

Doing Business

Doing Business in China 2008

THE WORLD BANK GROUP



SOCIAL SCIENCES ACADEMIC PRESS (CHINA)

Doing Business in China 2008

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

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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>.

Contents

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

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.¹ 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.



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.² 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.³ 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:

Southeast	Fuzhou (Fujian), Guangzhou (Guangdong), Hangzhou (Zhejiang), Nanjing (Jiangsu), Shanghai
Bohai Bay	Beijing, Jinan (Shandong), Shijiazhuang (Hebei), Tianjin
Northeast	Changchun (Jilin), Harbin (Heilongjiang), Shenyang (Liaoning)
Central	Changsha (Hunan), Hefei (Anhui), Nanchang (Jiangxi), Wuhan (Hubei), Zhengzhou (Henan)
Southwest	Chengdu (Sichuan), Chongqing, Guiyang (Guizhou), Haikou (Hainan), Kunming (Yunnan), Nanning (Guangxi)
Northwest	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 cities⁴ 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 notSource: *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.⁵ The latter extends the bankruptcy framework from stateowned 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 2007.⁶ 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 83rd to 67th place.⁷ (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		✓	✓	✓

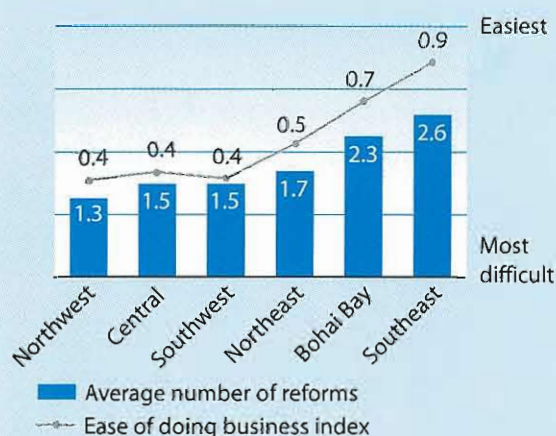
Source: *Doing Business in China*, information is collected through a research of the published articles in media.

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

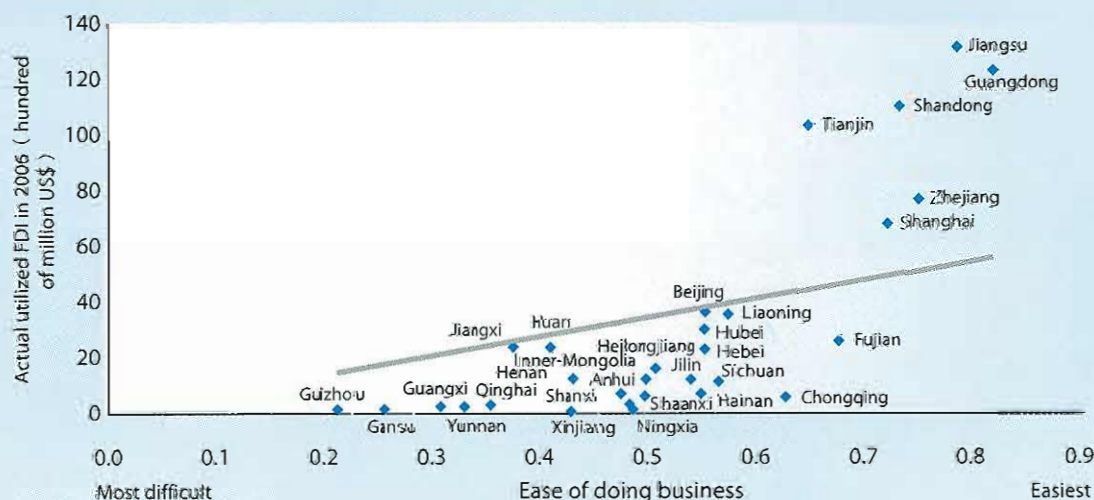
attractive to investors. In Mexico, where reforms cut the time to establish a business from 58 days to 27, the number of registered businesses rose by nearly 6%, employment increased by 2.6% and prices fell by 1% on the back of an increase in competition from new entrants.⁸ Numerous studies show that 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.⁹

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.



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.¹¹

Business registration is the gateway through which

What's measured¹⁰

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 135th globally in the ease of starting a business.¹²

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).

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.

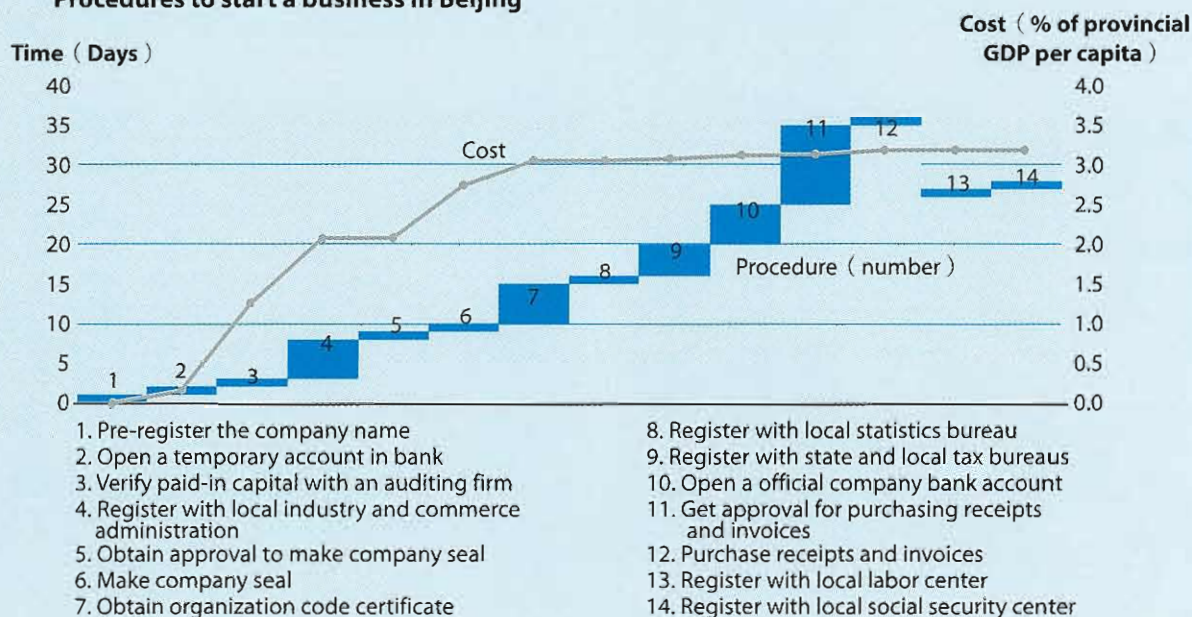
According to national regulations, setting up a new business requires 14 procedures (Figure 2.4). The process involves at least 10 institutions, including various government authorities and agencies, police, banks and seal-making shops. Cities may have different processing procedures, depending on how 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.¹³ 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.¹⁴ 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.

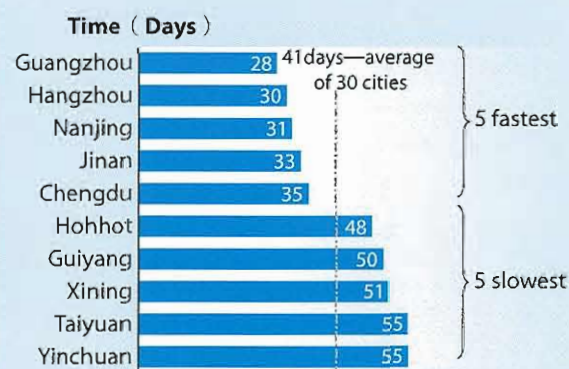
With the exception of capital requirements, China has lower up fees than the average of all other regions in the world except OECD countries — about 11% of the country's annual per capita income. Because many of the fees related to starting a business are set under national standards, high-income areas 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.¹⁵

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.

Box 2.1. Making it easier to start a business

Local governments are taking steps to standardize approval procedures, cut the number of pre-approval licenses and improve administrative efficiency. One method is the establishment of one-stop administrative centers. As of 2006, more than 4200 such centers were established across the country. Instead of traveling to separate government agencies around the city, applicants can visit the agencies at respective counters in the service center. Online registration is also catching on. Nearly 40% of new businesses in Beijing's Haidian, Chaoyang and Huairou districts processed their registrations on-line. Similar web-based services are available in Guangdong Province.

Most one-stop shops simply assemble the regulating departments in the same place but have been unable to coordinate functions and forms. Entrepreneurs still must submit the same documents to different authorities for separate approvals. In Harbin and Suzhou, however, a "one form system" has been introduced. Applicants submit one application form and one set of supporting documents to the industry and commerce administration, which forwards the package to various state and local taxation authorities, quality supervision and the quarantine bureau. This practice not only saves time for applicants but also reduces the workload of government staff who no longer have to retype information.

As the laws governing business entry are formulated by the national legislature, local authorities cannot alter the basic procedures but can make a big difference by consolidating steps. Joint approval is one of the best initiatives under the existing legal framework. It is more efficient than on-line registration and one-form application. In Chengdu, newly established joint-approval counters distribute the applications to the administrative and regulatory authorities for review. Approvals are then collected and returned to the applicant in one go. Applicants submit their documents once at the counter and receive approval generally within 24 hours, as opposed to a week long process in the past. It is estimated that the new process may save entrepreneurs RMB23.7 million a year.¹⁶

Tianjin, Wuhan and Chongqing introduced a "silence is consent" system whereby applications are deemed approved if the authorities do not reject the application within a deadline. Shanghai Pudong District, Hangzhou and Nanjing launched a "Notification and Pledge system". Instead of waiting for months for all pre-registration approvals, entrepreneurs only need to submit a statement pledging that they meet all requirements. Within 7 to 10 days, the applicant receives a permit with which to apply for a business license with the industry and commerce administration.

Sources: Chengdu Municipal Government; media sources.

What to Reform

Reforms to simplify business registration procedures help create existing new businesses and encourage existing businesses to join the formal sector. In Mexico, after the time to register a business was cut from 58 to 27 days in 2005, the number of registered businesses rose by nearly 6%.¹⁷ This experience is especially relevant for the governments in China's western areas looking for ways to catch up with the coastal regions. Even

within the existing national framework, local governments can make it much easier and less costly to start-up businesses. Those that do will improve the environment for new investment and job creation.

