German Investors in China

Latest issues that German companies operating in China need to know.
China is still a rapidly developing country with enormous market potential. Many established companies in China have their eye on expansion, others are preparing for their first steps into China and still others are considering moving on to other countries in East Asia. No matter whether you are an old China hand or a newcomer, the ever changing business environment is challenging to all. A change in the reform agenda of central government, or the foundation of a new special economic zone, may offer new business opportunities, whilst a fresh domestic competitor or new legislation enacted at short notice may be a serious threat to business continuity. In a developing country, opportunities and challenges are innumerable and volatile.

In these challenging circumstances it is important to have professional advisors you can trust. In this brochure we give an insight into some of the “hot topics” for German investors in China today. This shows some of the implications of investing in China and can enable you to take advantage of the opportunities that arise.

If you would like more information on the subjects covered, or to discuss other subjects that matter to your business, please contact Jens-Peter Otto, PwC’s Chinese/German Business Group Leader in Germany, or Thomas Heck, PwC’s German Business Group Leader in China.

“Differences between Chinese and German legislation and commercial practice are often significant. Keeping up-to-date with what is happening is interesting, but also essential.”

Jens-Peter Otto and Thomas Heck, Chinese/German Business Group Leaders
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**Investing in China**

With a rapidly emerging middle-class, relatively competitive – though very quickly increasing – wage rates, and state spending on infrastructure, China offers a range of opportunities to German companies seeking growth. However, there are several points that have to be considered when planning your investment in China.

**Background**
In 2014 Germany was among the largest sources of foreign direct investment (FDI) for China outside of Asia, second only to the US. When investing in China, it is important to understand the market as well as the appropriate form of investment for one's business strategy. Whether companies are planning to embark on greenfield investments, expand existing production plants or conduct mergers and acquisitions (M&As); they should monitor changes in the local political landscape. The Chinese government announced in its latest Five Year plan to foster investments in modern agriculture, high-tech, and environment protection industries, as well as infrastructure projects, such as high-speed railways and highway networks. These are all areas where the German economy excels and, hence, can participate from China’s expected growth.

**Main drivers for new investment**

- Key customer in China: 46%
- Regional diversification: 21%
- Cost reduction: 13%
- Qualified staff: 4%
- Main supplier in China: 2%

Source: German Chamber of Commerce 2013.

**For more than 60% of German companies in China one of the top 3 priority markets is China. In terms of net profit China is also among the top 3 markets for 50% of German companies.**
Investing in China

Changing Regulatory Environment for Investments in China
Investing in China poses many potential pitfalls: choosing the right entry strategy, searching for suitable locations, conducting due diligence (e.g. finding potential joint venture partners) and learning about local customs, to name just a few. Only after conducting an M&A transaction, do many companies realize that the harmonization of different management cultures requires more time and resources than expected. Some Sino-German joint ventures resemble a situation of “same bed, different dreams,” where the individual goals of different owners seem to be incompatible.

It is important to stay up-to-date with the complex Chinese tax and legal environments, which are constantly changing. Otherwise foreign companies face unnecessary costs or even complete failure when entering the Chinese market. Not being up-to-date on recent changes in legislation entails the risk of losing your competitive edge over other companies or unknowingly breeching Chinese law.

Another challenge when planning your market entry is posed by China’s size and geographic diversity. Some companies have located themselves in Beijing, only to find a few months later that Shanghai or Guangzhou would have been more suitable locations. Relocation brings about additional costs along with a new local legal environment, requiring further legal advice.

Although the Chinese market holds attractive investment opportunities for your business, its complexity has to be managed. Challenges, such as finding suitable local Chinese partners, sailing the murky waters of Chinese regulations, and choosing the right location should not be underestimated. Our experience shows that it is important to get things right from the beginning.

Turning Your Investment into a Success Story
Our international team is eager to assist you across all stages of the investment process. With our expertise ranging from establishing a company, to generating market entry strategies, strengthening corporate governance and internal controls, advising on M&A transactions and providing audit services, we are looking forward to helping you turn your investment into a success story.

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The Chinese market has become one of the top three markets for most German companies in recent years. Thus it is crucial to stay on top of the competition. Only by keeping competition at bay can your company maintain and increase its share in the expected further economic expansion. However, Chinese companies have emerged in recent years as competitors to be reckoned with.

