



# Succeed and Lead in China



**BENCHAM**  
BENELUX CHAMBER  
OF COMMERCE  
IN CHINA

**Second Edition**



# Small world, here I come

Explorers used to cross oceans to meet new civilisations. Today we contact each other from the Great Wall of China to the shores of the Baltic Sea. Are you tapping into the potential of your local markets? Our global network of professionals can help break down borders anytime.

To find out how we can help you develop lasting connections, go to [ingcb.com](https://www.ingcb.com).

[ World, here I come ]



# SUCCEED AND LEAD IN CHINA

Second edition

---

Designed by Jessica Huang, Belen Rodriguez, Asia Briefing Ltd.

Photos: Studio BZ

Content editors: Editing committee

Publication Manager: Patrick Colligan

Printed on 4th April 2016

Copyright © Benelux Chamber of Commerce in China

---

The first edition of this book was published in 2012  
by Benelux Chamber of Commerce, Shanghai Chapter (BenCham Shanghai) in China  
under the title "BenCham Starter Kit China".

***Succeed and Lead in China** is edited, published and copyrighted, © 2016 for and by the **Benelux Chamber of Commerce, Shanghai Chapter (BenCham Shanghai)**. All rights reserved. No part of this publication may be reproduced in any form or by any electronic or mechanical means, including information storage and retrieval systems, nor can this publication or parts thereof be mounted on any networking server, without previous explicit and written permission from BenCham Shanghai. Although our editors, researchers and other contributors have tried to make the information contained as accurate and as up-to-date as possible, we accept no responsibility and disclaim all liabilities for any loss, financial or other, or any inconvenience sustained by anyone using the information contained in this publication. The information contained herein, including any expression of opinion, analysis, charting of tables, statistics, has been obtained from or is based upon sources believed to be reliable but is not guaranteed as to accuracy or completeness.*

Order your copy of **Succeed and Lead in China** by sending an email to [shanghai@bencham.org](mailto:shanghai@bencham.org)



**BENLUX**  
BENELUX CHAMBER  
OF COMMERCE  
IN CHINA

#### Benelux Chamber of Commerce in China, Shanghai Chapter:

Room 919, 638 Hengfeng Road,  
Zhabei District, Shanghai 200070, China  
中国上海市闸北区恒丰路638号919室 (上海火车站)  
邮政编码: 200070  
Tel: +86 21 3220 0573  
Email/电子邮件: [shanghai@bencham.org](mailto:shanghai@bencham.org)



#### Benelux Chamber of Commerce in China, Beijing Chapter:

1601 Zhongyu Plaza, A6 Gongtibe Road, Chaoyang  
District, Beijing 100027, China  
北京市朝阳区工体北路甲6号中宇大厦1601  
邮政编码: 100027  
Tel/电话: +86 10 8523 6101/05  
Fax/传真: +86 10 8523 6305  
Email/电子邮件: [beijing@bencham.org](mailto:beijing@bencham.org)

#### Benelux Chamber of Commerce in China, Guangzhou Chapter:

C/O The Consulate General of the Kingdom of the  
Netherlands, 34/F Teem Tower, No. 208 Tianhe Road,  
Guangzhou 510620, China  
中国广州市天河路208号粤海天河城大厦34楼  
荷兰驻广州总领馆  
邮政编码: 510620  
Tel/电话: +86 155 2118 2708  
Email/电子邮件: [prd@bencham.org](mailto:prd@bencham.org)



Worldwide  
experience,  
World-class  
expertise.

Vistra's teams of qualified professionals provide tailored trust, fiduciary, fund and corporate services on a global scale. We work in close partnership with our clients to maximise opportunities across all industries.

Vistra China is present in 4 major cities, i.e. Shanghai, Beijing, Guangzhou and Shenzhen. For entrepreneurs or investors looking to enter or grow their business in China, we can facilitate the formation and maintenance of corporate entities in China. We provide a comprehensive range of corporate services to support foreign companies to also 'succeed and lead' in one of the world's largest and fastest growing economies.

Our services include:

- China Market Entry and Structuring Advisory;
- Corporate Services and Company Formation (i.e. WFOE, RO, JV)
- Tax Compliance & Accounting Services;
- HR Administration, Payroll & Outsourcing Services (including Immigration / Visa Services);
- Company Secretarial Services.