Unify administrative procedures and introduce "single filing" and "joint approval". In most cities, there is no computerized network that connects different government authorities so applicants have to repeatedly file the same

information. Each procedure creates an “interaction point” with officials which costs businesses time and money. Even without changing the existing legal framework, local governments can ease business startup by consolidating approval procedures, reducing the number of application trips and simplifying documentation. Local governments can also reform the application workflow, consolidate administrative resources, establish joint-approval systems and set up data networks that are shared among relevant departments. The service quality can also be improved through skills development and training. Sichuan and Zhejiang have led the way in this regard and can provide a model for other areas interested in reform.

Simplify registered capital requirements.

China’s mandatory requirement for registered capital and its verification at the time of business

registration is intended to protect shareholders and prevent fraud. But international experiences suggest that such regulations are burdensome for many law-abiding companies and are not particularly effective in preventing fraud. Consideration could be given to the timing and sequencing of reforms related to the minimum capital requirement and the auditing requirement on initially paid-in capital for most businesses. Instead, a well-functioning credit information system could help investors determine a company’s risk level.

Simplify tax registration procedures.

Simplifying initial taxpayer registration can make it easier to start new businesses. To date, less than one-third of cities studied in this report have introduced a single filing for local and national taxes. Among those that have, Shanghai, Nanjing, Fuzhou and Zhengzhou provide good examples for other local governments to follow.

Box 2.2. Reform of Hangzhou’s Licensing System

Since 2000, Hangzhou has implemented 3 rounds of administrative reforms reducing the number of business activities that are subject to administrative approval from 3200 to 389. In order to upgrade efficiency and service quality, Hangzhou municipal authorities issued a statute mandating that all government authorities make public the details of administrative procedures, documents, application procedures and time requirements for business approvals. Each department was asked to set up a single window to handle applications. At the core of the second round of administrative reform, Hangzhou Municipal Administration of Industry and Commerce launched a joint approval process for business registration which connected 17 sub-bureaus and 96 executive offices through a computer network.

Hangzhou’s administrative reform process was challenging because it reshuffled the interest of various governmental departments. A reform team led by municipal government leaders was put in place to take charge of the design and implementation of the reform. The major difficulty it encountered was to define the items that needed licensing. Some government departments, hesitant to lose their authority to issue licenses, tried to withhold information from the team. To deal with such obstacles, the team took several steps. First, it recruited internal experts from each department into the team. Second, it set up online forums on the government website where citizens and firms could provide views on administrative bottlenecks. Third, the power of the market and media were used to influence decision-making. Municipal leaders took an active role in winning over opposition.

The city also actively promoted reform of licensing for private investment. As of 2003, Hangzhou replaced the administrative licensing of private investment with registration. As a result, obtaining approval to develop a product line now takes only minutes rather than a minimum of 3 weeks under the old system.

Source: “Investment Climate Policy Reform in Hangzhou: A Case Study”, State Information Center (2006).

Doing Business

Registering property

“Those who have permanent property have permanent confidence,” wrote an ancient Chinese philosopher. Land and buildings account for between half and three-quarters of the wealth in most countries.¹⁸ Entrepreneurs with formal property title can take out mortgages on their homes, land or buildings to fund their businesses. In China, all urban land is owned by the State, but the right to use land and the buildings on it is registered and traded. More than 80% of all loans are secured by land use rights or building ownership.

Registering real property is mainly the responsibility of the land and real estate authorities at the local level. Taxes and fees generated by property transfers and registration are one of the primary sources of revenue for local governments. Registration procedures are governed at the national level by the newly published Property Law, Law on Urban Real Estate Administration and the Regulations on the Administration of the Registration of Urban House Title issued by the Ministry of Construction. Within the framework of these decrees, however, local governments have the latitude to set specific requirements on procedures and documentation for property registration.

Throughout the process of registration, reviews and inspections take place. Authorities verify the

What's measured¹⁹

Securing rights to property through registration strengthens incentives to invest and facilitates commerce. With formal property titles, entrepreneurs can obtain mortgages on their homes or land and start businesses. *Doing Business in China* measures the ease of registering property based on a standard case of an entrepreneur who wants to purchase a warehouse building in an urban area. It is assumed that the property is already registered and free of title dispute. The data cover the full sequence of procedures necessary to transfer the property title from the seller to the buyer. Based on the responses from local property lawyers and officials, 3 indicators are constructed: number of procedures to register property; time to register property (in calendar days); and official costs to register property (as a percentage of the property value).

authenticity of a property's location, area, boundaries and title, as well as the legitimacy of the creation, transfer or termination of property title. Issuance and registration only happen after the local reviewing authorities determine that all requirements are met. The entire review process can be long and laborious. On average, the purchase of a relatively small

warehouse requires 9 separate procedures and 52 days to complete. By the time the new title is registered, it has cost the entrepreneur about 5.2% of the property value. As shown in Figures 3.1 and 3.2, however, there is a wide variation across China. In Shanghai, registering a property is the easiest — equivalent to the experience in Canada which ranked 28th in the world. However, cities with the least efficient processes would rank near the bottom among the 178 economies measured in the global *Doing Business*.

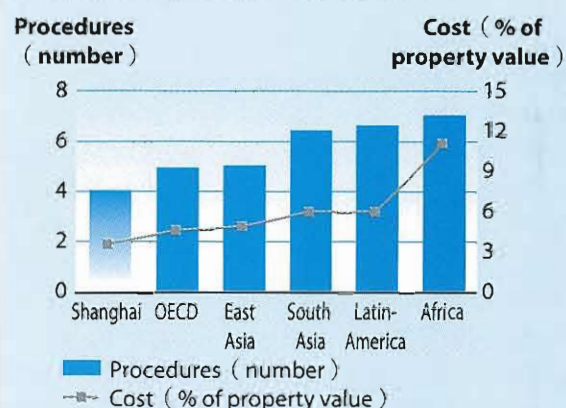
Procedures and time

Doing Business in China indicates that the variation among cities is a result of local practices and procedures. Some cities require as many as 12 procedures while the best performers require only 4. Except in a few cities, registration of building title and land use rights are separate procedures. Requirements for surveying, mapping and appraising a piece of property also differ across the country. In the most efficient cities, businesses can choose an external agent to undertake these functions. In contrast, many others allow only internal or government-designated service providers. Prior to reforms introduced in 2005, Zhengzhou, with a population of 3 million,

had only a single survey and mapping team that was authorized to provide survey documents. Businesses had to reserve an appointment 2 months in advance and then wait another 2-3 months to receive the results necessary to register their building title. By introducing reforms to allow commercial survey firms to enter the market, it now only takes 1-2 weeks to complete the building survey. In Shanghai and Hangzhou, things have been made even easier. Neither city requires new survey documents to register a

Figure 3.1

Registering property requires fewer procedures in Shanghai than in most of the world



Source: *Doing Business* database.

Figure 3.2

Where it is easiest to register property in China



Note: The ease of registering property is a simple average of the city rankings on the number of procedures and the associated time and cost (as % of property value) required to register a property.

Source: *Doing Business* database.

second-hand building if the original survey is provided. The way to get the best results overall is for cities to both introduce efficiency saving measures and decrease the number of procedures (Table 3.1).

Costs

Taxes related to the transfer and registration of property include the deed tax, business tax and surcharges, individual income tax, stamp duty and the value added tax on land. In addition, administrative fees are collected for searching and printing records, appraisals, surveys and mapping and transaction handling, among others. The proliferation of fees adds to the costs and complexities of registering property. These taxes and fees are often collected by different authorities and paid separately. As a result, buyers have to make multiple visits to tax authorities, banks and real estate administrative authorities. A more efficient practice is for the relevant authorities, including the building, land, treasury and tax authorities, to set up joint centers where all functions can be undertaken in a single place at different windows or counters. Shanghai, Guangzhou and Fuzhou have all instituted such a system.

Overall, the property registration process in the

eastern coastal regions is faster, more efficient and more transparent than other regions. It takes, on average, 36 days to complete 7 procedures to register a property in the southeast. Central areas have the most complex registration process, requiring an average of 10 procedures. Southwest China is the slowest place to register property and also the most expensive. It takes on average 59 days and costs 6.8% of the transaction value compared to 3.9% in the southeast (Figure 3.3).

Figure 3.3
Property registration in China: a regional comparison



Source: Doing Business database.

Table 3.1

Registering property is faster in Shanghai than in Nanning

Shanghai	Days	Nanning	Days
1. Submit title registration application with the single window	26	1. Check property records	1
2. File and pay taxes at the Fiscal Window	1	2. Surveying and mapping	1
3. Pay registration fees	1	3. Property evaluation	5
4. Obtain title certification for both land and building	1	4. Submit title transfer application	1
		5. File for deed tax	1
		6. Pay deed tax	1
		7. File application documents	26
		8. Pay taxes and fees	1
		9. Obtain building title certificate	1
		10. Apply for the land use right certificate	26
		11. Pay land transaction fees	1
		12. Obtain the land use right certificate	1

Source: Doing Business database.

What to reform

In 2000, the Ministry of Construction issued guidance to local governments to simplify the review and approval processes using measures such as integrating the administration of property transaction and titling registration, setting time limits and standardizing documents. Tax Administration also advocates the practice that national taxes and local taxes incurred in the real estate transaction are filed and paid jointly. But implementation has not been uniform across all areas. A number of localities, particularly those in the southwest, central and northwest areas, could improve their business environment by taking steps to make their property registration system less fragmented and cumbersome. Best practices within China and international experience show the way.

Integrate the registration of transactions with the registration of title/ownership. In the 1980s when China's real estate market was first established, two different authorities handled registration of property sales and new or transferred titles. While most localities have recognized the excessive time and cost implicit in such an arrangement, others have been slower to reform. All local governments would benefit from establishing a single window where both functions could be handled together.

Unify administration for land and buildings. Presently, most municipalities have two administrations that separately process and issue title certificates for building and land. This practice causes inefficiency and may increase the opportunities for informal payments. Because land title registration is not strictly enforced everywhere, buildings can be traded without a land certificate which has led to fraud cases. Most localities would benefit from integrating the local land and building administration departments into one body with the authority to issue a single property title certificate. To date, 5 cities—Shanghai, Tianjin,

Guangzhou, Xiamen and Chongqing — have adopted a single certificate for building and land, making these cities significantly more efficient and less expensive than the national average. Fuzhou implemented a similar process in which both certificates are issued jointly, cutting in half the time taken for review and approval.

