



Ways to Enter the Chinese Market

2025 REPORT



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WAYS TO ENTER THE CHINESE MARKET

1. INTRODUCTION

1.1 THE CHINESE MARKET

China, as the world's second-largest economy, offers significant opportunities for European SMEs looking to expand their businesses internationally. With a population of over 1.4 billion people and a rapidly growing middle class, China presents a large and diverse consumer market. The demand for international products and services is expanding across various sectors, such as technology, consumer goods, healthcare, green energy, and financial services. China's evolving digital economy is particularly noteworthy, with e-commerce becoming a dominant channel for business growth.

The Chinese government has implemented a range of economic initiatives to foster growth and innovation, including programs such as "Made in China 2025", which focuses on high-tech industries, and the Belt and Road Initiative, which aims to enhance global connectivity. These policies create opportunities for foreign businesses, particularly in technology, infrastructure, and trade.

However, entering the Chinese market is not without its challenges. The market is highly competitive, with local companies often having a deeper understanding of domestic consumer behaviour, preferences, and networks. In addition, navigating China's regulatory environment can be complex and varied. The country's legal and compliance frameworks are constantly evolving, with regulations differing by industry and region. Businesses must be aware of these regulatory complexities to ensure smooth market entry and long-term success.

Cultural understanding is also crucial for SMEs considering China. The country's consumer behaviour is shaped by unique social, cultural, and historical factors, which can differ significantly from European markets. Understanding these nuances can make a substantial difference in tailoring marketing, product offerings, and business strategies to the local market.

In summary, while China offers vast potential for European SMEs, it requires a careful and informed approach. Businesses must consider the local competitive environment, stay updated on regulatory changes, and adapt their strategies to meet the diverse needs of Chinese consumers.

1.2 PURPOSE OF THE GUIDE

This guide is designed to provide European SMEs with a clear understanding of how to enter the Chinese market successfully. While the opportunities are vast, the Chinese market presents complexities that require careful planning and informed decision-making. This guide will help SMEs explore various entry strategies, identify key opportunities in specific sectors, and choose the best market entry model tailored to their goals.

Whether you are looking to expand exports or establish a local presence, this guide offers practical insights and actionable advice to help you succeed in one of the world's most dynamic economies.

Assess your readiness to enter the Chinese market in an interactive way with our Self-Diagnosis Tool. Take one of the five business quizzes for SMEs and get a list of relevant publications according to your answers.



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You can also reach out to the EU SME Centre's experts with your questions.



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2. MARKET ENTRY STRATEGIES

2.1 OVERVIEW ON ENTRY STRATEGIES FOR SMES

Entering the Chinese market presents significant opportunities, but it requires careful planning and strategic consideration. Companies must evaluate a variety of entry methods to determine the most effective approach in this competitive landscape. The main methods of market entry include:

- **Direct Exporting:** Direct exporting involves sending goods or services directly from one country to the final customer in China. This method is often employed when companies want to retain full control over their sales processes.
- **Indirect Exporting (Using an Intermediary):** This method involves selling goods to an intermediary (e.g., agents, distributors, or franchisees), who then takes responsibility for selling the products to the end customers in China. This option is suitable for companies that lack local knowledge and want to minimize risk and investment.
- **Investing Directly:** This involves setting up a legal entity in China, such as a Wholly Foreign-Owned Enterprise (WFOE), Joint Venture (JV), or partnership. This strategy offers more control over operations and allows companies to tap into the local market more effectively but requires significant financial commitment and understanding of local regulations.
- **Cross-border E-commerce (Direct Shipping Model):** This model involves international retailers or brands shipping orders directly to consumers via commercial websites. It is ideal for testing products in the Chinese market, provided the goods meet the requirements of the Positive List of Cross-border E-commerce Retail Imported Commodities. Products in this model are subject to the Cross-Border E-Commerce Comprehensive tax rate, and each order must meet specific requirements, such as a maximum order value of CNY 5,000.
- **Cross-border E-commerce (Bonded Warehouse Model):** Similar to the direct shipping model, this model uses bonded warehouses where goods are stored before being shipped directly to consumers after customs clearance. This option reduces delivery time and is more suited for bulk sales.

- **Employer of Record (EOR):** An Employer of Record (EOR) allows businesses to hire employees and operate in China without setting up a local entity. It provides a fast, cost-effective way to enter the market while managing administrative functions like payroll and compliance through a third-party service provider. EOR is ideal for companies that wish to offer services or hire employees remotely but lack the resources for a full office setup.

- **Franchising:** Franchising enables companies to expand by granting local partners the right to operate under the brand's name. This model provides a low-risk entry point while leveraging local expertise. However, franchisors must ensure compliance with China's franchising laws and operational regulations. The franchising approach can help expand businesses quickly while maintaining brand control.

For a comprehensive understanding of all the market entry strategies discussed, including direct exporting, indirect exporting, licensing, franchising, investing directly, cross-border e-commerce, and EOR, this guide provides in-depth insights as we explore each method in detail throughout the following sections. As you move through the guide, you will find a thorough examination of each strategy, the benefits and challenges they present, and how to effectively implement them in the Chinese market.

2.2 DIRECT EXPORTING AND INDIRECT EXPORTING

Direct Exporting

In this model, businesses take control of the entire export process. Companies maintain direct relationships with customers, have control over their brand, and can customise offerings based on customer feedback. However, this method requires substantial investment in logistics, sales operations, and marketing efforts.

Indirect Exporting

This method involves using intermediaries to sell products in the Chinese market. Intermediaries can be agents, distributors, or franchisees who handle the local sales and distribution. This option is often more cost-effective for companies without sufficient resources to set up direct operations in China. The key disadvantage is the reduced control over branding and customer relationships.

Comparison at a glance:

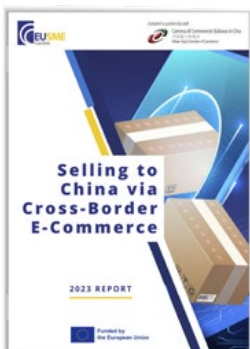
Features	Direct Exporting	Indirect Exporting
Control	High - full control over branding and customer experience	Low - dependent on intermediaries
Investment	High - logistics, local setup required	Low - limited upfront cost
Market Launch	Slower - setup takes time	Faster - intermediaries already operates
Customer access	Direct - engage with customers first hand	Indirect - feedback maybe developed
Scalability	Scalable with commitment & resources	Limited by intermediary capability

2.3 ONLINE MARKET ENTRY, SETTING UP IN CHINA, AND USING HONG KONG AS A STEPPING STONE

Online Market Entry

Cross-border e-commerce (CBEC) is an increasingly popular entry method for businesses seeking to access China's growing e-commerce market without a physical presence. By leveraging platforms like Tmall Global, JD Worldwide, and WeChat Stores, businesses can test the market with lower risk. This model involves compliance with customs regulations, product restrictions, and the Positive List of eligible items. It is especially advantageous for companies looking to gauge market demand before a larger investment.

For more detailed information in this guide, [refer to section 6, Selling Online in China](#).



The EU SME Centre has published a full report on cross-border e-commerce for European SMEs looking to export to China. The report includes an overview of the CBEC market and its main platforms, the procedures to start selling via CBEC, insights into digital marketing for Chinese platforms, case studies, as

well as an unofficial translation in English of the CBEC Positive List. [Download the report here](#).

Setting Up in China

For a more permanent presence, businesses may consider setting up a Wholly Foreign-Owned Enterprise (WFOE), Joint Venture (JV), or Representative Office (RO). These structures provide greater control and the ability to tap into local markets more effectively. While establishing a WFOE or JV requires a higher level of

investment, it also allows businesses to engage directly with local consumers, establish supply chains, and hire staff.

More information on establishing a WFOE, a JV, and an RO can be found in [section 4, Setting Up a business in China](#).

Using Hong Kong as a Stepping Stone

Hong Kong's business-friendly environment and its CEPA (Closer Economic Partnership Agreement) with China make it an attractive gateway for companies looking to enter China. Hong Kong offers an ideal base for testing products and building a brand before expanding into Mainland China. The lower tax rates and strong legal framework provide additional benefits, making Hong Kong an ideal entry point for SMEs.

For a more detailed guide on using Hong Kong as a stepping stone, please [refer to section 7, Hong Kong as an Entry Point](#).

2.4 EMPLOYER OF RECORD (EOR)

An Employer of Record (EOR) is a service that allows companies to hire employees and operate in foreign countries without the need to establish a local entity. The EOR acts as the legal employer, handling payroll, taxes, compliance, and other administrative tasks, while the company manages day-to-day operations.

Benefits of Using an EOR:

- **Cost-Effective:** Establishing a WFOE or JV in China can be expensive and time-consuming. An EOR simplifies market entry by avoiding the need for a local entity setup.
- **Quick Market Entry:** With an EOR, companies can quickly enter the Chinese market and begin hiring

and operating without waiting for the complexities of establishing a legal entity.

- **Flexibility:** Companies can hire employees or offer services remotely without the long-term commitment of setting up a full office or entity in China.

Comparison to Other Models:

- **Less Control:** Using an EOR means less control over the employment structure compared to direct investment options such as a WFOE or JV.
- **Compliance:** An EOR ensures that all local labor laws and regulations are adhered to, reducing the risk of legal complications.
- **Ideal for Remote Operations:** An EOR is particularly suitable for companies that wish to offer services or conduct business remotely without a physical presence in China.

Case Study: Starting with Indirect Exporting, Then Scaling to WFOE

Industry: Premium Tea Products

Origin: United Kingdom

Context

A UK premium tea company initially entered the Chinese market by working with a regional distributor covering Tier 1 cities. The distributor managed all import and sales activities, allowing the brand to test the market with minimal upfront investment. However, as consumer demand increased and brand recognition grew, the company found itself limited by the distributor's capacity and lack of long-term alignment.

Approach

After three years of indirect exporting, the company opted to establish a Wholly Foreign-Owned Enterprise (WFOE) in Shanghai to take full control of its brand, pricing, marketing, and e-commerce strategy. This shift allowed for direct hiring, local partnerships, and issuing RMB invoices.

The WFOE structure enabled the company to:

- Open flagship stores on Tmall and JD.com;
- Partner directly with tea houses, boutique hotels,

and wellness chains;

- Expand its local team for B2B and retail sales;
- Conduct in-market branding and promotional campaigns.

Outcome

Within 18 months, the company's direct sales exceeded previous distributor revenues by 40%. Brand equity improved through better marketing control, and the WFOE structure enabled faster product adaptation based on local consumer preferences.

2.5 LICENSING AND FRANCHISING

2.5.1 Market Entry Through Licensing & Franchising

Licensing and franchising are widely used methods for market entry in China, allowing foreign companies to expand their presence without establishing wholly owned operations. Licensing involves granting permission to another entity (licensee) to use intellectual property (IP) such as patents, trademarks, or technology under agreed terms, while the franchising model enables a business to expand through independent franchisees operating under the franchisor's brand and system.

2.5.2 Legal Requirements & Benefits

Licensing

Foreign companies seeking to license intellectual property in China must ensure compliance with China's IP laws, Technology Import-Export Regulations (TIER), and foreign ownership restrictions that may apply to certain industries. Licensing offers multiple advantages, including revenue generation through royalties, market expansion without significant capital investment, and risk mitigation by leveraging local partners.

Licensing agreements fall into three categories: Exclusive License, which grants sole rights to one licensee and prevents the licensor from using or licensing the IP to others; Sole License, which allows the licensor to use the IP but restricts further licensing; and Non-Exclusive License, which permits multiple licensees while allowing the IP holder to continue using and licensing the IP.

Additionally, a licensing agreement that is not recorded

with CNIPA cannot be enforced against third parties acting in good faith, highlighting the importance of formal registration. Companies should also consider tax implications of licensing arrangements, including withholding taxes on royalties and any applicable double taxation agreements between China and their home country.

Franchising

Under the Regulations on Administration of Commercial Franchises (2020), only registered enterprises (not individuals) can act as franchisors in China. Franchisors must operate at least two directly owned outlets for one year before granting franchises. Additionally, they must disclose key operational and financial details 30 days before signing an agreement, covering trademarks, royalty payments, training, and franchisee obligations.

Franchising benefits include rapid expansion, increased brand presence, and franchisee investment, but it also requires strict brand control and adherence to regulatory requirements. Foreign franchisors must strategically structure their business model to meet China's requirements, ensuring they establish their presence effectively before offering franchises. Furthermore, foreign exchange compliance is crucial when handling franchise fees and royalty remittances to ensure smooth cross-border transactions under China's foreign exchange controls.

2.5.3 Technology Transfer

Technology transfer, a key form of licensing, is regulated under China's Regulations on the Administration of Import and Export of Technologies (TIER). It involves:

Assignment of patent rights

- Licensing of patented technology
- Transfer of technical know-how and services

To ensure compliance, businesses must draft a comprehensive licensing agreement covering royalties, IP protection, and usage rights. Additionally, patents, trademarks, and copyrights should be registered with the China National Intellectual Property Administration (CNIPA) before any transfer occurs. Companies must review the Catalogue of Technologies Prohibited or Restricted for Import by MOFCOM to determine if their technology falls under restrictions, in which case MOFCOM approval is required. Including arbitration

clauses in agreements can help with dispute resolution, and companies should actively monitor compliance to prevent unauthorized use. If a technology transfer faces regulatory hurdles, businesses can seek assistance from chambers of commerce or embassies to facilitate negotiations with authorities.

Licensing Agreements

Licensing agreements must be registered with CNIPA within three months of contract effectiveness. The registration process requires submitting a patent licensing contract, patent certificate, identification documents for both licensor and licensee, and a power of attorney if applicable.

Key terms to include:

- Licensing type (exclusive, sole, non-exclusive)
- Royalties & payment terms
- Non-disclosure clauses
- Breach of contract remedies.

Additionally, companies should ensure that their contracts include dispute resolution mechanisms to address enforcement challenges in case of a contractual breach.

Copyright Licensing

Copyright licensing agreements must specify:

- Description of copyrighted works
- Types of licensing (exclusive, sole, non-exclusive)
- Territorial scope and licensing period
- Non-disclosure and dispute resolution mechanisms.

Licensing contracts can be recorded with the Copyright Protection Center of China (CPCC) for enhanced legal protection.

Trademark Licensing

Trademark licensing contracts must include:

- Trademark description and purpose of the license
- Licensing type (exclusive, sole, non-exclusive)

- Distribution scope and usage guidelines
- Payment terms and audit rights
- Conditions for termination and post-termination obligations.

Trademark licenses must be recorded with CNIPA's Trademark Office for legal enforceability. Unregistered trademark licenses cannot be enforced against third parties in good faith, emphasizing the need for proper documentation.

Find out more on IP protection in China with the China IP SME Helpdesk

CHINA IP SME HELPDESK

The China IP SME Helpdesk supports small and medium-sized enterprises in the European Union (EU) and the other countries of the Single Market Programme (SMP) to both protect and enforce their Intellectual Property Rights (IPR) in or relating to Mainland China, Hong Kong, Macao and Taiwan through the provision of free information and services. These take the form of jargon-free, first-line, confidential advice on intellectual property and related issues, plus training, materials and online resources.

Visit the China IP SME Helpdesk's website: https://intellectual-property-helpdesk.ec.europa.eu/regional-helpdesks/china-ip-sme-helpdesk_en



2.5.4 Franchise Agreements & MOFCOM Registration

A standard franchise agreement must include:

- Basic details of franchisor & franchisee
- Franchise fees & payment structure
- Training, operational guidance & quality control
- Advertising & consumer protection provisions

- Terms for dispute resolution & contract termination

MOFCOM Registration Process: Franchisors must submit the franchise agreement to MOFCOM within 15 days of signing, along with supporting business registration documents. Once submitted, businesses must await official confirmation before proceeding with franchise operations in China. Failure to register a franchise agreement may result in fines or the inability to enforce franchise rights in China.