For further information, please contact:

**Rosario Di Maggio**  
rosario.di.maggio@vistra.com  
Tel +86 21 6090 0598 -6638

**Martine Roelfzema-Uitermark**  
martine.uitemark@vistra.com  
Tel +86 21 6090 0598 -6630

[www.vistra.com](http://www.vistra.com)





# CONTENTS

Foreword

Introducing BenCham

## 1. General Overview of China 11

- 1.1 CHINA AT A GLANCE 12
- 1.2 BRIEF ECONOMIC OVERVIEW 15

## 2. Business Culture in China 19

- 2.1 THE BACKGROUND OF CHINESE BUSINESS CULTURE 20
- 2.2 MAJOR ELEMENTS IN CHINESE BUSINESS CULTURE 23
- 2.3 ADVICE ON BUSINESS PRACTICES 27
- 2.4 CONCLUSION 32

## 3. Entering and Launching in the Market 35

- 3.1 KNOWING THE MARKET 36
- 3.2 THE NEED FOR A BUSINESS PLAN 37
- 3.3 THE FOUR GENERATIONS (PATTERNS IN DOING BUSINESS AND CONSUMING) 42
- 3.4 MARKETING STRATEGY 45
- 3.5 ONLINE MARKETING IN CHINA 48
- 3.6 BUILDING A BRAND 51
- 3.7 GOVERNMENT RELATIONS 53

## 4. Creating a Legal Entity 57

- 4.1 OPEN AND CLOSED INDUSTRIES FOR FOREIGN INVESTORS 58
- 4.2 CHOOSING A CORPORATE ENTITY 60
- 4.3 REGISTRATION AND INCORPORATION OF A CORPORATE ENTITY 67
- 4.4 COMMON MISTAKES INVESTORS MAKE WHEN FORMING A WFOE 76
- 4.5 ENTERING CHINA THROUGH AN ACQUISITION 78
- 4.6 DUE DILIGENCE FOR AN ACQUISITION 81
- 4.7 PROS AND CONS OF SETTING UP A COMPANY IN HONG KONG 85
- 4.8 RENTING AN OFFICE 88

## 5. The Chinese Legal Environment 93

5.1 CORPORATE GOVERNANCE IN CHINESE COMPANIES	94
5.2 CHOP MANAGEMENT	98
5.3 NEGOTIATING AND CONCLUDING CONTRACTS	101
5.4 ENFORCEMENT AND SETTLEMENT OF DISPUTES	102
5.5 INTELLECTUAL PROPERTY IN CHINA	104

## 6. Financing a Company 107

6.1 INVESTMENT / FINANCING A COMPANY	108
6.2 BANKING PROCEDURES FOR COMPANY FINANCE	111

## 7. Accounting and Fiscal Policies 119

7.1 FORMATION OF THE CURRENT ACCOUNTING SYSTEM	120
7.2 ACCOUNTING AND AUDITS OF FINANCIAL STATEMENTS FOR FOREIGN COMPANIES	123
7.3 MAIN TAXES IN CHINA	127
7.4 INVOICE SYSTEM	131
7.5 THE HONG KONG ROUTE	133
7.6 TRANSFER PRICING	135
7.7 INDIVIDUAL INCOME TAX LIABILITIES FOR EXPATRIATES IN CHINA	138

## 8. Human Resources 143

8.1 INTRODUCTION TO HUMAN RESOURCES IN CHINA	144
8.2 INTRODUCTION TO CHINESE LABOR LEGISLATION	147
8.3 CLARIFICATION FOR EMPLOYERS AND EMPLOYEES: THE EMPLOYEE HANDBOOK	152
8.4 SALARIES AND BENEFITS	155
8.5 HOW TO RETAIN STAFF	157

## 9. Sourcing 165

9.1 SOURCING FROM CHINA	166
9.2 QUALITY ASSURANCE	174

## 10. International Trading System 179

10.1 IMPORT AND EXPORT PROCEDURES	180
10.2 PAYMENT CONDITIONS IN INTERNATIONAL TRADE	190
10.3 INTRODUCTION TO LOGISTICS IN CHINA	192
10.4 SELECTION OF A LOGISTICS SUPPLIER	196