Make information more accessible to applicants. A transparent registration system with accessible information makes it easier for applicants to comply with the rules, including the payment of fees and taxes. Currently, most offices provide registration guides, but there is a large variation in the quality and comprehensiveness of information. Shanghai is one of the best in this regard. A standard application form and instruction sheet for customers is provided for free at district/county real estate trading centers. Forms and the corresponding notification sheets are color-coded according to purpose, making it easier for applicants and processing staff. Ambiguous wording often seen in government regulations, such as “other documents that need to be submitted”, has been removed. Telephone numbers for customer service are printed on the forms to ensure that a speedy and transparent process is followed.

Simplify taxes and fees for real estate transactions. Business environments are improved when authorities preserve a stable and consistent policy and keep the process by which fees are paid simple and transparent. Xiamen (Fujian) sets a good example. The Xiamen Real Estate Registration Center has been entrusted by the tax bureau to collect all taxes and fees related to real estate transfers and registrations. The applicant makes a lump-sum payment at the cashier window and gets a single payment receipt with which the applicant can receive the land title certificate and building title certificate. The Center's staff then has the responsibility of dividing up the payment and transferring it to the relevant government departments.

Doing Business

Getting credit

Mr. Liu owns a garment factory in Heilongjiang.⁶ He urgently needed a loan to purchase cloth to fulfill an overseas order. As he had only his factory machinery to offer as collateral, the bank denied his application. Finally, he found a local credit guarantee company which was willing to accept machinery as collateral. It took 3 months to go through the requirements to complete the process of registering this collateral with the local Administration of Industry and Commerce and get bank approval. By the time Mr. Liu finally got his loan, he had lost the order to his competitor.

Capital is essential for all firms. Businesses often need credit for working capital and for investment. Smaller businesses normally find access to loans easiest in countries where laws (i) allow different types of assets to be used as collateral, (ii) provide for a unified registry of secured assets and (iii) permit out-of-court enforcement of collateral agreements.²² A transparent and coherent legal framework for secured transactions can also improve access to affordable credit.

Accessing credit remains a significant obstacle for Chinese firms although efforts are underway to improve the situation. As of end 2006, smaller businesses which contributed some 60% of China's GDP, accounted for only 15% of outstanding credit.²³

What's measured²⁰

Firms' ability to obtain credit easily is a key indicator of a favorable business environment. Getting a loan often requires that a business provide collateral that is registered and secured. Because collateralized loans are less risky for lenders, the borrower benefits from larger loans, lower interest rates and longer repayment periods. *Doing Business in China* measures the time and cost for a firm to create and register the collateral necessary for obtaining credit. It uses a standardized case in which a company applies for a loan to finance the purchase of manufacturing equipment, with the bank securing a mortgage on the equipment.²¹

Similarly, a 2003 World Bank survey on China's investment climate reported that small and medium size businesses in China received 12% of their working capital from banks. The corresponding figures are 21% in Malaysia, 24% in Indonesia and 26% in South Korea and Thailand.²⁴

One of the major reasons for the reluctance of banks to lend to small business is that these firms usually lack the immovable assets (buildings and

land) which Chinese banks prefer as collateral. As in many countries, about half of the assets held by smaller firms in China consist of “movable assets” such as equipment and machinery, accounts receivable and inventory. These assets are riskier as collateral since the creditor may not be able to make a claim against them in case of default, either because the lien cannot be properly registered or because it may be difficult to take possession of the asset.

Registration of collateral is essential to secure the rights of the creditor and to assure that no one else has a priority lien. Overall, registration of assets is relatively complex in China. Depending on the type of asset, registration may be with one of a dozen agencies. Registration of moveable assets is particularly complicated with 9 agencies involved. This fragmented registration administration can result in the multiple registration of the same asset which makes the asset unsecured as far as the creditor is concerned. The lack of a computerized, geographically unified registry also increases time and transaction costs.

Moreover, even if the loan is secured, under the existing legal framework the secured creditor cannot take possession and dispose of the collateral without the debtor’s permission. As a result, more than two-thirds of claims have to be handled through the court. Of these, about half take over 2 years to resolve.²⁵

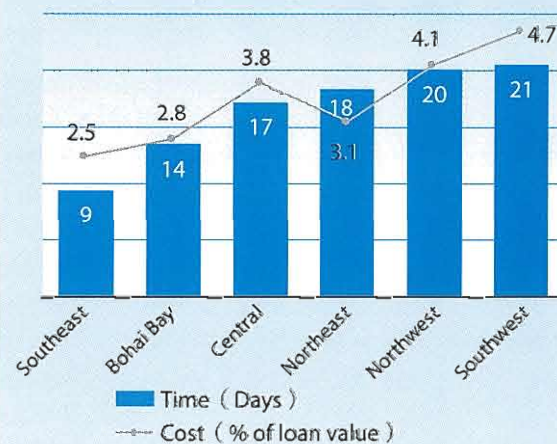
In addition to a system for registering collateral, a credit rating and information system is another effective way to help companies obtain credit. With more information on borrowers, the risks for lenders are lowered and firms in good standing can obtain credit at less cost and with less emphasis on collateral. Since 1997, China’s central bank has led efforts to build such a system with the support of commercial banks. The credit information system comprises a nationwide unified database of basic credit information for companies and individuals. As of May 2007, the

system held credit records of 11.6 million firms and 560 million individuals.²⁶

As with the other *Doing Business in China* indicators, the situation related to the efficiency of obtaining credit is different across the country (Figure 4.1). In coastal cities such as Nanjing and Guangzhou, firms find it relatively easy to obtain credit using moveable assets such as manufacturing equipment. Registering recognized collateral takes less than 2 weeks in the Southeast and Bohai Bay areas. However, it takes between 3-7 weeks in the interior cities. The more efficient areas also have lower costs. Firms in the Southeast pay 2.5% of the loan value in borrowing costs excluding interest, while those in the Southwest face rates of 4.7%. (Table 4.1) Not surprisingly, compared with most coastal cities, fewer small firms are able to access formal credit and more need to make informal payments in order to obtain loans.²⁷

Despite these regional differences, obtaining credit across China is being made easier thanks to a landmark Property Law effective as of October 2007. This national law explicitly allows businesses to use a range of assets as collateral including existing and subsequently acquired assets, raw materials, finished products and accounts receivable. It simultaneously improves

Figure 4.1
Creating and registering collateral in China



Source: *Doing Business* database.

Table 4. 1

Creating and registering collateral, where it is easy, where not

Top 10	Rank	Middle 10	Rank	Bottom 10	Rank
Fuzhou	1	Chengdu	11	Nanchang	21
Nanjing	2	Hefei	12	Lanzhou	22
Guangzhou	3	Taiyuan	13	Urumqi	23
Shanghai	4	Shenyang	14	Xi'an	24
Jinan	5	Wuhan	15	Yinchuan	25
Beijing	6	Hohhot	16	Chongqing	26
Tianjin	7	Zhengzhou	17	Guiyang	27
Hangzhou	8	Changsha	18	Haikou	28
Shijiazhuang	9	Changchun	19	Kunming	29
Harbin	10	Xining	20	Nanning	30

Note: Cities are ranked according to their scores in the ease of getting credit index.

Source: Doing Business database.

creditors' rights by allowing them to ask the court to auction off secured assets without going through cumbersome court procedures. It is expected that the new law will greatly lower the time and cost associated with enforcement of creditors' rights. This, in turn, will make banks much more willing to lend. A similar reform in Slovakia in 2002 helped increase credit to the private sector by 10%, with more than 70% of all new business credit secured by movable assets and accounts receivable.²⁸

While businesses and banks have high expectations for improvement under the newly published Property Law, the impact will not be clear until after the Supreme Court has published a detailed judicial interpretation and the needed institutional framework to implement the law is completed and put in place.²⁹ In addition, a long-standing bias of the banks and financial markets to lend to state-owned enterprises over private businesses will still need to be addressed.

What to reform

In addition to the implementation of the Property Law, other efforts can help speed up reform and improve the situation across the country particularly in the under-performing areas.

Establish a nationwide unified security registration for movable assets. A unified registration system for movable assets would make getting credit easier. A well-functioning system could connect different regions and ideally would allow for an online information search. As a first step in this direction, the People's Bank of China issued a

statute in September 2007 to guide the registration of accounts receivable to be used as security. This will be supported by an on-line registration system which was introduced in October 2007 and already had many thousands of entries in its first month of operation.

Enable out-of-court enforcement. Creditors tend to lend more willingly if disputes can be settled out of court since the involvement of courts inevitably leads to higher costs and lengthier processes. Therefore, creditors need more discretion to possess and dispose secured assets without having to go to court. Designing and

implementing a well-functioning system for out of court enforcement can cut enforcement time by three-quarters on average.³⁰ Summary proceedings for small claims can also help resolve cases more quickly when they do go to court. When India introduced summary proceedings in 2004, the time to enforce collateral fell from more than 9 years to as little as 6 months.³¹

Facilitate a favorable financial environment for local businesses. Improving access to credit for

private businesses is not only about reform of national laws and institutions. Local governments can play an active role as well. By working with business associations and other intermediaries, local government agencies can support the training of financial practitioners to enhance standards of service and their ability to innovate. Government entities should also refrain from practices which interfere in the commercial lending decisions of banks.

Enforcing contracts

“No matter how right you are, forget about entering the court if you don’t have money,” says a Chinese proverb. Going to court has long been regarded as expensive and unpleasant. But things are changing. Enforcing a contract in court is no longer rare in China and the rule of law is increasingly seen as a way of safeguarding business interests. Nevertheless, like many other places in the world, going to court to resolve disputes can be a lengthy process. The problem is particularly acute with regard to the enforcement of judgments.

Doing Business 2007 reported that using litigation to resolve a normal commercial dispute in Shanghai, the largest city in China, took 31 steps, 292 days and cost 26.8% of the claim value.³³ These results put China 63rd in the world in the ease of enforcing a contract through the court system.³⁴ The ranking compares well with most developing economies but falls behind the top global performers. In the top 20 economies with the easiest contract enforcement process, it takes on average 21 procedures, 248 days and 10% of the claim value to enforce a contract.

