China: Country Profile

Attractiveness

Globally, China ranks first in terms of market opportunities, owing to the size of its market and strong GDP growth. Among 82 countries, China has an overall business environment ranking of 45. The country has a labor pool of 816.2 million. In 2011, China's GDP grew at 9.2% y-o-y, to $113.88 trillion in terms of PPP. The country's literacy rate stands at 95.9%.

Projections

China will continue its top position of market opportunities and could be the world's largest economy by 2020. In 2012, China's real GDP growth is expected to be 8.1%. It is expected to increase to 8.4% in 2013, and then to 7.9%. Over 2011–20, the real GDP growth is expected to average 6.6% y-o-y, easing to 3.7% over 2021–30. Over 2011–15, the country's median household income is expected to increase from $6,295 to $8,056.

Profile

- **2nd largest economy** in the world (GDP)
- **2nd largest country** in the world (area)
- **Population:** 1.31 billion; most populous country in the world
- **Urban population:** 64%
- **Demographics:** 21% (0–14 years); 71% (15–64 years); 8% (65 years and over); Male/Female ratio 1.06
- **Occupation:** Agriculture 38%, Industry 28%, Service 34%
- **Median household income:** $6,295
- **Middle class income:** 80 million households with $9,500-$79,000 annual incomes
- **Regions:** 22 provinces, 5 autonomous regions, 4 directly controlled municipalities, and 2 special administrative regions (Hong Kong and Macau)
- **Capital:** Beijing (14 million)
- **Major cities:** Shanghai (16.1 million), Shenzhen (11.1 million), Guangzhou (9.3 million), Tianjin (9.2 million), Chongqing (9.2 million), Chengdu (8.4 million), and Wuhan (8.3 million)
- **Tier two cities:** Changsha, Zhengzhou, Hangzhou, Nanjing, Shenyang, Kunming, Hefei
- **Type of government:** One-party rule (Chinese Communist Party)
- **Local currency:** Chinese Yuan (Renminbi)
- **Official language:** Mandarin Chinese (Putonghua)

Economic

- **GDP (in PPP):** $11.35 trillion (2011); $125.62 trillion (2012); $138.92 trillion (2013); $154.08 trillion (2014); $168.72 trillion (2015); $185.27 trillion (2016)
- **GDP growth rate:** 9.2% (2011); 8.1% (2012); 8.4% (2013); 7.9% (2014); 7.9% (2015); 7.7% (2016)
- **FDI*:** Inbound – $211.5 billion (2011) and $225.5 billion (2016) Outbound – $76.1 billion (2011) and $167.0 billion (2016)
- **Exports Free on Board (FOB):** $1,878.6 billion (2011) and $3,250.0 billion (2016)
- **Imports FOB:** $1,663.7 billion (2011) and $3,116.4 billion (2016)
- **Industries:** Five year plan focuses on energy conservation and environmental protection, next generation IT, biotechnology, high-end equipment manufacturing, new energy, new materials, and clean energy vehicles
- **Economic Relations with the U.S.:** China exports the most (18%) to the U.S. and its imports partnership stood at 7.3% in 2010. Both nations share motives to work toward the full normalization of diplomatic relations
- **U.S. Stock Exchange:** NYSE (22) and NASDAQ (128)
- **Trade Balance:** Surplus of $214.9 billion in 2011
- **Foreign Exchange Reserves:** $288.6 billion
- **Total Debt (2011):** External – $640.6 billion; internal – central government debt (22.9% of GDP) and total public debt (16.3% of GDP 2010 estimated)
- **Inflation (Average CPI):** 5.6%(2011); 3.5% (2012); 4.9% (2013); 4.3% (2014); 3.9% (2015); 4.1% (2016)

**FDI figures taken from EIU. MOFCOM data for 2011 reported $116B.*

KPMG in China

KPMG demonstrated an early commitment to the Chinese market. In 1992, KPMG was the first international accounting firm to be granted a joint-venture license in China, and our Hong Kong operations have been established for more than 60 years.

KPMG operates across China, with offices in Beijing, Shenyang, Qingdao, Nanjing, Shanghai, Hangzhou, Fuzhou, Xiamen, Guangzhou, Shenzhen, Hong Kong, Macau, and Chengdu.

Staff: 9,000
Offices: 13

KPMG offices in China

KPMG High Growth Markets

KPMG's High Growth Markets practice can help clients clarify and navigate the complex challenges and risks across the full range of high growth emerging markets – and achieve growth in a changing global landscape. KPMG provides audit, tax, and advisory services to U.S.-based companies in their pursuit of investment opportunities in high growth markets such as China, as well as China-based companies with inbound investment in the U.S. We bring experience in solving complex emerging markets issues, deep industry understanding, broad global reach and in-depth local country knowledge. In addition, KPMG has established a Global China Practice to ensure the firm addresses the complex needs of both inbound and outbound China investors, and has built network of China-experienced advisors in key locations around the world.

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Sources: Economist Intelligence Unit, Views Wire, as of January 24, 2012; Central Intelligence Agency, The World Factbook, as of January 24, 2012.

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China: Policy and Regulatory Environment

Fiscal and Monetary Policy: In December 2011, China's central bank cut bank reserve requirements by 50 basis points, following successive rises since mid-2010. Further cuts to bank reserve requirements are likely to be made in early 2012, in order to ease credit access. However, monetary policy is likely to be kept reasonably tight, as inflationary pressures continue to be above targeted levels.

Competition Policy: The liberalization of state-dominated service sectors progresses, causing friction with the incumbent state-owned enterprises (SOEs). As the authorities seek to force consolidation in oversupplied sectors, SOEs push out smaller private firms.

FDI Policy: The government continues to welcome foreign investment, but has been focusing on quality FDI and specific sectors. Most sectors can be 100% foreign invested but some sectors are subject to restrictions such as foreign ownership caps or extra approvals.

Foreign Trade and Exchange Controls: Despite the underlying downward trend in China's trade surplus, rows with foreign trade partners intensify as they seek greater access to China's domestic markets. The country has loosened some restrictions on capital flows. Capital account liberalization continues at a slow pace and protectionist policies are strengthened in several sectors.

Financing Policy: Private sector financing and access to non-bank sources of funding have improved. Further, corporate bond issuance has been made easier. Banks are repeatedly forced to seek extra capital, as their loan books expand rapidly.

Taxes: The country is endeavoring developing an efficient, sophisticated and multi-faceted tax regime and improving tax compliance and enforcement. Different tax categories include income tax, indirect Tax, custom duty and other taxes.

Income Tax:

- Corporate Income Tax (CIT) (Non-resident enterprises: Beneficial owner, and indirect equity transfer)
- Individual Income Tax

Indirect Taxes in China are value added tax, consumption tax, and business tax. Other taxes include urban maintenance and construction tax, stamp duty, vehicle and vessel tax, urban land use tax, real estate tax, land appreciation tax, deed tax, and resource tax.

The government of China offers special incentives through special economic zones, new and high technology development zones, bonded zones and export processing zones.

Transfer Pricing: CIT law requires companies to conduct 'arm's length' transactions with related parties. Companies are required to maintain transfer pricing documentation in accordance with CIT law; the level of documentation is based on the volume of related party transactions.

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