IFC and World Bank Laud China's Revision of Company Law, Making Entry of New Businesses Easier

Washington D.C, 7 December, 2005 — China has revised its company law, drastically lowering the minimum capital required for domestic companies to begin operations. The new requirement, which will come into force on January 1, 2006, is set at RMB30,000 for limited liability companies in all industries. Previously, entrepreneurs who wished to open a manufacturing or wholesaling business had to put down RMB500,000, as compared to RMB300,000 in retailing and RMB100,000 in services. The new law also allows as much as 70% of the total registered capital to be in non-cash contributions such as intellectual property or technology.

Doing Business in 2006: Creating Jobs, cosponsored by the World Bank and the International Finance Corporation, the private sector arm of the World Bank Group, finds that such reforms, while simple, can create many new jobs. "Jobs and job creation are priorities for every country's economy. Improving regulations is vital for all entrepreneurs and key to creating more employment opportunities. Young people looking for their first jobs and unemployed people benefit the most from such reform," said Michael Klein, World Bank/IFC Vice President for Private Sector Development and IFC Chief Economist.

Prior to this reform, China had the 8th highest minimum capital requirement in the world, equivalent to 947% of the country's average annual income per capita, $1,290. Only Ethiopia, Jordan, Madagascar, Saudi Arabia, Syria, the West Bank and Gaza, and Yemen imposed higher start-up capital. Now only RMB6,000, or 20% of the lowered minimum capital, needs to be paid when opening the business, with the remainder paid up over a 2-year period. With this new reform, the capital that a new business would need to start operations is 56% of income per capita, similar to the amount required in Germany and lower than the requirement in Japan or Korea.

The Doing Business project has long advocated cuts in minimum capital requirements. "China follows a welcome trend in reducing or eliminating the capital requirement. In the past two years, France cut it altogether, while Lebanon and Serbia and Montenegro slashed it to a tenth of what it had been. Germany and the Netherlands are planning similar reforms and cuts," said Simeon Djankov, co-author of the Doing Business report series.

Judging from other countries that have implemented similar reforms, the Doing Business report team concludes that such reform will likely increase China's number of newly-registered businesses. For example, following the elimination of capital requirements in France in 2003, business registrations jumped 18%. Similarly, reforms in Serbia and Montenegro in 2004 brought almost 42% more registrations relative to the previous year.

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For more information, please contact:
Nadine Ghannam in Washington DC: Tel: 1 (202) 458-0482, Mobile 1 (202) 361-7798, Email: nsghannam@ifc.org
Or: Desmond Dodd in Hong Kong: Tel: +852-2509-8183, Email: ddodd@ifc.org

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