The gap in cost between China and other leading economies is expected to shrink significantly with the implementation of a national decree passed in April 2007 which reduced the overall level of litigation fees charged by courts. The decree cuts

What’s measured³²

Where contract enforcement is efficient, businesses are more likely to engage with new borrowers or customers. *Doing Business in China* measures the efficiency of the judicial system in enforcing contracts by following a hypothetical dispute related to a commercial sale through local courts. The data are collected through a study of the civil procedure codes and other court regulations as well as surveys completed by local litigation lawyers. Two indicators are developed to measure the efficiency of contract enforcement:

- Time: including the number of days from the time the plaintiff files the lawsuit in court until the time of payment. This measure includes both the days on which actions take place and the waiting period between actions.
- Cost: including the official cost of going through court procedures, expressed as a percentage of the claim value. The cost includes court costs, enforcement costs and attorney fees.

the minimum rate from 4% of the claim value to 2.5%. Courts are forbidden from collecting random or informal fees under the item of “other litigation fees”. To encourage settlement out of court, fees are halved if a case is settled through mediation. In addition, the applicant need not pay fees until

the judgment is enforced. The court no longer collects notification, appraisal and auction fees. The implication of this decree should result in the harmonization of court costs across regions, making them more transparent and more affordable nationwide. It is estimated that this measure will lower litigation costs by RMB8 billion annually.³⁵

The efficiency of the litigation system varies significantly across China. As with other indicators studied by *Doing Business in China*, coastal areas on average perform better than other areas. It takes an average of 230 days to enforce a contract in courts in the southeast. The same process takes 363 days in the northeast. The southeast also has the lowest cost ratio for enforcing a contract in court at an average of 11.5% of the value of the claim. Bohai Bay follows at 13.8% of the claim value. The highest costs are found in the central areas, where costs are on average 29.9% of claim value (Figure 5.1). But there are a number of interior cities, such as Chongqing and Xi'an, which perform quite well. Both are among the top 10 surveyed cities (Table 5.1).

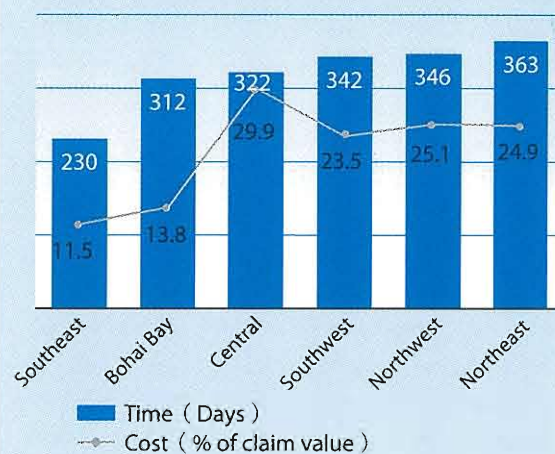
Perceptions of fairness and the efficiency of court procedures go hand in hand. Unsurprisingly, when there are a larger number of procedures, it takes longer and costs more to resolve a dispute in court. This in turn lowers the confidence of litigants in the court procedures overall. Studies by both the Chinese Academy of Social Sciences and the World

Bank indicate that the southeast and Bohai Bay areas, which have the most efficient court systems in the country in terms of time, are also perceived as the most fair as measured by investors' confidence in court protection of their rights and property as well as the rate of contract compliance. Northwest and southwest China rank lowest in terms of both efficiency and perceived fairness of the courts.³⁶

An effective way to reduce litigation time is to use summary or expedited procedures where this is possible under the law. Following certain criteria, the court determines whether or not a case falls within the jurisdiction for expedited processing.

Figure 5.1

Enforce a contract in court — a regional comparison



Source: *Doing Business* database.

Table 5.1

Enforcing a contract in China, where it is the easiest

Top 10	Rank	Middle 10	Rank	Bottom 10	Rank
Guangzhou	1	Haikou	11	Nanning	21
Nanjing	2	Fuzhou	12	Urumqi	22
Hangzhou	3	Yinchuan	13	Chengdu	23
Shanghai	4	Shijiazhuang	14	Guiyang	24
Jinan	5	Nanchang	15	Changchun	25
Tianjin	6	Zhengzhou	16	Hefei	26
Xi'an	7	Wuhan	17	Changsha	27
Chongqing	8	Taiyuan	18	Xining	28
Beijing	9	Hohhot	19	Kunming	29
Shenyang	10	Harbin	20	Lanzhou	30

Note: Cities are grouped according to their ranking in the ease of enforcing contract.

Source: *Doing Business* database.

According to the law, summary procedure is subject to a statutory time limit that is only half as long as the normal procedure. A court in Chongqing cut the average litigation time (excluding enforcement of judgment) to about 40 days from 120 days by adopting the summary procedures.³⁷

Mediation

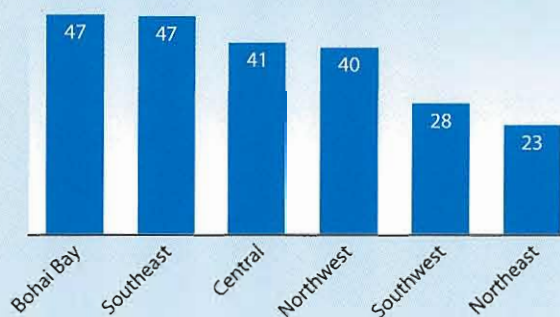
Mediation offers an important alternative to resolving commercial disputes. Chinese courts routinely mediate.³⁸ Of all the civil cases resolved in 2006, 30.4% were resolved through mediation.³⁹ Mediation is used most often in the southeast and Bohai Bay areas, accounting for about 47% of all filed cases in these areas. The highest percentage of mediation cases, 60%, is in Nanjing, Fuzhou and Tianjin. In the northeast and southwest cities, only about one-quarter of all cases are settled through mediation (Figure 5.2). These statistics help explain why the coastal regions score better on the ease of contract enforcement.

Where mediation is used to the maximum extent possible, court time is significantly reduced. This was evident when Guangdong Province introduced mediation in courts early in 2007. In Foshan City, the average processing time for a civil case in a district court is 5.2 days. 12% of cases in Foshan are resolved on the same day that the case is filed.

Figure 5.2

More cases resolved through mediation in coastal areas

Ratio of cases resolved through mediation (% of the total)



Source: Doing Business database.

About 78% of the cases are resolved after only one attempt to mediate. The mediation mechanism introduced in Chaoyang District Court of Beijing has led to a decrease in the number of cases for 21 consecutive years.

Enforcement of Judgment

It took Mr. Zhang, a small business owner in Jilin Province, 3 years and RMB50,000 to resolve a case involving a claim of RMB100,000. In the end, the court ruling could not be enforced as the party at fault disappeared. The experience of Mr. Zhang is not unique. Enforcement of judgment is the last and the most critical procedure in the litigation process. According to *Doing Business in China*, the enforcement of judgment accounts for nearly half of the total time in the litigation process. The procedure is even more difficult if the judgment needs to be executed outside the jurisdiction of the court. In 1995, a company in Henan Province sued a firm in Hubei Province for RMB1.6 million in unpaid debt. The court ruled in favor of the plaintiff, and an execution of judgment procedure was initiated. Over the following 10 years, 3 groups of execution staff traveled to Hubei more than 100 times but could only recover less than 10% of the claim. As a result, the company in Henan was on the verge of bankruptcy. According to statistics from the Supreme Court, among the civil cases with effective rulings in 2006, nearly half had not been enforced by year end.⁴⁰

Studies on the effect of reforms find that when contracts can be enforced quickly and cheaply, small businesses do better.⁴¹ Reform of the judicial system has been one of the key tasks in the process of China's transition toward a market economy. Almost all grass-roots courts in China have established case management systems and mechanisms to settle cases within a prescribed timeframe.⁴² To avoid delays, courts are required to regularly examine pending cases and reduce inactive cases. Statutory time limits are enforced in every procedure of the litigation process. Courts

have also been using IT to improve information disclosure. The public can access court websites to obtain documents such as hearing notices, court orders and other general information.

By the end of 2006, more than two-thirds of the interim and grass-roots courts had set up “one-stop centers” which provide a series of counters for dealing with different aspects of the legal process from case filing, legal consultation, receiving and forwarding litigation documents to collecting fees and mediation. Zhejiang Province and Shanghai have taken the lead in implementing this practice. Over 6500 courts have established “direct filing” systems where certain types of cases are

automatically accepted and go to adjudication. Such a practice is particularly useful to claimants from rural areas who previously had to make several long trips to be present at court in the cities.

However, many Chinese courts are still facing major challenges when trying to enforce judgments outside the court’s jurisdiction. In addition, sporadic cases of judicial corruption have undermined public trust in the credibility and impartiality of the court system as demonstrated by a large number of xinfang cases (petitions through letters and visits) with government departments contesting court rulings.⁴³

What to reform

The less efficient areas would benefit most from reforms. Innovations and reforms introduced in many parts of China provide an example of how time and costs can be lowered through improved procedures. Experiences elsewhere in the world also provide useful examples of how to improve the resolution of commercial disputes so as to improve the business environment.

Widen the use of summary procedure. In cases concerning small claims, the use of summary procedures can substantially reduce the time and cost of litigation. Under existing law, summary procedures can only be used at the grass-roots courts. Only judges can decide whether or not a case can go through a summary procedure and only in cases with “clear facts, distinct liabilities and rights and insignificant disputes”. Amending this to allow more flexible interpretation and the possibility for parties to explicitly agree on using the summary procedure upfront could enable more cases to be resolved quickly.

Simplify filing and litigation procedures. Filing a court case can be made simpler and less expensive by simplifying paperwork and formalities. “Direct

filing” is one such method. While the new law significantly lowers the level of court fees, further progress will be made in limiting the ability of some courts to levy irregular fees by putting in place procedures to make court fees more transparent.

Continue to increase the use of alternative dispute resolution mechanisms particularly mediation. Resolving cases through mediation or other alternative dispute resolution procedures reduces court time and costs. Civil Law stipulates that mediation is used only when there are “clear facts and distinct right and wrong”. In reality, many cases are not that straightforward but litigants still wish to resolve them through mediation. In these cases, expanding the availability of mediation would reduce time and costs significantly, particularly if they abide by statutory time limits and have mechanisms to allow failed mediation to move on without delay. To maximize the effect, it is also essential that there is a mechanism to ensure that the agreement is enforceable.

Strengthen the enforcement of judgment. Increasing transparency and disclosure helps improve the enforcement of judgments, particularly when these

involve parties outside of a local court's jurisdiction. A well functioning credit information system, for example, improves enforcement since it provides more publicly available information on debtors. As discussed in the obtaining credit chapter, government and financial institutions are working

in this direction. In 2006, the national Supreme Court introduced an information system for cases under enforcement in pilot courts. In these systems, people can search to find information about the status of specific cases, thus making information more readily available.

The image shows the 'Doing Business' logo in a light blue, stylized font. The word 'Doing' is on the top line and 'Business' is on the bottom line. The letters are outlined and have a slightly distressed or hand-drawn appearance. In the center of the logo, the words 'Data notes' are written in a bold, black, sans-serif font.

