

Setting Up a Company or Relocating a Factory to China



By Bili International
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Relocating a facility? How do you choose a good location for your factory? What should you consider when thinking about a new site? How do you get the right information? How do you set up a Chinese factory or trading company?

The facts are not always that easy to get here in China and the industrial park administrators will tell you whatever they think you want to hear. In Chinese culture, to say “no” or “I don’t know” is to lose face, so the answer is always “yes”, regardless of the facts. The truth is, more often than not, they themselves don’t even know the facts. Then, there are the lunches and dinners with the appropriate government officials who will tell you who is ultimately responsible to get through the red tape and sort out the facts. And then there are more lunches and dinners.

While it’s true that business is highly dependent on relationships, I strongly recommend you go one step further and be sure to have signed agreements which state all the legal issues from the top people in that district, which usually is the city mayor or the director of a province or state-level bureau.

Here are some of the main issues affecting your investment strategy:

- Transportation infrastructure (trains, planes, trucking, and roads)
- Proximity to shipping ports
- Access and location
- Availability of factory workers
- Hotels and accommodations
- Land quality, composition, and purchase
- Building and construction
- Power, gas and general utilities
- Local government, local laws and taxation
- Central government and federal laws
- Future development in and around you
- Overall investment climate of the country or local region
- Weather and climate
- Setting up and registering a factory or corporation
- Accounting and banking
- Employees and labor laws

All of these things affect your selection of a place for your new factory or office. China is a complex society that is changing rapidly. Let’s look at some of these points in light of a recent client of ours, why they invested in this area and what’s new in the year 2011.

Bili International Trading Co., Ltd was instrumental in helping InterWrap Inc., a fully integrated and innovative global manufacturer of coated multi-layer laminated, reinforced plastic woven products, choose China and select a site for their latest facility.

InterWrap planned a 30 million USD investment over three phases. Each phase included adding a new building of 5,000 square meters full of the necessary machines and equipment. InterWrap utilized Bili’s local experience and knowledge to research locations, and make a feasibility study for InterWrap leaders to compare their options between India, China, and Vietnam.

After serious consideration, InterWrap chose China and used Bili International Trading Co., Ltd to help them secure a land site and get the ball rolling. Now, InterWrap successfully operates under the name Qingdao Novia Polymer Co. Ltd. in Qingdao's Jiaozhou city with a registered capital of about 12 million USD and are currently working on phase two of their operation.



Daniel of Bili, InterWrap's Dave Shokar, Jiaozhou Mayor, InterWrap's Rob Milne



Let's look at some of the reasons why they chose Qingdao, Shandong, China to invest:

Transportation and Infrastructure

The transportation and infrastructure in China is very strong. China has built a network of high-speed expressways, national roads, and provincial roads that crisscross the country. There is usually access to quality roads for trucking goods from suppliers to manufacturing facilities and from their facility to a port for export.

National Road structure in and around Shandong Province:



National Highway structure in and around Shandong Province:



Qingdao has a major export container port, so in and around the city there are literally hundreds of new industrial parks. Qingdao has six satellite cities: Pingdu, Laixi, Jimo, Jiaozhou, and Jiaonan, all of which can make for ideal locations depending on the type of factory or company needed. InterWrap chose Jiaozhou for several key reasons, which include proximity to the port, stable power supply, and price of land. Bili helped InterWrap negotiate preferential tax policies, preferential land prices, and many other perks for their investment in Jiaozhou.

The Qingdao Qianwan Container Terminal (Qingdao Port) is said to be the third largest in the country and one of the most high-tech. News from the QQTC website claims the port's recent milestone of an "Accumulative throughput of 300 million tons and container throughput of 10 million TEUs in 2008", making another major gain for the city and province.

Do ensure that the area selected has the proper transportation and exporting infrastructure required to do business efficiently.

Access and location: "Transportation and Infrastructure"

China is a challenging place to just get around in, let alone choosing a site for a factory. The infrastructure of roads is quite good but that is where it ends. Everything else from getting around, maps, driving, port locations, trucking and transportation, and so on is a mess.

