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Solutions for China Entry & Growth

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Market Insights

Potential Opportunities in China's Tier 2 Cities

Although the most developed markets, China's tier 1 cities are becoming increasingly difficult to operate in because of market saturation and increasing costs. However, China still has vast markets in its Tier 2 (and Tier 3) cities.

China's Tier 2 cities offer potential opportunities to numerous companies, including those seeking to target China's consumer base, manufacture, or engage in B2B activities. Below are a few highlights of potential opportunities:



- **Potential markets** – Tier 2 cities are extremely large potential markets, with populations of 2 to 8 million and a relatively high GDP (e.g. Suzhou's population is about 8.5 million with a GDP exceeding US\$98 billion); additionally, 3/4 of the growth in the number of wealthy households will take place in Tier 2 cities.
- **Lower cost** Living and labor cost in tier 2 cities are typically much lower than tier 1 cities, e.g. real estate costs in Wuhan are about 1/5 of those near Beijing's 4th ring road; employees in Tier 2 cities typically earn RMB 2,000-3,000 compared to RMB 8,000-10,000 in a tier 1 city for an equivalent position.
- **Central government support** - China's 12th 5-Year-Plan** (2011-2016) is currently being drafted and is expected to

continue emphasizing major investments into tier 2 cities, further promoting their economic growth and development.

China is an extremely diverse market, however, with very distinct dynamics based on region and city. It is crucial for any company considering expansion or entry into China's tier 2 or tier 3 cities to fully understand the market opportunities and challenges.

**The 5 Year-Plans are a series of economic development initiatives set by the Chinese Communist Party and the Central Committee, which maps the strategy for China's economic development over five year periods; the plans include setting growth targets and launching economic reforms.

For inquiries about this article, or other work of our consulting division, please email Mark Ray at mark.ray@ijlgroup.com

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Tax Updates

SAT Issues Notice for Export Tax Refund Inspection



In order to rein in export tax fraud activity and strengthen the management of export tax refund, SAT issued a notice on August 30th, announcing procedures for enterprises whose tax refund may be subject to inspection by the Tax Refund Authority (TRA).

Effective from September 1st, 2010, business may be selected for tax refund inspection if changes in the exporting operation exceed reasonable range. For example, business is required to do a self-inspection if exporting goods experience a 10% price increase per unit since last shipment or the volume of monthly goods exported sees a climb of 20% or more from the prior month. Exports with higher than normal 'export cost in terms of foreign exchange' would also warrant a self-inspection request from TRA. According to the announcement, exporting enterprises need to pay special attention to the monetary

amount they claim monthly from suppliers and the Asian regions they export to which already have low tax and shipping cost.

Exporters who receive inspection notice from TRA would have to conduct a self-inspection following the checklist given by the authority. It has to be completed and submitted within one month, with an extension of three months for unexpected delay. If the self-inspection does not justify the changes, TRA will initiate a further investigation, which will greatly slow the process of the tax rebate.

Exporting enterprises should be vigilant for operational changes, and act in timely manner if required to do a self-inspection.

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Human Resources

Talent Dilemma in China

With Human resources have been repeatedly cited by U.S. and European companies as the top challenge they face in China, even more so than the infamous problems of regulatory interpretation and bureaucracy.

Despite turning out more than three million graduates a year, Chinese universities and colleges cannot keep up with the demand from an economy that has been galloping ahead at nearly 10 percent annually for almost two decades. This headlong economic growth outpaces the supply of top notch professionals. Henceforth, it is very common in China that someone receives two or three job offers at the same time.

Nowadays, good senior local personnel are as precious as diamonds – people whose skills are in short supply can demand extraordinary high pay. These people can get 100 percent or more pay raises when switching jobs, and they even can do it two or three times within a few years. Very soon, China may be at a stage where local mainland senior management will make more than their counterparts in Hong Kong and Taiwan.

Lately, another trend appeared in human resource – prevalence of younger upper management. Due to the Chinese economic reform in 1978, education standards have improved drastically over the past years. This has resulted in a great disparity in knowledge and capabilities between the young and old, especially in terms of English competency levels. Thus, the highly educated young, despite being less experienced compared with their more veteran/seasoned (more elder) peers in Europe or North America, are now holding upper management positions in China.

In conclusion, the above paradoxical scarcity of skillful talent (especially in the Senior Management level) in a country of 1.3 billion people could be hurting many MNCs and SMEs. Therefore, we advise all relevant Recruitment/HR Managers to readjust their hiring strategies in order to cope with this talent dilemma in China.

For more information about recruitment trends, please email kennie.yan@jljgroup.com at Huijie Consulting division, which has 15-year specialized experience in executive search and staffing solutions in China.



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China FDI

China Encourages Foreign Investment in the West



China is reaffirming its policy encouraging foreign investment in Western China by revising the Foreign Investment Catalogue while delegating more power to local government authorities for approving foreign investment projects.

China's Ministry of Commerce is not only expanding the sectors for FDI, but also opening up more restricted areas to boost foreign investment. Clean energy industries, areas with low carbon emission, new material, bio-medical, and advanced manufacturing are highly encouraged, in hopes to attract foreign companies to set up research and development centers in Western China and to extend their industrial supply chains within the country.

Previously, foreign investment projects with a value over US\$ 100 million would need to apply for approval from the Ministry of

Commerce at the State level. Now, new project under US\$300 million may be approved at the provincial level. Delegating greater authority to the local level is aimed to increase transparency, speed up the process and improve the investment environment.

China's FDI rose 19.6 percent to US\$51.43 billion in the first six months of 2010.

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