Data notes

The indicators presented and analyzed in *Doing Business in China 2008* measure government regulation and the protection of property rights as well as their effect on businesses, especially small and medium-size domestic firms. The indicators document the degree of regulation, such as the number of procedures to start a business or register commercial property. They gauge regulatory outcomes, such as the time and cost to enforce a contract. The data for all sets of indicators in *Doing Business in China 2008* were collected as of January 2007. Indicators have been created for the capital cities in 30 provincial-level administrative divisions, and the

complete list is available in Table 6.1.⁴⁴ For the indicators “Starting a business” and “Registering property,” the data presented in this report for China and other economies is based on the global report *Doing Business in 2008*. For the “Enforcing contracts” indicator, the data is based on the global report *Doing Business 2007: How to reform*. The indicators for “Getting credit” are not comparable internationally. The data for each economy presented in the global reports comes from a single city (usually the commercial center or capital city). For China, data was collected from Shanghai.

Methodology

Based on the study of laws and regulations — with input and verification by more than 1000 government officials, lawyers and other professionals routinely administering or advising on legal and regulatory requirements — the *Doing Business* methodology offers several advantages. It uses factual information about what laws and regulations say and allows for multiple interactions with local respondents to clarify potential misinterpretations of questions. Having representative samples of respondents is

not an issue, as the texts of the relevant laws and regulations are collected and answers are checked for accuracy. The methodology is inexpensive, so data can be collected in a large sample of economies — 178 published in the global report *Doing Business in 2008* and the 30 cities in China for this report. Because the same standard assumptions are applied in the data collection, which is transparent and easily replicable, comparisons and benchmarks are valid across countries and cities. The data not only highlights the extent of obstacles that affect

the business environment but also helps identify their source, thereby supporting policymakers in designing reform.

Limits to what is measured

The *Doing Business* methodology has some significant limitations that should be considered when interpreting the data:

- The collected data in the global reports refer to businesses in the country's most populous city and therefore may not be representative of regulations and practices everywhere. To address this limitation, subnational *Doing Business* indicators look at differences within a country. This has proved very useful particularly in large emerging market countries such as India, Brazil, Mexico and Pakistan. These subnational studies point to significant differences in the speed of reform and the ease of doing business across cities in the same country.
- The data focus on a specific business form — a limited liability company of a specified size — and therefore may not be representative of the regulations on all businesses, for example, sole

proprietorships.

- Transactions described in a standardized case study refer to a specific set of issues and may not represent the full set of issues a business encounters.
- The measures of time involve an element of judgment by the expert respondents. When sources indicate different estimates, the time indicators reported in *Doing Business* represent the median value of several responses given under the assumptions of the standardized case.
- The methodology assumes that a business has full information on what is required and does not waste time when completing procedures. In practice, completing a procedure may take longer if the business lacks information or is unable to follow up promptly. Alternatively, the business may choose to disregard some burdensome procedures. For both reasons the time delays reported in *Doing Business* may differ from the perceptions of entrepreneurs reported in the World Bank Enterprise Surveys or other perception surveys.

Table 6.1

Economy characteristics

Regional divisions*

The country is divided into six regions:

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

GDP per capita

Doing Business in China 2008 Gross Domestic Product (GDP) per capita in 2006, denominated in renminbi yuan, in the province where the sample city is located, as reported by the State Statistics Bureau.

Currency

Currency = Renminbi
Currency Unit = RMB
US\$1.00 = RMB 7.80

* The division of region follows the World Bank criteria in the "Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China".

Starting a business

Doing Business records all generic procedures that are officially required for an entrepreneur to start up an industrial or commercial business. These include obtaining all necessary licenses and permits and completing any required notifications, verifications or inscriptions with relevant authorities. After a study of laws, regulations and publicly available information on business entry, a detailed list of procedures, time, cost and paid-in minimum capital requirements is developed. Subsequently, local incorporation lawyers and startup agents complete and verify the data on applicable procedures, the time and cost of complying with each procedure under normal circumstances. Information is also collected on the sequence in which procedures are to be completed and whether procedures may be carried out simultaneously. It is assumed that any required information is readily available and that all government and nongovernment agencies involved in the startup process function efficiently and without corruption. If answers by local experts differ, inquiries continue until the data are reconciled.

To make the data comparable across countries, several assumptions about the business and the procedures are used.

Assumptions about the business

The business:

- Is a limited liability company.
- Operates in the sample city.
- Is 100% domestically owned and has 5 owners, none of whom is a legal entity.
- Has start-up capital of 10 times the provincial GDP per capita at the end of 2006, paid in cash.
- Performs general industrial or commercial activities, such as the production or sale of products or services to the public. It does not perform foreign trade activities and does not handle products subject to a special tax regime, for

example, liquor or tobacco. The business is not using heavily polluting production processes.

- Leases the commercial plant and offices and is not a proprietor of real estate.
- Does not qualify for investment incentives or any special benefits.
- Has at least 10 and up to 50 employees 1 month after the commencement of operations, all of them nationals.
- Has a turnover at least 100 times the province's GDP per capita.
- Has a company deed 10 pages long.

Assumptions about procedures

- A procedure is defined as any interaction of the company founder with external parties (government agencies, lawyers, auditors, notaries). Interactions between company founders or company officers and employees are not considered separate procedures.
- The founders complete all procedures themselves, without middlemen, facilitators, accountants or lawyers, unless the use of such a third party is mandated by law.
- Procedures that are not required by law for starting a business are ignored.
- Shortcuts are counted only if they fulfill 3 criteria: they are legal, they are available to the general public, and avoiding them causes substantial delays.
- Only procedures required of all businesses are covered. Industry-specific procedures are excluded. For example, procedures to comply with environmental regulations are included only when they apply to all businesses.
- Procedures that the company undergoes to connect to electricity, water, gas and waste disposal services are not included unless they entail inspections required before starting operations.

Time measure

Time is recorded in calendar days. It is assumed

that the minimum time required for each procedure is 1 day, even if consecutive procedures are implemented inside the same building and normally proceed from one window to another within the same day in practice. Time captures the median duration that incorporation lawyers indicate is necessary to complete a procedure. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. It is assumed that the entrepreneur does not waste time and commits to completing each remaining procedure without delay. If procedures can be undertaken simultaneously, it is assumed that they are. The time that the entrepreneur spends on gathering information is ignored. It is assumed that the entrepreneur is aware of all entry regulations and their sequence from the beginning.

Cost measure

The text of the company law, the commercial code and specific regulations and fee schedules are used as sources for calculating the cost of start-up. If there are conflicting sources and the laws are not clear, the most authoritative source is used. The constitution supersedes the company law, and the law prevails over regulations and decrees. If conflicting sources are of the same rank, the

source indicating the most costly procedure is used, since it is assumed that an entrepreneur never second-guesses a government official. In the absence of fee schedules, a government officer's estimate is taken as an official source. In the absence of a government officer's estimate, estimates of incorporation lawyers are used. If several incorporation lawyers provide different estimates, the median reported value is applied. In all cases it is assumed that there are no bribes or informal payments.

Paid-in minimum capital requirement

The paid-in minimum capital requirement reflects the amount that the entrepreneur needs to deposit in a bank before registration starts. This amount is typically specified in the commercial code or the company law. Many countries require paid-in capital but allow businesses to pay only a part of it before registration, with the rest to be paid after operation starts.

This methodology was originally developed by Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes and Andrei Shleifer in "The Regulation of Entry," Quarterly Journal of Economics, 117, 1-37, Feb. 2002 and adopted with minor changes here.

Registering property

Doing Business records the full sequence of procedures necessary when a business purchases land and a building to transfer the property title from the seller to the buyer. Every required procedure is included, whether it is the responsibility of the seller or the buyer or required to be completed by a third party on their behalf. Local property lawyers and property registries provide information on required procedures as well as the time and cost to complete each of them. To make the data comparable across countries, several assumptions about the business, the property and the procedures are used.

Assumptions about the business

The business:

- Is a limited liability company.
- Is located on the edge of the urban area of the sample city.
- Is 100% domestically and privately owned (no foreign or state ownership).
- Has 50 employees, all of whom are nationals.
- Performs general commercial activities.

Assumptions about the Property

The property:

- Has a value of 50 times the provincial GDP per

capita.

- Is fully owned by another domestic limited liability company.
- Has no mortgages attached and has been under the same ownership for the past 10 years.
- Is adequately measured and filed in the cadastre, registered in the land register and free of title disputes.
- Is located in a commercial zone on the edge of the urban area, and no rezoning is required.
- Consists of land and a building. The land area is 557.4 square meters. A warehouse of 929 square meters is located on the land. The warehouse is 10 years old, is in good condition and complies with all safety standards, building codes and other legal requirements.
- Will not be subject to renovations or additional building following the purchase.
- Has no trees, natural water sources, natural reserves or historical monuments of any kind.
- Will not be used for special purposes, and no special permits, such as for residential use, industrial plants, waste storage or certain types of agricultural activities, are required.
- Has no occupants (legal or illegal), and no other party holds a legal interest in it.
- The value of the property has not changed since it was bought by the original owner.

Procedures

A procedure is defined as any interaction of the buyer or the seller, their agents (if the agent is required by law) or the property with external parties, including government agencies, inspectors, notaries and lawyers. Interactions between company officers and employees are not considered. All procedures that are legally required for registering property are recorded,

even if they may be avoided in exceptional cases. It is assumed that the buyer follows the fastest legal option available. Although the business may use lawyers or other professionals where necessary in the registration process, it is assumed that it does not employ an outside facilitator in the registration process unless required to by law.

Time measure

Time is recorded in calendar days. It is assumed that the minimum required for each procedure is 1 day, even if consecutive procedures are implemented inside one building and normally proceed from one window to another within the same day in practice. Time captures the median duration that property lawyers or registry officials indicate is necessary to complete a procedure. It is assumed that the buyer does not waste time and commits to completing each remaining procedure without delay. If a procedure can be accelerated for an additional cost, the fastest procedure is chosen. If procedures may be undertaken simultaneously, it is assumed they are. It is assumed that the parties involved are aware of all regulations and their sequence from the beginning. Time spent on gathering information is not considered.

Cost measure

Only official costs are recorded. These include fees, transfer taxes, stamp duties and any other payment to the property registry, notaries, public agencies or lawyers, if required by law. Other taxes, such as value added tax are excluded from the cost measure. If cost estimates differ among sources, the median reported value is used. Costs are expressed as a percentage of the property value, assumed to be equivalent to 50 times the provincial GDP per capita.