**Background**

Yili, Xiaomi, CNPC – what do these companies have in common? They are relatively unknown in the Western world but market leaders in their sectors on their Chinese home market. Domestic Chinese companies, whether state owned or private enterprises, have grabbed market shares in the ever expanding Chinese market. No foreign owned competitor was able to grow as fast as they did. More market sectors are being opened up for competition, which on the one hand brings more opportunities for expansion, but on the other will, together with a reform program for state owned enterprises (SOEs) to reduce state involvement, unleash an enormous potential for innovation and efficiency – especially within Chinese SOEs. Domestic enterprises will rapidly become more competitive with their technology and brands, and will eventually also seek a leading market position outside their domestic home base.

Competing with Chinese companies on their home ground is often challenging because they usually know the environment they operate in better. Whether it is about understanding the taste of local customers or mastering the complexities of government regulations or public procurement, Chinese companies are likely to have a competitive edge over multinational corporations or foreign small and medium sized enterprises (SMEs). The local Chinese competition can be divided into two main groups that vary in size and access to government resources: state-owned enterprises (SOEs) and privately-owned enterprises.

**Number of Industrial Enterprises**

![Graph showing number of industrial enterprises from 2000 to 2012, with data for State-owned & State-holding Enterprises, Private Enterprises, and Foreign Funded Enterprises (including Hong Kong, Taiwan & Macau).](image)
Chinese SOEs
Chinese SOEs are geographically decentralized. In some sectors there is considerable overcapacity. Often one SOE dominates a certain field of industry, for example:
• 68% of the mobile communications market is claimed by China Mobile
• China CNR Corporation holds a 46% market share in railway equipment manufacturing.
• China National Petroleum Corporation holds a market share of 62% in the oil and gas drilling industry.
• 65% of the commercial banking sector is divided between only four Chinese banks: Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of China.

Despite ongoing structural reform, Chinese SOEs have considerable advantages from their access to low cost capital for equipment purchases, free land provided by the government, and quite often from their sheer size enabling economies of scale.

Chinese Private Companies
A large number of new private players have recently emerged in China. Well publicised examples are the recent record-breaking initial public offering (IPO) of Alibaba collecting more than 25 billion USD of equity, the vigorously blooming smart phone producer Xiaomi with sales figures reaching more than 60 million smart phones by year end 2014, and Yili Group holding more than 16% of the Chinese dairy product market and growing at a rate of 21% annually.

Many of these companies are not simple copycats of western firms, but show a high degree of product sophistication and adaption to the taste of Chinese customers. This is backed by direct access to the home market as growth engine and source of capital for overseas expansions.
Winning the Away Game

In order to maximize business success in China, German companies should follow three distinct strategies:

1. Consider forming strategic alliances with local players: joint ventures or alliances with domestic companies can offer distinct advantages, including access to land, distribution networks, relationships, and market knowledge. Choosing partners with complementary business goals is vital, but be prepared to offer something in return.

2. Align your strategy to the government’s reforms: understanding the provincial and central government reforms and regulatory changes will help focus resources on opportunities for exceptional growth.

3. Understand the market, and have a clear strategy for China: some industries are very fragmented, highly competitive, or have no discernible market leader, while others may be dominated by a small group of local players. An understanding of the market, your customers, and the competitive landscape (current and forecasted) is important, and bear in mind that China changes – quickly. Basic products of decent quality are often more appropriate for a developing country than their latest technology premium versions.

The Reform Roadmap

Business and economic changes are outlined in the reform plan:

- Lowering market barriers
- Reform of government functions
- SOEs versus the private sector
- Financial reform
- Fiscal and taxation reform
- Urbanisation and rural development

Source: 3rd Plenary Session of the CPC, November 2013.

Our Services

Our international advisory team – with colleagues from Germany and China – can keep you up-to-date on recent government reforms, find joint venture targets and potential business partners, conduct industry analysis, as well as design a tailored strategy for your business success in China. With the support of our strategy & colleagues, PwC is able to provide an integrated business solution for your firm in the light of the Chinese economic environment.

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Riding the Next Big Wave: Expanding Your Business from China into Emerging Markets

Due to rising labour costs and slowing-down of growth, an increasing number of companies with a presence in China are now looking to the ASEAN countries with high hopes. While trade barriers in the region are expected to fall further, potential investors have to be vigilant when entering new territories.