## 11. Corporate Social Responsibility 199

11.1 WHAT IS CSR?	200
11.2 THE HOTTEST CSR TOPICS IN CHINA	203
11.3 WHERE CAN I START?	207
11.4 SOURCES TO CONSULT	208

## 12. E-commerce Market in China 211

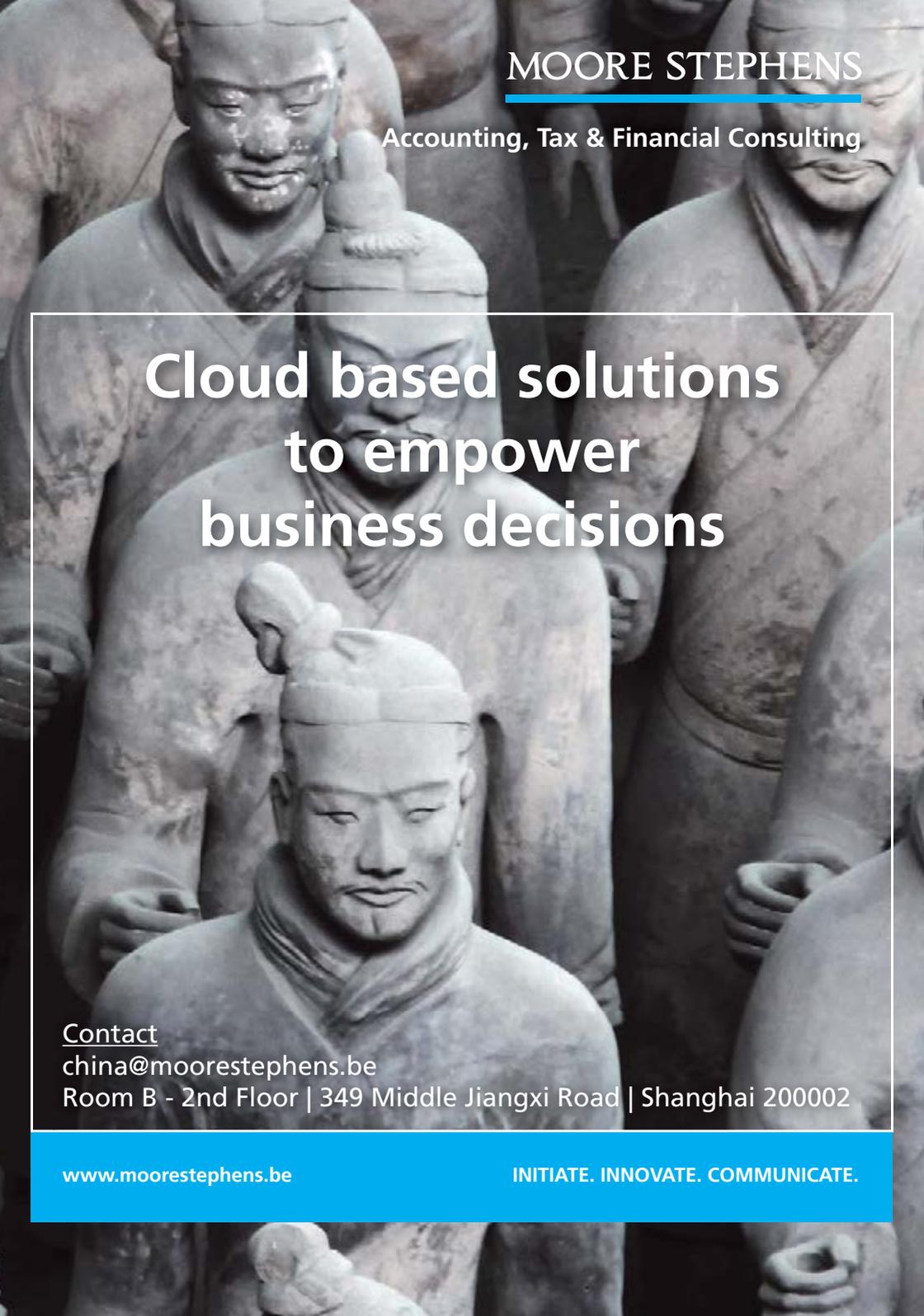
12.1 CHINA'S E-COMMERCE GROWTH	212
12.2 TRENDS IN THE ONLINE CHINESE MARKET	214
12.3 CHINA'S E-COMMERCE LANDSCAPE	217
12.4 WHAT DO YOU NEED TO BE ABLE TO SELL ONLINE IN CHINA?	219

