

**Doing  
Business  
in**

**China  
2008**



SOCIAL SCIENCES ACADEMIC PRESS (CHINA)

Doing  
Business

Doing  
Business

in

China  
2008

Doing  
Business

THE WORLD BANK GROUP



SOCIAL SCIENCES ACADEMIC PRESS (CHINA)

**图书在版编目 (CIP) 数据**

2008 中国营商环境报告: 英文/世界银行集团著. —北京:  
社会科学文献出版社, 2008. 4

ISBN 978 - 7 - 5097 - 0142 - 3

I. 2… II. 世… III. 工商企业—企业管理—研究报告—  
中国—2008—英文 IV. F279. 23

中国版本图书馆 CIP 数据核字 (2008) 第 050736 号

Cataloguing in Publication Data

---

Doing Business in China 2008

The World Bank Group

April 2008

ISBN 978 - 7 - 5097 - 0142 - 3/F · 0060

Published by Social Sciences Academic Press (China)

No. 10, Xianxiao Bystreet, Dongcheng District

Beijing, China

Postcode: 100005

© 2007 by Social Sciences Academic Press (China)

Editor: Cao Yiheng Zhou Yingxi Guo Feng

Printed in Beijing, China

---

All rights reserved. No part of this book may be reproduced by  
any means without written permission from the publisher.

## **Doing Business in China 2008**

A co publication of the World Bank and the International Finance Corporation

Copyright © 2008 by

The World Bank Group

1818 H Street, NW, Washington, DC 20433, USA

### **All Rights Reserved.**

---

This work was originally published by The World Bank Group in English as *Doing Business in China 2008* in 2008. In case of any discrepancies, the original language will govern. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent. The World Bank Group does not guarantee the accuracy of the data included in this work. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

### **Rights and Permissions**

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The World Bank Group encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

For permission to photocopy or reprint any part of this work, please send a request with complete information to the Copyright Clearance Center Inc., 222 Rosewood Drive, Danvers, MA 01923, USA; telephone: 978-750-8400; fax: 978-750-4470; Internet: [www.copyright.com](http://www.copyright.com).

All other queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: [pubrights@worldbank.org](mailto:pubrights@worldbank.org).

*Doing Business in China 2008* was produced in collaboration with the China Urban Competitiveness Report Unit of the Chinese Academy of Social Sciences (CASS). CASS is the leading academic research organization in the fields of philosophy and social sciences as well as a major policy advisory body in China.

Copies of *Doing Business 2008*, *Doing Business 2007: How to Reform*, *Doing Business in 2006: Creating Jobs*, *Doing Business in 2005: Removing Obstacles to Growth*, and *Doing Business in 2004: Understanding Regulation* and other subnational studies may be obtained at <http://www.doingbusiness.org>.

---

## About the report

*Doing Business in China 2008* is the first in a series of reports which evaluate the local business regulatory environment and monitor progress on reforms undertaken by subnational governments in China. Quantitative indicators on business regulations and their enforcement were created for China's 26 capital cities and 4 centrally administered municipalities.<sup>1</sup> Comparisons with the national results (as measured in Shanghai) and the rest of the world are based on the indicators in global *Doing Business 2008*.

*Doing Business in China* investigates the scope and manner of regulations that encourage business activity and those that constrain it. The indicators cover 4 areas of business regulation and their enforcement: starting a business, registering property, getting credit (creating and registering collateral) and enforcing contracts. These indicators were selected because they cover areas of provincial and municipal jurisdiction. Data will be collected and the report updated annually for 3 years. The *Doing Business* methodology and the

indicators have a limited and deliberately stylized scope in that they look only at a defined set of business regulations. While this approach is very useful in allowing cross-country and subnational comparisons, it is not meant to be a full reflection of the investment climate or the attractiveness of a locality to investment.

This project is the result of cooperation between the China Urban Competitiveness Report Group under the Chinese Academy of Social Sciences (CASS) and the Business Enabling Environment (BEE) advisory service team of the International Finance Corporation, World Bank Group. Based on the findings and dissemination of the report, further research and assistance for local governments' efforts to design and implement reforms is available.

