

Finding the Right Business Model for Entering into China

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When China reformed its economic structure in the late 1970's, most foreign firms began business there because of its cheap labor and land resources. Business opportunities for foreign enterprises were usually involved in the areas of manufacturing consumer goods for export. Export trade business models (legal structures and modus operandi) are well known to most foreign firms and there have been extraordinary returns for many operators over the past 30 years.

As reform continues to evolve, China offers other advantages such as the opening of domestic markets, changing consumer tastes, rising household income resulting in increased buying power. Capitalizing on these new advantages require foreign firms to find business models that are most appropriate to their own objectives and circumstances. That may range from appointing local agents or setting up representative offices or fully fledged subsidiaries with comprehensive local facilities and extensive cross border transactions.

How to set up a local operation in China can be very intricate as it is more than obtaining an operating license. We would emphasize the importance of doing rigorous technical research to confirm a company's legal validity and that it provides a practical platform for achieving the intended business results. In doing this, it's important to thoroughly look at the following aspects:

- Business – scope and objects, industry license requirements, external and internal constraints
- Legal – general, labor and business regulations, approval and registration requirements
- Tax – direct, indirect, administration, documentation and tax accounting
- Accounting – system setup, HQ integration, local and home country reporting
- Customs – forms, procedures, values, intangibles, related and unrelated transactions
- Foreign exchange – loan and capital transactions, remittance requirements
- Compliance and internal control – both external and internal compliance requirements

Foreign firms entering into China should be aware that compared to the decades old export processing trade model for realizing their low cost strategy, the prospect of establishing a position in the domestic market for selling their goods and services can be far less certain. In the past, local competition for investment drove the cost factors down to the advantage of foreign firms. However, now it intensifies the complexity of operating in a new market. Finding the right business model as a reliable operating platform is the challenge that must first be dealt with.