Getting credit

Doing Business in China constructs measures on the time and cost of creating and registering collateral to assess the ease of getting credit. The report did not study the indices of “Strength of legal rights” and “Depth of credit information” as in the global *Doing Business* report, since the indices are identical across the country and have little meaning for subnational analysis. As a result, the “Getting credit” indicator in this report is not comparable to that in the global report.

Time and cost to create and register collateral

The data are based on responses to a survey on secured transactions laws by banks and guarantee firms, developed with input and comments from a range of experts. Respondents estimate the costs based on the following standardized case.

Assumptions about the business

- Is a textile firm.
- Has 100 employees.
- Is located within the selected city.

Assumptions about the loan

- Is supplied by a local bank in the selected city.

- Is for the purchase of industrial sewing machines valued at 10 times the provincial GDP per capita.
- The loan is secured by pledging the industrial sewing machines as collateral while keeping both possession and ownership title (non-possessory security right).

Costs include taxes, notary fees and duties associated with creating the security right and registering it in the collateral registry, where such a registry operates. Countries without a registry usually have lower costs, although the secured creditor is disadvantaged because they are unable to notify other creditors of their right to the collateral through a registry. The cost measure is presented as a percentage of provincial GDP per capita.

This methodology was developed in “Private Credit in 129 Countries,” a working paper by Simeon Djankov and Caralee McLiesh of the World Bank, and Andrei Shleifer, Department of Economics, Harvard University, June 2005; and adapted from “Law and Finance,” by Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer, and Robert Vishny, Journal of Political Economy, 106, 1113-55, 1998.

Enforcing contracts

Indicators on enforcing contracts measure the efficiency of the judicial system in resolving a commercial dispute. The data are built by following the step-by-step evolution of a payment dispute before local courts. The data are collected through study of the codes of civil procedure and other court regulations as well as surveys completed by local litigation lawyers and in some countries by judges as well.

Assumptions about the case

- The value of the claim equals 200% of the

provincial GDP per capita.

- The plaintiff has fully complied with the contract (i.e. plaintiff is 100% right).
- The case represents a lawful transaction between businesses located in the sample city.
- The plaintiff files a lawsuit to enforce the contract.
- The defendant attempts to delay service of process but it is finally accomplished.
- The defendant opposes the complaint (default judgment is not an option) on the grounds that the delivered goods were not of adequate quality.

- The plaintiff introduces documentary evidence and calls one witness. The defendant calls one witness. Neither party presents objections.
- The judgment is in favor of the plaintiff and the defendant does not appeal the judgment.
- The plaintiff takes all required steps for prompt enforcement of the judgment. The debt is successfully collected through sale of the defendant's movable assets (such as a vehicle) at a public auction.

Time

Time is recorded in calendar days, counted from the moment the plaintiff files the lawsuit in court until payment. This includes both the days when actions take place and the waiting periods between actions. The respondents make separate estimates of the average duration of different stages of

dispute resolution: the issuance of judgment (time for the trial) and moment of payment (time for enforcement).

Cost

Cost is recorded as a percentage of the claim, assumed to equivalent to 200% of the provincial GDP per capita. Only official costs required by law are recorded, including court costs and average attorney fees where the use of attorneys is mandatory or common.

For a detailed description of the methodology, see Simeon Djankov, Rafael La Porta, Florencio Lopez-de-Silanes, and Andrei Shleifer, 2002, "Courts: The Lex Mundi Project," NBER working paper 8890. The methodology is adopted in Doing Business in China with minor changes.

Ease of doing business ranking

The ease of doing business ranking is calculated as the ranking on the simple average of each city's percentile rankings on each of the 4 topics covered in *Doing Business in China 2008*. The ease of doing business index measure ranges from 0 to 1, with higher values indicating more efficient regulation and stronger protection of property rights. The ranking on each topic is the simple average of the percentile rankings on its component indicators. "Starting a business" ranking averages the city's rankings on the procedures, days, cost and minimum capital requirement to register a

business. "Registering property" ranking averages the city's rankings on the procedures, time and cost to register property. "Getting credit" ranking is based on the city's rankings on the time and cost to register collateral. "Enforcing contracts" ranking averages the city's rankings on time and cost to enforce contracts.

This methodology was developed by Simeon Djankov, Caralee McLiesh, and Rita Ramalho in "Growth and the Ease of Doing Business," working paper, World Bank, August 2004.

End notes

1. This includes provincial capitals, capitals of four autonomous regions (Xinjiang, Guangxi, Ningxia and Inner Mongolia) and municipalities of Beijing, Shanghai, Tianjin and Chongqing.
2. *The Blue Book of Private Sector in China (2005-2006)*, All-China Federation of Industry & Commerce, Social Sciences Academic Press, 2006.
3. In 2006, the central government announced a new

measure to assess local officials' performance in a more comprehensive way. The guide, being piloted in a number of cities, reformed the existing evaluation system by including broader and diversified indicators. The old system has been widely criticized for being excessively focused on GDP growth instead of overall social welfare. However, local economic growth is expected to

- remain one of the key indicators as it is closely related to many other indicators such as employment and income growth.
4. *Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China*, World Bank (2006).
 5. Xinhua Net (http://news.xinhuanet.com/legal/2007-01/01/content_5547821.htm).
 6. Some of these reforms do not directly affect the indicators in the report.
 7. A country's ranking in global *Doing Business* is based on the survey results from the single largest city in that country, which is usually the capital or the commercial center. In the case of China, Shanghai is used as the representative city in the report. If, however, the best practices from across the 30 cities surveyed in this subnational report were used, and the results aggregated into a single hypothetical city, then China's position, compared to the rest of the world, would move up the global ranks from 83rd to 67th place.
 8. Bruhn, Miriam. 2007. *License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico*. Massachusetts Institute of Technology, Department of Economics, Cambridge, Mass.
 9. Djankov, Simeon, Caralee McLiesh and Rita Ramalho. 2006. *Regulation and Growth*. Economics Letters.
 10. See the detailed description of the standard case in "Data notes".
 11. Djankov, Simeon, Rafael La Porta, Florencio López-de-Silanes and Andrei Shleifer. 2002. "The Regulation of Entry." *Quarterly Journal of Economics* 117 (1): 1-37.
 12. *Doing Business 2008*, World Bank, or visit www.doingbusiness.org.
 13. The State Administration of Taxation (SAT) is one of the organizations responsible for tax collection in China. It is responsible for administering taxation at the national level and coordinates with provincial government to supervise local tax bureaus. The national level tax system collects national taxes and taxes that are shared between national and local governments. The local level tax system handles the collection of local business taxes, property and land use taxes, resource taxes, etc.
 14. VAT covers most import and export industries and a few service sectors. Most service sector firms pay business tax based on their turnover. Local tax bureaus are responsible for the collection of business tax.
 15. "Management fees on small banking accounts hurt both bank and SMEs" (*China Business News*, March 18, 2007); and "No minimum amount set for enterprise bank account: People's Bank of China" (Xinhua Net, Jan. 17, 2007).
 16. Estimated by the Chengdu Municipal Government based on the number of newly opened companies in the city in 2006.
 17. Bruhn, Miriam. 2007. *License to Sell: The Effect of Business Registration Reform on Entrepreneurial Activity in Mexico*. Massachusetts Institute of Technology, Department of Economics, Cambridge, Mass.
 18. Ibbotson, Roger, Laurence Siegel and Kathryn Love. 1985. "World Wealth: Market Values and Returns." *Journal of Portfolio Management*, 12 (1): 4-23.
 19. See the detailed description of the standard case in "Data notes".
 20. See the detailed description of the standard case in "Data notes".
 21. These indicators are different from those in global *Doing Business* which surveys the "strength of legal rights" and "depth of credit information". Therefore, the results in *Doing Business in China* are not directly comparable with other countries in the global *Doing Business* report.
 22. *Doing Business 2006*.
 23. The People's Bank of China.
 24. Dollar, David et al. 2003. *Improving the Investment Climate in China*, World Bank.
 25. *Secured Transaction Reform and Credit Market Development in China*, People's Bank of China, PEP-China, FIAS (2005).
 26. The People's Bank of China.
 27. *Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120*

- Cities in China*. World Bank (2006).
28. *Doing Business 2005*.
 29. The People's Bank of China issued the decree "Measures for the Registration of Accounts Receivable Securities" on September 30, 2007. An on-line registration system for accounts receivable came into operation on October 10, 2007. The system is housed within the Central Bank's credit information center.
 30. *Doing Business 2005*.
 31. *Doing Business 2008*.
 32. Please see the "Data notes" for the description of the assumptions of the standard case. *Doing Business in China* does not report number of procedures by city since the litigation process is regulated by the Civil Code and is identical across the country.
 33. The cost ratio for Shanghai in global *Doing Business* is different from that in *Doing Business in China* because the former uses China's gross income per capita as the base of measurement, while the latter uses the average per capita GDP of Shanghai.
 34. The methodology for enforcing contracts was revised in *Doing Business 2008* in order to reflect a typical contractual dispute over the quality of goods rather than a simple debt default. *Doing Business in China* uses the *Doing Business 2007* methodology.
 35. Estimate provided by the Leading Group for the Judicial System Reforms.
 36. See *Governance, Investment Climate, and Harmonious Society: Competitiveness Enhancements for 120 Cities in China*. World Bank (2006) and *China Urban Competitiveness Report 2007*, Chinese Academy of Social Sciences (2007).
 37. See "People's Court in Jiangjin improves its performance" on the website of the Chongqing No. 1 Interim Court (http://www.cqyzfy.gov.cn/N_Info_Content.asp?ID=945&FatherID=328).
 38. Under China's civil and administrative procedure laws mediation is a significant step before adjudication. It is often suggested by the judge and initiated upon the mutual consent of the litigants. A mediation agreement reached by the litigants is legally binding and cannot be appealed. Under a decree issued by the Supreme Court in 2003, mediation is voluntary except in 6 categories of cases: family disputes concerning marriage and inheritance, labor disputes, traffic accidents and injuries in employment, land disputes with neighbors, disputes over partnership agreements and disputes concerning small claims.
 39. According to the national Supreme Court.
 40. According to the Commission of Legislative Affairs, National People's Congress, among the 2.13 million cases, 710,000 were enforced voluntarily, 460,000 were enforced through the court. (Published on the website of People's Daily on June 26, 2007 (<http://npc.people.com.cn/GB/28320/100180/100193/6146048.html>)).
 41. *Doing Business in 2007: How to Reform*.
 42. China's court system is composed of local courts, specialized courts and the Supreme Court. Local courts are comprised of grass-roots courts, interim courts and local supreme courts. Grass-roots courts refer to courts established at the county or district level. Interim courts are established within cities, prefectures and centrally administrated municipalities. Supreme courts are established at the provincial level.
 43. According to a survey in 2004, more than 30% of all petitions by citizens were lodged to contest judicial cases (XinhuaNet, Nov. 29, 2005: http://news.xinhuanet.com/legal/2005-11/29/content_3851891.htm).
 44. The provincial-level administration divisions include provinces, autonomous regions and municipalities under central administration. For simplification purposes, they are referred to as "province" in the text.