## 13. Abbreviations 225

## 14. Steering / Editing Committee 231

## 15. Contributors 235

## 16. Benelux Contacts in China 247

The background of the entire page is a grayscale image of several terracotta warrior statues from the Terracotta Army. The statues are arranged in rows, with some in the foreground and others in the background, creating a sense of depth. The lighting is dramatic, highlighting the textures and features of the statues.

**MOORE STEPHENS**

Accounting, Tax & Financial Consulting

# Cloud based solutions to empower business decisions

Contact

[china@moorestephens.be](mailto:china@moorestephens.be)

Room B - 2nd Floor | 349 Middle Jiangxi Road | Shanghai 200002

[www.moorestephens.be](http://www.moorestephens.be)

INITIATE. INNOVATE. COMMUNICATE.

China, with its long history, expansive geography and large population, is fascinating to some while intimidating to others. For business people, China represents both opportunity and risk. Westerners have their own ideas about the country; stereotypes and obsolete concepts abound. Yet most people are not aware of the vast differences within the mainland's borders. China's many facets make it a complex place, one difficult to comprehend. Huge differences between generations and various groups suggest that perhaps there are several Chinas, from a very modern one represented in glittering Shanghai to a China with provincial lifestyles which have not changed much in one hundred years.

Throughout its history, China and its people have always been hard to figure out for Westerners. It takes a lifetime to learn about what motivates and drives this country and its people. Here, the right question is not WHY things are as they are, but much more HOW to operate in China. Knowing the basics of how to do business at the outset is critical to achieving initial success and laying the groundwork to put oneself in a strong position for growth. To lead and succeed in China, and further develop successful businesses sustainably, this book will be your guide.

Succeed and Lead in China is written by BenCham members for fellow business people. It consolidates knowledge from many experienced practitioners and presents it to those who are new to China or want to know more about China. Reading will help individuals and enterprises alike operate and achieve success swiftly, while avoiding many of the common pitfalls associated with doing business in China. Like the former Starterkit published in 2012, this new Succeed and Lead in China guide collectively represents hundreds of years of Chinese business experience. Very few expert guides can beat this. With this tool, the reader will access invaluable knowledge to "ride the tiger" and focus on China's business opportunities while circumventing the all too many roadblocks and potholes along the business landscape. Even those who consider themselves somewhat of a "China hand" will still find many useful tips inside this book's pages.

As Consulates of the three Benelux countries of Belgium, the Netherlands and Luxembourg, we are extremely pleased to see that Sino-Benelux business relations have been strengthened by the success of so many Benelux entrepreneurs in the Middle Kingdom.

**Combining our knowledge of the long history of Sino-Benelux business relations with the Succeed and Lead in China guide serves as an excellent tool to introduce entrepreneurs to opportunities in the Chinese market.**

This BenCham guide is designed to support members of the Benelux business community in China in being successful, as doing business in China is more complex than often expected. It is thus with great pride that we welcome and would like to introduce the BenCham Succeed and Lead in China guide, as it fills a gap in the practical information available to the Benelux business community in a highly effective way. Of course, it is not just a book, but also a warm welcome from both BenCham and ourselves to new members of our community. Kindly feel free to visit us in Shanghai, to discuss your plans and to ask for further information.

With our most sincere regards,

**Cathy Buggenhout**

Consul General of the  
Kingdom of Belgium



**Anneke Adema**

Consul General of the  
Kingdom of the Netherlands



**Luc Decker**

Consul General of the  
Grand Duchy of Luxembourg



## Introducing BenCham

Guanxi is the system of social networks and influential relationships that facilitate business and other dealings in China. Guanxi is a vital part of your success in China. One of the best ways to build and maintain guanxi is to be a member of a business community. Benelux Chamber of Commerce (BenCham) members have been in China and Asia for decades. Members can tap into this wealth of wisdom and relations, allowing a faster path to new opportunities. China is the largest market on earth, but success comes only through understanding the unique challenges and prospects in this part of the world. As a BenCham member, you will meet professionals who have the experience and expertise you're looking for.