**Looking to Southeast Asia**
The sustained shift in global economic power from developed countries towards the emerging economies has driven companies to focus their investment on growth markets. Even within emerging markets, companies utilize shifts in production factors to optimize their value-chains. Increasing wages in China, for instance, prompted many companies to relocate their manufacturing facilities to South East Asia. Moreover, with their swift economic rise, ASEAN members are becoming increasingly attractive sales markets for western companies.

With a total population of almost 600 million people and an average GDP of €10,000 per capita, the ASEAN region of a total of ten nations holds great potential for business opportunities. Indonesia alone is expected to pass the $1 trillion GDP mark in 2019. As the countries gear up for the establishment of an “ASEAN Economic Community” in 2015, it is expected that the further removal of trade barriers will strengthen the overall competitiveness of the region and attract increasing foreign investment.

**The Complexities of Growth Markets**
Despite the high growth expectations and promise of profitability, the ASEAN region is not without its challenges. Common roadblocks encountered by companies include under-developed infrastructure, weak sales channels, a lack of skilled labour and tough regulatory environments.

Companies face challenges ranging from understanding new target markets and customers, to developing a suitable operating model, in order to establish their presence and achieve profitability targets. In the midst of doing so, these companies also face issues related to establishing effective channel distribution, selecting the right partners, and complying with local regulations. Clearly, a “one-size-fits-all” approach will not suffice.

**Utilizing the Growth Markets Centre as Steppingstone for Your Success**
The Growth Markets Centre (GMC) is a global centre of excellence, dedicated to bringing together PwC’s global expertise to help companies successfully enter and expand in emerging economies. Based in Singapore, the GMC, together with PwC’s on-the-ground expertise, supports MNCs (multinational corporations) and mid-cap companies in their growth voyage into complex new markets such as Myanmar and Indonesia, as well as the more established economies like India. The GMC uses a success-proven methodology – the Growth Markets Framework – to help companies to prioritize their entry and expansion activities.
With our framework, we have guided several companies successfully through the stages of their journey in growth markets. Some of the key examples of how the GMC has helped companies include:

- Market entry assessment and development of a go-to-market strategy;
- Developing key criteria to evaluate and select the suitability of local channel partners;
- Defining KPIs (key performance indicators) and monitoring performance in the new markets.

For more information on how we can tailor a specific strategy for your business to help you succeed in your growth markets journey, contact David Wijeratne or Jan Pasemann of PwC’s Growth Markets Centre.

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The new Double Tax Treaty between Germany and China

The new double tax treaty (DTT) between China and Germany was signed on March 28, 2014 and will offer German companies new opportunities for optimizing their tax structures, simplifying administration and saving costs.

**Background**

During his visit to Germany in March 2014, President Xi Jinping and Chancellor Angela Merkel signed a new tax treaty, which will make the existing tax regulations for potential investors more transparent and easier to compare. The DTT is applicable for Germany and mainland China but not for Hong Kong or Macau. German companies will benefit from a reduction of withholding taxes in mainland China not only through cost savings, but potentially also through simplified FDI (foreign direct investment) schemes which were previously routed through holding companies in Singapore or Hong Kong. Other changes affect the taxing rights on certain capital gains and the qualification of PE (permanent establishments) in China. It is expected that due to the outstanding ratification process the DTT could take effect from January 1, 2016.

**Significant Changes/Hot Topics**

- Reduction of withholding taxes on dividends paid from China to Germany from 10% to 5% if the German parent company directly holds at least 25% in the Chinese subsidiary
- No withholding tax on interest paid from China to Germany in connection with the sale of commercial or scientific equipment on credit
- Reduction of withholding taxes on leasing fees paid from China to Germany from 7% to 6%
- Deemed foreign tax credit of 15% in Germany is abolished
- Sales of shares in China are still subject to a withholding tax of 10% unless the German investor held – directly or indirectly – less than 25% throughout the 12 months prior to the sale
- Time threshold for a building site, construction, assembly or installation project to constitute a PE is extended from 6 to 12 months
- Determination of a service PE has become clearer and more convenient by an altered time threshold from 6 months to 183 days within any 12 month period
- Commitments that transfer pricing adjustments in one country will lead to a corresponding income adjustment in the other
- Stricter rules to qualify as independent agent
- Comprehensive information exchange arrangements