Franchising in China: Advantages vs. Disadvantages

Advantages	Disadvantages
Rapid market expansion using franchisee capital	High costs in identifying and training franchisees
Lower operational costs compared to wholly owned subsidiaries	Risk to brand reputation if franchisees underperform
Generates revenue from franchise fees and ongoing royalties	Ongoing compliance and monitoring costs
Spreads market and operational risks across multiple locations	Potential loss of operational control
Opportunity for future franchise buybacks or conversions to company-owned	Legal requirement: Must operate 2 direct outlets for at least 1 year before franchising

Recommendations for Foreign Franchisors in China

- Register trademarks early to prevent unauthorised registrations and avoid trademark squatting.
- Partner with local experts to navigate legal and operational challenges.
- Adapt products to local preferences while maintaining brand identity.
- Comply with disclosure & licensing regulations to avoid legal risks.
- Monitor franchisees closely to maintain quality and brand reputation.
- Use strategic structuring to meet the required two-outlet operation rule before expanding through franchising.
- Ensure foreign exchange compliance to facilitate smooth royalty remittances and fee transfers under China's capital controls.

Ensuring proper licensing and franchising structures

allows foreign companies to expand into China successfully while protecting their IP rights, maintaining regulatory compliance, and optimizing financial transactions.

Case Study: Entering via Franchising and Adapting to Local Tastes

Industry: European Bakery Chain

Origin: Austria

Context

A mid-sized Austrian bakery chain known for its artisanal bread and pastries was approached by a Chinese food retail group interested in launching the brand in Shanghai through a franchise agreement. Given the high brand reputation in Europe and limited familiarity with the Chinese market, franchising was seen as a strategic, low-capital option for entry.

Approach

The Austrian brand licensed its recipes, visual identity, and store design concept to the Chinese franchisee.

Both parties co-developed localised menu items, such as matcha croissants and red bean brioche, to align with Chinese tastes while retaining the brand's European identity.

The franchisee was responsible for:

- Setting up and operating stores
- Hiring and training local staff
- Managing local sourcing in compliance with quality standards

The Austrian firm provided:

- Brand and recipe guidelines
- Ongoing training and marketing support
- Periodic audits to ensure consistency

Outcome

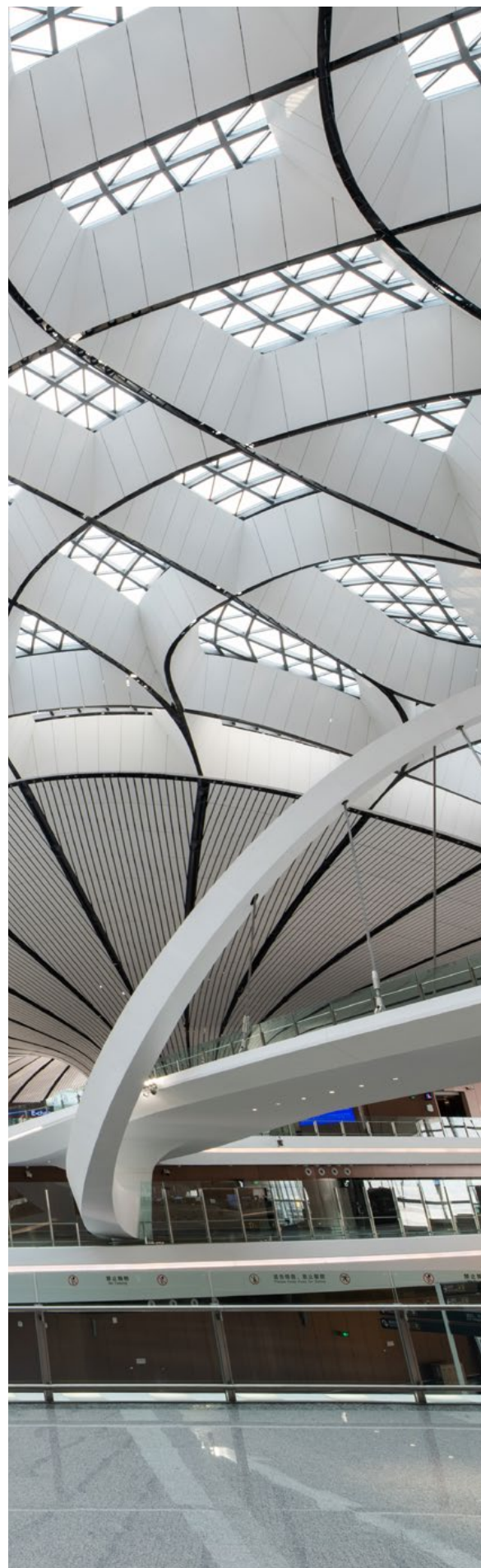
The first Shanghai location became profitable within 8 months. Two additional stores opened in the following year. Local adaptation proved critical to consumer acceptance, and the partnership maintained brand integrity while enabling market learning.

Key Takeaway

Franchising allowed the company to enter the market with minimal risk and local support. Success hinged on mutual commitment to quality and strategic menu adaptation to meet consumer expectations.

Conclusion

Selecting the right market entry strategy is crucial for the long-term success of EU SMEs in China. Whether choosing direct exporting, indirect exporting, or investing directly through a WFOE or JV, businesses must assess their goals, market knowledge, and financial capacity. Furthermore, engaging with advisory services and conducting thorough market research are essential for navigating the complexities of China's regulatory environment. Strategic planning, backed by local expertise, can significantly improve the likelihood of success in this highly competitive and fast-evolving market.



3. EXPORTING GOODS AND SERVICES

3.1 DIRECT EXPORTING TO CHINA

Exporting to China allows EU SMEs to tap into one of the largest and most dynamic markets in the world. With a growing middle class, rising disposable income, and increasing demand for high-quality international products, China presents an attractive opportunity for European businesses. Additionally, various government incentives and special economic zones offer further advantages to foreign exporters.

EU SMEs that successfully enter the Chinese market can benefit from direct access to a vast consumer base, potential premium pricing for European products, and opportunities to leverage China's advanced e-commerce ecosystem. However, understanding the complexities of trade regulations, logistics, and distribution channels is crucial for long-term success.

3.1.1 Key Considerations: Shipping, Tariffs, and Customs Regulations

Exporting to China requires meticulous planning in several areas, including shipping, tariffs, and customs regulations, to ensure smooth market entry and compliance with local laws.

Shipping Considerations

China's vast geography and well-developed logistics infrastructure provide various shipping options for EU SMEs, with air freight and sea freight being the two primary modes of transport. Air freight is a faster but more expensive option, making it ideal for high-value or perishable goods. While it allows for quicker market entry, it significantly increases costs. On the other hand, sea freight is a more economical choice for bulk shipments, though it has a longer transit time, requiring careful inventory management.

China's major ports, including Shanghai, Shenzhen, Guangzhou, and Ningbo, along with key air cargo hubs such as Beijing, Shanghai Pudong, and Guangzhou, play a crucial role in international trade, offering well-established customs clearance processes. To enhance efficiency, EU SMEs may consider partnering with third-party logistics providers (3PLs) that offer warehousing, inventory management, and last-mile delivery services.

Tariffs and Duties

Import tariffs in China vary based on product categories, making it essential for EU SMEs to accurately classify

their products under China's Harmonized System (HS) codes. Customs duties differ depending on the product type, with preferential tariffs potentially available under trade agreements. Additionally, Value-Added Tax (VAT) is typically applied at rates ranging from 9% to 13%, depending on the product category. Certain goods, such as luxury products, alcohol, and tobacco, are also subject to a consumption tax. Since China periodically updates its tariff schedules, EU SMEs should actively monitor these changes and take advantage of trade agreements between the EU and China to minimize costs where possible.

Customs Regulations and Compliance

Chinese customs clearance is stringent, requiring detailed documentation such as the Bill of Lading (B/L), Commercial Invoice, Packing List, Import License (if applicable), and China Compulsory Certification (CCC) for regulated goods. In addition to these documentation requirements, China enforces strict labeling and packaging regulations. Consumer goods must have Chinese-language labeling, and certain products require safety certifications, such as CCC for general goods, CFDA for medical products, and CIQ for food items. Environmental regulations, including packaging sustainability requirements, must also be met. Non-compliance with China's regulatory standards can lead to shipment delays, penalties, or outright rejection at customs, making thorough pre-export regulatory research essential for EU SMEs looking to enter the market successfully.

Leveraging Free Trade Zones (FTZs)

China's Free Trade Zones (FTZs), such as those in Shanghai, Tianjin, and Guangdong, offer significant advantages to foreign exporters, making them strategic entry points into the Chinese market. These zones provide simplified customs procedures and faster clearance times, allowing for smoother import processes. Additionally, companies can benefit from duty deferral when storing goods in bonded warehouses, reducing immediate tax burdens. Businesses establishing operations within an FTZ may also enjoy tax advantages, further enhancing cost efficiency. By leveraging these benefits, EU SMEs can optimize their supply chain, minimize tariff costs, and accelerate their market entry into China.

3.1.2 Challenges in Logistics and the Role of Local Distributors

China's complex logistics landscape presents challenges for foreign SMEs. The country's vast geography requires efficient supply chain management and last-mile delivery solutions. Customs clearance procedures can also be time-consuming, particularly for companies unfamiliar with China's regulatory framework.

Local distributors play a crucial role in overcoming these logistical challenges by leveraging their established networks, warehousing facilities, and distribution expertise. A strong distributor can manage product storage, handle customs clearance, and ensure smooth transportation from ports to final destinations. Furthermore, local distributors understand regional differences in consumer behavior, enabling EU SMEs to tailor their marketing strategies effectively.

Another key advantage of working with local distributors is their ability to navigate regulatory compliance, ensuring that products meet China's stringent safety and quality standards. They can also provide after-sales services, which are essential for building brand reputation and trust among Chinese consumers. By partnering with the right distributor, EU SMEs can gain access to a wider market reach, reduce operational risks, and streamline logistics operations, ultimately improving their chances of success in the Chinese market.

However, reliance on local distributors comes with certain risks. Loss of control over branding, pricing, and direct customer interactions can be a disadvantage. Additionally, SMEs must ensure that their chosen distributor is reputable and financially stable. Conducting due diligence, visiting distribution facilities, and negotiating clear contract terms are essential steps to mitigate these risks.

3.2 INDIRECT EXPORTING: USING INTERMEDIARIES LIKE DISTRIBUTORS AND AGENTS

One of the most common ways for EU SMEs to enter the Chinese market is through intermediaries such as distributors and agents. Agents act as direct representatives of the company, earning commissions for selling its products. Distributors, on the other hand, purchase products and resell them to customers or retailers, handling storage and logistics.

3.2.1 Working with Agents

Agents provide a cost-effective way for EU SMEs to enter the Chinese market without establishing a local presence. They act on behalf of the company, assisting with sales, marketing, and relationship-building. Since agents are typically paid on commission, they are motivated to grow sales while ensuring compliance with Chinese regulations. Agents are particularly useful for SMEs that want greater control over pricing, branding, and customer engagement while leveraging the agent's knowledge of the local market. They also help businesses navigate cultural differences and regulatory challenges.

3.2.2 Working with Distributors

Distributors purchase products from EU SMEs and manage the entire sales and logistics process in China. Unlike agents, distributors take ownership of the goods, store them in local warehouses, and sell them to customers either directly or through third-party networks.

A distributor reduces the SME's financial and logistical burden by handling customs clearance, warehousing, and sales. However, the downside is that companies relinquish control over their product's pricing, branding, and marketing strategy.

3.2.3 Advantages and Disadvantages of Indirect Exporting

Indirect exporting offers several advantages for EU SMEs looking to enter the Chinese market without establishing a physical presence. It allows for lower market entry costs, as businesses can leverage existing local networks without the need for direct investment. Agents and distributors already have established relationships with retailers and customers, facilitating smoother market penetration. Additionally, experienced intermediaries provide regulatory assistance, ensuring compliance with import procedures and local requirements. Another key benefit is access to market insights, as agents and distributors can offer valuable feedback on customer preferences and competitive dynamics.

However, indirect exporting also comes with certain disadvantages. One major drawback is limited control, as SMEs must rely on third parties for sales and marketing strategies. Additionally, profit margins may

be reduced since distributors take a portion of the revenue. There is also a risk of dependency, as relying on a single distributor can pose challenges if the business relationship ends. Lastly, brand representation may become an issue, as distributors often handle multiple brands, potentially leading to conflicts of interest or reduced focus on an SME's products.

For a successful partnership, SMEs must conduct thorough due diligence before selecting an agent or distributor. Attending trade fairs, engaging with national chambers of commerce, and seeking recommendations from industry peers are useful strategies for finding reliable intermediaries.

Case Study: Exiting a Challenging Distribution Partnership and Transitioning to Direct Sales

Industry: Chocolatier

Country of origin: Belgium

Context

A manufacturer of luxury chocolates, biscuits and ice cream built a network with over 500 selling points in 50 countries. One of these selling points was a distributor who took charge of the Mainland China (excl. duty-free) market. While being present for over 5 years in the market with the distributor, the company had seen the sales of its chocolates and related products stagnate while other brands were increasing their market share.

Approach

The company realised that their exclusive distributor had acquired the rights to sell chocolates and related products of several brands in the Chinese market, in addition to a predominant focus of the distributor on European beer brands. As a consequence, the company felt insufficient manpower was assigned to pushing its brand and an inability to access the right sales channels.

Outcome

An extensive plan was laid out for the company to obtain full ownership of distribution of its products within the Chinese market, including taking over of various e-commerce platforms set up by the distributor. The company hired internal expertise to manage its e-commerce platforms and setup a sales team dedicated to seeking distribution of its products via the best possible channels. As a result, the company successfully engaged in partnerships with various partners like Starbucks and other local retail partners to bring its products to

a wider market and thereby increased sales by 300%.

Key Takeaway

Whereas indirect sales enabled the company relatively inexpensive market access, to fully develop the potential of its products in the Chinese market the company realised further investments were required.

3.3 CROSS-BORDER E-COMMERCE (CBEC) PLATFORMS

For foreign businesses that have not yet established a legal entity in China, Cross-Border E-Commerce (CBEC) platforms such as Tmall Global, JD Worldwide, and Pinduoduo offer a legal and efficient route to directly sell to Chinese consumers. These platforms enable international businesses to reach a vast consumer base without needing a local office or registration in China. They facilitate simplified import processes by offering pre-cleared customs procedures and ensuring adherence to China's regulatory framework.

While CBEC platforms provide easier entry, businesses are still required to comply with specific regulations, including customs clearance procedures, taxation policies, and the CBEC Positive List. The Positive List identifies products eligible for cross-border sales and outlines the applicable tax rates. Compliance with these regulations is critical to avoid delays, fines, or shipment rejections. Additionally, businesses need to stay updated on any changes to these rules, as the Chinese government regularly updates CBEC regulations to safeguard consumer interests and encourage high-quality product imports.

CBEC is particularly advantageous for SMEs looking to explore the Chinese market before committing to setting up a physical presence, such as a Wholly Foreign-Owned Enterprise (WFOE) or Joint Venture (JV). By leveraging CBEC platforms, businesses can gauge demand, collect customer feedback, and refine their offerings. This low-risk strategy is ideal for brands testing the waters in one of the world's largest and fastest-growing e-commerce markets.

Selecting the Right Platform

When entering the Chinese market through CBEC, selecting the most suitable platform is critical for long-term success. There are several factors to consider when choosing a CBEC platform:

- **Business Objectives:** If the goal is to quickly establish brand presence and access high-income

consumers, platforms like Tmall Global or JD Worldwide are ideal due to their strong brand reputation, user base, and well-established infrastructure. These platforms also cater to premium goods and international brands. Pinduoduo, on the other hand, is better for reaching price-sensitive consumers in lower-tier cities, thanks to its group-buying model and focus on affordability.