BenCham was created in 2001 and has three chapters in Shanghai, Beijing, Guangzhou, who enjoy continuous support of Benelux diplomatic representatives in all three cities to help organizations and individuals become business leaders in China. Successfully navigating economic, financial and government regulations, as well as cultural differences with customers, employees and colleagues can often make doing business a challenging prospect.

**The Benelux Chamber of Commerce (BenCham) is a business community that creates opportunities to maximize benefits for organizations and professionals to succeed and lead in China.**

## What can BenCham do for you?



### Connect

BenCham connects people and organizations with one another, and with new opportunities. Learn from its members, and tap into their professional network. BenCham puts you on the fast track to success.



### Community

BenCham is a strong, tight-knit community of professionals who share a collective vision of prosperity and growth. Our members serve as business partners within your industry and as peers in your field of expertise.



### Content

To ensure that members stay current on trends and changes, BenCham offers activities and events through dedicated platforms. BenCham connects professionals who will help each other to succeed.



## Connect

- **Matchmaking with Benelux companies and Chinese relations**

BenCham facilitates matchmaking between professionals who are in similar industries or who are facing comparable challenges. We also actively focus on cooperation opportunities, connecting our members to potential business partners.

- **Access to our membership database**

In China, relationships and networks—guanxi—can make or break your business. Often, it's not what you know, but who you know. BenCham offers you immediate access to our members nationwide.

- **BenCham's Meet & Greet**

Relationships are key. BenCham links and refers members to our existing members, to meet peers and professionals in a productive and social environment. These relationships last years, if not decades. Members have become the experts of today, and can inspire the new members of the BenCham community.



## Community

- **Annual Gala Ball**

At the annual Gala Ball, BenCham brings the Benelux and Chinese business community together. This prestigious gala is the perfect way to meet the people from the entire community and have a memorable evening.

- **Best of BenCham**

The Best of BenCham Award ceremony acknowledges companies achieving outstanding results in China. The unique ceremony awards companies in different categories, and to maximize exposure for our members, we invite Chinese and Western media to the event.

- **Members in the spotlight**

Spread your company news through our website, weekly WeChat and nationwide monthly newsletter. Continuously provide relevant and up-to-date information on our website. As a member, your company is guaranteed more visibility and exposure in the Benelux business community.



## Content

### **Join our Platforms and Shared Learning Circles**

Our content-driven events are fuelled by recent business cases and designed to share knowledge and best practices in focused business areas. We actively seek participation of our members in platforms that are relevant to you, ensuring relevant content and support in key areas. When we work together, we achieve more.

A glance of the Platforms, Shared Learning Circles and Forum organized by BenCham and with BenCham partners:

#### Platforms

- Finance platform
- HR platform
- Innovation platform
- CSR platform
- Legal platform
- SME platform
  - » Shared Learning Circles



AQUALUNA 99P  
藍保各

2.4M  
2.2M  
2.0M  
1.8M  
1.6M  
1.4M  
1.2M



## Succeed and Lead in China

Written exclusively by our members, "Succeed and Lead in China" is your expert guide to the vast experience, insights and knowledge of BenCham's network. The publication is the updated version of the Starter Kit, which was first published in 2012. All contributors are mentioned in chapter 15, and readers are encouraged to contact them on their subject.

"Succeed and Lead in China" is perfect for businesses and professionals who: have plans to expand their operations in China; have new and wider responsibilities within their Chinese operations; or are located outside of China and have new responsibilities for the Chinese business.

This comprehensive volume can help professional expats explain to their home office the complicated nature of doing business in China. When phone calls and memos aren't sufficient, this guide provides authoritative descriptions to home-office executives about the unique challenges and opportunities inside the Middle Kingdom.

It will take an entire library to provide every nuance of successfully doing business in China. However, "Succeed and Lead in China" concisely expresses the most essential information.

