ManageChina

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Which corporate structure suits you?

As a foreign business operating in China, you can choose from three different corporate structures - Representative Office, Joint Venture or Wholly Foreign Owned Enterprise.

Representative Office (RO) This is one of the more common forms of structure used by foreign companies when they make their first foray into China. It is quite limited in its scope as it is essentially just a subsidiary of a foreign firm and as such all rights and responsibilities are still attached to the parent company.Things to know: You cannot actually invoice for work under the representative office nor can you conduct any trading activity. It is as its name implies – just a representative of the parent company.It is very cheap to set up. The rules vary from province to province but they total cost runs into the few thousands of dollars (US) or if done properly, can be as little as a few hundred dollars.Taxes are levied on the expenses of the business. In a very clever way to ensure that any activity is taxed and profits are not just transferred out of the country, the Chinese government requires you to pay taxes on the amount of expenditure you incur. Again, depending on the province, this can be as high as 10%. Taxes need to be filed monthly and RO's are audited annually.Employing staff needs to be done through a registered government agencyLocations need to be in buildings that are approved by the local government and are usually 'Level A' buildings (A-B-C)Registration is very easy to obtain from government authorities to set up an RO.

Joint Ventures (JV's) Joint Ventures are exactly as their name implies. These were the traditional mechanisms set up to allow foreign companies to be involved in Chinese commerce but are gradually losing popularity in favour of the Wholly Foreign Owned Enterprise (WFOE). Historically the regulations placed most of the power in the hands of the Chinese partner but these days this is less the case and in many industries, the rules governing JV's are far more equitable. There are still some industries (education, for example) that do place restrictions on foreign ownership, but the number and incidences are becoming fewer and fewer. The principal reason these days to form a JV is less about regulation and more about gaining access to local knowledge and local markets.

Wholly Foreign Owned Enterprises (WFOE's) Wholly Foreign Owned Enterprises are becoming by far the most popular form of legal structure in China. This gives the right to foreign companies to form their own corporate structure in China without the need for a local partner.The essential advantage to this approach is that it creates a 100% owned foreign enterprise.While this is the principle advantage, it is important to remember that there are a few disadvantages.More costly to set up and administer than either a Representative Office or a Joint VenturePotentially little or no local knowledge attachedTime frames can be extensive – depending on the province, up to 6 months in some cases.Ultimately many businesses go through the cycle of choosing a representative office first, then choosing either a JV or a WFOE. Many who go down the JV path eventually find themselves in some form of WFOE or hybrid of the two.