# Contents

---

<b>Overview</b>	<b>1</b>
<b>Starting a business</b>	<b>8</b>
<b>Registering property</b>	<b>14</b>
<b>Getting credit</b>	<b>18</b>
<b>Enforcing contracts</b>	<b>22</b>
Data notes	27
Indicator tables	37
<b>Case studies</b>	<b>49</b>
<b>Procedures to start a business</b>	<b>50</b>
<b>Procedures to register property</b>	<b>70</b>
Acknowledgements	84

# Doing Business

## Overview

For firms to flourish and generate wealth, they need an environment that is benevolent. This means not only having access to markets and infrastructure, but also a business-friendly “soft environment” wherein government policies and services are appropriate and efficient. Easing the process of opening a new business and obtaining licenses, having adequate protection of property rights and access to finance are all important. Transparent and efficient legal, administrative and tax systems are also ways that government can make Doing Business easier and more productive.

The private sector has become the driving force of China’s economy. By the end of 2006, private businesses contributed about two-thirds of the country’s GDP and half of its total tax revenue and provided some 75% of the jobs in urban areas.<sup>2</sup> Provinces and cities around China have been competing fiercely to lure investors to operate businesses in their regions. Government officials have strong incentives to encourage entrepreneurship as their performance is often evaluated on the economic growth in the areas they administer.<sup>3</sup> In China, subnational governments are responsible for enforcing the national laws and regulations issued by the central government and following

the country’s macroeconomic and fiscal policies. Within this framework, they have a relatively high degree of autonomy to determine their own policies according to specific local conditions. Local regulators therefore can play a key role in setting the tone of a region’s investment climate.

Following the model of subnational studies in a number of major emerging market countries including India, Mexico and Brazil, *Doing Business in China* measures the ways in which government regulations facilitate or restrict business activity. It captures variations in the enforcement of business regulations among the capital cities of China’s 26 provincial level administrative divisions and 4 centrally administered municipalities in order to compare the ease of Doing Business across China. Using the global *Doing Business* methodology (see Data notes for details), the study measures 4 areas which are important indicators of a business-friendly environment: the ease of (i) starting a business, (ii) registering property, (iii) getting credit (creating and registering collateral) and (iv) enforcing contracts. These areas are crucial to all businesses and are heavily influenced by local regulations. The 30 cities studied are grouped into 6 geographic regions:

<b>Southeast</b>	Fuzhou (Fujian), Guangzhou (Guangdong), Hangzhou (Zhejiang), Nanjing (Jiangsu), Shanghai
<b>Bohai Bay</b>	Beijing, Jinan (Shandong), Shijiazhuang (Hebei), Tianjin
<b>Northeast</b>	Changchun (Jilin), Harbin (Heilongjiang), Shenyang (Liaoning)
<b>Central</b>	Changsha (Hunan), Hefei (Anhui), Nanchang (Jiangxi), Wuhan (Hubei), Zhengzhou (Henan)
<b>Southwest</b>	Chengdu (Sichuan), Chongqing, Guiyang (Guizhou), Haikou (Hainan), Kunming (Yunnan), Nanning (Guangxi)
<b>Northwest</b>	Hohhot (Inner Mongolia), Lanzhou (Gansu), Taiyuan (Shanxi), Urumqi (Xinjiang), Xi'an (Shaanxi), Xining (Qinghai), Yinchuan (Ningxia)

*Doing Business* does not tell the whole story. Its methodology and indicators have a limited and deliberately stylized scope in that they look only at a defined set of business regulations. In order to make the data comparable across cities and countries, a specific type of company — generally a limited liability company — is studied. While this approach is very useful in allowing cross-country and subnational comparisons, it is not meant to be a full reflection of the investment climate or the attractiveness of a country or region to investment. There are many other factors that influence investment decisions such as a country's proximity to large markets and its openness, the quality of its labor force and infrastructure services, social stability and the security of property from theft and looting, governance, macroeconomic conditions and the underlying strength of institutions. The report does not go into the specific issues that China has come across during the economic transition period, such as those related to access to land and monopolies, although these factors are also crucial to *Doing Business*. Still, a high ranking in the ease of *Doing Business* does mean that the government has created a regulatory environment conducive to operating a business. A high ranking does not necessarily mean that a government regulates businesses less, but rather that it does so in a way that imposes fewer costs and burdens.