"Succeed and Lead in China" is distributed to our members in China. All new members will receive the guide as a welcome gift. This compact, yet extensive volume also makes a great relation gift. To order additional copies, please contact: [shanghai@bencham.org](mailto:shanghai@bencham.org)

**We are looking forward to support you to succeed and lead in China!**

**Wilco Hendriks**

Chairman BenCham Shanghai



**Tom Schutyser**

President BenCham Shanghai



**Mariët Elshof**

General Manager BenCham  
Shanghai





**BENCHAM**  
BENELUX CHAMBER  
OF COMMERCE  
IN CHINA

## HOW TO BECOME A MEMBER

**To learn more about the benefits and events of BenCham or to register as a new member, please visit our website. We offer a variety of memberships, both for big and small enterprises, either in China or in the Benelux.**

**We warmly invite you to our office:**

BenCham Shanghai Office

Room 919, 638 Hengfeng Road, Zhabei District, Shanghai 200070

中国上海市闸北区恒丰路638号919室

邮政编码：200070

Telephone: +86 (0)21 3220 0573

E-mail: [shanghai@bencham.org](mailto:shanghai@bencham.org)



**Mariët Elshof**  
General Manager



**Stefanie Candela**  
Deputy General Manager

Thanks to our yearly sponsors

GOLD SPONSORS

**PHILIPS**

**webpower**  
marketing gets personal

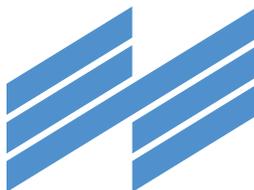
SILVER SPONSORS

**ING**



**ABN·AMRO**

*Rabobank*



**Messe München**



# CHAPTER 1

## GENERAL OVERVIEW OF CHINA



This chapter compares China to Europe economically and geographically.

- China at a Glance
- Brief Economic Overview

## 1.1 China at a Glance

China is more than twice the size of Europe, has over two and a half times its population and is about 56 percent of EU's GDP. The purchasing income of the average Chinese is about 36 percent of that of the average European, but the average Chinese can expect a rise in net income of more than six percent per annum in the near future.

These numbers help to understand why selling to customers in China takes a considerable amount of time, and why Chinese buyers often spend a considerable time haggling over what may seem like pennies to others. China's relatively low rate of arable land (23 percent) and many years of civil war – which only ended in 1949 – make it very obvious for many Chinese that hard work must be regarded highly. Most middle aged Chinese know what it feels like to live without enough food. Many generations grow up hearing stories of hardships, and thus are fully aware of the need to distance themselves from the tough life their elders experienced in the past.

From the 1970s until now, China has risen from an underdeveloped country to become the world's second largest economy. Since the end of the 70s, the Middle Kingdom's GDP has increased tenfold. Although the growth rate for 2014 slightly decreased for the first time since 1990, it is still much higher than Europe's growth rate. The country's upcoming middle and upper class are definitely an interesting market for entrepreneurs.

## COMPARISON OF THE SIZE OF EU AND CHINA



China has more high speed railways than any other country. It also has more highways, which are expanding rapidly. In the past, many villages (which in China can inhabit thousands of people) were isolated, utterly poor and full of hungry and dejected residents wandering through the streets. But once a road or a railway line is opened nearby, changes can become visible within weeks.

Every five years a government plan sets up a national development plan. The latest was the twelfth one and adopted in March 2011. It emphasized continued economic reforms and the need to increase domestic consumption in order to make the economy less dependent on fixed investments, exports and heavy industry. So far, the goals have only been partly achieved but President Xi Jinping's government has shown willingness to undertake reforms that focus on China's long-term economic health, in which the market will have a more decisive role in allocating resources.

The 13th Five Year plan will be announced in March 2016. The expected highlights are: more sustainable GDP growth, increased urbanisation - as urban people earn and contribute more to economic growth - the ending of the one-child policy, continuation of anti-corruption policies, encouraged innovation, entrepreneurship and integration between the internet of things and offline industries, harnessing of big data, fighting pollution, modernization of agriculture, improved health care and education provision for the poor.

Due to the rapid income growth and lack of skilled labor China is no longer the best location for low value products, which require low-cost labor. Nonetheless, the scale of China's infrastructure, the size of its growing market and the presence of extensive industrial clusters in specialised areas (electronics, machinery, fashion clothing, etc.) enable China to be the second largest destination country in the world for foreign investment.

Indeed, there is no other country in the world where a factory of 100,000 operators can be set up and running within six months.