- **Regulatory Obligations:** While CBEC platforms simplify compliance, it's essential to understand the specific regulations each platform adheres to. For instance, platforms like Tmall Global require sellers to follow strict customs and tax policies, while WeChat Stores might offer more flexibility in terms of branding and marketing but require a more robust presence in China. Companies should also be aware of local data protection laws like China's Personal Information Protection Law (PIPL) and the Data Security Law when handling consumer data through CBEC platforms.
- **Target Consumer Base:** Each platform caters to different consumer demographics. For example, Tmall Global primarily targets affluent, urban Chinese consumers, while JD Worldwide focuses on high-end electronics and appliances. If your product falls into these categories, choosing the appropriate platform for your target audience will help maximize sales potential. Platforms like WeChat and RED (Xiaohongshu) are increasingly popular for lifestyle and luxury products, where engagement with consumers through influencers and social media plays a huge role.
- **Logistics and Delivery:** Logistics capabilities can significantly affect the consumer experience. CBEC platforms typically offer robust shipping and fulfillment systems, but choosing the right one will depend on your logistical strategy. For example, Tmall Global provides warehousing and delivery through Cainiao, ensuring quick shipping, while JD Worldwide offers fast and reliable delivery with its extensive logistics network. For businesses that are considering storing inventory locally, partnering with a platform that has bonded warehouses within China's Free Trade Zones (FTZs) could help reduce shipping costs and streamline the delivery process.
- **Market Research and Testing:** CBEC platforms are ideal for conducting market research without the need to invest heavily in physical infrastructure. Use these platforms to test product variations, track customer preferences, and collect valuable insights through analytics provided by the platform. For example, WeChat allows businesses to interact directly with consumers through its Mini Programs, offering an opportunity for instant feedback and engagement.
- **Brand Positioning and Marketing:** On platforms like Tmall Global and JD Worldwide, brand presence is critical. Invest in building a strong visual identity, localizing your website, and tailoring your marketing materials to Chinese consumers. Strong content marketing through influencers, KOLs (Key Opinion Leaders), and live-streaming can amplify brand visibility. Social commerce via WeChat or RED requires engaging, high-quality content to build trust with consumers. Influencers and user-generated content are central to attracting attention and driving sales.
- **Compliance and Taxation:** Stay compliant by continuously updating product listings with the latest import regulations. Ensure that you meet China's labeling requirements and quality control certifications such as China Compulsory Certification (CCC) for certain product categories. Additionally, understanding the VAT and customs duties related to your product is essential to maintaining profitability. Work with local experts or third-party logistics providers who specialize in CBEC to avoid potential pitfalls.
- **Customer Experience:** The user experience is paramount in China's e-commerce ecosystem. Ensure that your customer service operations are responsive, and consider offering Chinese-language customer support and local payment methods like Alipay and WeChat Pay. Offering promotions, discounts, and loyalty programs can enhance the customer journey, incentivising repeat purchases and brand loyalty.

By following these guidelines and carefully selecting the appropriate platform, EU SMEs can establish a strong foothold in China's e-commerce market and position themselves for long-term success.

Building a Successful E-Commerce Strategy in China

By aligning the choice of platform with the overall business strategy, SMEs can efficiently penetrate the Chinese market and build a sustainable presence. Here are a few strategies to consider:

3.4 EXPORTING SERVICES TO CHINA

3.4.1 Growing Demand for International Services

As China's economy shifts toward innovation and high-value activities, demand for professional and technical services is rapidly increasing. This trend presents new opportunities for EU SMEs in sectors such as consulting, IT, education, architecture, marketing, engineering, creative industries, and healthcare.

Exporting services to China can take several forms: direct cross-border delivery, remote project-based engagements, or establishing a physical presence through a local entity. Each route has its own regulatory, tax, and commercial considerations. For many SMEs, the services pathway offers lower capital intensity compared to product-based trade, but requires careful planning to navigate legal compliance and market access restrictions.

3.4.2 Entry Models for Foreign Service Providers

Depending on the nature of the service and client expectations, EU SMEs typically enter China's service market through one of the following models:

- **Cross-Border Remote Delivery:** Businesses provide services from their home country without establishing a presence in China. This is common for digital services, creative consulting, or B2B advisory, although limitations may arise around issuing Chinese invoices (fapiaos) or participating in government procurement.
- **Wholly Foreign-Owned Enterprise (WFOE):** Setting up a WFOE allows service providers to hire locally, sign contracts with Chinese clients, invoice in RMB, and manage daily operations independently. This model is common for sectors like management consulting, market research, design, and training.
- **Joint Ventures (JVs):** In sectors with foreign ownership restrictions—such as healthcare, education, and legal services—forming a JV with a licensed Chinese partner is often required. JVs provide access to regulated markets but involve shared control and complex contract structuring.

Partnership or Licensing Arrangements: SMEs may also license their services or intellectual property to a local company, or collaborate with Chinese partners under white-label or co-branding models. These agreements reduce setup costs but require strong partner due diligence and contract clarity.

3.4.3 Regulatory Considerations for Service Exports

Foreign service providers must understand and comply with Chinese regulations, particularly in regulated industries or when operating onshore:

- **Business Scope Definition:** WFOEs must clearly define the services they intend to offer. Deviations may require amendment filings or additional licenses.
- **Sector Licensing:** Industries such as education, medical services, cybersecurity, and finance are regulated and may require specific permits, qualifications, or JV structures.
- **Taxation:** Cross-border service exports may be subject to Chinese VAT or withholding tax, depending on treaty applicability and service category. Onshore entities are taxed at standard corporate rates.
- **Data & Cybersecurity:** Service providers handling Chinese user or corporate data must comply with laws such as the Personal Information Protection Law (PIPL) and the Data Security Law. Local hosting or ICP licensing may be required.
- **Language & Cultural Adaptation:** Localising service delivery, documentation, and branding is often key to building client trust and differentiation in the Chinese market.

3.4.4 Key Service Sectors with High Potential

Sector	Preferred Entry Model	Comments
Management Consulting	WFOE or Remote Delivery	Light regulation; ideal for strategy, HR, and digital transformation
IT & SaaS	WFOE or Licensing	Requires ICP license and compliance with data and cybersecurity regulations
Education & Training	JV or Licensing	Highly regulated; onshore delivery may require local partner or permits
Architecture & Design	WFOE	May require local credentials for public tenders or certification processes
Healthcare Services	JV	Strong regulatory controls; access via JV or affiliation with licensed firm

Case Study: Market Research Services WFOE

Company: European Market Research & Strategy Firm

Industry: Professional Services – Market Research & Consulting

Context

A well-established European market research and strategy firm had been delivering consumer insights and consulting projects remotely to clients in China's retail and e-commerce sectors. As demand increased for localized support and faster project execution, the company decided to establish a physical presence in China to strengthen its market positioning and compete more effectively with domestic service providers.

Approach

The company set up a Wholly Foreign-Owned Enterprise (WFOE) in Beijing with a registered business scope covering "market research, data analysis, and management consulting." This structure allowed them to operate independently, sign contracts with local clients, and invoice in RMB.

Beijing WFOE Setup

- Registered and approved within two months, the WFOE provided a compliant and transparent business foundation.
- A small local team of bilingual staff was hired to manage projects, client relationships, and fieldwork.
- Office space was secured in central Beijing to serve as a delivery hub and client-facing location.
- The structure enabled the firm to directly serve

domestic clients and multinational brands with operations in China.

Compliance & Regulatory Considerations

- Business operations were aligned with the approved scope to avoid licensing issues.
- Local tax and legal advisors ensured full compliance with China's VAT system and labor regulations.
- The firm developed internal data protocols in accordance with China's Personal Information Protection Law (PIPL).

Outcome

- Client Trust & Revenue Growth:** Establishing a local presence led to deeper relationships and increased business from Chinese retail and consumer brands.
- Operational Efficiency:** The ability to conduct research and deliver services in-market significantly improved responsiveness and quality.
- Market Positioning:** Local incorporation enhanced the firm's credibility and differentiated it from remote service competitors.

Key Takeaway

For SMEs in the professional services sector, setting up a WFOE in China provides operational control, local credibility, and the ability to invoice and hire directly. It offers a practical route to deepen market engagement, especially in sectors where face-to-face interaction, localized delivery, and cultural understanding are critical to success.

4. SETTING UP A BUSINESS IN CHINA

4.1 WFOE & JV AS LONG-TERM INVESTMENT STRATEGIES

Entering the Chinese market requires careful consideration of various business structures. Among the most prominent options for foreign investors are the Wholly Foreign-Owned Enterprise (WFOE) and the Joint Venture (JV). These two models provide distinct pathways for businesses looking to expand into China, each offering unique advantages depending on the industry, investment goals, and regulatory landscape.

4.1.1 Wholly Foreign-Owned Enterprises

A Wholly Foreign-Owned Enterprise (WFOE) is a limited liability company entirely owned and financed by foreign investors. Initially introduced to encourage manufacturing and technology transfers, WFOEs have evolved into versatile investment vehicles across various industries, including trading, service provision, and software development. Since China's accession to the World

Trade Organisation (WTO) in 2001, WFOEs have gained popularity as they offer full control over operations, allowing foreign businesses to operate independently. They provide the ability to hire employees directly, issue CNY-based invoices, and enter into contracts, ensuring a smooth and autonomous business operation within the local market.

Advantages	Disadvantages
<p>A WFOE provides full control over business operations, allowing foreign investors to implement their strategies without the interference of a local partner.</p> <p>This structure enables companies to hire employees, issue CNY-based invoices, and engage in contract negotiations, which simplifies operations and ensures financial and legal independence.</p> <p>Additionally, a WFOE enhances decision-making efficiency by eliminating reliance on a local partner, reducing potential conflicts, and enabling streamlined management and strategic execution.</p>	<p>Despite its advantages, a WFOE is subject to China's Negative List, which restricts or prohibits foreign investment in certain sectors.</p> <p>While the approval process has been simplified, companies still need to navigate complex regulatory requirements and obtain industry-specific approvals. Additionally, some industries, particularly manufacturing, require high initial capital investments, making financial planning crucial for foreign investors.</p> <p>Understanding these regulatory and financial requirements is essential for establishing a WFOE successfully.</p>



4.1.2 Joint Ventures

A Joint Venture (JV) is a partnership between a foreign investor and a Chinese company, where each party's liability is limited to its contributed assets. JVs are commonly chosen in industries where foreign investment is restricted or where local market

knowledge and government connections are essential. Many businesses prefer JVs because they allow access to established distribution networks and local expertise, making market entry more seamless. In industries with foreign ownership restrictions, such as telecommunications or healthcare, JVs often serve as the only viable entry strategy.

Advantages	Disadvantages
<p>A JV offers significant benefits by leveraging the local partner's resources, including market knowledge, distribution channels, and government relationships.</p> <p>In regulated industries where foreign ownership is restricted, a JV can provide the only feasible market entry option.</p> <p>Additionally, JVs help mitigate financial risks by distributing costs and liabilities between partners, reducing the financial burden on foreign investors.</p>	<p>While joint ventures offer valuable access to local expertise and networks, they also come with notable challenges.</p> <p>A common obstacle is that many JV plans fail to materialize due to disagreements during the structuring and negotiation of the JV agreement.</p> <p>Reaching alignment on ownership, control, and governance can be difficult, and early-stage misalignment often leads to abandoned partnerships.</p>

Even when a JV is successfully established, shared control can result in conflicting decision-making and strategic direction between partners. This may impact agility and operational efficiency. Additionally, foreign investors may have limited influence over core business functions depending on the agreement terms. The overall success of the venture is closely tied to the local partner's reliability, capabilities, and integrity, making thorough due diligence essential before moving forward.

4.1.3 Legal Requirements and Approval Process for WFOEs and JV

Legal Requirements for WFOE

Foreign investors looking to establish a WFOE in China must comply with several key legal requirements. The Foreign Investment Law, enacted in January 2020, streamlined the regulatory process, eliminating prior approval requirements for businesses outside restricted industries.

Although there are no official minimum capital requirements, local authorities often provide guidance based on industry norms and business scale. For example, trading companies are typically advised to register capital between CNY 300,000–500,000, consulting firms around CNY 100,000–200,000, and manufacturing enterprises may be recommended to declare CNY

600,000 or more. These figures serve as practical references rather than mandatory thresholds.

In addition, businesses must clearly define their business scope during registration. Conducting activities outside the approved scope may trigger further registration steps or require new approvals.

Approval Process for WFOE

- 1. Pre-Approval Check:** Ensure that the intended business activity is not listed on China's Negative List, which restricts or prohibits foreign investment in certain sectors. If the business falls outside of restricted categories, it may proceed without special approval.
- 2. Application Submission:** Prepare and submit the required documentation to the relevant local authorities. This typically includes a feasibility study, articles of association, and information on the foreign investor(s).
- 3. Registration with Authorities:** Once approved, register the WFOE with the State Administration for Market Regulation (SAMR). This step legally establishes the company and provides a business license.
- 4. Initial Operational Setup (may occur in parallel with licensing):** To make the entity operational, several foundational steps must be completed:

- Open a Chinese corporate bank account
 - Register with the local tax bureau
 - Complete social security and housing fund registrations
 - Obtain an import/export license (if applicable)
- 5. Licenses and Permits** Depending on the sector, additional industry-specific licenses or permits may be required before full operations can begin (e.g., food safety permits, medical licenses, etc.).
- 6. Post-Registration Operations:** Once the above steps are completed, the WFOE can hire staff, issue invoices, sign contracts, and begin day-to-day business activities.

Legal Requirements for JV

Establishing a JV requires drafting a Joint Venture Agreement, detailing each party's investment amounts, ownership structure, and responsibilities. JVs must comply with China's Negative List, which may require foreign investors to partner with a local company in certain industries where full foreign ownership is restricted.

Approval Process for JV

- 1. Initial Negotiation:** The first step is finding a suitable local partner, which can take time to ensure compatibility and alignment of business goals.
- 2. Submission of JV Agreement:** Once a local partner is selected and both parties finalize the business structure, the signed Joint Venture (JV) agreement is submitted to the relevant local authorities for review, including the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM).
- 3. Approval:** If the JV operates in a restricted industry, approval from the relevant regulatory bodies is required before proceeding.
- 4. Registration:** Following approval, the JV must be registered with the State Administration for Market Regulation (SAMR), and relevant business licenses must be obtained based on the industry.
- 5. Operational Setup:** To make the JV operational, several foundational steps are required—often in

parallel with licensing:

- Opening a corporate bank account
 - Registering with the local tax bureau
 - Completing social security and housing fund registrations
 - Obtaining an import/export license, if applicable
- 6. Post-Registration:** Once these steps are completed, the JV can begin business operations, hire employees, and engage in commercial activities, subject to any ongoing regulatory requirements.

4.1.4 Estimated Costs and Price Positioning: WFOE vs. JV

The overall cost of establishing a Wholly Foreign-Owned Enterprise (WFOE) or a Joint Venture (JV) in China typically falls within the range of CNY 40,000 to 160,000, covering standard incorporation services such as business registration, tax setup, bank account opening, and basic legal and administrative support. In many cases, the core setup costs are comparable between WFOEs and JVs.

The key cost differential for JVs lies in the Joint Venture Agreement, which requires negotiation and legal drafting to define capital contributions, governance rights, profit sharing, and exit terms. Legal fees for this process typically start at CNY 15,000, but can increase significantly based on the complexity of the arrangement and sector-specific regulations.

It is important to note that industry-specific licensing is not included in these standard cost estimates. For example, companies entering regulated sectors such as medical devices, food, education, or healthcare will incur significantly higher costs due to extensive licensing, product registration, testing, and local approvals. In such cases, the total investment required to become fully operational can far exceed the initial incorporation range.

While JVs may offer cost-sharing advantages when a local partner contributes infrastructure or licensing support, this benefit is highly case-dependent. WFOEs, in turn, provide greater autonomy and a more streamlined approval process but place full operational responsibility on the foreign investor. Companies should carefully assess both financial and strategic considerations

when choosing the most suitable structure for their market entry.

Deciding between a WFOE and a JV depends on several factors, including the desired level of control, industry regulations, and the need for local market expertise. A WFOE is ideal for businesses that prioritise independence and full operational control, while a JV is better suited for industries with foreign investment restrictions or companies seeking to leverage local resources and networks. Both structures offer distinct advantages and challenges, and a thorough understanding of China's legal and regulatory framework is crucial for ensuring a successful long-term investment strategy.

Case Study: Working with a Local Partner Through a Joint Venture in a Restricted Industry

Industry: Automotive

Country of origin: Netherlands

Context

A well-established Dutch SME manufacturing automotive parts, particularly for camper vans, aimed to expand its domestic sales footprint in China. Due to foreign ownership restrictions in their sector and the need for an established local distribution network, the company opted for a Joint Venture (JV) model. The goal was to enter the Chinese market efficiently while retaining strategic oversight and control over branding and the sales funnel.