## There is a clear variation across the country in terms of the ease of *Doing Business*

In China, although commercial activities are subject to a uniform regulatory system set by the central government, local officials have a large degree of discretion in terms of economic policy and the enforcement of national legislation. As a result, the capability and vision of local governments can influence, to a great extent, the local business climate. As measured by the 4 indicators in *Doing Business in China*, the coastal cities have the friendliest environments for *Doing Business*. Guangzhou is ranked best overall, followed by Nanjing, Shanghai, Hangzhou, Jinan, Fuzhou, Tianjin and Beijing. The cities with the most challenging environments tend to be those in western and central China (Figure 1.1). However, all the cities measured have at least one indicator which compares favorably with other surveyed cities.

*Doing Business in China* reinforces a number of other domestic and international surveys and studies including the World Bank Investment Climate Assessment of 120 cities<sup>4</sup> and the annual "Urban Competitiveness Report" by the Chinese Academy of Social Sciences. These studies also found that the investment climate varies widely across regions even though laws and regulations are basically the same throughout the country.

Detailed findings of each of the 4 indicators are discussed in the following chapters. *Doing Business in China* suggests that there is significant scope for reforms which can make a noticeable difference in the local climate for *Doing Business*. The growth of private enterprises in China over the past decade is testimony to progress in the business enabling environment. As this is the first subnational survey in the series, there is no means of measuring this progress. The results of this survey will, however, serve as a benchmark to measure progress in future years.



**Starting a business:** Starting a new business is a relatively complex process everywhere in China. In general, the numerous procedures and high initial capital threshold are the biggest stumbling blocks. *Doing Business in China* shows that there is considerable variation among China's cities in the ease of starting new businesses. This variation in performance is a result of the relative efficiency of local government implementation as the basic requirements are the same across the country. Local governments can simplify the business start-up process within a relatively short timeframe and with limited resources by consolidating approval procedures and making better information available to the public. In 2006 and early 2007, 10 provinces reported reforms in this regard.

**Registering property:** The process of registering land title and the ownership of buildings is mainly governed by local regulators. *Doing Business in China* found significant differences among localities in the number of procedures, time and cost required to complete the registration process. In Shanghai, where the registration process is the easiest, it takes 4 steps and 29 days. The same process, however, takes a dozen steps in some cities. That means firms have to deal with 3 times as many officials and processes as they do in Shanghai to get new building title. This means extra time and money to businesses. Simplifying the registration process requires a streamlined examination process and coordination among different government agencies including state and local tax, land and building administrations.

Figure 1.1  
Doing Business in China: Where is it easy, where not



Source: *Doing Business* database.

Eleven provinces made such improvements in 2006 and early 2007.

**Getting credit:** Obtaining credit tends to be a challenge for smaller businesses everywhere in the world. China is no exception. Small companies often lack the type of assets (land and buildings) that are required by banks to secure loans. Banks are often hesitant to accept collateral from smaller businesses, such as equipment or accounts receivable, because of inadequate legislation to protect their rights as creditors. Even if banks will accept such moveable assets, without an established system for registering these assets as collateral, it takes weeks or months before a firm can secure the loan. Although access to credit is basically a market function, the government can play an important role in facilitating a favorable environment for financing burgeoning firms. In 2006, China passed its first Property Law, clearing the legal hurdles for businesses to create security rights on movable assets such as inventory, accounts receivable and future assets. At the same time, 19 provinces are building and strengthening credit information systems and providing financial and policy support for business-oriented financing programs.

**Enforcing contracts:** The efficiency of courts in enforcing contracts varies significantly across the country although the laws and regulations are set at the national level. Solving an uncomplicated commercial dispute can take 230 days in southeast coastal cities but some 363 days in northeastern China. The variation rests in the relative efficiency of the local courts and information transparency. The good news is that local courts are actively reforming, propelled by Supreme Court mandates. In 2006 and early 2007, 13 provinces recorded efforts to improve court efficiency.

### Local governments are reforming

China has been active in reforming business regulations and upgrading regulatory efficiency over the past 3 decades. The pace is accelerating along

with the deepening of the country's integration into the global market. For the second year in a row, China ranked among the top 10 reformers in the world and is the top reformer in East Asia according to global *Doing Business 2008*. In 2006, 497 new laws and decrees went into effect including two pieces of landmark legislation: the Property Law and the Enterprise Bankruptcy Law.<sup>5</sup> The latter extends the bankruptcy framework from state-owned enterprises to most private enterprises and gives secured creditors priority to the proceeds from collateral. At the same time, the central government has been pushing forward reforms of the regulatory system following the principles of "Administration According to Law".

