



## The Routes to China

There are multiplicities of ways a company can enter China and no single company structure has emerged as the “best” way to enter the market. The more popular investment routes have been through a Representative Office (RO), Wholly Owned Foreign Enterprise (WOFE), and Joint Venture (JV).

While historically from 1980s to the late 1990s, most foreign companies set up JVs in China in response to regulatory constraints, WOFE has proven to be more and more popular in recent years. For example, according to information (2003) from MOFCOM, more companies are using WOFE for their China operation in the eastern region of China, while in the other regions joint ventures are still a popular model of entry.

Under the WOFE route, there are four types of business license to apply for: wholesale (trading) with its own import and export rights, manufacturing, retail and consulting/services. It is highly recommended to apply for import and export rights at the same time to save service fees paid to agents for handling the process.

The following summarises the pros and cons of each of the three major entry routes:

### 1. Representative Office (RO)

Advantages:

- lower set up cost (no capital investment required)
- shorter set up period (1- 2 months)
- flexibility to exit
- full control

Disadvantages:

- restricted scope of business activities (e.g. no formal sales function allowed )
- more rigid labour regulations (ie, must use government HR agents)
- not tax efficient

### 2. Joint Venture (JV)

Advantages:

- immediate access to local knowledge, government relationship, and management talents
- able to leverage established domestic brands, marketing and distribution channels



Disadvantages:

- significant set up costs (minimum foreign contribution to investment is US\$100,000)
- differences in management styles and company culture
- potential conflicts of interest with the Chinese partner

### **3. Wholly Owned Foreign Enterprise (WOFE)**

Advantages:

- full control over management and operation
- more flexibility in company strategic issues
- easier to repatriate profits
- better protection of IPR

Disadvantages:

- higher registration capital required (e.g. minimum US\$140,000 )
- longer time to gain access to local knowledge, contacts and market

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