The new DTT between Germany and China will offer attractive opportunities for optimising tax structures.
Thinking Ahead
The new treaty brings a variety of new rules offering attractive opportunities, especially in the fields of shareholding, financing and lending. It should be noted, however, that foreign investors can benefit from beneficial withholding tax or permanent establishment qualification schemes in China only upon application and after meeting all relevant conditions. The opportunities and challenges of the new treaty and the consequences for the business activities in China should be carefully considered, regardless whether the immediate concern is a new subsidiary in China, repatriation of the earnings of an existing subsidiary, the transfer of shares in a Chinese company, or other China related transactions and activities.

Will you be able to benefit from the new Chinese German DTT? The PwC tax experts can advise you on its impact on your business in Germany and China and help you find the most efficient setup for your business needs.

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Compliance in China

The increasing enforcement of local and international anti-corruption policies puts high pressure on foreign firms in China to enhance their compliance management systems. Recent corruption scandals and accusations of price-fixing prove the determination of the Chinese government to scrutinize western firms. This puts their managers in the limelight – and in extreme cases into prison.

Background
The Chinese government under President Xi Jinping is pursuing an aggressive anti-corruption campaign, which – together with the US FCPA and UK Bribery Act – raises the bar for compliance management systems in China. Otherwise companies expose themselves to severe reputational risks and hefty fines, if they are found guilty of corrupt behaviour. Therefore, it is important to understand where your business in China is most vulnerable to these threats.

According to “PwC’s 2014 Global Economic Crime Survey” asset misappropriation, procurement fraud, bribery and corruption were the most common types of fraud in mainland China. While the level of asset misappropriation is in line with the global level, bribery and corruption, and procurement fraud are disproportionately prevalent in China.

The Inside Threat
The survey indicates that almost four out of every five economic crimes reported in mainland China, were perpetrated by someone inside the company. Therefore, the risk of “inside jobs” is relatively high compared to the international average. It is our observation that such internal fraud typically takes advantage of weaknesses in an organization’s internal controls. Many organizations have already investigated and strengthened their internal controls, but there would appear to be much room remaining for improvement.

China regulatory environment

| Regulations tend to be scattered across numerous ordinances, are deliberately vaguely worded to leave them open to interpretation, and are prone to change without notice. |

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In instances where internal fraud had been identified, one third of respondents said that their companies had only reprimanded or transferred the fraudsters. Employers are often mostly concerned with corporate reputations and ridding themselves of a bad apple with minimal fuss and publicity. Such fraudsters might quietly resign without any public record of their illegal activity and, thus move from one position to another. This entails high requirements for a company's HR screening.

Due to individual incentive structures, a company's sales force can potentially be a hotbed for corruption. For instance, when employees give out gifts and monetary presents – so called “hongbaos” – companies have to be extremely careful. The line between Chinese cultural habits of gift giving and corruption can be blurry, but with recent anti-corruption enforcements, companies are well advised to be on the safe side. A first indicator might lie in employees submitting expense reimbursements for meals and recreational events of meetings with Chinese government officials, which could be a sign of disguised cash payments for bribery.

Business practice differences
- Use of cash
  - "Fapiaos"
  - "Guanxi"

- Non-compliant PRC accounting practices
- Tax avoidance
- Misleading financials
- Third party transactions
- Cash/check transactions
- Expanded definition of Government officials
- Payments to officials

Business culture differences
- "Guanxi" – the practice of building a personal network in order to mutually secure favors. ("You scratch my back, and I'll scratch yours.")
- "Face" and perception – a person's social and professional status, the impact of which causes people to not speak out, especially if something is amiss.
- Seniority & hierarchy – Chinese companies often have a rigid hierarchy. Junior staff will interact with their peers, and report to their immediate superiors, but almost never directly interact with senior executives.
- Respect for hierarchy may override internal controls – Staff defer to management, which can override system/ internal controls ("You don’t question the boss").
- Different perception of business ethics – "Everyone does it this way, so it can't be wrong."
Procurement Fraud
Procurement fraud is often associated with supply-chain-dependent businesses, with the likelihood of it occurring increasing as organizations enter into commercial or public tender processes when seeking to acquire goods and services. It involves employees taking kickbacks and other illicit arrangements, and its presence strongly suggests that an organization has weak internal controls, lack of transparency, and limited monitoring of supplier and employee relationships. As with the risk of bribery and corruption, the risk can be heightened by sometimes inconsistent enforcement of regulations and a business environment lacking transparency.