*Doing Business in China* shows that a total of 53 reforms were launched at the local level from 2006 to early 2007.<sup>6</sup> Shanghai, Zhejiang, Guangdong, Fujian, Ningxia, Henan, Beijing and Tianjin adopted changes in 3 out of the 4 areas studied by *Doing Business in China*. Chongqing was the top reformer, with improvements in all four. Only 3 provinces did not report any reforms that are relevant to the 4 indicators. Table 1.1 shows the reforms in business regulations surveyed by *Doing Business in China* during the period from 2006 until early 2007.

The experiences of the best performers provide a way for all cities to improve their own business environments. If best practices across all the indicators were present in a single city, then China as a whole would move up the global rankings from 83<sup>rd</sup> to 67<sup>th</sup> place.<sup>7</sup> (Table 1.2) But even among the best performers in China, there is room for improvement compared with the global top performers. Hangzhou can be proud of being among the top performers domestically in terms of starting a new business. It takes 12 procedures, 30 days and 5.7% of annual per capita income to start a business. But in Hong Kong (China), starting a new business requires only 5 procedures, 11 days and 3.1% of annual per capita income.

**Good news/bad news: some inland provinces are catching up, but for those not reforming, the gap is widening.**

In general, business regulations are better in the

Table 1.1

**Who is reforming in China in 2006-2007**

Province/ Municipality	Starting a business	Registering property	Getting credit	Enforcing contract
Anhui	√	√		
Beijing		√	√	√
Chongqing	√	√	√	√
Fujian	√	√		√
Gansu			√	
Guangdong		√	√	√
Guangxi	√			
Guizhou				
Hainan				
Hebei				
Heilongjiang	√		√	
Henan		√	√	√
Hubei	√		√	√
Hunan				
Inner Mongolia				√
Jiangsu				√
Jiangxi		√		√
Jilin				
Liaoning		√		
Ningxia	√		√	
Qinghai			√	√
Shaanxi			√	
Shandong		√	√	
Shanghai	√		√	√
Shanxi		√		√
Sichuan			√	√
Tianjin	√	√	√	
Xinjiang		√	√	
Yunnan	√		√	
Zhejiang		√	√	√

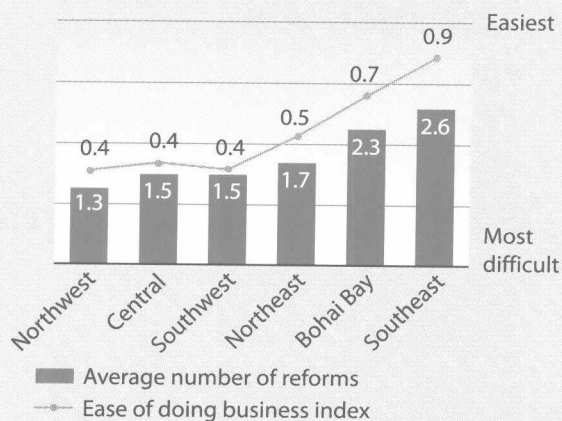
Source: *Doing Business in China*, information is collected through a research of the published articles in media.

eastern coastal regions than in the western and central areas but there are exceptions. Chongqing and Chengdu, located in southwest China, are ranked number 10 and 13 respectively in the ease of Doing Business. Both cities are active in reform. Chongqing simplified the property registration system by integrating land and building registration into one. In July 2007, Chengdu implemented a joint approval system for new businesses. The new system is expected to cut the number of procedures and shorten the approval time significantly.

The less developed areas remain, however, slower to reform. The southeast has introduced the greatest number of reforms, followed by the Bohai Bay region. Northwestern China lags behind the others with only 1.3 reforms per province — or less than half the number introduced in the more prosperous southeast (Figure 1.2).

Figure 1.2

**Doing Business is easier in the reforming regions**



Source: *Doing Business* database.

## Why reform

A favorable regulatory environment is good for all investors — both domestic and foreign. *Doing Business in China* looks at the environment from the perspective of domestic small and medium size firms. This is because these businesses are the major and sustained source of employment and contribution to local revenue. They are also essential for a stable supply chain which provides services and logistics support for bigger investors. Places that are good for domestic investors are also most attractive to foreign investors. As shown in Figure 1.3, the top-ranked areas in ease of Doing Business are the largest recipients of foreign direct investment.

