNC possible with well-known brand. Third they want to work for Chinese smaller company and, last for small foreign companies.
- Training is very important, more than you can think
- Labour Turnover is an issue
- Shortage of labour is starting to be a problem
- As a consequence salaries are increasing very fast
- Expatriate are very expensive

New legal environment for work force

New labour contract law in 2008

- More long-term contracts
- More protection for workers

Some space for unions (2% of total salary)

40 working hours per week plus overtime (150% to 300% of normal wages)

Social Insurance programs (pensions, medical insurance, etc.. 35/40% of salary cost)

How to reduce turnover

- Incentive scheme: pension, healthcare insurance, etc.
- Training (included Mba)
- Try to pay bonuses after Chinese new year (when most workers change job)