Approach

The company conducted a thorough partner search, prioritising Chinese firms with decades of industry experience, a national distribution network, and aligned business values. After evaluating several candidates, they selected a domestic automotive distributor with strong logistics capabilities and market access. The JV agreement was carefully negotiated to ensure that the Dutch partner retained significant influence over product positioning, pricing, and customer engagement.

The legal and registration process included:

- Preparing and submitting documentation to the Administration for Market Regulation (AMR)
- Negotiating ownership and governance terms in the JV contract

- Securing approvals from local authorities, including MOFCOM and NDRC (where applicable)
- Finalising capital contributions and completing registration in Shanghai

The joint venture was officially launched within six months.

Outcome

The JV allowed the company to quickly penetrate the Chinese market and significantly grow domestic sales of its camper van components. The Dutch manufacturer maintained strong oversight of the customer journey and brand identity, supported by the partner's distribution reach and on-the-ground operational support. The clear delineation of roles and expectations in the JV contract proved critical to the success of the partnership.

Key Takeaway

Success in restricted industries through a Joint Venture depends heavily on two factors: identifying a capable local partner with deep market experience and negotiating a JV agreement that safeguards the foreign partner's operational priorities. With the right structure, a JV can provide market access, risk-sharing, and rapid sales growth while maintaining strategic alignment.

4.2 PARTNERSHIPS AND REPRESENTATIVE OFFICES IN CHINA

4.2.1 Function and Purpose of Representative Offices in China

A Representative Office (RO) in China functions as an extension of a foreign enterprise, enabling it to conduct limited activities within the market. While an RO cannot engage in direct profit-generating activities or employ local Chinese staff, it plays a crucial role in facilitating partnerships, networking, and business development. By establishing an RO, foreign enterprises can build relationships with local entities, government bodies, and industry partners, making it a valuable tool for companies exploring the Chinese market.

The primary purpose of an RO is to provide a low-risk market entry option, allowing foreign businesses to conduct market research, engage in promotional activities, liaise with potential partners, and assist with procurement and investment opportunities. Given its role in fostering collaboration and stakeholder engagement, the RO is positioned under the

partnerships category within the EU Center's proposal, highlighting its function as a strategic bridge between foreign enterprises and the Chinese market.

4.2.2 Benefits and Limitations of Representative Offices

Representative Offices (ROs) are relatively easy to establish, offering a faster and simpler setup process compared to other business structures in China. They provide foreign enterprises with a legal presence in the Chinese market, primarily for non-commercial activities such as market research, networking, and business development.

Unlike other structures, ROs do not require registered capital, which reduces the initial financial burden. However, it's important to note that while ROs are legal entities, they are not separate legal persons. This limits their ability to enter into contracts independently or engage in commercial operations. ROs are a cost-effective solution for companies looking to better understand market dynamics without committing to a more complex setup such as a Wholly Foreign-Owned Enterprise (WFOE) or Joint Venture (JV).

Key Limitations

Despite their advantages, ROs come with significant restrictions. They cannot engage in direct sales or revenue-generating activities, limiting their scope to functions like market research, promotional activities, procurement, and liaison work. ROs also cannot negotiate or sign contracts on behalf of the parent company, nor deliver services or products.

Another important operational limitation is that ROs cannot directly hire Chinese employees. Instead, they must recruit local staff through government - authorized employment agencies, which can increase administrative complexity and cost.

Furthermore, because an RO is not a separate legal person, it cannot be upgraded or converted into a WFOE later. If a company decides to expand to full operations, the RO must be liquidated, and a new legal entity must be established — which involves additional time and costs.

Finally, ROs are taxed on their expenses, which can reduce some of the cost advantages over time, especially for companies with high operating costs.

4.2.3 Legal Considerations and Registration Requirements for Representative Offices

The establishment of a Representative Office (RO) in China must comply with specific legal requirements to ensure regulatory approval. The foreign company seeking to set up an RO must have been operational for at least two years before applying, demonstrating its legitimacy and business continuity. Additionally, the RO must register with the local branch of the State Administration for Market Regulation (SAMR) to obtain formal recognition and authorization to operate within the country. As part of the registration process, the company must submit key documentation, including its business license, proof of financial standing, office rental contracts, and appointment letters for the chief representative. These requirements are essential to verify the parent company's credibility and establish the legal framework under which the RO will function.

4.2.4 Approval Process for Representative Offices

Overview of the Steps for Setting Up a Representative Office

The process to set up an RO in China is relatively straightforward, typically taking two to three months. Below are the key steps involved in the approval process:

1. Pre-Registration

- **Appointment of Chief Representative:** A chief representative, who may be a foreign national, must be appointed to manage the RO.
- **Location of Office:** The office space must be rented in a commercial building for a minimum of one year.
- **Foreign Enterprise Documents:** The foreign enterprise must provide proof of two years of operational history and a creditworthiness certificate to be issued from the shareholder's bank.

2. Registration with SAMR: Foreign enterprises must submit the following documentation to the SAMR:

- RO application form signed by the chief representative.
- Appointment letter for the chief representative, along with their identity documents and CV.

- Office rental contract and proof of office location.
 - Company's business license and other required documents such as articles of association and financial proof.
- 3. Issuance of Registration Certificate:** If the documents are in order, SAMR will issue the RO registration certificate in about 15 working days.

4.2.5 Partnerships in China: Importance, Benefits, and Key Considerations

Partnerships play a vital role in market entry and business expansion strategies for foreign enterprises in China. Given the country's complex regulatory environment, competitive landscape, and relationship-driven business culture, forming partnerships with local entities, industry players, or government-linked organizations can provide foreign businesses with a strategic advantage. Whether through formal business partnerships, distribution agreements, strategic alliances, or joint collaborations, partnerships enable foreign companies to navigate China's market more effectively while leveraging local expertise and networks.

Why Partnerships Are Important

Access to Local Knowledge and Business Networks
One of the biggest advantages of forming a partnership in China is the insider knowledge and established relationships that local partners bring. China's business environment operates on strong relationship networks (*guanxi*), and having a local partner can help foreign businesses connect with key stakeholders, navigate bureaucratic processes, and better understand consumer preferences. This is especially important for industries with regulatory complexities or localized market demands, where foreign companies may face challenges without local expertise.

Risk Sharing and Regulatory Navigation

China's regulatory framework can be challenging for foreign investors, with frequent policy changes, licensing requirements, and sector-specific restrictions. Partnerships allow foreign companies to share risks and responsibilities with local entities, reducing the burden of full compliance management. Local partners can help navigate licensing approvals, government relations, and supply chain challenges, making operations smoother and mitigating risks related to legal uncertainties and market entry barriers.

Accelerated Market Entry and Business Expansion

Forming a strategic partnership allows foreign businesses to enter the Chinese market more efficiently, reducing the time and resources required to establish a standalone operation. Many companies partner with local distributors, manufacturers, or service providers to tap into existing networks and infrastructure, eliminating the need to build from scratch. This approach is particularly useful for companies in fast-moving consumer goods (FMCG), retail, e-commerce, and manufacturing, where speed and market reach are critical for success.

Increased Investment and Growth Opportunities

Partnerships in China can provide access to additional investment opportunities, as local partners often have connections to domestic capital markets, government incentives, and industry-specific funding programs. Foreign businesses can benefit from co-investment models, technology-sharing agreements, and supply chain collaborations, allowing them to scale their operations more effectively. Many multinational corporations enter China through partnership-driven expansions, especially in industries such as technology, automotive, healthcare, and renewable energy, where local expertise is crucial for navigating industry regulations and consumer expectations.

Operational Flexibility and Strategic Control

Unlike Wholly Foreign-Owned Enterprises (WFOEs), which require a full commitment to independent operations, partnerships offer a more flexible business model. Depending on the agreement, foreign companies can negotiate their level of control, retain strategic influence, and structure their involvement based on specific market needs. For businesses that prefer a lower-risk, collaborative approach, partnerships provide an alternative to direct ownership while ensuring a strong foothold in the market.

Key Considerations When Forming a Partnership in China

While partnerships offer numerous benefits, foreign businesses must carefully evaluate potential partners, ensuring alignment in business objectives, transparency in financial dealings, and compatibility in corporate culture. A well-structured partnership agreement should outline roles, responsibilities, profit-sharing terms, dispute resolution mechanisms, and exit strategies to protect both parties' interests. Given China's dynamic legal and regulatory landscape, companies should also seek legal and financial guidance to structure partnerships effectively.

By leveraging partnerships, foreign businesses can

establish a strong market presence, reduce operational risks, and unlock new growth opportunities in China's highly competitive business environment. Whether through formal alliances, supply chain collaborations, or distribution agreements, partnerships remain a key strategy for successful market entry and long-term expansion in China.

Case Study: Improving Procurement Efficiency with a Representative Office

Industry: Consumer Goods / Sourcing

Country of origin: Portugal

Context

A Portuguese consumer goods company sought to improve procurement efficiency and reduce its reliance on third-party sourcing agents. With a growing product range in electronics, kitchen, and home goods, the company aimed to establish a local office in China to enhance supplier control, reduce costs, and improve quality assurance.

Approach

- **Opening a Representative Office in Guangzhou:** The company set up a Representative Office (RO) in Guangzhou to manage supplier relationships and monitor production. The office was tasked with supplier scouting, contract negotiation, and logistical coordination. Although it could not engage in direct commercial sales, the RO played a critical role in managing local partnerships and ensuring supply chain performance.
- **Sourcing and Quality Oversight:** The team conducted factory audits, price negotiations, and production monitoring. They also explored new product lines and innovations from Chinese manufacturers to strengthen the company's European product offerings. Routine inspections and quality control checks helped prevent costly production errors and build long-term supplier accountability.

Outcome

- **Cost Savings:** The company reduced sourcing costs by 15% through direct negotiations and improved freight/logistics coordination.
- **Speed:** Lead times were cut by 25%, enabling faster response to European market demands.

- **Market Insights:** On-the-ground presence allowed the company to stay ahead of consumer trends and innovations in Chinese manufacturing.

Key Takeaway

A Representative Office offers an effective, low-risk option for companies seeking to manage sourcing and supplier relationships in China. Without engaging in sales, it allows close monitoring of local operations, reducing costs and increasing quality assurance — ideal for companies focused on procurement, not direct market entry.

4.3 PILOT FREE TRADE ZONES

4.3.1 Overview of China's Free Trade Zones

Pilot Free Trade Zones (PFTZs) are designated regions in China that provide foreign enterprises with streamlined investment procedures, relaxed trade regulations, and enhanced policy support. Established to promote regional economic growth and attract foreign investment, PFTZs continue to evolve with new reforms and sector-specific incentives that align with China's broader economic objectives.

While PFTZs offer a more liberalized regulatory environment where foreign investment restrictions are reduced and administrative procedures are more efficient, not all areas within a PFTZ enjoy the same customs treatment. Duty exemptions typically apply to bonded zones within the PFTZ, where goods can be imported and stored or processed without immediate payment of Chinese customs duties. Duties are only levied if those goods enter the domestic Chinese market.

Consequently, bonded zones within PFTZs attract numerous foreign companies that use them as hubs for warehousing, processing, and re-export. Many PFTZs are also integrated with other economic and industrial zones, such as High-tech Parks and Development Zones, to promote industrial clustering and specialization.

4.3.2 Tax Incentives & Regulatory Benefits

PFTZs offer several advantages for foreign businesses, including:

- **Customs and Tariff Advantages:** Designated bonded zones within PFTZs allow goods to be imported without immediate payment of Chinese customs duties. Duties are only applied if the goods

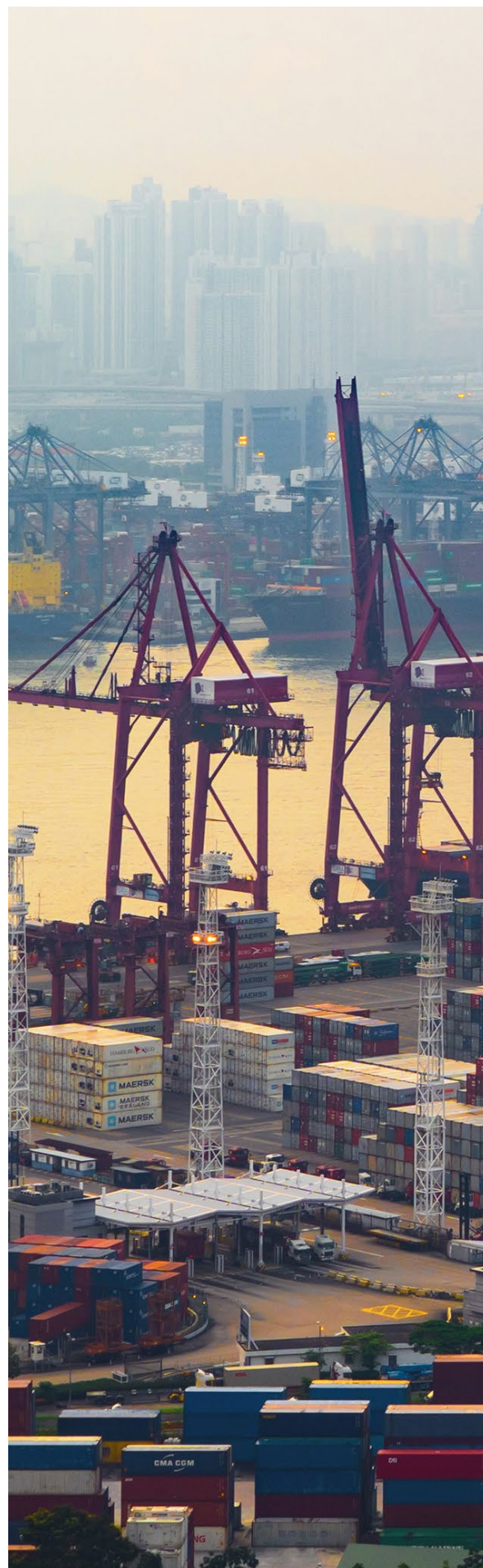
are transferred into the domestic Chinese market, making these zones attractive for warehousing, processing, and re-exporting activities.

- **Investment Incentives:** Many PFTZs provide fewer restrictions on foreign ownership, particularly in industries such as financial services, biotechnology, renewable energy, and advanced materials.
- **Financial Flexibility:** These zones enable easier cross-border fund transfers, offshore financing, and relaxed foreign exchange regulations, enhancing capital flow.
- **IP Protection and Innovation Support:** Many PFTZs have enhanced intellectual property (IP) protection measures, making them ideal for technology-driven businesses.
- **Sector-Specific Focus:** Each PFTZ tailors its policies to certain industries, encouraging innovation and specialized trade activities.

4.3.3 Key PFTZs & Their Advantages for SMEs

Since the launch of Shanghai's Pilot Free Trade Zone in 2013, China has expanded its network to 21 Free Trade Zones, each designed to support specific regional development goals and industry strengths. Below is a selection of the most prominent and SME-relevant PFTZs, known for their strategic positioning and sectoral focus:

- **Shanghai PFTZ:** A leader in financial services, trade liberalization, and high-tech innovation.
- **Guangdong PFTZ:** Strong in cross-border e-commerce and logistics, leveraging integration with Hong Kong and Macao.
- **Fujian PFTZ:** Focused on maritime industries and international trade, particularly in relation to Belt & Road Initiative (BRI) corridors.
- **Hainan Free Trade Port:** A unique zone emphasizing green energy, tourism, and a rapidly developing duty-free retail economy.
- **Tianjin PFTZ:** Known for advanced manufacturing, with growing capabilities in aerospace and equipment production.



Emerging Trends in PFTZ Development

- **Digital Trade Innovation:** Select PFTZs aim to become digital trade hubs, fostering cross-border e-commerce and technology firms.
- **Green Economy Incentives:** Zones such as Hainan and Fujian are prioritizing businesses involved in renewable energy and environmental protection.
- **Financial Sector Reforms:** Some PFTZs are relaxing banking and investment fund policies, allowing greater foreign participation in China's financial sector.

4.3.4 Greater Bay Area & Qianhai: Strategic Launchpads for SMEs

As European SMEs explore pathways into the Chinese market, certain regions stand out for their unique policy incentives, cross-border integration, and sector-specific advantages. One such area is the Greater Bay Area (GBA) a national development strategy aimed at integrating Hong Kong, Macao, and nine cities in Guangdong province into a world-class innovation and business hub.