Undertaking reforms can bring significant results to the less developed areas. By making their environments more business friendly, the less developed areas could see an increase in private sector growth. This would bring them closer to the success of the coastal areas. Payoffs from reform can be large. According to the global *Doing Business* report, countries that reform the most witness the highest equity returns and therefore are the most

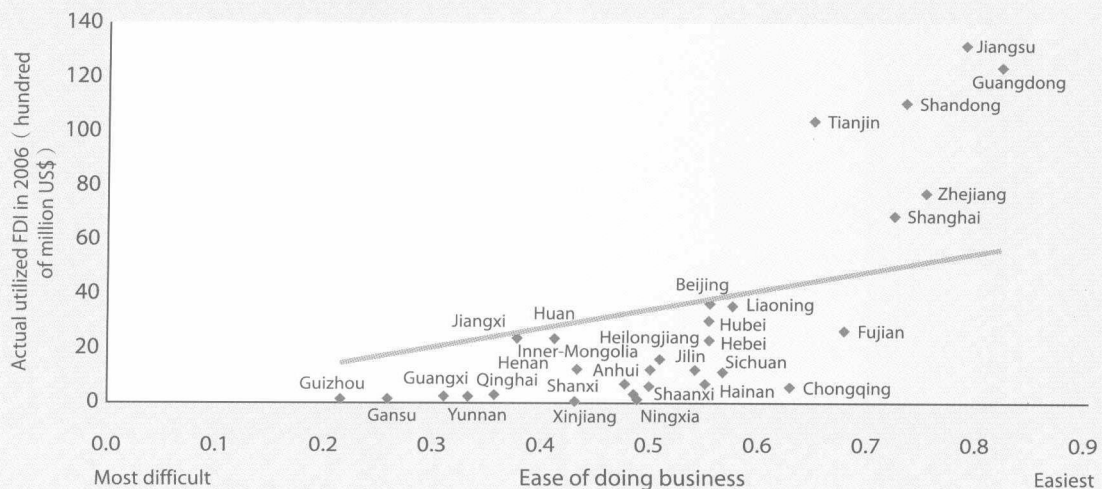
attractive to investors. In Mexico, where reforms cut the time to establish a business from 58 days to 27, the number of registered businesses rose by nearly 6%, employment increased by 2.6% and prices fell by 1% on the back of an increase in competition from new entrants.<sup>8</sup> Numerous studies show that higher rankings on the ease of Doing Business are associated with more growth, more jobs and a smaller share of the economy in the informal sector.<sup>9</sup>

## What gets measured gets done

Remaining nationally and globally competitive takes more than adopting reforms that improve *Doing Business* rankings, but publishing comparative data on the ease of Doing Business can also inspire governments to greater levels of reform. Since the first global *Doing Business* report was published in 2003, the series has inspired or supported 113 reforms around the world with direct impact on the indicators. Some countries such as Egypt, Georgia and Nigeria, which were initially ranked low, have moved steadily up the ranks through targeted reform efforts. Climbing the ranks of the *Doing Business* indicators sends investors a positive signal and indicates that the

Figure 1.3

### Provinces where Doing Business is easier attract more FDI



Source: *Doing Business* database; and Ministry of Commerce.

government is serious about improving operational efficiency.

The subnational adaptation of the model fosters competition among provinces and cities within countries and helps spread good practices. The tool becomes even more effective when it is used repeatedly to reveal changes resulting from reforms initiated by local governments over time. Reforms often go beyond those that improve *Doing Business* rankings. When the Philippines issued a decree to lower administrative fees, it covered all types of licenses and permits, not just those measured in *Doing Business*. The same thing

happened in China. The simplification of business start-up procedures in Hangzhou is part of an across-the-board campaign to simplify the local administrative approval system.

Clearly, improving some of the *Doing Business* indicators is dependent on changes in national policies and laws. However, the variation in performance among the cities reveals that local governments can get positive results within the existing national laws. Efforts focused on how laws and regulations are carried out can make a big difference. Local level implementation often matters most to businesses as it affects their daily operations.