Depending on your company's needs, you should be aware that even though there is an excellent network of roads, getting around is not always easy. I have been in China for eight years now and am still one of the few foreigners that drive a car and, for some enjoyment, I also ride a motorcycle. I have traveled extensively throughout the province of Shandong and am always amazed at the struggle to find road names to match the maps. When I ask the locals for direction, most of them have no idea about road names or how to get where I want to go. It is always a challenge getting around, so depending on your business and the need for customers, clients, or suppliers to arrive easily at your site, this is definitely something to consider.

China is a huge country and traveling gets very tiring. There is little to see and there is an endless sea of villages and people everywhere, so driving is also a little dangerous. You have to pay attention all the time from every direction. I say this because managers and skilled workers find it very inconvenient and troublesome to make a one- to two-hour drive to the facility everyday. You need to consider you staff's needs so that you can keep good people and not loose them because of your location.

Availability of Factory Workers

Geographic location is, of course, important, but now demographics may also affect your decision. My suppliers all across China continually complain about the shortage of workers. Factories are finding it harder and harder to get employees, so the location of your factory is critical to your long-term success. Shandong is a province of 90 million people, but that still doesn't ensure you will be able to find the people you need. China is highly spread out and there can be long distances from large populations of people to where your facility is located, so seriously consider all your employees' needs, from management to skilled and unskilled workers, and plan accordingly.

Land quality, composition, and purchase

There is generally a shortage of available land in China, but they are making new industrial parks everywhere. A lot of land in these areas is reclaimed which makes for softer ground that can affect your building costs. If you have to put in 30% more piles to make up for the softer land it may be more cost effective to purchase land in a different area with more solid ground. Depending on your foundation needs, you will have to balance the costs to build verses the costs of land.

Foreigners are allowed to purchase land, though, similar to Indian reserve land in North America, for example, they can only lease for so many years. There are two kinds of land in China. One is owned by the nation and can be assigned to the land users. The Land Administration Bureau will sign an assignment agreement with the land users. For land used in manufacturing, the period is 50 years. The land user can apply for an extension before the termination and sign another assignment agreement with the Land Administration Bureau, but the fees for use of the land will be changed accordingly. After the certificate for the land is obtained, the land user can transfer, mortgage, and lease.

The other kind of land is called *collective land*, which can only be assigned or leased after it has been acquired by the nation. Pay attention to this kind of land because when it comes to this kind of land, asking them to finish the acquirement and assignment before you set up the factory is not only lawful but also helps in avoiding risks. And remember, the assignment contract can only be signed with the Land Administration Bureau or the contract will be treated as invalid according to the regulations recently published. The term of the assignment of the land will also depend on the registered terms of the WOFE. As to the lease of the land, the term of lease won't be more than 20 years.

Another situation that often occurs in relation to land purchase is that the industrial park administration will lead you to believe that you can purchase or lease a certain parcel of land, get a permit, and start your project right away. That may be the case, but the fact is that you must obtain a land title certificate before you can legally build or even register the company for that matter.

Because of land shortages, the state issues yearly quotas to the land bureaus. Once the quota has been reached, they will not be able to issue any more land title certificates until the next year's quota. Hence, you may have to wait up to several years before being able to legally proceed. It is common practice not to wait, but to pay for the land and start building. However, you run a big risk of being shut down and may have other complications, which may bring your building process to a halt and possibly cause the revocation of the company registration.

The key point is to find out from the appropriate authorities if the industrial park has sufficient land quota to allow you to purchase and get a land title certificate. The park administration surely knows, but as mentioned before, cultural precedence always makes it "yes". The responsibility is on you to go beyond the local authorities.

Building permits and construction

We had been quoted 450 RMB per square-meter for a concrete style structural building, which is the norm in China, but when all was said and done, the actual cost amounted to about 800 RMB per square-meter (\$115 - \$120 USD). Steel structures are less expensive than office buildings and dormitories. These prices are unfinished and in the Shandong province area, of course, the further north you go the more insulation will be required, and the further south the more air conditioning will be required.

