

How to Establish a Wholly Foreign Owned Enterprise in China?

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Wholly foreign owned enterprises are permitted to register in cases where at least half of their annual output is exported or if the nature of their operations relies heavily on advanced technology and the application of this high technology is beneficial to China. Approval to establish a wholly foreign owned enterprise is granted much more sparingly when compared to joint ventures.

FX balance

Like joint ventures, wholly foreign owned enterprises are in most cases required to balance their foreign exchange and are allowed to occupy facilities other than those managed by the Foreign Management Bureau. As a Chinese legal entity they may sign separate contracts with the appropriate government authorities or Chinese business entities to acquire land use rights, rent buildings, and receive utility services.

Independence and constraints

Wholly foreign owned enterprises enjoy exclusive management control of their business activities and have autonomy in their operation and management with less interference from the Chinese government. Because there is no Chinese partner to guide the project through the approval process and through the other regulatory issues associated with construction and operation of the enterprise, the logistics of establishing a wholly foreign owned enterprise can be difficult and costly.

A wholly foreign owned enterprise is considered a Chinese legal entity and must abide by all Chinese laws. They must employ Chinese labor in accordance with local and central government labor laws and are encouraged to establish trade unions (but not required to do so).

Less popular

Traditionally the wholly foreign owned enterprise has rarely been the chosen method for investment in China. The independence offered to the foreign investor is often outweighed by the lack of direct links to the domestic economy. Most international corporations choose to establish joint ventures for the relationships and connections provided by the Chinese partners.

Recently some major international players in China's telecommunications industry including AT&T and Ericsson have set up wholly owned enterprises to handle much of the domestic management originally handled by their representative office. They have done so only after years of business experience in China and despite their registration as a wholly foreign owned enterprise, maintain the registration of their representative office.

Source: China Daily