Table 1.2  
Best practices in China and globally\*

Indicators	Best practice in China	International ranking of best practice in China	Best practice in the world
Cost to open a business (% of provincial GDP per capita)	3.1 Shanghai	22	0 Denmark
Days to open a business	28 Guangzhou	79	2 Australia
Procedures to open a business	12 Hangzhou/Nanjing/ Fuzhou	140	2 Australia/ Canada
Procedures to register property	4 Shanghai	23	1 Norway/Sweden
Days to register property	28 Chongqing	48	2 Sweden/Thailand
Cost to register property (% of property value)	3.1 Beijing	52	0 Saudi Arabia
Days to create and register collateral	7 Fuzhou	n.a.**	n.a.**
Cost to create and register collateral (% of loan value)	2.1 Nanjing	n.a.**	n.a.**
Days to enforce contracts	112 Nanjing	2	109 New Zealand
Cost to enforce contracts (% of claim value)	9.0 Shanghai	8	5.5 South Korea

\* International comparative data are from *Doing Business in 2008*. "Enforcing contracts" data are from *Doing Business in 2007: How to Reform*.  
\*\* n. a. =not applicable. The time and cost of registering collateral were not reported in the global *Doing Business* study.  
Source: *Doing Business* database.

# Doing Business

## Starting a business

“Start a company and be your own boss,” a dream for many Chinese a decade ago, is coming true for more and more people today. These ambitious and innovative entrepreneurs are the driving force of the economy, helping many others in poverty move to prosperity. However, Chinese entrepreneurs may find that establishing a business in their home city is a lengthy and cumbersome process. Not only do they have to worry about location, capital and markets, they also need to deal with a maze of complex administrative screening procedures before they can start their businesses. On average, it takes 4-8 weeks to complete 14 steps before a domestic firm can open and operate. Often it takes more than one trip to complete each procedure. Many entrepreneurs simply pay more to hire “start-up service agencies” to complete the formalities. This can double the cost of starting a business.

Efficient business entry procedures are important from an economy-wide perspective. International evidence shows that burdensome entry regulations do not increase the quality of products, make work safer or reduce pollution. Instead, they reduce the contribution of the private sector to the economy, push more people into the informal economy, increase consumer prices and fuel corruption.<sup>11</sup>

Business registration is the gateway through which

### What's measured<sup>10</sup>

Measuring the ease of starting a business is one way to tell how friendly the business environment is to firms. This is important since the economy is competitive only when entrepreneurs with innovative ideas can enter the formal market without difficulty. *Doing Business in China* evaluates the ease of starting a business based on a survey investigating the procedures that a standard small to medium-size company needs to complete to start operations formally. These include obtaining all necessary permits and licenses and completing all required inscriptions, verifications and notifications with authorities. The time and cost required to complete each procedure under normal circumstances are calculated, as well as the minimum paid-in capital. It is assumed that all information is readily available to the entrepreneur, that there has been no prior contact with officials and that all government and non-government entities involved in the process function without corruption.

businesses enter the formal economy. In China, ex-ante approval and registration with the local State Administration of Industry and Commerce is required prior to starting a business. In recent

years, sectors that require prior approval have decreased and the process has become simpler and cheaper (Figure 2.1). But compared with most other countries, starting a business in China is still complicated, posing a significant hurdle for small firms. China ranks 135<sup>th</sup> globally in the ease of starting a business.<sup>12</sup>

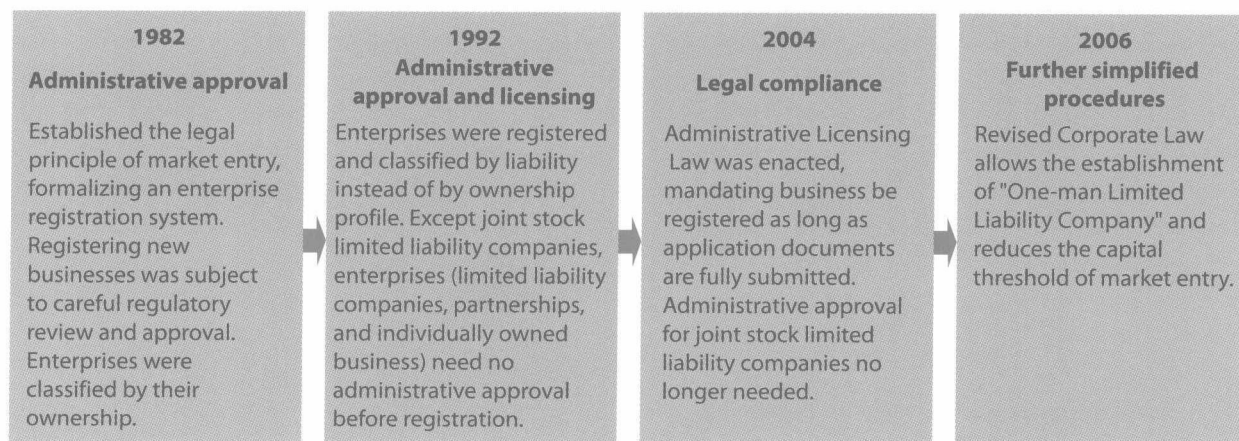
It takes more steps in China than the international average to establish a new firm, although the average time is not high (Figure 2.2). The minimum capital requirement for new companies is also high in China, equal to about 1.9 times the country's per capita income. Even the best performer in China —