Improving and Supporting Your Compliance Management
Our Forensic Services practice provides confidential, global resources to detect fraud and improve internal control systems. We assist organizations with implementing and/or assessing compliance programmes, as well as supporting companies subject to regulatory review or supervision. Additionally, we offer training and awareness services. By providing innovative, expert advice and analysis, we help clients minimize liability, damages and regulatory sanctions.

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Guanxi, the practice of building a personal network in order to mutually secure favors has a major influence on the management of businesses based in China, including MNC subsidiaries.
HR Constraints in China

China’s HR landscape is characterized by a lack of qualified personnel in 2nd and 3rd tier cities as well as frequent job hopping. How can your company gain a competitive edge in the war for talent?

The China “Talent War”

With an average job tenure of only 15 months in China – compared to 11 years in Germany – companies in China face severe challenges in the area of retention management. About 19% of graduate hires will accept another job offer within the first six months of signing a contract. A PwC-survey found that 66% of mid to senior level managers received at least one competing job offer within an 18-month period. 46% of the same group had moved to a new role with more than a 30% rise in compensation within that period. The plethora of working opportunities for Chinese talent together with the opportunity of receiving large pay rises shows the shortage of qualified personnel in the Chinese job market, resulting in ever fiercer competition among employers. Multinational companies used to be viewed as more attractive employers than their Chinese counterparts due to higher salary offers, faster and more diversified career opportunities and higher prestige. This perception has now changed. Chinese privately owned companies have become the driver of job creation and offer attractive packages.

Rises in manufacturing wages are faster than those in labor productivity

Multinational companies used to be viewed as more attractive employers than their Chinese counterparts due to higher salary offers, faster and more diversified career opportunities and higher prestige. This perception has now changed.
Regional Differences
Chinese employees often migrate to the highly developed cities on China’s west coast, such as Beijing and Shanghai, for reasons of higher salary and prestige, as well as more promising career opportunities. This trend further aggravates the shortage of qualified personnel in 2nd and 3rd tier cities, especially in the area of middle management. Despite the fact that Chinese universities churn out 7 million graduates every year, the annual surveys of the German Chamber of Commerce in China show that finding and retaining qualified staff remains the largest obstacle for German companies on their road to success in China.

As China’s demographic fortunes reverse, labour mobility needs to be increased by reforms in China’s “Hukou” and other welfare systems. Labour costs are expected to rise further.
Winning the Talent War
In order to gain a competitive edge and preventing their employees from job hopping, companies need to be able to offer something their competition cannot. To do this, several strategies have proven successful. Firstly, companies should invest in professional development and training programs for staff at all levels. Strong programs – often involving outside trainers – have a noticeable impact on staff retention and Chinese employees view them as an important benefit.

Chinese workers tend to value career advancement opportunities and benefits over salary considerations. Offering family-focused benefits and perks can help retain workers with aging parents or children. Clear career development and advancement opportunities will help to incentivize workers and improve retention rates.

Lastly, sending high performers from China to headquarters abroad for short periods of time to become “credentialized” has become a popular retention measure for foreign companies. Additionally, when expanding to new locations in China, offer relocation opportunities to employees with local roots in those areas.

Our experts in China can support you with generating tailored HR strategies for your company and advise you on latest trends of the Chinese labour market.

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China’s talent pool in 2nd and 3rd tier cities does not match up with the industry’s need for middle managers.
Frankfurt RMB Clearing Centre

The Chinese central bank, People’s Bank of China (PBoC) and the German Bundesbank announced that Frankfurt became the first Renminbi (RMB) clearing centre within the Eurozone. The creation of a Chinese currency hub in Europe removed trade obstacles and facilitate Renminbi transactions.

Background
Until the gradual internationalization of the Chinese currency beginning in 2009, the RMB was only used within the borders of China. Since then, the currency saw an enormous upswing in its usage and as of 2014 ranks among the world’s ten most widely used currencies. Due to its geographic proximity and cultural similarity, Hong Kong became the mainland’s first off-shore centre for the RMB and now has significant trading volumes. For example, German companies issued corporate “Dim Sum” bonds in Hong Kong. In addition to the central government’s “on-shore” experiments with the newly created free trade zone in Shanghai, the establishment of Frankfurt as first RMB hub within the Eurozone is another step towards internationalizing China’s currency.