Indicator tables

Doing
Business

City	Starting a business				Registering property			
	Procedures (nuber)	Time (days)	Cost (% of provincial GDP per capita)*	Rank	Procedures (number)	Time (days)	Cost (% of property value)	Rank
Beijing	14	37	3.2	6	10	59	3.1	12
Changchun	14	37	9.5	10	8	55	4.2	8
Changsha	14	42	14.6	22	10	53	6.9	24
Chengdu	13	35	19.1	19	11	39	3.9	11
Chongqing	14	39	9.5	17	7	28	7.0	9
Fuzhou	12	40	6.7	7	7	37	4.1	3
Guangzhou	13	28	6.3	3	8	35	3.7	2
Guiyang	14	50	26.6	30	9	77	12.6	28
Haikou	13	38	12.1	13	10	76	4.8	23
Hangzhou	12	30	5.7	1	8	50	3.7	7
Harbin	14	42	11.9	18	8	55	6.1	14
Hefei	14	42	19.4	27	10	46	5.6	17
Hohhot	14	48	7.9	11	11	47	4.6	18
Jinan	13	33	6.0	4	8	39	4.1	4
Kunming	14	42	13.9	23	9	66	5.4	22
Lanzhou	14	47	14.1	29	10	78	7.8	29
Nanchang	14	40	14.6	21	10	50	6.1	20
Nanjing	12	31	5.8	2	7	31	4.6	5
Nanning	14	46	16.5	28	12	66	6.8	30
Shanghai	14	35	3.1	5	4	29	3.6	1
Shenyang	14	41	6.0	9	12	51	3.1	14
Shijiazhuang	14	42	9.8	16	10	58	5.2	21
Taiyuan	14	55	9.3	20	10	62	5.4	26
Tianjin	14	41	3.7	8	5	42	4.4	6
Urumqi	13	44	9.0	14	11	45	4.2	13
Wuhan	13	36	13.6	15	9	60	6.2	25
Xi'an	14	43	15.2	25	8	50	5.1	10
Xining	14	51	12.0	23	8	69	5.3	19
Yinchuan	14	55	12.0	26	10	59	4.4	16
Zhengzhou	13	41	11.6	12	11	60	5.1	27

* The denominator is Gross Domestic Product(GDP)per capita in the province where the sample city is located, as reported by the State Statistics Bureau.

City	Getting credit—Creating and registering collateral			Enforcing contracts		
	Time (days)	Cost (% of loan value)	Rank	Time (days)	Cost (% of claim)	Rank
Beijing	15	2.7	7	340	9.6	9
Changchun	22	3.3	21	540	18.4	25
Changsha	20	3.7	20	382	26.6	27
Chengdu	12	3.2	11	295	35.5	23
Chongqing	15	5.0	19	286	14.8	8
Fuzhou	7	2.3	1	342	13.7	12
Guangzhou	11	2.4	3	120	9.7	1
Guiyang	17	6.9	25	397	23.0	24
Haikou	14	5.1	18	310	14.5	11
Hangzhou	11	3.0	8	285	11.2	3
Harbin	13	3.1	10	290	31.5	20
Hefei	20	2.8	14	300	41.8	26
Hohhot	15	3.3	16	330	23.7	19
Jinan	10	2.9	4	210	22.0	5
Kunming	18	4.0	23	365	36.4	29
Lanzhou	20	8.0	29	440	29.9	30
Nanchang	17	5.9	24	365	16.5	15
Nanjing	10	2.1	2	112	13.6	2
Nanning	47	3.9	30	397	17.1	20
Shanghai	8	2.9	4	292	9.0	4
Shenyang	20	2.8	15	260	24.8	10
Shijiazhuang	15	2.8	9	397	12.2	14
Taiyuan	16	2.9	12	300	26.4	18
Tianjin	14	2.7	6	300	11.3	5
Urumqi	24	3.4	26	392	20.5	22
Wuhan	13	3.3	12	277	33.1	17
Xi'an	21	4.0	28	235	21.7	5
Xining	20	3.8	22	458	24.8	28
Yinchuan	25	3.6	27	270	28.7	13
Zhengzhou	16	3.3	17	285	31.5	16

Beijing		GDP per capita of Beijing (RMB)	44969
Bohai Bay			
Starting a business (rank)	6	Registering property (rank)	12
Procedures (number)	14	Procedures (number)	10
Time (days)	37	Time (days)	59
Cost (% of provincial GDP per capita)	3.2	Cost (% of property value)	3.1
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	7	Enforcing contracts (rank)	9
Time (days)	15	Time (days)	340
Cost (% of loan value)	2.7	Cost (% of claim)	9.6
Changchun		GDP per capita of Jilin Province (RMB)	13347
Northeast			
Starting a business (rank)	10	Registering property (rank)	8
Procedures (number)	14	Procedures (number)	8
Time (days)	37	Time (days)	55
Cost (% of provincial GDP per capita)	9.5	Cost (% of property value)	4.2
Minimum capital (% of provincial GDP per capita)	225		
Getting credit (rank)	21	Enforcing contracts (rank)	25
Time (days)	22	Time (days)	540
Cost (% of loan value)	3.3	Cost (% of claim)	18.4
Changsha		GDP per capita of Hunan Province (RMB)	10366
Central			
Starting a business (rank)	22	Registering property (rank)	24
Procedures (number)	14	Procedures (number)	10
Time (days)	42	Time (days)	53
Cost (% of provincial GDP per capita)	14.6	Cost (% of property value)	6.9
Minimum capital (% of provincial GDP per capita)	289		
Getting credit (rank)	20	Enforcing contracts (rank)	27
Time (days)	20	Time (days)	382
Cost (% of loan value)	3.7	Cost (% of claim)	26.6
Chengdu		GDP per capita of Sichuan Province (RMB)	8465
Southwest			
Starting a business (rank)	19	Registering property (rank)	11
Procedures (number)	13	Procedures (number)	11
Time (days)	35	Time (days)	39
Cost (% of provincial GDP per capita)	19.1	Cost (% of property value)	3.9
Minimum capital (% of provincial GDP per capita)	354		
Getting credit (rank)	11	Enforcing contracts (rank)	23
Time (days)	12	Time (days)	295
Cost (% of loan value)	3.2	Cost (% of claim)	35.5

Chongqing		GDP per capita of Chongqing (RMB)	10978
Southwest			
Starting a business (rank)	17	Registering property (rank)	9
Procedures (number)	14	Procedures (number)	7
Time (days)	39	Time (days)	28
Cost (% of provincial GDP per capita)	9.5	Cost (% of property value)	7.0
Minimum capital (% of provincial GDP per capita)	273		
Getting credit (rank)	19	Enforcing contracts (rank)	8
Time (days)	15	Time (days)	286
Cost (% of loan value)	5.0	Cost (% of claim)	14.8
Fuzhou		GDP per capita of Fujian Province (RMB)	18621
Southeast			
Starting a business (rank)	7	Registering property (rank)	3
Procedures (number)	12	Procedures (number)	7
Time (days)	40	Time (days)	37
Cost (% of provincial GDP per capita)	6.7	Cost (% of property value)	4.1
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	1	Enforcing contracts (rank)	12
Time (days)	7	Time (days)	342
Cost (% of loan value)	2.3	Cost (% of claim)	13.7
Guangzhou		GDP per capita of Guangdong Province (RMB)	26134
Southeast			
Starting a business (rank)	3	Registering property (rank)	2
Procedures (number)	13	Procedures (number)	8
Time (days)	28	Time (days)	35
Cost (% of provincial GDP per capita)	6.3	Cost (% of property value)	3.7
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	3	Enforcing contracts (rank)	1
Time (days)	11	Time (days)	120
Cost (% of loan value)	2.4	Cost (% of claim)	9.7
Guiyang		GDP per capita of Guizhou Province (RMB)	4957
Southwest			
Starting a business (rank)	30	Registering property (rank)	28
Procedures (number)	14	Procedures (number)	9
Time (days)	50	Time (days)	77
Cost (% of provincial GDP per capita)	26.6	Cost (% of property value)	12.6
Minimum capital (% of provincial GDP per capita)	605		
Getting credit (rank)	25	Enforcing contracts (rank)	24
Time (days)	17	Time (days)	397
Cost (% of loan value)	6.9	Cost (% of claim)	23.0

Haikou		GDP per capita of Hainan Province (RMB)		10980
Southwest				
Starting a business (rank)	13	Registering property (rank)		23
Procedures (number)	13	Procedures (number)		10
Time (days)	38	Time (days)		76
Cost (% of provincial GDP per capita)	12.1	Cost (% of property value)		4.8
Minimum capital (% of provincial GDP per capita)	273			
Getting credit (rank)	18	Enforcing contracts (rank)		11
Time (days)	14	Time (days)		310
Cost (% of loan value)	5.1	Cost (% of claim)		14.5
Hangzhou		GDP per capita of Zhejiang Province (RMB)		27552
Southeast				
Starting a business (rank)	1	Registering property (rank)		7
Procedures (number)	12	Procedures (number)		8
Time (days)	30	Time (days)		50
Cost (% of provincial GDP per capita)	5.7	Cost (% of property value)		3.7
Minimum capital (% of provincial GDP per capita)	200			
Getting credit (rank)	8	Enforcing contracts (rank)		3
Time (days)	11	Time (days)		285
Cost (% of loan value)	3.0	Cost (% of claim)		11.2
Harbin		GDP per capita of Heilongjiang Province (RMB)		14430
Northeast				
Starting a business (rank)	18	Registering property (rank)		14
Procedures (number)	14	Procedures (number)		8
Time (days)	42	Time (days)		55
Cost (% of provincial GDP per capita)	11.9	Cost (% of property value)		6.1
Minimum capital (% of provincial GDP per capita)	208			
Getting credit (rank)	10	Enforcing contracts (rank)		20
Time (days)	13	Time (days)		290
Cost (% of loan value)	3.1	Cost (% of claim)		31.5
Hefei		GDP per capita of Anhui Province (RMB)		8597
Central				
Starting a business (rank)	27	Registering property (rank)		17
Procedures (number)	14	Procedures (number)		10
Time (days)	42	Time (days)		46
Cost (% of provincial GDP per capita)	19.4	Cost (% of property value)		5.6
Minimum capital (% of provincial GDP per capita)	349			
Getting credit (rank)	14	Enforcing contracts (rank)		26
Time (days)	20	Time (days)		300
Cost (% of loan value)	2.8	Cost (% of claim)		41.8