Within the GBA, Qianhai (in Shenzhen) is emerging as a key gateway for foreign companies, particularly those in modern services, technology, and fintech sectors.

Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

Established in 2010, Qianhai was designed to promote deep cooperation between Hong Kong and Shenzhen, offering a platform for innovation, professional services, and cross-border collaboration.

- **Policy Advantages:** Preferential policies and subsidies support the entry of Hong Kong and foreign-invested firms.
- **Business Ecosystem:** Over 10,000 Hong

Kong-invested enterprises are registered, and more than 100,000 Hong Kong permanent residents are currently working or doing business in the zone.

- **Sector Focus:** Legal system innovation, trade facilitation, and pilot reforms in financial services.
- **Tax Incentives:** Qianhai offers corporate and personal income tax subsidies, particularly in key sectors identified by Guangdong province, making it cost-effective for foreign professionals and SMEs to operate there.

While Qianhai is not the only regional pilot zone in China, it is particularly relevant for SMEs interested in leveraging Hong Kong's legal and financial systems while tapping into mainland China's innovation and consumer markets.

Recommendations for EU SMEs

- **Assess Sector-Specific Benefits:** Each PFTZ has unique industry priorities. EU SMEs should evaluate which zone aligns best with their business goals.
- **Engage with Local Authorities:** Direct engagement with regional government bodies can help secure incentives, subsidies, and logistical support.
- **Ensure Regulatory Compliance:** While PFTZs offer relaxed rules in some areas, businesses must still comply with national labor, taxation, and corporate governance laws.
- **Leverage Supply Chain Advantages:** Many PFTZs provide advanced logistics infrastructure, making them ideal for SMEs engaged in manufacturing, distribution, or e-commerce.

Strategically selecting a suitable PFTZ and aligning with its focus industries, EU SMEs can maximise their opportunities for successful market entry and expansion in China.



Case Study: Leveraging a Free Trade Zone for Better Fulfilment

Industry: Human Machine Interfaces

Country of origin: Austrian

Context

A family-owned and world-leading manufacturer of human machine interfaces, switches and interface systems with subsidiaries in Mainland China (Guangzhou), Hong Kong, Japan and servicing the APAC region considered utilising a Free Trade Zone (FTZ) to achieve faster and tax-efficient fulfilment of its goods.

Approach

Since the company had an intricate supply chain, including manufacturing activities in the EU and in Guangzhou, Guangdong, where part of the produced components from the EU and China had to be assembled near the customers location for faster fulfilment the company extensively researched the use of FTZs and bonded zones. The hypothesis was to produce partly in- and partly outside of a bonded zone in the Guangzhou FTZ to enable tax optimisation for final assembly of goods and an ability to faster fulfil needs of its clients in the APAC region – acting as a warehousing hub.

Outcome

Following initial research, the company has setup a new subsidiary in the Guangzhou FTZ bonded zone which enables it to produce and store part of its products in a non-bonded- and part of its products in a bonded zone. The result was a 1-2 month decrease in lead times on products produced for and delivered to the APAC region.

Key Takeaway

Use of FTZs enabled to company to overcome tax limitations and increase fulfilment by ensuring production closer to the end-customer.



5. LEGAL & REGULATORY CONSIDERATIONS

5.1 INTRODUCTION TO REGULATIONS ON FOREIGN INVESTMENT

The legal landscape for foreign investment in China has evolved, with key regulations such as the Updated Company Law (2024), the Negative List, and Restricted Industries:

- **Updated Company Law (2024):** This law has updated various aspects of foreign investment, such as corporate governance, dispute resolution, and the rights of foreign investors. It emphasizes creating a more transparent and efficient legal framework for foreign businesses.
- **Negative List:** The Negative List outlines sectors where foreign investment is either restricted or prohibited. Companies must carefully review this list to ensure their intended investment activities are allowed.
- **Restricted Industries:** Certain industries in China, such as telecommunications, media, and finance, are subject to restrictions on foreign ownership or require specific joint ventures. Companies must navigate these restrictions based on their business sectors.

5.2 FOREIGN EXCHANGE CONTROL

5.2.1 Understanding China's Foreign Exchange Controls

China operates under a “managed float” system for foreign exchange, regulated by the People's Bank of China (PBOC, 中国人民银行) and the State Administration of Foreign Exchange (SAFE, 国家外汇管理局). This system influences exchange rates and cross-border transactions, ensuring government oversight while allowing some market-driven fluctuations. Under current regulations, any overseas payments with terms exceeding 90 days from the import declaration date must be reported to SAFE, regardless of the amount. Additionally, while the exchange rate of the Renminbi (RMB) is influenced by market supply and demand, it remains under strict government supervision.

To further manage foreign exchange, China imposes restrictions on capital outflows, which can impact businesses seeking to transfer funds abroad. Foreign

companies must also consider how double taxation treaties between China and their home countries may affect tax obligations when conducting cross-border transactions. Understanding the role of banking institutions in enforcing these regulations is crucial, as banks act as intermediaries in approving foreign exchange transactions and ensuring compliance with SAFE policies.

5.2.2 How SMEs Can Navigate Currency Restrictions & Profit Repatriation

Foreign businesses in China must understand foreign exchange controls to ensure smooth financial operations and compliance with regulations. These controls affect key financial aspects such as funding, cash flow, profit repatriation, and foreign exchange risk management.

- **Funding & Cash Flow:** Cross-border payments and financing often take time due to regulatory checks. Companies should plan ahead to avoid potential disruptions in funding. Trade finance instruments, such as letters of credit, can help facilitate transactions while ensuring compliance with exchange control policies.
- **Profit Repatriation:** Transferring profits out of China requires compliance with SAFE regulations and tax clearance procedures, making proper financial planning essential. Businesses should also assess the tax implications of repatriation, including potential withholding tax obligations.
- **Foreign Exchange Risk:** Fluctuations in exchange rates can impact profitability. Businesses can mitigate risks through hedging tools such as forward contracts and by maintaining RMB-denominated accounts. Additionally, foreign currency borrowing regulations may influence financing options for companies operating in China.

To stay compliant and optimize financial operations, SMEs should work with local banks familiar with SAFE processes and explore financial structures that offer more flexibility in fund movement. Maintaining foreign currency accounts where permitted can also help manage cross-border transactions efficiently.

5.2.3 Foreign Exchange Controls: Current vs. Capital Accounts

China enforces strict regulations on foreign exchange transactions by distinguishing between current and capital account transactions. Businesses must maintain separate bank accounts for each type of transaction:

- **Current Account (Trade-Related Transactions):** Covers payments for imports, exports, and dividends. These transactions are typically processed through banks with fewer restrictions, making them more accessible for foreign businesses. Foreign companies should ensure compliance with foreign currency account regulations to facilitate smoother trade payments.
- **Capital Account (Investment & Loans):** Includes foreign investments, loans, and capital transfers, all of which require SAFE approval before processing. Restrictions on capital outflows may impact businesses looking to move funds internationally, requiring careful financial planning.

Companies must align their financial planning with SAFE policies to ensure timely payments, efficient profit repatriation, and minimal exposure to exchange rate risks. Working with financial institutions that specialize in cross-border transactions can help businesses navigate these regulations more effectively.

By proactively managing foreign exchange controls, businesses can enhance their financial stability, navigate regulatory complexities, and maintain seamless operations in China's evolving financial landscape.



Find out more in the EU SME Centre guidelines **Payment Options and Foreign Exchange Control in China**.

In these guidelines, exporters will find detailed explanations on the different payment options available to them, the documentation required and the risk level of each, as well as information on payment in RMB and in freely convertible currency. They will also find illustrations of typical cross-border payment scenarios on the trade of goods and services between European companies and Chinese partners. [Read the guidelines here](#).

5.3 COMPLIANCE

5.3.1 Compliance Requirements for SMEs in China

Foreign businesses operating in China must adhere to various compliance requirements that shape the legal framework for their operations. To ensure full compliance, companies should seek expert advice before entering the market and familiarize themselves with key regulatory areas. These include data protection and cybersecurity laws, anti-bribery and fair competition policies, environmental and workplace safety regulations, tax compliance, employment compliance, intellectual property (IP) protection, due diligence on partners and suppliers, and cross-border payment regulations.

Additionally, companies must ensure compliance with customs and import regulations, product standards such as the China Compulsory Certification (CCC), and sustainability requirements. Adhering to these regulations not only mitigates risks but also fosters long-term business success in China's evolving market. Foreign businesses are strongly advised to consult reputable law or accounting firms to navigate the complexities of Chinese regulations effectively.

5.3.2 Key Regulations for Foreign Businesses Operating in China

China has introduced and revised several laws to attract foreign investment and regulate business activities. Understanding the latest policies is essential for mitigating risks associated with non-compliance, which can negatively impact operations and future growth.

Below are key regulations and legal frameworks that foreign businesses should be familiar with:

- **Foreign Investment Law of the People's Republic of China (中华人民共和国外商投资法) and its Implementation Regulations:** Effective since January 2020, this law governs foreign investment and establishes principles for market access and equal treatment.
- **Regulations on the Administration of Import and Export of Technologies (中华人民共和国技术进出口管理条例, "TIER"):** Revised in 2019, this regulation includes the removal of forced technology transfer requirements.

- **Special Administrative Measures for the Access of Foreign Investment (Negative List) (外商投资准入特别管理措施【负面清单】)**: Specifies industries where foreign investment is restricted or prohibited. A separate Negative List for Pilot Free Trade Zones (FTZ Negative List) (自由贸易试验区外商投资准入特别管理措施【负面清单】) provides additional guidelines for these special economic zones.
- **Catalogue of Industries for Encouraging Foreign Investment (鼓励外商投资产业目录)**: Updated in 2019, this document outlines sectors where foreign investment is actively encouraged.
- **China Company Law 2024 (中华人民共和国公司法)**: Updated on July 1, 2024, this law governs foreign investment and shareholding structures within China.
- **China's Value-Added Tax (VAT) Law (中华人民共和国增值税法)**: Set to take effect on January 1, 2026, the new VAT law consolidates existing regulations into a single legal framework.
- **Customs & Import Regulations**: Compliance with China's customs and import regulations, including obtaining necessary approvals and meeting product certification requirements like the CCC (China Compulsory Certification).
- **E-commerce & Digital Compliance**: Companies selling via e-commerce platforms in China must comply with digital taxation, data privacy, and cybersecurity laws, ensuring proper consumer protection and data security measures.

5.3.3 The Role of Local Legal Experts in Ensuring Compliance

Foreign companies with subsidiaries in China must thoroughly understand administrative and compliance requirements to reduce risks and avoid unnecessary operational costs. Given the complexity and frequent changes in China's regulatory landscape, staying compliant is crucial for smooth business operations, and long-term success. Companies unfamiliar with local compliance requirements should seek guidance from experienced legal professionals, as non-compliance can result in severe financial and legal consequences.

Additionally, understanding the implications of China's labor laws and work permit regulations is essential, especially for businesses hiring foreign employees. Ensuring proper employment contracts, social insurance

contributions, and workplace safety measures can prevent legal disputes and penalties. Companies should also consider double taxation agreements (DTAs) between China and their home country to optimize tax structures and prevent unnecessary tax burdens.

5.3.4 Foreign Exchange Control and Compliance

For foreign businesses operating in or trading with China, understanding the country's foreign exchange control policies is critical for ensuring compliance and maintaining financial stability. Due to strict cross-border transaction regulations, companies must plan strategically to navigate these controls, ensuring compliance while maintaining a steady cash flow. Exchange control regulations are a crucial component of the broader legal framework, influencing financial operations and international business transactions within China.

In addition, businesses should align their financial strategies with China's evolving policies on cross-border payments and foreign exchange settlements. Ensuring proper documentation for international transactions and compliance with capital control policies can help companies avoid unexpected restrictions or financial bottlenecks. By proactively addressing compliance in these key areas, foreign businesses can establish a solid legal foundation, minimize risks, and enhance their long-term viability in the Chinese market.

5.4 INTELLECTUAL PROPERTY (IP) PROTECTION

5.4.1 Importance of Intellectual Property (IP) Protection

Before entering the Chinese market, businesses must secure proper intellectual property (IP) protection to safeguard their innovations, trademarks, and creative works. Without official registration of patents, trademarks, or copyrights in China, companies cannot file complaints with authorities against infringers.

China operates on a territorial IP protection system, meaning that IP rights registered in other jurisdictions do not automatically extend to China unless covered by international treaties such as the Patent Cooperation Treaty (PCT), Madrid Protocol, Paris Convention, and TRIPS Agreement. Recent legal reforms have enhanced China's IP protection framework, making enforcement more feasible for foreign businesses.

5.4.2 Registering Trademarks, Patents, & Copyrights

Protecting intellectual property (IP) is essential for foreign businesses entering the Chinese market. China operates on a first-to-file system, meaning that IP must be registered in China even if it's already protected in other countries. Below are the three key categories of IP that businesses should proactively register:

Trademarks

China's trademark system follows a first-to-file principle, meaning whoever registers the trademark first holds the rights, regardless of prior use. Foreign companies are strongly advised to register both the English and Chinese-language versions of their brand early with the China National Intellectual Property Administration (CNIPA).

- **Registration Process Duration:** The process typically takes 8–12 months under normal circumstances. However, delays can occur, so it's prudent to plan accordingly.
- **Risk of Non-Registration:** Without local registration, companies risk trademark squatting, which may result in costly legal action or brand buybacks.

Patents

Patent protection must also be registered in China, even if already granted in other jurisdictions. China offers three types of patents: invention patents, utility models, and design patents.

- **Invention Patents:** These undergo substantive examination. The registration process typically takes 2–3 years.
- **Utility Models and Design Patents:** These are subject only to formal examination and can be granted more quickly, often within 8–12 months.
- **Application Process:** Applications must be filed with CNIPA and are subject to formal and substantive examination.
- **Recommendation:** Companies planning to manufacture or commercialize their technology in China should ensure local patent registration to enable enforcement in case of infringement.

Copyrights

Although China is a signatory to the Berne Convention,

local copyright registration is strongly recommended to strengthen legal standing and enforcement rights.

- **Scope:** This applies to software, written content, branding materials, audiovisual works, and other creative assets.
- **Registration Process Duration:** The copyright registration process is generally fast and can be completed within 1–2 months, making it a cost-effective way to protect original content and digital assets.

5.4.3 Common Challenges & Best Practices in IP protection.

Foreign businesses often face trademark squatting, counterfeiting, and bad-faith patent filings. Additionally, technology licensing and IP transfers are subject to government scrutiny, particularly in sensitive sectors such as national security, advanced manufacturing, and AI.

To mitigate these risks, companies should:

- Register IP early to prevent unauthorized claims.
- Monitor the market for potential infringements both online and offline.
- Use strong contracts with suppliers and distributors, including non-disclosure and non-compete clauses.
- Leverage blockchain technology for digital copyright tracking and evidence collection.
- Record IP with customs authorities to block counterfeit exports.
- Assess IP transfer restrictions before engaging in technology licensing agreements in China.

IP Enforcement Mechanisms in China

China provides three main enforcement channels:

- **Administrative Enforcement:** The State Administration for Market Regulation (SAMR) handles trademark infringements and false advertising claims, while the General Administration of Customs (GACC) enforces border IP protection when rights are recorded in the customs database.

- **Civil Litigation:** Specialized IP courts provide faster and more predictable rulings. Many foreign businesses have successfully used civil lawsuits against infringers, though litigation costs have risen.
- **Criminal Enforcement:** The Public Security Bureau (PSB) investigates severe violations such as counterfeiting, piracy, and trade secret theft, leading to arrests, prosecutions, and legal penalties.

5.4.4 IP Enforcement in China

China has significantly strengthened its IP enforcement framework, addressing both online and offline infringements. Enforcement mechanisms encompass digital tools provided by major platforms and broader legal and regulatory actions against violators.

1. Online IP Enforcement Mechanisms

With the rapid growth of e-commerce, China has implemented stricter regulations requiring online platforms to take proactive anti-counterfeiting measures. Major digital platforms now offer dedicated IP reporting and enforcement tools:

- **Alibaba Group: Alibaba IP Protection Platform**
- **JD.com: JD Intellectual Property Protection**
- **WeChat (Weixin): WeChat Brand Protection Platform**

These systems allow rights holders to file complaints, request takedowns, and monitor infringement across marketplaces. Businesses should familiarize themselves with the documentation required (e.g., trademark certificates, proof of ownership) and proactively monitor listings.