All buildings in China require permits, and to get a permit you must have a land title certificate. You can drive around China and see many abandoned construction sites that may have been started without the proper permits from the land and building bureaus. Recently, the government of China has made changes to the policy for land ownership and has cracked down on building without proper registration and permits.

Often, landlords and even foreign investment bureaus will tell you not to worry about getting the proper permits and that everyone builds without them or that you will get yours next year, for sure. Do not listen to them unless you want to risk being shut down, fined, and have your project delayed for several years.

Regarding buildings, you may also need to build a dormitory. As mentioned above, it is getting harder and harder to find employees, so depending on how many workers your facility needs, you may need to consider housing for them.

Power, gas, and general utilities

As with the road infrastructure, China's utilities are also fairly well-developed in most of the industrial parks, but again, like everything else, the park administration will always say "yes", so you have to do your due diligence and confirm that the service you need is available.

Power costs throughout the province of Shandong are set by the provincial power bureau and billed by the Qingdao Power Bureau. The Qingdao Power Bureau can offer VAT receipts so the business can get back a portion of the VAT, which many factories are not aware of. This is supposed to apply to all utilities but needs to be confirmed for water and gas. Power costs vary depending on what time of day it is and whether it's for commercial or residential use. The price of electricity for industrial use is about 0.7 RMB per kilowatt-hour. Usage is broken up into three cost structures. The highest price is during peak times, which is during the regular day hours, as opposed to off peak times, which is a couple of hours in the early morning and a couple of hours late at night. Then, there's rare usage time, which is the middle of the night.

Power shortages rarely happen in Shandong. The power supply here is stable and consistent, but the Qingdao Power Bureau will periodically request a one or two day shut down during peak summer season. In southern China, there are constant brown-outs that constantly affect certain industries and businesses.

Water is generally not a problem in China and this area has DN500 water pipes that can supply 100,000 tons/day. Water, too, has different pricing for different industries. Here, water used in industry costs 2.228 RMB per cubic-meter and domestic use costs 1.8 RMB. This varies from district to district, so you need to confirm with the provincial and local water bureau to get the facts if this is important to your businesses needs.

Local and Federal Government Laws

The rules and laws governing registering companies, buying land, and investing in China are changing all the time so it is important to get the latest facts. Before 2007, the state government was offering tax incentives and holidays for factories. Back then, the policy for the first two years was tax-free and half tax for the following three years. Then, as mentioned above, this policy changed to a flat tax of 25% for all companies alike.

Changes in the labor laws are affecting business and making it more and more important for them to understand and follow the general rules. In the past, it was common to just hire people and have them work whenever and without much consideration. It is still a common practice and it seems most of the big companies continue to get away with it. However, these days employees are going to the labor bureaus, registering complaints and getting paid all they deserve plus fines being imposed on the corporations. Click here to download a copy of the [Qingdao Labor Law in English](#).

The positive thing is that the government is becoming more and more transparent and the rules and laws applying to investments are becoming clearer and clearer. The message here is to be sure to get the facts related to your investment and don't assume that because an official said "yes" or "don't worry" that there will be no problems. You need to do your due diligence and be sure to ask the right questions.

Wholly Owned Foreign Enterprise (WOFE) Company Set Up:

Following are the general steps and common pitfalls in setting up a foreign owned company in China, generally known as a "Wholly Owned Foreign Enterprise" or WOFE. A common pitfall is that investors may get the impression that this is an easy process. It is "just a process", but like everything else here, if you do not have experience then it can be frustrating and take extra time and money. You do not need a consultant to do this because, as said, it is a process and most of the industrial parks and investment bureaus will help you through it. It is highly recommended however that you fully understand the set up procedures and consider the suggestions I make at the end of this section.