### PROVINCES OF CHINA



Source: Shutterstock

## 1.2 Brief Economic Overview

	European Union	China
<b>Capital city</b>	Brussels	Beijing
<b>Currency</b>	Euro (€)	Renminbi (¥)
<b>Total area</b>	4,324,782 km <sup>2</sup>	9,640,821 km <sup>2</sup>
<b>Population</b>	511 million	1.35 billion
<b>Density</b>	116/km <sup>2</sup>	145/km <sup>2</sup>
<b>GDP per capita</b>	US\$ 35,849	US\$ 12,893.43
<b>GDP (nominal)</b>	US\$ 18,398.67 billion	US\$ 10,355.35 billion
<b>Growth 2014/2013</b>	1.3%	7.4%
<b>GDP global rank</b>	1st	3rd
<b>Labor force</b>	229 million	798 million
<b>Unemployment</b>	10.5%	4.1%
<b>Export of goods</b>	US\$ 2,173 trillion	US\$ 2,049 trillion
<b>Import of goods</b>	US\$ 2,312 trillion	US\$ 1,818 trillion

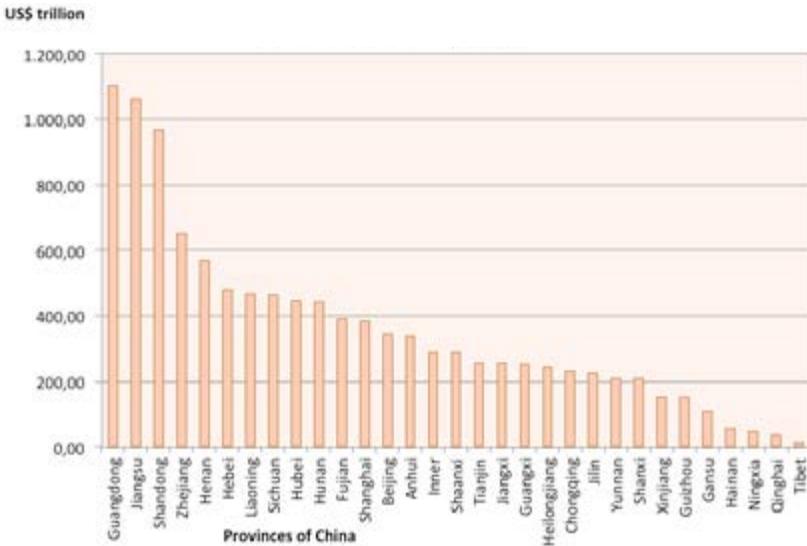
In 2014 China exceeded the USA in purchasing power GDP and is expected to surpass the USA in 2018 on nominal GDP.

High unemployment is common among recent university graduates, as more than seven million students graduate every year. According to official reports, 15 percent of them do not find a job within six months of graduation, but the exact number may be closer to 30 percent. Those without an engineering or accounting qualification have an especially hard time finding a job. As China plans to transform itself from a manufacturing to an innovation economy, the country needs more high quality graduates from universities. However, its transition has not been implemented effectively enough to guarantee all graduates positions up to their education levels.

At the same time, almost thirty million students study at the 13,600 vocational schools and colleges across China, but this number is still too low to satisfy the need for skilled laborers in the market. The government plans to increase this number to almost 40 million by 2020. The current shortage explains why foreign companies will often employ overqualified staff for a job, and why the same companies will then suffer from a high turnover rate with their employees, unless good retention schemes are in place. Nevertheless, China still has a huge pool of engineers, which powers Chinese industry and makes the swift continuous growth possible.

The income levels of the largest developed cities of Shanghai, Beijing and Guangzhou and the smaller provincial capitals are seen below.

The highest to the lowest GDPs of the provinces of China in 2015



Source: IMF – WEO April 2015

# The One Thing That Truly Matters in China



Your success in China depends on the relationships you are able to form with your Chinese partners & colleagues.

Learning Mandarin could be one of the wisest investments you and your employees make in the Chinese market.

## Take Mandarin Classes

Visit [www.hutong-school.com/corporate-training](http://www.hutong-school.com/corporate-training)

Beijing - Shanghai [info@hutongschool.com](mailto:info@hutongschool.com)