Hangzhou (12 procedures, 30 days and a cost of 5.7% of local per capita income) — falls behind 116 economies out of 178 economies measured. There are no minimum capital requirements for starting a business in 75 economies.

Although the procedures to legally open a business are regulated at the national level, the method of implementation is set at the local government level. Therefore, as with the other indicators, there is wide variation across China in the ease of starting a business. In general, starting a new business is more efficient in the coastal areas than in the less developed western areas (Figure 2.3). It takes an

Figure 2.1

### History of China's business entry system



Source: China State Administration of Industry and Commerce ([www.saic.gov.cn](http://www.saic.gov.cn)).

Figure 2.2

### How long does it take to start a business in different parts of the world?



Source: Doing Business database.

Figure 2.3

### Starting a business: which regions are easiest, which are hardest

Southeast 12.6	Southeast 33	Southeast 5.5
Central 13.6	Bohai Bay 38	Bohai Bay 5.7
Southwest 13.7	Northeast 40	Northeast 9.1
Bohai Bay 13.8	Central 40	Northwest 11.4
Northwest 13.9	Southwest 42	Central 14.8
Northeast 14.0	Northwest 49	Southwest 16.3
Procedures ( number )	Time ( days )	Cost ( % of provincial GDP per capita )

Source: Doing Business database.

average of 33 days to establish a business in the southeast and 38 days in the Bohai Bay area. But in the northwestern part of the country, this process takes on average 49 days.

According to national regulations, setting up a new business requires 14 procedures (Figure 2.4). The process involves at least 10 institutions, including various government authorities and agencies, police, banks and seal-making shops. Cities may have different processing procedures, depending on how the local administrative institutions are established. For example, some cities such as Hangzhou, Nanjing and Fuzhou have established administrative centers to provide a one-stop service for getting approval from the Administration of Industry and Commerce, taxation registration and the issuance of an organization code certificate from the quality supervision authority. This has reduced the actual number of steps to 12. Other places such as Guangzhou, Shanghai, Zhengzhou and Haikou have eliminated steps by allowing joint registration for state and local taxes. Procedures related to capital verification and business registration are the

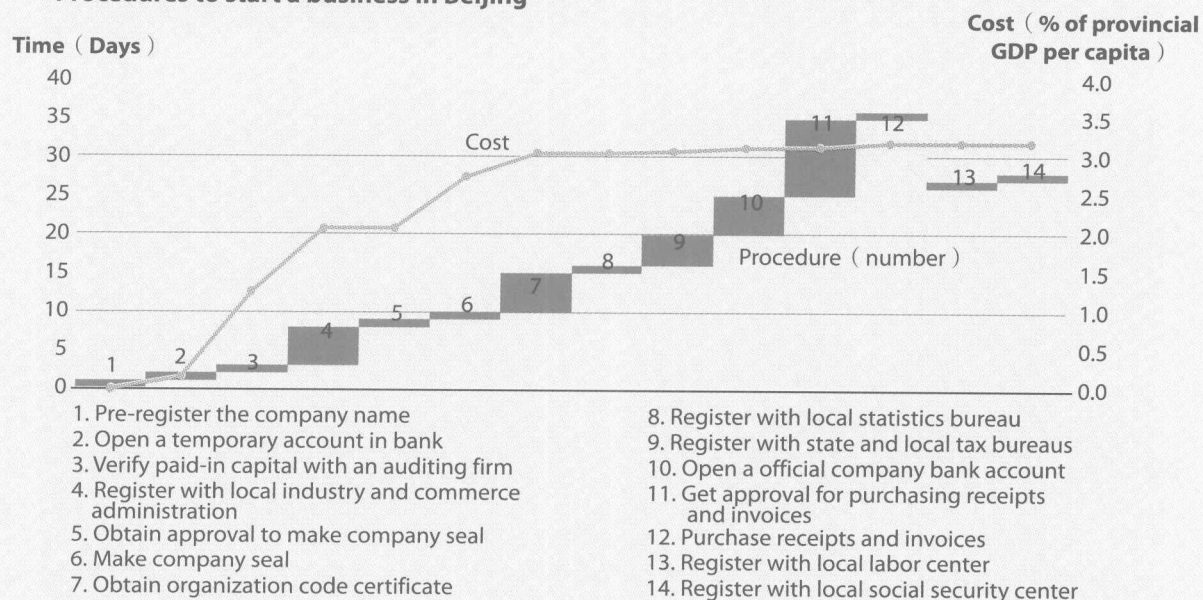
most time consuming. The most efficient city is Guangzhou where it takes 28 days to complete the process to start a limited liability company. In Yinchuan and Taiyuan, entrepreneurs have to spend 55 days on average, or nearly a month longer (Figure 2.5).