Significant Changes
Invoicing commercial transactions with Chinese trade partners or subsidiaries in Renminbi offers significant advantages. Risks emanating from the fluctuation of intermediary currencies, such as the USD, can be avoided and payment transactions become more efficient by reducing complexity as well as decreasing time, hedging and transaction costs.

The Renminbi clearing centre enables European companies to hedge Renminbi currency risks directly with Euro, establish a group-wide central treasury system, and engage in cash-pooling on a global scale. Physical cash-pooling is possible since 2013, as enterprises located in the Shanghai Pilot Free Trade Zone face neither an imposed ceiling on funds raised nor restrictions on where the funds can be used. Being able to conduct Chinese currency transactions within their own legal and national boundaries reduces transaction costs and has the advantage for European companies of being able to do so in their own time zone and language. Moreover, access to the Chinese capital market is becoming easier and this facilitates raising capital in China following the relaxation of restrictions on overseas RMB loans and adjustments to the cross borderer settlement system allowing banks to directly process payments.

Trading RMB can reduce risks and costs for companies.
The increased Renminbi liquidity will increase the availability of Chinese currency derivatives and reduce the cost of such transactions. It will also be possible to use the Chinese currency in other areas, such as letters of credit and in the context of supply-chain-management. An improvement of supply chain-management can be achieved through cross border lending, as this enables companies to match their surplus in China with their RMB requirements offshore (e.g. paying suppliers in their own currency avoiding intermediary currencies).

**Main Challenges**
The main challenge for companies will be to figure out how they can most effectively utilize these new opportunities. Firms which neglect this development might in the long run fall behind their global competitors.

Advising the “RMB-Initiative Group,” PwC’s Corporate Treasury Solutions holds unique expertise in this field and will be involved in shaping its future development. As a competent partner in issues regarding Renminbi and Renminbi clearing, we can assist you in preparing your treasury management for the new challenges ahead.

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A new pilot free trade zone (FTZ) has been launched in Shanghai on October 29, 2013. The FTZ is seen as an experiment of the Chinese Central Government to test how economic reforms of the financial sector and trade regulations might play out. Offering interesting opportunities, the newly established zone already enjoys great popularity among foreign firms.

**Background**

The FTZ was established by merging the four existing free trade zones in the Shanghai area: Waigaoqiao Free Trade Zone, Waigaoqiao Bonded Logistics Park, Yangshan Bonded Port Area, and Pudong Bonded Logistics Centre and, thus, combining their respective advantages.

As of December 2013, the FTZ was home to more than 2000 companies from the banking, leasing, logistics, e-commerce and trading sectors. The Chinese government has been gradually introducing new incentives for companies to locate in this area, for example by allowing foreign companies access to new sectors (e.g. value-added telecom services).

**Opening of the Financial Sector**

The FTZ is a laboratory to test an opening of China’s financial sector as well as a tool to promote the internationalization of the Renminbi (RMB). Banks will gradually be permitted to offer new financial services, for instance cross-border RMB cash-pooling. In the mid to long term, the Chinese government has announced its intention of using the FTZ to spearhead China’s economic liberalization by progressively introducing free RMB convertibility and liberalizing cross-border financing. At the current stage, banks are faced with new regulations and implementation rules on a weekly basis, showing the fast development in this area.

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**Regulatory reform: Impact of China (Shanghai) Pilot Free Trade Zone**