2. Offline Enforcement, Penalties & Risk Mitigation

Penalties for IP Infringement

China has introduced stricter penalties for IP violations, especially targeting repeat offenders. Penalties may include:

- Fines based on illegal revenue
- Seizure and destruction of counterfeit goods
- Blacklisting of repeat violators

- Criminal charges, including imprisonment in serious cases such as trade secret theft

Recent Policy Changes Affecting Foreign Businesses

To strengthen IP enforcement and improve transparency, China has adopted several policy reforms in recent years:

- Tougher anti-counterfeiting regulations that hold e-commerce platforms legally accountable
- The Revised Patent Law (2021), targeting bad-faith patent filings and improving damage claims
- Expansion of specialized IP courts and tribunals to handle foreign-related disputes more efficiently

IP Risk Management Strategies for Foreign Companies

To reduce infringement risks and strengthen enforcement, foreign companies should:

- Develop internal compliance programs to detect and report infringement
- Work with local IP law firms familiar with Chinese enforcement practices
- Regularly audit supply chains to prevent unauthorized manufacturing
- Protect trade secrets with secure systems and employee confidentiality agreements

Combining platform tools, legal enforcement mechanisms, and internal safeguards enables foreign businesses to protect their innovations and operate with greater confidence in the Chinese market.

Case Study: Registering IP Early to Avoid Infringement Disputes

Industry: Furniture Textiles

Country of origin: Poland

Context

A mid-sized European manufacturer of furniture textiles planned to expand its operations into China to support sourcing through in-house quality assurance (QA) and to grow domestic sales in China and the wider APAC region. With several established brands under

its portfolio, the company aimed to proactively protect its brand assets in China before increasing market exposure. This approach was driven by China's first-to-file trademark system, which grants rights to the first entity that registers a mark—making it extremely difficult to reclaim a brand if registration is delayed.

Approach

The company began with a comprehensive search of the China National Intellectual Property Administration (CNIPA) database to identify any existing identical or similar trademarks in relevant Nice Classification categories. Special attention was paid to potential Chinese translations and phonetic equivalents.

The filing strategy prioritized key brand names and included defensive registrations and the development of localized Chinese-language marks. Applications were prepared with accurate goods/service classifications and required documentation, including:

- Trademark representations;
- Applicant credentials;
- Classifications under the Nice Agreement;
- Power of Attorney (PoA).

The trademark was submitted to CNIPA for formal examination, followed by a three-month opposition period after publication.

Outcome

The application passed both formal and substantive review stages. As no successful opposition was filed during the publication period, the company received a Trademark Registration Certificate valid for ten years, with options for renewal. The registered marks were later used to enforce brand protection across e-commerce platforms and in customs declarations.

Key Takeaway

In China's first-to-file system, early trademark registration is critical. Delaying this process can result in brand hijacking, costly legal disputes, or blocked market entry. A proactive IP strategy—including localized trademark filing and defensive registration—ensures long-term protection and smooth expansion in the Chinese market.

China IP SME Helpdesk

**CHINA
IP SME HELPDESK**

The China IP SME Helpdesk supports small and medium-sized enterprises in the European Union (EU) and the other countries of the Single Market Programme (SMP) to both protect and enforce their Intellectual Property Rights (IPR) in or relating to Mainland China, Hong Kong, Macao and Taiwan through the provision of free information and services. These take the form of jargon-free, first-line, confidential advice on intellectual property and related issues, plus training, materials and online resources.

Visit the China IP SME Helpdesk's website: https://intellectual-property-helpdesk.ec.europa.eu/regional-helpdesks/china-ip-sme-helpdesk_en

5.5 POTENTIAL RISKS AND MITIGATION STRATEGIES IN THE CHINESE MARKET

Expanding into the Chinese market presents lucrative opportunities for foreign businesses, but it also comes with significant risks that must be carefully assessed and managed. From political and economic uncertainties to legal and operational challenges, businesses—particularly small and medium-sized enterprises (SMEs)—must adopt a strategic approach to risk management to ensure successful market entry and long-term sustainability.

While China remains an attractive destination for foreign investment, navigating regulatory complexities, economic fluctuations, and business culture can be challenging. However, with thorough due diligence, proactive planning, and engagement with local experts, businesses can mitigate potential risks and position themselves for growth.

This section explores the **key risks foreign companies may face** when entering the Chinese market and provides **practical mitigation strategies** through market research, compliance frameworks, insurance solutions, and partnerships with local advisors.

5.5.1 Risks Involved in Entering the Chinese Market

Political Risks

China's highly regulated business environment is subject to frequent policy changes and government interventions, which can impact foreign businesses. Regulations surrounding foreign investments, trade tariffs, and import/export rules are often adjusted to align with national interests, requiring businesses to stay informed and adaptable. Additionally, government approvals for licenses and permits can be complex, particularly in sensitive sectors such as technology, media, and finance, where restrictions on foreign ownership are stricter.

Geopolitical tensions, particularly trade disputes between China and other major economies like the United States or the European Union, can introduce uncertainties affecting supply chains, tariffs, and market access. These external factors can create operational disruptions, increase costs, and impact long-term business strategies.

Economic Risks

China's economy, while robust, is subject to currency fluctuations, inflationary pressures, and potential slowdowns that can impact foreign businesses. The Chinese yuan (CNY) can be volatile, affecting companies that rely on imports, exports, or cross-border transactions. Economic slowdowns can reduce consumer spending power, particularly in discretionary sectors like luxury goods, automotive, and technology, while inflation can drive up operational costs, making it difficult for SMEs to remain profitable.

Legal and Compliance Risks

Navigating China's complex legal framework is one of the biggest challenges for foreign businesses. Intellectual property (IP) protection remains a significant concern, particularly in industries such as technology, fashion, and design, where counterfeiting and IP infringement are common. While China has made strides in improving IP enforcement, legal processes can still be lengthy and unpredictable.

Compliance with local, regional, and national laws is another hurdle, as regulations vary across provinces and frequently change. Foreign companies must ensure strict adherence to corporate governance, tax regulations, employment laws, and industry-specific requirements to avoid penalties or operational disruptions. Additionally, legal disputes can be complex due to differences in legal interpretation and business culture,

making conflict resolution difficult for businesses unfamiliar with the system.

5.5.2 Mitigation Strategies for SMEs: Reducing Risks Through Due Diligence and Strategic Planning

Comprehensive Market Research & Risk Management

Before entering China, SMEs must conduct in-depth market research to understand economic conditions, competition, consumer behavior, and regulatory requirements. Thorough research helps businesses identify risks, assess demand, and fine-tune strategies before making significant investments. Engaging with local consultants, industry experts, and trade organizations provides valuable insights into market trends, legal challenges, and potential barriers to entry.

To navigate political, economic, and legal uncertainties, SMEs should develop a structured risk management framework that identifies potential risks, assesses their impact, and outlines mitigation strategies. This includes regular monitoring of policy changes, trade relations, and economic indicators to stay ahead of market shifts and compliance updates.

Establishing Local Partnerships & Due Diligence

Strategic local partnerships with distributors, suppliers, or joint ventures can ease market entry, enhance regulatory compliance, and reduce operational risks. Chinese partners can provide market insights, consumer behavior trends, and connections within government agencies, streamlining business operations. However, before engaging in partnerships, thorough due diligence is crucial. SMEs should verify business licenses, reputation, financial health, and legal history of potential partners to avoid fraud, misaligned incentives, or unreliable collaborations.

Investment in Compliance & Regulatory Oversight

Regulatory frameworks in China can be complex and industry-specific, making compliance a critical investment for SMEs. Businesses should establish internal compliance programs, conduct regular audits, and closely monitor policy updates in their respective industries. Collaborating with local legal experts ensures adherence to China's corporate, labor, and tax regulations, especially in sectors like finance, healthcare, and technology, where regulatory oversight is strict.

Managing Currency & Financial Risks

Foreign exchange controls and currency fluctuations pose financial risks for foreign businesses. SMEs should implement hedging strategies such as forward contracts, currency options, and multi-currency accounts to protect against exchange rate volatility. Staying informed about macroeconomic trends and interest rate policies can help businesses make smarter financial decisions regarding currency exposure and ensure smooth profit repatriation under China's foreign exchange regulations.

Product & Service Adaptation for Market Success

Adapting products, branding, and marketing to meet local consumer preferences and regulatory standards is essential for long-term success in China. Businesses should ensure that products comply with Chinese quality certifications and industry regulations while also tailoring their packaging, messaging, and distribution strategies to match local expectations. A well-localized approach can reduce regulatory risks, enhance brand acceptance, and improve market penetration.

5.5.3 Role of Insurance and Local Advisors in Risk Management

While strategic planning helps mitigate risks, insurance solutions and professional advisory services provide additional protection for businesses operating in China.

Insurance Solutions for Risk Mitigation

Businesses can safeguard their operations through various insurance products, which offer protection against financial losses due to political, economic, and legal uncertainties:

- **Political Risk Insurance** protects against losses caused by government actions, including expropriation, nationalization, and policy changes that impact business operations.
- **Currency and Exchange Rate Insurance** helps businesses mitigate the risks associated with currency fluctuations and financial instability.
- **Liability Insurance** provides coverage for legal disputes, product liability claims, or damage to business assets in China.

5.5.4 Engaging Local Advisors for Regulatory and Compliance Support

Legal advisors are essential for navigating China's legal system, ensuring regulatory compliance, protecting intellectual property, and resolving disputes. A strong legal team helps foreign businesses stay informed about corporate laws, tax policies, and contract enforcement.

Tax advisors provide expertise on China's taxation system, including corporate income tax, VAT regulations, and international tax treaties. They help businesses optimize tax structures, avoid compliance penalties, and manage transfer pricing risks.

Insurance brokers assist businesses in selecting customized insurance products that align with local regulatory requirements and industry-specific risks, ensuring adequate protection for operations in China.

Consulting and compliance partners offer expertise in business registration, regulatory compliance, and government relations. Given that laws and regulations in China vary by region, local consultants provide invaluable support in aligning business practices with provincial and national legal standards. These experts also assist in developing market entry strategies, business expansion plans, and operational risk management frameworks.

Entering the Chinese market presents several risks, including political uncertainty, economic volatility, regulatory challenges, and legal complexities. However, these risks can be effectively mitigated through thorough market research, strategic partnerships, compliance programs, and financial risk management strategies. By leveraging insurance solutions and working with local advisors, SMEs can navigate China's business environment more effectively, reducing exposure to unexpected challenges and ensuring long-term success.

Importance of Selecting the Right Strategy Based on Company Resources

Choosing the right market entry strategy is crucial and should be aligned with the company's resources and objectives. Factors to consider when selecting a strategy include:

- **Company Size:** Smaller companies may prefer indirect exporting or cross-border e-commerce due to lower upfront investment and resources required.

- **Product Nature:** Products requiring local after-sales service, customer support, or extensive customization might benefit from direct investment or a local partnership.
- **Previous Export Experience:** Companies with previous experience in exporting might choose direct exporting or a WFOE to capitalize on their existing knowledge.
- **Financial and Human Resources:** More resource-intensive strategies like setting up a WFOE or JV may require larger investments in both capital and personnel.
- **Risk Tolerance:** Companies must assess their risk appetite; indirect exporting or cross-border e-commerce generally involve lower risks than direct investment.



6. SELLING ONLINE IN CHINA FOR EU SMES

6.1 E-COMMERCE OPPORTUNITIES IN CHINA

China's e-commerce market is the largest and one of the most dynamic globally, with a value exceeding \$2 trillion annually. The country's rapid digital adoption, vast consumer base, and mobile-driven shopping behavior make it an attractive market for international businesses. The major platforms in China have distinct characteristics, catering to various market segments, and each requires a tailored approach.

1. Tmall Global (Alibaba Group)

 Tmall Global is a premier e-commerce platform designed for established international brands looking to reach high-income Chinese consumers. As part of Alibaba's extensive ecosystem, which includes Taobao and Alipay, Tmall Global enables foreign businesses to sell directly to Chinese consumers without the need to establish a local Chinese entity. The platform is known for its focus on quality, providing international brands with an exclusive space to showcase premium products.

There are several reasons why businesses choose Tmall Global. Reputation plays a key role, as Tmall is widely regarded as a trusted platform for premium and imported goods. Additionally, Alibaba's logistics infrastructure (Cainiao) ensures a seamless cross-border e-commerce experience, handling warehousing, shipping, and customs clearance efficiently. Consumer trust is another major advantage, as Tmall Global is particularly popular among Chinese shoppers looking for high-end products, especially in categories like fashion, beauty, and electronics.

2. JD Worldwide (JD.com)

 JD Worldwide is the international arm of JD.com, one of China's largest e-commerce platforms, catering to consumers who prioritize high-quality products with fast delivery options. Known for its strong logistics network, JD Worldwide allows foreign businesses to sell their products in China without the need to establish a local entity while

leveraging JD's extensive logistics infrastructure for efficient and reliable delivery.

There are several compelling reasons to choose JD Worldwide. Fast delivery is a key advantage, as JD.com operates its own fleet and warehouses to ensure quick and dependable shipping. The platform also provides local fulfillment solutions, such as bonded warehouses, allowing brands to stock products in China and significantly reduce delivery times. Additionally, JD.com attracts affluent shoppers, particularly in categories like electronics, home appliances, and fast-moving consumer goods (FMCG), leading to higher conversion rates for international brands looking to enter the Chinese market.

3. WeChat Store



WeChat Stores provide an ideal platform for businesses looking to leverage social media-driven commerce and build a strong, loyal customer base. As China's dominant messaging app, WeChat offers a unique ecosystem where businesses can connect with consumers through WeChat Mini Programs built-in apps that enable direct sales without requiring users to leave the platform.

One of the key advantages of WeChat Stores is social commerce, allowing businesses to engage customers through interactive content, direct messaging, and seamless payment integration, fostering strong relationships that drive sales. The platform also supports in-app purchases, enabling consumers to browse, shop, and complete transactions within WeChat itself for a frictionless shopping experience. Additionally, customizability is a major benefit, as WeChat Mini Programs allow businesses to tailor their storefronts with personalized features such as loyalty programs, promotions, and integrated customer service, enhancing engagement and brand loyalty.

4. RED (Xiaohongshu)



Xiaohongshu (RED) is a content-driven e-commerce platform that blends social media with online shopping, making it particularly appealing to trendy, younger consumers

interested in lifestyle, fashion, beauty, and health products. The platform enables users to share lifestyle content, such as product reviews and personal experiences, which significantly influences product discovery and purchasing decisions.

One of RED's key strengths is influencer marketing, as it is heavily driven by Key Opinion Leaders (KOLs) and influencers who generate buzz through product reviews, tutorials, and unboxing experiences. Additionally, RED's user-generated content model encourages organic engagement, allowing consumers to share their own experiences and recommendations, which can help brands build credibility and trust. The platform's targeted audience consists primarily of younger, urban consumers who are highly engaged with fashion, beauty, and lifestyle trends, making RED an effective channel for brands looking to connect with China's trend-conscious shoppers.

5. Pinduoduo



Pinduoduo has revolutionized the e-commerce market with its unique group-buying model, catering to price-sensitive consumers and those looking for deals through bulk purchasing. Initially known for low-cost products, the platform is increasingly being used for mid-range items, making it a viable option for a wider range of businesses.

One of the main advantages of Pinduoduo is its cost-effectiveness, offering highly competitive prices that appeal to budget-conscious shoppers. Its group-buying model encourages users to invite friends and family to purchase together for better discounts, creating a viral effect that helps businesses reach a larger audience with minimal marketing costs. Additionally, Pinduoduo has a broad reach, particularly among consumers in lower-tier cities and price-conscious buyers across China, making it an attractive platform for SMEs looking to expand their market presence.

6.2 LEGAL CONSIDERATIONS FOR ONLINE SALES AND DIGITAL MARKETING

To sell online in China, EU SMEs must comply with local regulations, ensuring adherence to e-commerce laws, product standards, and data privacy requirements. Understanding these legal considerations is essential for successful market entry and long-term operations.