New businesses may need to obtain up to a dozen permits before they can apply for legal entity registration depending on their line of business. To start a new restaurant, the owner has to obtain permits of public security, health and hygiene, urban planning, environment and commerce prior to operation. This process, which is not directly surveyed by *Doing Business in China*, can take 3 to 6 months.

Initial taxpayer registration is another component of the business start-up process. Tax administration has separate national and local level organizations.<sup>13</sup> Enterprises must go to both taxation organizations to file and pay their taxes. Those which need to pay VAT need to purchase VAT invoices at the national tax offices, while business taxpayers buy their invoices at the local tax offices.<sup>14</sup> Although

Figure 2.4

## Procedures to start a business in Beijing



Source: *Doing Business* database.



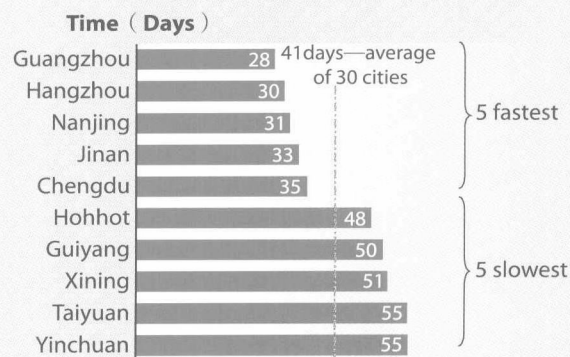
electronic services are becoming increasingly available, firms still need to visit tax offices in person as electronic signatures are not yet accepted.

With the exception of capital requirements, China has lower up fees than the average of all other regions in the world except OECD countries — about 11% of the country's annual per capita income. Because many of the fees related to starting a business are set under national standards, high-income areas naturally have a lower rate when measured as a percentage of local per capita income. This means that it is relatively more expensive for entrepreneurs to start a business in the lower income regions. Shanghai has the lowest rate of cost of 3.1%, whereas the highest is in Guiyang, at 26.6% (Figure 2.6).

Capital requirements are particularly onerous for

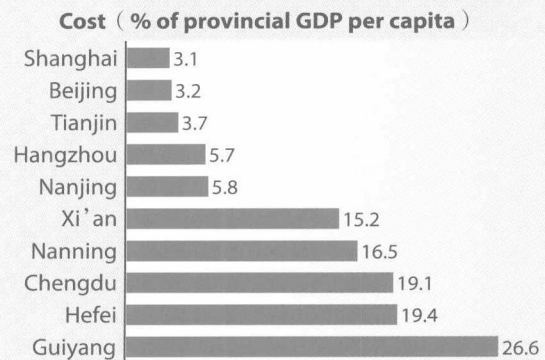
small companies. While these were established in China as a means of protecting the rights of investors and consumers, this function could be better served by a well-functioning credit information system. Although the amended Corporate Law which became effective in 2006 reduced the minimum amount of registered capital from RMB100,000-300,000 to RMB30,000, the threshold is still 3 times greater than annual per capita income in central China. Furthermore, according to current law, when shareholders pay in their capital, they have to hire an eligible audit firm to verify and issue a letter of capital verification. The letter is mandatory for business and tax registration. This procedure accounts for nearly half of total expenses and 18% of total time of starting a business. Commercial banks which are willing to open up accounts to hold capital deposits for small businesses are often difficult to find and those that do may charge high account management fees.<sup>15</sup>

Figure 2.5  
Guangzhou, the fastest place to start a business



Source: Doing Business database.

Figure 2.6  
Starting a business is relatively cheaper in richer cities



Source: Doing Business database.