- **What’s more?**
  - Expanding the financial sector
    - Free convertibility for RMB under capital account
    - Liberalisation of interest rates within FTPZ
    - Permits qualified foreign banks/private capital groups to set up wholly-owned subsidiaries/JV banks.
    - Centralized management for foreign exchange funds; permission for foreign enterprises to participate in future commodity trading; support for host equity trading institutions to establish an integrated financial service platform
  - Simplifying the administration process and expanding market access
    - Negative list to clarify national treatments of foreign invested enterprises
    - Simplified procedures for foreign invested enterprises (record-filing)
    - Simplified approval process for outbound investments
    - Permission for overseas portfolio companies and master funds establishments to invest overseas
    - Overseas shipment into FTPZ without customs clearance until later stage, classified supervision, establishment of demonstration and trading platform for bonded goods
  - Recreating the environment for customs supervision
    - Improve logistics efficiency by optimising the customs inspections process and using more efficient risk control and supervision measures.
  - New finance and tax policies
    - Competitive finance and tax policies to lower operational cost
Simplified customs duty regulations
Under certain conditions, custom duties and turnover taxes for imported and exported goods only apply after they leave the FTZ, thus qualifying the zone as a logistics hub and regional distribution centre. The new zone combines all the advantages that were previously scattered over its four predecessors. Companies can improve their cash flow situation by delaying the payment of custom duties and turnover taxes, or even avoid paying any turnover tax at all, depending on whether the goods are eventually imported to China or re-exported to other countries in the region.

Registering New Businesses
For companies founded in the FTZ, the present approval process is substituted by a quicker and less tedious filing. The existing extensive “Catalogue for the Guidance of Foreign Investment Industries for Mainland China” is substituted by a negative list published by the Chinese government, automatically permitting all non-listed activities. There are 139 restricted or prohibited business activities. This was cut from 190 items and is expected to be reduced further in 2015.

Microsoft’s Xbox One is a prominent example on how the FTZ can be used as a gateway to China’s mainland. The company announced the release of its game console in September 2014, in order to benefit from the lift of the ban on game consoles, in place in mainland China since 2000. Especially in regard to the expected reduction of limited and prohibited business activities in the FTZ, other companies are likely to follow this example. Sony, for instance, followed its competitor by announcing the release their newest game system in China shortly afterwards.

Opportunities to benefit from the FTZ
We will analyze if and how your company can benefit from relocating to the FTZ. Our Chinese and German experts work together to provide you with the latest developments to stay ahead of the game.

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We provide comprehensive support to optimize cross-border business and to structure activities in the partner country efficiently and effectively.

**Our services**
The Chinese/German Business Group specializes in the challenges faced by companies with business ties involving Germany and China. Apart from our traditional Assurance, Tax & Legal and Advisory services portfolio, we offer cross-border advice and assistance on a variety of business issues, including goods and services transactions, holding and financing structures, initiation of business activities, and optimization of the existing organisation. Our experts can also support you in establishing a business or subsidiary, or in acquiring or selling a company in either country.

Our main service areas are:
- Assurance (e.g. year-end audits, system and process audits, international financial reporting)
- Tax (tax planning, ongoing tax advice)
- Compliance services
- Strategy, organization, processes and system optimization/implementation
- Transactions (e.g. Mergers and Acquisitions, Due Diligence)
- Legal advice (e.g. company law, energy law)
- Reorganization, restructuring and forensic services (fraud)
- Finance and investment (e.g. investment incentives, financial advice)

**Impacts of the new reforms on your business**

Opportunities weigh more than challenges

**Challenges**
- More intensive competition
- Regulatory changes
- Rising operation costs
- Talent shortages

**Opportunities**
- More market access
- Less government intervention and simpler investment approvals
- Strong domestic consumption
- Expanding to more regions/cities
- Diversifying of your products
- Improving government relations, HR, finance & treasury management
About us
Our clients face diverse challenges, strive to put new ideas into practice and seek expert advice. They turn to us for comprehensive support and practical solutions that deliver maximum value. Whether for a global player, a family business or a public institution, we deploy all our resources: experience, industry knowledge, high standards of quality, commitment to innovation and our international network in 158 countries. Building a trusting and cooperative relationship with our clients is particularly important to us – the better we know and understand our clients’ needs, the more effectively we can support them.

PwC Germany has over 9,400 dedicated people at 29 locations. With a turnover of €1.5 billion it is the leading auditing and consulting firm in Germany. PwC China, Hong Kong, Macau, Taiwan and Singapore work together on a collaborative basis, subject to applicable local laws. Combined the territories have a dedicated staff of over 17,000 people in 23 offices. PwC is the leading auditing and consulting firm in these territories, too.

The Chinese/German Business Group team consists of German and Chinese advisors from all areas of our service portfolio. Their close collaboration translates into direct benefits for our clients. With experts in both countries, who not only possess a deep cultural understanding of the other, but are also fluent in Chinese and German, enables us to tailor our services to your precise business needs.

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