6.2.1 E-Commerce Law

China's E-Commerce Law, in effect since 2019, governs various aspects of online business operations, including contracts, consumer rights, and taxation. This law places significant responsibility on platform operators to protect consumers and maintain market fairness. Businesses selling online must ensure compliance with obligations related to product quality, after-sales service, and refund policies to meet legal requirements and maintain consumer trust.

6.2.2. Business Registration

International businesses have two primary options for selling in China: Cross-Border E-Commerce (CBEC) platforms and establishing a local entity.

- CBEC Platforms (e.g., Tmall Global, JD Worldwide) allow businesses to sell directly to Chinese consumers without needing a local entity. However, companies must still register and comply with Chinese import/export regulations, including taxation and customs clearance.
- Operating Within China requires establishing a Wholly Foreign-Owned Enterprise (WFOE) or a office, ensuring full compliance with local business laws and allowing greater control over branding, marketing, and logistics.

6.2.3 Platform-Specific Compliance Requirements

Different e-commerce platforms in China have varying business registration and compliance obligations:

- Tmall & JD.com: Require a registered business in China and strict approval processes, making them more suitable for larger brands with local operations.
- Douyin & Xiaohongshu: Focus on social commerce, offering advertising-heavy models with platform-specific approval policies for product listings.
- Cross-Border E-Commerce (CBEC) Platforms (Tmall Global, JD Worldwide) allow foreign businesses to sell without a local entity but require compliance with customs and taxation rules.

Businesses must evaluate the right platform based on their market entry strategy, regulatory constraints, and target consumer base.

6.2.4 Product Compliance

Products sold in China must meet specific regulatory standards. Many categories require China Compulsory Certification (CCC), while those under CBEC Positive List regulations must follow import guidelines. Certain sectors, such as cosmetics, healthcare, and baby products, have stricter regulatory oversight, requiring additional testing and certifications before they can be sold online.

6.2.5 Data Protection Laws

China's Personal Information Protection Law (PIPL) governs how businesses collect, process, and store consumer data. The law mandates strict data security measures, requiring companies to localise data processing activities and establish clear privacy policies. International businesses must align their operations with PIPL regulations, ensuring transparency in data collection and consumer protection.

6.2.6 Advertising Regulations

China enforces strict advertising laws, especially in industries like healthcare, food, and beauty. Marketing campaigns must comply with content restrictions, avoid misleading claims, and adhere to truth-in-advertising policies to prevent penalties or platform bans.

Understanding and complying with local regulations enables EU SMEs to navigate China's legal landscape effectively and establish a sustainable online presence.

6.3 LOGISTICS AND DELIVERY CHALLENGES

Efficient logistics are crucial for success in China's e-commerce market, where consumers expect fast and reliable delivery. Businesses must carefully consider warehousing, last-mile delivery, cross-border shipping, and return policies to optimize their logistics strategy.

Bonded Warehouses

Using bonded warehouses in Free Trade Zones (FTZs) allows businesses to pre-stock inventory in China,

enabling faster distribution and reducing customs delays. While this approach improves delivery speed and streamlines customs clearance, it can be more expensive than direct cross-border shipping due to storage and handling costs. However, for businesses prioritizing fast fulfilment, bonded warehouses provide a competitive advantage.

Last-Mile Delivery

Efficient last-mile delivery is key to meeting Chinese consumers' expectations for fast shipping. Major logistics providers such as Cainiao (Alibaba's logistics arm), SF Express, and JD Logistics offer nationwide coverage and ensure reliable last-mile fulfilment. Partnering with trusted local delivery companies is essential for maintaining customer satisfaction, as delays or inefficient service can negatively impact a brand's reputation.

Cross-Border Shipping

Shipping products directly from overseas can pose challenges, including longer delivery times, higher shipping costs, and customs clearance delays. To mitigate these issues, businesses can leverage bonded warehouses or work with third-party logistics (3PL) providers to improve efficiency and reduce shipping complexities. A well-structured cross-border shipping plan ensures a balance between cost and timely delivery.

Return Policies

Chinese consumers expect easy and convenient return policies, similar to domestic online shopping standards. Businesses must offer local return options to meet consumer expectations and build brand loyalty. Establishing clear return guidelines and a hassle-free process is essential to enhancing customer trust and retention.

6.4 TYPES OF E-COMMERCE PLATFORMS: B2C, C2C, O2O, CBEC

Understanding different e-commerce models and platforms is essential for targeting the right customer segments and maximizing market potential.

B2C (Business-to-Consumer)

Platforms like Tmall Global and JD Worldwide cater to established brands looking to sell directly to Chinese consumers. These platforms provide access to a large base of high-income urban shoppers, making them ideal for brands with a premium or mass-market appeal.

C2C (Consumer-to-Consumer)

Platforms such as Taobao allow individual sellers and small businesses to reach a broad audience. While C2C platforms historically focused on individual-to-individual transactions, many businesses now use them to sell products. However, these platforms are increasingly subject to regulatory scrutiny, which could affect long-term business sustainability.

O2O (Online-to-Offline)

O2O platforms, such as Dianping (part of Meituan), connect consumers with offline services, including restaurants, entertainment, and healthcare. These platforms are particularly effective for service-based businesses, as they drive foot traffic to physical locations by integrating online discovery with offline experiences.

Cross-Border E-Commerce (CBEC) Platforms

For foreign companies seeking to enter the Chinese market without establishing a local entity, Cross-Border

E-Commerce (CBEC) platforms such as Tmall Global and JD Worldwide offer a compliant and efficient solution for selling directly to Chinese consumers. These platforms simplify the import process, but businesses must adhere to China’s customs clearance procedures, tax regulations, and the CBEC Positive List. CBEC is particularly appealing to SMEs looking to test the Chinese market with minimal investment before committing to a physical presence.

Choosing the Right Platform: It’s essential for SMEs to select the platform that best fits their business objectives, regulatory requirements, and target market. CBEC is well-suited for businesses aiming to explore the market, while local B2C platforms are more appropriate for companies planning a long-term commitment and stronger market presence. By choosing the right platform and ensuring compliance with local rules, EU SMEs can build a robust and effective e-commerce strategy in China’s fast-growing online environment.

6.5 COMPARING CBEC AND DOMESTIC E-COMMERCE

Choosing the right e-commerce model is critical to success in China. The table below compares CBEC and Domestic E-Commerce to guide strategic decisions

based on business goals, readiness, and compliance needs.

Feature	Domestic E-Commerce	Cross-Border E-Commerce (CBEC)
Entity Requirement	Chinese entity (e.g., WFOE) required	No Chinese entity required
Popular Platforms	Tmall, JD.com, WeChat, Xiaohongshu, Pinduoduo, Douyin	Tmall Global, JD Worldwide, Xiaohongshu CBEC
Platform Access	Requires platform approval, local license, and VAT registration	Requires CBEC registration and customs filing
Product Registration	Full regulatory compliance (e.g., CCC, MOFCOM)	Deferred or reduced requirements (must follow Positive List)
Warehousing Options	Domestic warehouses for fast delivery	Bonded warehouse or direct international shipping
Taxation	Standard VAT and import duties	Preferential CBEC tax rates
Invoice Issuance (Fapiao)	Required	Not required
Marketing & Customer Base	Requires localized branding, logistics, and support	Ideal for testing market demand and niche product offerings
Returns & After-sales	Mandatory local return & refund capability	Increasingly expected, but less strictly regulated
Best For	Long-term, brand-building strategy in China	Short-term entry, market testing, and low-risk expansion

The comparison between Domestic E-Commerce and Cross-Border E-Commerce (CBEC) highlights key strategic and operational differences. Domestic e-commerce requires a Chinese legal entity, full regulatory compliance, tax registration, and the ability to issue fapiaos, making it best suited for SMEs with long-term ambitions and capacity to scale within China. It offers better platform visibility, trust, and control over customer experience but involves higher setup costs and complexity.

In contrast, CBEC allows foreign companies to sell to Chinese consumers without a local presence, using platforms like Tmall Global or JD Worldwide. It features simplified customs, preferential tax policies, and reduced product registration requirements under the CBEC Positive List. CBEC is ideal for market testing, lean operations, and niche product launches, although it offers less flexibility in marketing control and customer engagement.

Understanding these distinctions enables SMEs to align their platform strategy with business goals, compliance capacity, and investment readiness.

6.6 SELECTING THE RIGHT PLATFORM

Choosing the right platform depends on a brand's target audience, product category, and logistical capabilities.

Tmall Global is the preferred platform for established luxury and high-end brands, providing access to China's affluent consumers who seek premium products. For fast-moving consumer goods (FMCG), JD Worldwide is an ideal choice, particularly for businesses selling electronics, home appliances, and everyday essentials, as it benefits from a strong and efficient logistics network. Brands in the fashion, beauty, and lifestyle sectors can leverage RED (Xiaohongshu) and WeChat Stores, which thrive on social commerce and influencer-driven marketing to engage trend-conscious consumers. Meanwhile, service-oriented businesses, such as restaurants, wellness providers, and other experience-based services, can benefit from O2O platforms like Dianping, which facilitate localised promotions, customer reviews, and offline-to-online engagement to drive foot traffic and brand visibility.

Selecting the right e-commerce platform helps businesses position their products effectively, optimise their sales strategy, and compete successfully in China's dynamic digital marketplace.

Case Study: Using CBEC to Test Products Before Mainland Expansion

Industry: Skincare & Cosmetics

Country of origin: France

Context

A French skincare startup aimed to expand into Asia and identified China as a key growth market. Given limited resources and a need to validate product-market fit, the company chose to enter through Cross-Border E-Commerce (CBEC) by launching its flagship products on Tmall Global and leveraging influencer campaigns on RED (Xiaohongshu).

Approach

The brand partnered with a cross-border e-commerce service provider for customs clearance and logistics, while focusing internally on digital marketing and community-building in China. Products were shipped from a bonded warehouse in Hangzhou, offering faster delivery and simplified compliance.

During this phase, the company:

- Avoided setting up a local entity
- Used consumer feedback to adapt packaging and messaging
- Tested hero SKUs for popularity before scaling the product line

Outcome

In the first 9 months, the brand achieved over 50,000 units in sales and built a loyal niche following. Data gathered from CBEC sales and engagement was later used to justify establishing a WFOE, and securing partnerships with offline beauty chains in Tier 2 cities.

Key Takeaway

CBEC served as a low-risk entry model for validating demand, understanding local preferences, and building brand visibility, before committing to full-scale market entry.

7. HONG KONG AS AN ENTRY POINT

7.1 STRATEGIC IMPORTANCE FOR MARKET ENTRY INTO MAINLAND CHINA

Hong Kong has long been a key gateway for foreign businesses entering mainland China, often serving as the base for Asia-Pacific operations. Hong Kong is operated under the One Country, Two Systems policy, allowing it to maintain an independent legal and economic system. The region remains one of the most open and market-based economies globally, ranking among the top five regions for ease of doing business, according to the World Bank.

Many multinational corporations continue to use Hong Kong as their regional headquarters, while some EU SMEs choose to bypass Hong Kong and enter mainland China directly. However, establishing a legal entity in Hong Kong may still offer strategic advantages depending on the business sector, company size, and long-term goals.

7.2 ADVANTAGES OF USING HONG KONG AS A STEPPING STONE

Hong Kong's business-friendly policies offer several strategic advantages for foreign enterprises looking to access the mainland Chinese market. Unlike mainland China, Hong Kong imposes no restrictions on foreign ownership, allowing international investors to maintain full control over their businesses and assets.

The region supports a bilingual business environment, with English and Chinese as official languages making legal processes, documentation, and contract negotiations more accessible to international firms. Free movement of capital, goods, and people, combined with no foreign exchange controls, enables smooth profit repatriation and cross-border fund transfers.

Hong Kong also benefits from an independent legal system based on common law, providing robust protection for contracts and intellectual property an important safeguard for SMEs entering a new market.

As of 2024, Hong Kong remains the leading conduit for China's outbound foreign direct investment (FDI), managing over USD 1.75 trillion in cumulative FDI stock from mainland China. At the same time, it hosts a large number of foreign-invested enterprises with nearly 10,000 international parent companies operating

regional headquarters or subsidiaries in the city. This dual role underscores Hong Kong's unique position as a bridge for two-way investment between China and the rest of the world.

To further support foreign business activity, Hong Kong offers startup funding programs, tax deductions, and government-backed SME support schemes encouraging innovation, financial services development, and cross-border commerce

7.3 SETTING UP IN HONG KONG & TRANSITIONING TO MAINLAND CHINA

Hong Kong offers a fast and flexible business registration process, making it an attractive base for companies planning to expand into mainland China. Company registration can be completed in two weeks, compared to at least three months in mainland China. Hong Kong also has a lower corporate tax rate, with 8.25% on the first HKD 2 million and 16.5% on the remainder, along with no VAT, capital gains tax, or dividend tax. Profits from fully offshore activities may also be exempt from tax, though this is subject to approval. However, Hong Kong has fewer double taxation agreements (DTAs) than mainland China—major jurisdictions like the UK and Australia do not currently have agreements in place.

Another advantage is the simplified corporate structure adjustments. Share transfers in Hong Kong take two weeks, while in mainland China, they may take 2.5 months. Setting up a holding company in Hong Kong also limits parent company liability and provides tax optimization benefits when expanding into China. Businesses can establish a Hong Kong-based Representative Office (RO) in China, although Wholly Foreign-Owned Enterprises (WFOEs) are generally recommended for full operational control.

Hong Kong also provides cross-border trade facilitation benefits, acting as a bridge for businesses seeking smoother customs clearance, trade financing, and supply chain management when entering China. Despite these benefits, Hong Kong is no longer a mandatory entry point for China, and businesses should evaluate whether direct entry into Mainland China may be more beneficial.

7.4 CHINA-HONG KONG CEPA: TRADE AGREEMENT BENEFITS

The Closer Economic Partnership Arrangement (CEPA) is a bilateral free trade agreement between Hong Kong and mainland China, effective since 2004. CEPA provides tariff-free trade for Hong Kong-origin products and preferential access for Hong Kong-based service providers.

CEPA covers 40 service sectors, but to qualify for benefits, foreign companies must be registered in Hong Kong for at least three years. Recent agreements signed under CEPA include the Agreement on Trade in Services (2015), Investment Agreement (2017), Agreement on Economic & Technical Cooperation (2017), and Agreement on Trade in Goods (2018). Additionally, the Amended Agreement II taking effect in March 2025, further expanding trade liberalisation measures.

While CEPA provides advantages, products not originating from Hong Kong do not qualify for tariff exemptions under the agreement, making direct mainland China operations preferable for some businesses.

Hong Kong's Post-COVID Recovery & Investment Support

To revive its status as a global business hub post-COVID, the Hong Kong government has implemented several support measures. The Anti-Epidemic Fund provided financial aid to SMEs, while tax relief measures such as profits tax reductions, rental subsidies, and fee waivers helped stabilise businesses. The government has also invested in digital transformation, funding initiatives to modernise traditional industries and enhanced start-up support through the Innovation and Technology Venture Fund. Strengthened ties with the Greater Bay Area (GBA) aim to facilitate cross-border trade and attract new investment opportunities.

Hong Kong remains attractive due to its regulatory advantages compared to mainland China, including simpler corporate governance procedures, lower compliance costs, and a more predictable regulatory framework. Businesses benefit from streamlined contract enforcement, minimal bureaucracy, and an internationally recognised legal system.

7.5 CHALLENGES OF USING HONG KONG AS AN ENTRY POINT TO MAINLAND CHINA

While Hong Kong offers regulatory and financial advantages, there are several challenges that SMEs

must consider when using it as a springboard into the mainland Chinese market.

First, Hong Kong-based companies do not automatically gain access to the mainland. Despite its close proximity and economic integration with China, many industries in the mainland still require a separate legal presence, such as a WFOE or JV, to engage in direct commercial activities like hiring staff, issuing invoices in RMB, or selling goods and services.

Second, CEPA benefits are limited in scope. Companies must be registered and operating in Hong Kong for at least three years to qualify, and even then, only Hong Kong-origin goods and services are eligible. This makes CEPA less useful for SMEs seeking quick access to the mainland market or importing non-Hong Kong products.

