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AN INTRODUCTION TO

Doing Business in China 2023 for US Companies

Special Focus

- Getting Ready for China's Rebound in 2023
- US China Trade, Investment & Relations
- Key Sectors for US Businesses



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This edition of Doing Business in China 2023 for US Companies was produced by a team of professionals at Dezan Shira & Associates, with Qian Zhou as Editor and Yi Wu as contributor. Creative design of the guide was provided by Aparajita Zadoo.

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About Dezan Shira & Associates

Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, India and ASEAN, our mission is to guide US companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With more than two decades of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

Preface



KYLE FREEMAN

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2022 turned out to be a difficult year for businesses operating in China. Unexpected lockdowns caused by COVID-19 outbreaks, weak consumption trends, a struggling real estate sector, and newfound geopolitical tensions caused serious disruptions to supply chains and damped global business confidence in the country.

Still, the actual use of foreign direct investment (FDI) in mainland China expanded in the first ten months of 2022 – growing 14.4 percent year-on-year to over US\$152 billion from January to October. The whole year’s FDI is expected to create double-digit growth.

Another silver lining has emerged out of the tough challenges overcome in 2022 – an easing of the zero-COVID policy is now in sight, with Beijing proposing a relaxation of the travel restrictions.

Economists expect China will fully reopen in the second half of 2023, pushing GDP growth to around five percent from three percent in 2022. Industries in line with Beijing’s policy priorities, such as the healthcare sector, green sectors, consumer market, and sectors related to industrial automation, are expected to be the biggest beneficiaries.

Under these circumstances, it is vital that U.S. investors are familiar with the changes happening in China’s business landscape – to identify areas of risk in advance and take steps to prepare for new market opportunities. This is the only way investors can stay nimble in an otherwise difficult time.

Designed to introduce the fundamentals of investing in China, this publication is compiled by experts at Dezan Shira & Associates, a specialist foreign direct investment firm providing corporate establishment services, business advisory, tax advisory and compliance, accounting, payroll, due diligence, and financial review services to multinationals investing in emerging Asia.

Since its establishment in 1992, the firm has grown into one of Asia’s most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore, Vietnam, and Indonesia. The firm also maintains partner firms across the ASEAN region and in Bangladesh and client liaison offices in the United States, Europe, and Russia.



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What's New in This Guide?

Doing Business in China 2023 for US Companies introduces the fundamentals of investing in China. Compiled by the professionals at Dezan Shira & Associates in December 2022, this comprehensive guide is ideal not only for businesses looking to enter the Chinese market, but also for companies who already have a presence there and want to keep up to date with the most recent and relevant policy changes.

To be more specific, the below changes are noticeable for your attention:

Why China: A new section is added at the beginning to explain why China is still a market that cannot be overlooked by US companies. The section covers the country's growth outlook, supply chain, workforce and labor market, market reforms and opening, trade and investment relations between the US and China and key sectors for US investment.

Business suspension: A new section is added in the "How do I make changes to my business" chapter, introducing the requirements and benefits for companies to acquire a dormant company status amid business difficulty, while retaining its legal standing for a period of up to three years.

Tax incentives: The tax incentive policies are updated for each tax in the "What are the major taxes in China" chapter, including corporate income tax, value added tax, stamp tax, surtaxes, resource tax, and property tax, and information is added on the vehicle purchase tax.

E-fapiao updates: The "fully digitalized e-fapiao" is introduced in the "Value-added tax (VAT)" section, providing the latest developments in 2022.

Accounting standards: Two other accounting standards have been added – the *Accounting System for Business Enterprises* and the *Accounting System for Non-governmental Non-profit Organizations* (NGOs) – in the "Accounting and bookkeeping" section. The Accounting System for NGOs applies to NGOs and the representative offices of NGOs in China. This chapter also examines the discrepancies between the Chinese accounting standards (CAS) and China's tax laws, in addition to the differences between CAS and the *International Financial Reporting Standards* (IFRS).

Human resources and payroll: Brief introductions have been inserted on how to get approval for implementing the special work hour system and the calculation of severance pay in this chapter, both of which are among frequently asked questions by Dezan Shira & Associates clients.

Cybersecurity and data protection: This chapter is updated with developments under China's major cybersecurity and data protection laws and regulations in 2022, explaining key compliance requirements for businesses and providing practical tips on preparing for these new obligations.

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