Wholly Owned Foreign Enterprise (WOFE) Set Up Procedure:

1. Name inquiries and approval notice
2. Acquiring approval. The documents needed for this application are as follows:
 - a. Application
 - b. Feasibility report
 - c. Constitution
 - d. Contract of Technology Transfer (import) if applicable
 - e. Notice for approving the name of the enterprise
 - f. The certificate for renting or owning an office
 - g. Investor's Good Standing Certificate
 - h. Investor's Credit certificate
 - i. The name list, Letter of Appointment, identification and resumes of the members of the Board of Directors or Executive Directors
 - j. Certificate of authority, provided if it is involved in being the signature authorized.
3. Approval by Environment Protection Bureau
4. Applying for the Code Number for enterprises
5. Acquiring the letter of certification from MOFTEC
6. Acquiring the Code Number certificate and IC card
7. Chops for business operation: Company chop, financial chop, personal chop and customs chop
8. Registration for National Tax
9. Registration for Local Tax
10. Registration for Foreign Exchange
11. Bank Accounts
12. Registration with Customs
13. Financial registration

Regarding investment capital and registration costs, below is an example of the costs for company registration:

Total Investment	Registered Capital Required	Dollar Cost
Below 3,000,000 USD	70%	
3-10,000,000 USD	50%	
10-30,000,000 USD	40%	
Above 30,000,000 USD	33%	

Actual Cost Example:		
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Registration capital converted to RMB for calculation:	- Below 10 million RMB x .08% - 10 to 100 million RMB x .04% after the first 10 million - Over 100 million RMB x .04% (No charge on first part.)	
Total Investment 10,000,000 USD	Registered Capital 5,000,000 USD (Based on the above calculations)	Registration Fee: 20,600 RMB
Name Approval:		No cost
Name Registration:		150 RMB
Application for Business License:		20,600 RMB
Registration and receipt of company codes:		225 RMB
Seal Engraving & Registration: (Chops)	Minimum is 4 chops (120 RMB per/chop)	480 RMB
Registration with Financial Bureau and Foreign Exchange Bureaus:	No charge just registration	
Registration with Tax Bureau's: (National & City)	50 RMB for each bureau	100 RMB
Setting up company bank accounts:	Purchase of company checks (Transfer and Cash checks)	50 RMB per set of 50
Registration with Customs:	Standard fee plus you will need a computer equipped with a modem to electronically submit data	165 RMB
Total:		21,820 RMB

Documents Required by Investor:

You will be required to prepare the following documents prior to the registration of a company. The zone administration you register in will support in the registration with all the necessary bureaus and ensure your documents are correct prior to submitting. All documentation must be in Chinese. Most is not required to be in English but should be for your own records.

Below are the documents you will be required to provide and the rest will be done here. It is suggested to consult with Bili or another Chinese firm to select appropriate translations, etc. Bili has completed the registration of two companies and can provide you templates for most of the documents. *Note: All documents must be original copies.*

Investor Responsibility:

1. **Chinese Company Name:** All company names must begin with 'Qingdao' (unless you want to go through a lengthy process registering through Beijing), end with 'Co., Ltd.', and include a description of the industry or the product you're involved with. (*Example: Qingdao Plastic Furniture Co., Ltd.*)
2. **Application:** This is a simple document written by the investor to apply to set up a company. It should be in the standard format both in English and Chinese. (Template can be provided by Bili)
3. **Feasibility Study:** The report Bili provides the investor can be easily converted into a feasibility study. The government does not require a detailed business plan but does want to see that you have evaluated all costs and can make a profitable business. The feasibility study should include some financial calculations to demonstrate profitability.
4. **Constitution:** A special formatted constitution is required that can be duplicated very easily. Bili can provide a sample that can be easily converted.
5. **List of the Board of Directors:** The Investor will need to provide copies of resumes in both English and Chinese along with clear copies of their passports.
6. **Appointment letter for the General Manager and or Board of Directors / Executive President:** This is a simple letter of one paragraph to appoint the leaders of the corporation.
7. **Letter from your bank stating your accounts are in good standing.**

8. **Environmental Information:** See below for environmental information required for approval.
Environmental Certificate: Approval must be obtained from the Environment Bureau of Qingdao.