Third, while Hong Kong enjoys a low-tax environment, it has fewer double taxation agreements (DTAs) than mainland China, which may result in less favorable tax treatment for income, dividends, or royalties repatriated to or from certain countries.

Additionally, operational costs in Hong Kong—especially office rent, talent, and professional services—can be significantly higher than in Tier 2 or Tier 3 Chinese cities. This may limit Hong Kong's appeal for SMEs operating on lean budgets.

Finally, Hong Kong's geopolitical and regulatory landscape has become more complex in recent years. Changes in tax rules, foreign-sourced income regimes, and evolving cross-border compliance obligations may affect long-term planning for SMEs.

In summary, while Hong Kong remains an efficient and internationally recognized business base, it is not always the most cost-effective or direct route into mainland China. Businesses should evaluate whether establishing a presence directly within China—especially in Free Trade Zones or second-tier cities—may better align with their goals, budget, and market access needs.

Key Recommendations for SMEs

SMEs considering Hong Kong as an entry point into China should evaluate whether their industry aligns with Hong Kong's strengths, particularly in financial services, logistics, and trade. While Hong Kong offers tax advantages, new foreign-sourced income regulations may impact dividend remittances from China. Companies planning to benefit from CEPA must be registered in Hong Kong for at least three years to

qualify for preferential treatment.

Businesses should also consider Hong Kong’s role in cross-border trade facilitation, particularly for industries requiring customs efficiency, supply chain integration, and duty-free warehousing. While Hong Kong remains a strong base for regional expansion beyond just China, companies must factor in potential challenges, such as higher operational costs, evolving foreign tax regulations, and the requirement for Hong Kong-origin products to benefit from CEPA.

While Hong Kong remains a strategic entry point, businesses should assess whether direct investment in mainland China or leveraging PFTZs may be a more efficient route for expansion.

Case Study: Establishing a Hong Kong Holding Company with Mainland Operations

Industry: Consumer Electronics

Country of origin: Egypt

Context

An established electronics trading company sought to expand its operations into Asia, with a focus on sourcing and eventual market access in China. The goal was to reduce procurement costs and increase control over supply chain operations, while optimizing the tax and legal structure through a regional presence.

Approach

- **Setting Up in Guangzhou:** The company established a local office in Guangzhou to manage sourcing and supply chain activities. This location

gave them direct access to manufacturers, allowing for hands-on supplier management and customised assembly. Local staff were hired to oversee procurement, quality assurance, and daily operations.

- **Incorporating a Hong Kong Holding Company:** A Hong Kong-based holding entity was established to oversee investments and manage financial flows. Hong Kong was selected due to its low corporate tax rates, absence of capital gains and dividend tax, and ease of fund repatriation. The structure also allowed the group to benefit from favorable double taxation agreements and avoid certain ownership restrictions in mainland China.

Outcome

- **Tax Efficiency:** The Hong Kong structure helped minimize global tax liability, enabling reinvestment into product development and regional marketing.
- **Operational Access:** The Guangzhou office enabled faster sourcing, better quality control, and direct manufacturer relationships.
- **Regulatory Simplicity:** Using Hong Kong as the investment platform simplified legal and ownership compliance while allowing full control over mainland operations.

Key Takeaway

Combining a Hong Kong holding company with an operational base in China allows companies to balance tax optimization, supply chain access, and legal compliance. This dual structure is particularly effective for companies entering China for sourcing or trading purposes without fully committing to a consumer-facing legal presence.



8. SECTOR-SPECIFIC OPPORTUNITIES IN CHINA

China's vast and rapidly growing economy presents significant opportunities for foreign businesses across a wide range of sectors. Each sector has its own unique dynamics, regulatory environment, and market conditions, which businesses must understand to effectively capitalise on these opportunities. This section will dive deeper into promising sectors for EU SMEs, discuss sector-specific entry models, and highlight the licensing requirements and market challenges to be aware of.

8.1 SECTORS POISED FOR GROWTH

China is evolving into a diverse, technology-driven, and consumer-centric economy. Here's an overview of some sectors with high growth potential for foreign SMEs:

A. Business Consulting: As China's corporate landscape becomes increasingly complex, the demand for business consulting services has grown significantly. Companies are seeking expert guidance to navigate the country's evolving regulations, optimise their operations, and expand both domestically and internationally. Key drivers of this growth include a heightened focus on corporate governance, digital transformation, and ensuring regulatory compliance. Business consulting services in China cover various areas, including management consulting, financial advisory, HR consulting, market research, and risk management, all of which are critical for companies striving to succeed in this competitive market.

B. Information Technology (IT): With the Chinese government making significant investments to become a global leader in technology, foreign tech companies have abundant opportunities to offer solutions in areas such as cloud computing, AI, big data, cybersecurity, and e-commerce technologies. The rapid digital transformation taking place in China, coupled with the growing demand for high-quality software and a national focus on tech innovation, has created a dynamic market for foreign technology providers. Key areas of growth include cloud computing, software development, IT infrastructure, AI solutions, e-commerce platforms, and cybersecurity, all of which are vital to supporting China's evolving digital economy.

C. Education and Training: China has placed a strong emphasis on education and skill development, particularly in areas such as language learning,

technical skills, and management training. As a result, there is a growing demand for high-quality international educational content and foreign certifications. This rise in demand is driven by significant government investment in education, an increase in disposable income, and the middle class's desire for personal development. Key areas experiencing growth include English language teaching, vocational training, corporate training, e-learning platforms, and international education services, all of which are vital to meeting the evolving needs of China's education sector.

D. Healthcare and Biotechnology: As China's population ages and the healthcare system modernises, there is an increasing demand for innovative biotechnology, medical devices, and healthcare services. This surge in demand is driven by the country's aging population, the government's focus on expanding healthcare infrastructure, and a growing shift toward personalized medicine and biotechnology. Key areas of growth within this sector include medical devices, pharmaceuticals, telemedicine, health IT solutions, biotechnology research, and a wide range of healthcare services, all of which are essential to supporting China's evolving healthcare landscape.

E. Consumer Goods and Retail: As one of the largest consumer markets globally, China offers foreign consumer goods companies significant opportunities to sell their products to a rapidly growing middle class that is increasingly inclined to purchase premium international goods. Key drivers of this growth include rising disposable incomes, a heightened demand for high-quality international products, and a growing appetite for online shopping. The key areas experiencing the most growth include fashion, beauty, luxury goods, organic food, nutritional supplements, and high-end electronics, all of which cater to China's expanding and affluent consumer base.

F. Green Technologies and Sustainability: China's commitment to reducing carbon emissions and improving environmental standards has fostered a rapidly growing market for green technologies. International companies can tap into this space by offering solutions in renewable energy, electric vehicles, clean construction, and waste management. Key growth drivers include China's strong commitment to sustainability, government policies that support green technology, and an

increasing public awareness of environmental issues. Promising areas of growth within this sector include renewable energy, electric vehicles, energy storage systems, sustainable building materials,

environmental consulting, and waste management technologies, all of which are critical to supporting China's green transition.

8.2 SECTOR-SPECIFIC ENTRY STRATEGIES AND MODELS

Sector	Recommended Entry Models	Key Considerations
Business Consulting	WFOE, JV, Cross-border services	Establish strong local partnerships, understand local regulatory frameworks, and leverage digital transformation expertise.
Information Technology	WFOE, JV, Licensing	Ensure compliance with China's cybersecurity laws and data protection regulations.
Education & Training	JV, WFOE, Licensing	Navigating education laws and local partnerships is crucial. Education service providers need licenses for certain programs.
Healthcare & Biotech	JV, WFOE, Licensing, Partnership	Strict regulatory compliance is necessary for medical products and services, including CFDA and CCC certifications.
Consumer Goods & Retail	WFOE, JV, Licensing, CBEC	Adhere to product quality standards, consumer protection laws, and labeling requirements. High competition.
Green Tech & Sustainability	WFOE, JV, Partnership	Stay updated on government subsidies and compliance with China's environmental regulations.

8.3 REGULATORY HURDLES AND LICENSING CONSIDERATIONS BY SECTOR

Each sector comes with its own unique licensing requirements and challenges. Here's a breakdown of what businesses should know:

8.3.1 Licensing Requirements

Business Consulting: Foreign consulting firms often operate through WFOEs or JVs. Depending on the services offered, they might need specific business scope approvals and must comply with China's regulations on

foreign investment in the consulting sector.

Information Technology: Tech companies must navigate China's Cybersecurity Law and Data Protection Law. Foreign companies may need to comply with data localisation rules and seek approval for any data transfers across borders.

Education & Training: Companies wishing to offer education or training services must register with the Ministry of Education and obtain appropriate licenses,

especially if offering certifications. Some education services require a Joint Venture with a local Chinese partner.

Healthcare & Biotech: Medical products must be certified by the China Food and Drug Administration (CFDA). Some medical devices, drugs, and biotechnology products also require specific import permits and safety certifications, such as China Compulsory Certification (CCC).

Consumer Goods & Retail: Product certifications such as the CCC, and adhering to local regulations regarding product safety and quality control, is mandatory for many categories of goods.

Green Technologies: Green tech firms should be aware of China's environmental regulations and government policies aimed at encouraging sustainability. Businesses can benefit from subsidies and tax incentives for environmentally-friendly products.

8.3.2 Market Challenges

Regulatory Complexity: While China has streamlined certain regulations, foreign companies still face significant hurdles in sectors like biotech, education, and IT. The complexity of compliance, frequent changes in policies, and sector-specific rules mean businesses must continuously monitor regulatory shifts.

Competition: In highly competitive sectors such as consumer goods and IT, it's challenging for foreign brands to gain market share, especially when local competitors have a better understanding of Chinese consumer preferences and behaviour.

Cultural Differences: Understanding local consumer behaviour, preferences, and values is essential. For example, fashion and consumer goods companies must adapt their offerings to align with Chinese tastes, often requiring significant product modifications and marketing localisation.

Intellectual Property (IP): Protecting IP remains a concern in sectors like technology and consumer goods, where intellectual property theft is a risk. Businesses must proactively register patents and trademarks in China to safeguard their innovations.

8.3.3 Strategic Considerations

Partnerships and Local Expertise: In sectors like education, biotech, and consumer goods, forming partnerships with local companies can be essential for navigating regulatory challenges and understanding local market dynamics.

Government Support and Incentives: The Chinese government offers subsidies and tax incentives in sectors such as green technologies and biotech. Understanding these incentives can provide a significant advantage in entering these high-priority sectors.

Conclusion

Entering the Chinese market presents exciting opportunities across a wide range of sectors. However, each sector comes with its own set of challenges, especially in terms of regulatory compliance and market dynamics. By understanding the specific entry models, licensing requirements, and challenges associated with each sector, EU SMEs can make more informed decisions and craft strategies that align with their long-term business objectives. With the right approach, businesses can successfully navigate the complexities of the Chinese market and capitalise on its growth potential.

9. CLOSING REMARKS

9.1 CONSIDERATIONS FOR EUROPEAN SMES ENTERING THE CHINESE MARKET

Expanding into China presents significant opportunities for European SMEs, but it also requires careful planning, an understanding of local regulations, and a well-defined market entry strategy. There are multiple pathways for market entry, from exporting and e-commerce to forming local partnerships or establishing a physical presence through a WFOE or JV. The right approach depends on business objectives, industry regulations, and risk appetite.

Beyond choosing the right entry model, SMEs must consider China's regulatory landscape, consumer behaviour, and financial risks. Intellectual property protection, compliance with evolving regulations, and securing the right local partnerships are crucial for long-term success. While each business must determine its own best course of action, this guide serves as a resource to provide practical insights to support informed decision-making.

9.2 RESOURCES AND SUPPORT NETWORKS FOR SMES

Several resources are available to assist European SMEs in navigating the complexities of the Chinese market. The EU SME Centre provides practical guidance, regulatory insights, and market entry support for companies looking to expand. Industry associations, trade

organisations, and bilateral chambers of commerce offer platforms for networking, business development, and regulatory advice. This guide has been developed by the EU SME Centre with the support of MSA Asia, drawing from market insights, case studies, and practical expertise to provide SMEs with the information needed to evaluate their China strategy.

9.3 OUR RECOMMENDATIONS FOR EUROPEAN SMES

There is no single "best" way to enter the Chinese market, as each company's needs and resources will determine the most suitable approach. However, thorough market research, strong local partnerships, and a proactive risk management strategy can significantly enhance the chances of success. SMEs should carefully evaluate which entry model aligns with their industry, business size, and long-term objectives, whether through direct sales, online platforms, joint ventures, or establishing a physical entity.

While this guide provides an overview of the key options and considerations, each company must assess its own capabilities and risk tolerance. Businesses are encouraged to seek professional advice, leverage support networks, and stay informed about regulatory changes to make well-informed decisions. China offers a dynamic and competitive market environment, and with the right preparation, European SMEs can establish a sustainable and successful presence.



ABOUT THIS REPORT

This EU SME Centre report was written with the contribution of MSA Asia.

About MSA Asia

MSA Asia is a full service, a cross-border advisory firm specialising in market entry, regulatory compliance, and strategic growth in Greater China. As a member of the GGI Global Alliance, one of the world's leading international alliances of independent accounting, law, and consulting firms, MSA leverages a global network of expertise to support clients with seamless, multi-jurisdictional solutions.

MSA brings experience in guiding international businesses through the complexities of China's legal and business environment, with tailored solutions for SMEs seeking sustainable expansion. Their services include advisory, incorporation, accounting and tax filing, HR and payroll, financial advisory, and more, all tailored to support sustainable growth for businesses in the region.

[Learn more on MSA Asia's website >](#)

SEND US YOUR QUESTIONS



For any questions or free-of-charge consultations, EU SMEs may contact the EU SME Centre via our **Ask-the-Expert** service: <https://www.eusmecentre.org.cn/ask-the-expert/>.

FURTHER RESOURCES

BUSINESS BASICS

The EU SME Centre's website has a section filled with resources for new exporters. Browse all the Business Basics: <https://www.eusmecentre.org.cn/business-basics/>

KNOWLEDGE CENTRE

The EU SME Centre has over 200 **reports, guidelines, webinars and case studies** in its Knowledge Centre, the following may be relevant to you:

- Drafting Sales Contracts When Exporting to China | 2022 Guidelines: <https://www.eusmecentre.org.cn/publications/drafting-sales-contracts-when-exporting-to-china-2022-update/>
- Payment Options and Foreign Exchange Control in China | 2025 Guidelines: <https://www.eusmecentre.org.cn/publications/payment-options-and-foreign-exchange-control-in-china-2025-update/>
- Taking Part in Trade Fairs in China | 2024 Report: <https://www.eusmecentre.org.cn/publications/taking-part-in-trade-fairs-in-china/>
- GACC/CIFER Registration for European Food & Beverage Establishments | 2024 Guidelines: <https://www.eusmecentre.org.cn/publications/guidelines-on-gacc-cifer-registration-for-european-fb-establishments-2024-update/>
- Selling to China via Cross-Border E-Commerce | 2023 Report: <https://www.eusmecentre.org.cn/publications/selling-to-china-via-cross-border-e-commerce/>
- Pricing Strategies for the Chinese Market | 2024 Webinar: <https://www.eusmecentre.org.cn/publications/pricing-strategies-for-the-chinese-market/>

ABOUT THE EU SME CENTRE

The EU SME Centre is an initiative funded by the European Union to assist small and medium-sized enterprises (SMEs) from EU Member States and countries participating in the Single Market Programme, getting them ready to do business in China.

Our core mission is to facilitate market access and provide a comprehensive range of free first-line services to inform, advise, train, and connect SMEs. The Centre forms partnerships with business support organisations and trade promotion organisations to bring our services and expertise to European SMEs of all sectors.

This initiative created in 2010 is now in Phase IV (2022-2025) and is implemented by 4 consortium partners with 2 associated partners, with networks throughout Europe and China.

Consortium partners



Associated partners



AMONG OUR KEY ACTIVITIES



ADVICE

Practical and confidential advice on doing business in China



ADVOCACY

A coherent, consistent, and consolidated voice for EU SMEs



KNOWLEDGE

A free library of resources on market access, sectorial guidelines and more



TRAINING

Getting your company ready for every stage of business in China



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