Hohhot		GDP per capita of Inner Mongolia (RMB)	16026
Northwest			
Starting a business (rank)	11	Registering property (rank)	18
Procedures (number)	14	Procedures (number)	11
Time (days)	48	Time (days)	47
Cost (% of provincial GDP per capita)	7.9	Cost (% of property value)	4.6
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	16	Enforcing contracts (rank)	19
Time (days)	15	Time (days)	330
Cost (% of loan value)	3.3	Cost (% of claim)	23.7
Jinan		GDP per capita of Shandong Province (RMB)	20044
Bohai Bay			
Starting a business (rank)	4	Registering property (rank)	4
Procedures (number)	13	Procedures (number)	8
Time (days)	33	Time (days)	39
Cost (% of provincial GDP per capita)	6.0	Cost (% of property value)	4.1
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	4	Enforcing contracts (rank)	5
Time (days)	10	Time (days)	210
Cost (% of loan value)	2.9	Cost (% of claim)	22.0
Kunming		GDP per capita of Yunnan Province (RMB)	7833
Southwest			
Starting a business (rank)	23	Registering property (rank)	22
Procedures (number)	14	Procedures (number)	9
Time (days)	42	Time (days)	66
Cost (% of provincial GDP per capita)	13.9	Cost (% of property value)	5.4
Minimum capital (% of provincial GDP per capita)	383		
Getting credit (rank)	23	Enforcing contracts (rank)	29
Time (days)	18	Time (days)	365
Cost (% of loan value)	4.0	Cost (% of claim)	36.4
Lanzhou		GDP per capita of Gansu Province (RMB)	7341
Northwest			
Starting a business (rank)	29	Registering property (rank)	29
Procedures (number)	14	Procedures (number)	10
Time (days)	47	Time (days)	78
Cost (% of provincial GDP per capita)	14.1	Cost (% of property value)	7.8
Minimum capital (% of provincial GDP per capita)	409		
Getting credit (rank)	29	Enforcing contracts (rank)	30
Time (days)	20	Time (days)	440
Cost (% of loan value)	8.0	Cost (% of claim)	29.9

Nanchang		GDP per capita of Jiangxi Province (RMB)		9439
Central				
Starting a business (rank)	21	Registering property (rank)	20	
Procedures (number)	14	Procedures (number)	10	
Time (days)	40	Time (days)	50	
Cost (% of provincial GDP per capita)	14.6	Cost (% of property value)	6.1	
Minimum capital (% of provincial GDP per capita)	318			
Getting credit (rank)		24	Enforcing contracts (rank)	15
Time (days)	17	Time (days)	365	
Cost (% of loan value)	5.9	Cost (% of claim)	16.5	
Nanjing		GDP per capita of Jiangsu Province (RMB)		24515
Southeast				
Starting a business (rank)	2	Registering property (rank)	5	
Procedures (number)	12	Procedures (number)	7	
Time (days)	31	Time (days)	31	
Cost (% of provincial GDP per capita)	5.8	Cost (% of property value)	4.6	
Minimum capital (% of provincial GDP per capita)	200			
Getting credit (rank)		2	Enforcing contracts (rank)	2
Time (days)	10	Time (days)	112	
Cost (% of loan value)	2.1	Cost (% of claim)	13.6	
Nanning		GDP per capita of Guangxi (RMB)		8762
Southwest				
Starting a business (rank)	28	Registering property (rank)	30	
Procedures (number)	14	Procedures (number)	12	
Time (days)	46	Time (days)	66	
Cost (% of provincial GDP per capita)	16.5	Cost (% of property value)	6.8	
Minimum capital (% of provincial GDP per capita)	342			
Getting credit (rank)		30	Enforcing contracts (rank)	20
Time (days)	47	Time (days)	397	
Cost (% of loan value)	3.9	Cost (% of claim)	17.1	
Shanghai		GDP per capita of Shanghai (RMB)		52378
Southeast				
Starting a business (rank)	5	Registering property (rank)	1	
Procedures (number)	14	Procedures (number)	4	
Time (days)	35	Time (days)	29	
Cost (% of provincial GDP per capita)	3.1	Cost (% of property value)	3.6	
Minimum capital (% of provincial GDP per capita)	200			
Getting credit (rank)		4	Enforcing contracts (rank)	4
Time (days)	8	Time (days)	292	
Cost (% of loan value)	2.9	Cost (% of claim)	9.0	

Shenyang		GDP per capita of Liaoning Province (RMB)	
Northeast			18965
Starting a business (rank)	9	Registering property (rank)	14
Procedures (number)	14	Procedures (number)	12
Time (days)	41	Time (days)	51
Cost (% of provincial GDP per capita)	6.0	Cost (% of property value)	3.1
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	15	Enforcing contracts (rank)	10
Time (days)	20	Time (days)	260
Cost (% of loan value)	2.8	Cost (% of claim)	24.8

Shijiazhuang		GDP per capita of Hebei Province (RMB)	
Bohai Bay			14814
Starting a business (rank)	16	Registering property (rank)	21
Procedures (number)	14	Procedures (number)	10
Time (days)	42	Time (days)	58
Cost (% of provincial GDP per capita)	9.8	Cost (% of property value)	5.2
Minimum capital (% of provincial GDP per capita)	203		
Getting credit (rank)	9	Enforcing contracts (rank)	14
Time (days)	15	Time (days)	397
Cost (% of loan value)	2.8	Cost (% of claim)	12.2

Taiyuan		GDP per capita of Shanxi Province (RMB)	
Northwest			12320
Starting a business (rank)	20	Registering property (rank)	26
Procedures (number)	14	Procedures (number)	10
Time (days)	55	Time (days)	62
Cost (% of provincial GDP per capita)	9.3	Cost (% of property value)	5.4
Minimum capital (% of provincial GDP per capita)	244		
Getting credit (rank)	12	Enforcing contracts (rank)	18
Time (days)	16	Time (days)	300
Cost (% of loan value)	2.9	Cost (% of claim)	26.4

Tianjin		GDP per capita of Tianjin (RMB)	
Bohai Bay			35457
Starting a business (rank)	8	Registering property (rank)	6
Procedures (number)	14	Procedures (number)	5
Time (days)	41	Time (days)	42
Cost (% of provincial GDP per capita)	3.7	Cost (% of property value)	4.4
Minimum capital (% of provincial GDP per capita)	200		
Getting credit (rank)	6	Enforcing contracts (rank)	5
Time (days)	14	Time (days)	300
Cost (% of loan value)	2.7	Cost (% of claim)	11.3

Urumqi		GDP per capita of Xinjiang (RMB)		13030
Northwest				
Starting a business (rank)	14	Registering property (rank)	13	
Procedures (number)	13	Procedures (number)	11	
Time (days)	44	Time (days)	45	
Cost (% of provincial GDP per capita)	9.0	Cost (% of property value)	4.2	
Minimum capital (% of provincial GDP per capita)	230			
Getting credit (rank)	26	Enforcing contracts (rank)	22	
Time (days)	24	Time (days)	392	
Cost (% of loan value)	3.4	Cost (% of claim)	20.5	
Wuhan		GDP per capita of Hubei Province (RMB)		9973
Central				
Starting a business (rank)	15	Registering property (rank)	25	
Procedures (number)	13	Procedures (number)	9	
Time (days)	36	Time (days)	60	
Cost (% of provincial GDP per capita)	13.6	Cost (% of property value)	6.2	
Minimum capital (% of provincial GDP per capita)	301			
Getting credit (rank)	12	Enforcing contracts (rank)	17	
Time (days)	13	Time (days)	277	
Cost (% of loan value)	3.3	Cost (% of claim)	33.1	
Xi'an		GDP per capita of Shaanxi Province (RMB)		9844
Northwest				
Starting a business (rank)	25	Registering property (rank)	10	
Procedures (number)	14	Procedures (number)	8	
Time (days)	43	Time (days)	50	
Cost (% of provincial GDP per capita)	15.2	Cost (% of property value)	5.1	
Minimum capital (% of provincial GDP per capita)	305			
Getting credit (rank)	28	Enforcing contracts (rank)	5	
Time (days)	21	Time (days)	235	
Cost (% of loan value)	4.0	Cost (% of claim)	21.7	
Xining		GDP per capita of Qinghai Province (RMB)		10043
Northwest				
Starting a business (rank)	23	Registering property (rank)	19	
Procedures (number)	14	Procedures (number)	8	
Time (days)	51	Time (days)	69	
Cost (% of provincial GDP per capita)	12.0	Cost (% of property value)	5.3	
Minimum capital (% of provincial GDP per capita)	299			
Getting credit (rank)	22	Enforcing contracts (rank)	28	
Time (days)	20	Time (days)	458	
Cost (% of loan value)	3.8	Cost (% of claim)	24.8	

Yinchuan		GDP per capita of Ningxia (RMB)		8933
Northwest				
Starting a business (rank)	26	Registering property (rank)	16	
Procedures (number)	14	Procedures (number)	10	
Time (days)	55	Time (days)	59	
Cost (% of provincial GDP per capita)	12.0	Cost (% of property value)	4.4	
Minimum capital (% of provincial GDP per capita)	336			
Getting credit (rank)	27	Enforcing contracts (rank)	13	
Time (days)	25	Time (days)	270	
Cost (% of loan value)	3.6	Cost (% of claim)	28.7	
Zhengzhou		GDP per capita of Henan Province (RMB)		11236
Central				
Starting a business (rank)	12	Registering property (rank)	27	
Procedures (number)	13	Procedures (number)	11	
Time (days)	41	Time (days)	60	
Cost (% of provincial GDP per capita)	11.6	Cost (% of property value)	5.1	
Minimum capital (% of provincial GDP per capita)	267			
Getting credit (rank)	17	Enforcing contracts (rank)	16	
Time (days)	16	Time (days)	285	
Cost (% of loan value)	3.3	Cost (% of claim)	31.5	