Required Documents:

The investor will need to go to the Qingdao Environmental Protection Bureau and get an application form. Depending on the answers in the form (mainly about the investment amount and a production process flowchart), they will decide which kind of report will need to be submitted. There are three kinds of documents, though most companies only require one. Depending on the application, it can take from 7 to 60 days to finish the report. Then, the Environmental Bureau will give its evaluation, which will take 15 to 60 days.

Charges: The Environmental Bureau will not charge any money for the evaluation, but the reporting organization will charge. The fees range from thousands to tens of thousands RMB depending on the complexity of the report.

Taxation: National Income tax in China is regulated by Beijing. (see *China Foreign Tax Guide* by Law Press, ISBN#7-5036-3190-2) In 2007, Beijing implemented equal national taxation for all companies whether foreign or domestic invested. All must pay a flat tax of 25%.

VAT: For most products, the rate is 17%. A manufacturing WOFE or trading company can apply for the VAT refund after it has qualified as a "General VAT Tax Payer" and begin to collect VAT return from the second year. The refund amount can be transferred to the next year for crediting the input taxes if any. (The latest word from the officials is that you will not have to wait and may be able to apply and acquire the certificate in the same process of company registration, therefore being able to apply for VAT tax return right away.)

Qualification as a "General Tax Payer": You must show sales in excess of \$500,000 USD with more than 50% export in the first year. Then the WOFE can apply for VAT back the next month after qualifying. The rate of the refund varies from product to product.

Source:

- 《中华人民共和国增值税暂行条例》
- 《中华人民共和国增值税暂行条例实施细则》
- 《国家税务总局关于出口货物退（免）税若干问题的通知》

Local Tax: Below is a list of city or local taxes that is paid by an income-producing company.

1. **Stamp tax:** Different contracts will be charged different rates. As for InterWrap's project, the sale contract was mostly used and formed the main cost of this tax. The rate for this kind of contract is 0.03% of the total sale amount.

2. **Urban real estate tax:** The land is tax exempt, only the building tax is charged. Once the building is completed, the first three years are tax exempt. After that, it will be charged 12% of the lease amount or 1.2% of the value of the building.

3. **The tax for river maintenance** is 0.1% of the total sales amount.

4. **Individual income tax:** The total amount of the salary, bonuses, etc. will be charged as follows after a basic deduction of 1600 RMB for Chinese and 4000 RMB for foreign employees. (No tax for Chinese below 1600 RMB and Foreigners below 4000 RMB.)

Deductions

500RMB or less	5%	0
500-2,000RMB	10%	25
2,000-5,000RMB	15%	125
5,000-20,000RMB	20%	375
20,000-40,000RMB	25%	1375
40,000-60,000RMB	30%	3375

60,000-80,000RMB	35%	6375
80,000-100,000RMB	40%	10375
over 100,000RMB	45%	

5. **Local income tax:** The rate is 3%. This can be negotiated with the right approach and strategy. Bili helped InterWrap defer this tax as part of the investment strategy in the Jiaozhou district.

6. **Vehicle and vessel usage license plate tax:** China used to charge a road tax for passenger vehicles, 15 to 80 RMB per vehicle per quarter, and Cargo vehicles, 4 to 15 RMB per net-ton per quarter. In Shandong, it is now included in the fuel cost, though other provinces may do differently.

Understanding the investment climate:

This document serves as a general understanding of the investment climate for the Qingdao area. As you can see, there are many details related to your investment in China and a knowledgeable and experienced person can help you avoid many of the pitfalls and get you the facts that help you make solid business decisions.

Daniel is a registered investment consultant for the Qingdao Economic and Technical Development Zone (QETDZ) and The Foreign Economic Advisor to the Government of Jiaozhou.

Bili can be instrumental in negotiating special taxation policies, preferential land deals, and provide detailed investment reports with all the necessary information needed for a wise investment strategy. If you require a company to help you understand the investment climate in this area, report the options available and make recommendations, then "[Contact Us](#)".

Sincerely,

Daniel A. Janssen

General Manager
Bili International

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