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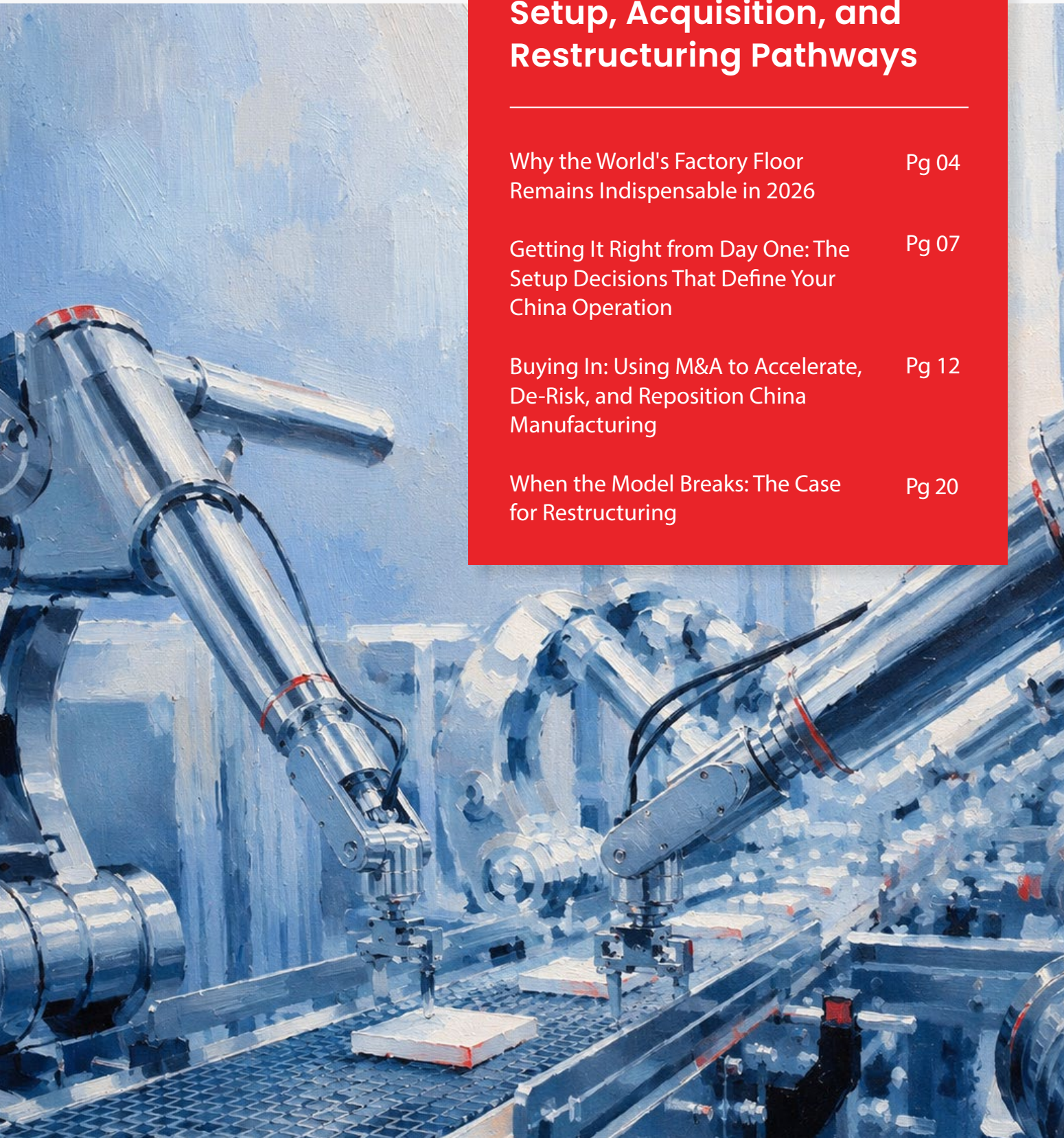
Optimizing Your China Manufacturing Operations: Setup, Acquisition, and Restructuring Pathways

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Introduction



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Over the past few years, there is a version of the China story that has become popular in boardrooms and op-ed columns. In this version, the strategic logic of manufacturing in China has been fundamentally broken, undone by tariffs, geopolitical tension, regulatory complexity, and a domestic market that no longer delivers the returns of the previous decade. The recommendation, implicit or explicit, is to move on.

Nevertheless, we do not share that view. What we do share is the recognition that China's manufacturing landscape has changed, and that companies operating with the assumptions of 2015 or even 2019 are likely operating at a disadvantage today.

This publication is written for executives who want to think more clearly about what China actually represents in 2026: not as a geopolitical flashpoint, and not through the lens of nostalgia for simpler times, but as an operational and commercial reality. China still accounts for approximately 30 percent of global manufacturing output. Its supplier ecosystems, tooling depth, and logistics infrastructure remain unmatched for complex, high-volume production. The challenges are real – regulatory, structural, and political – but they are manageable for companies that approach them with the right preparation and the right partners.

The four chapters that follow are designed to serve different stages of the decision journey. We have tried to write with the same directness we bring to client conversations: acknowledging the complexity but always orienting toward what can actually be done. We hope you find it useful.

With kind regards,

Adam Livermore



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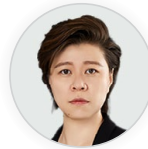


Why the World's Factory Floor Remains Indispensable in 2026

The China exit narrative has outrun the evidence – once you look at the data.



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For the better part of five years, the dominant corporate narrative around China manufacturing has been one of strategic retreat. Tariff shocks, pandemic-era supply chain fragility, and rising geopolitical tension have pushed executives toward an almost reflexive search for alternatives. Vietnam, India, Mexico, and a handful of other emerging manufacturing hubs have attracted capital, consultants, and attention in roughly equal measure. The message has been consistent: diversify, reduce exposure, and if possible, get out.

The data tells a more complicated story. Despite this sustained effort at diversification, China's share of global manufacturing output has barely moved. In 2024, China accounted for approximately 30 percent of global manufacturing value-added, making it the world's largest manufacturing economy by a substantial margin for 15 consecutive years. A projection from the UN Industrial Development Organization suggests that this share could rise further, toward 45 percent of global industrial production, by 2030.

This is not what a strategic retreat looks like. It is what strategic irreplaceability looks like.

The limits of the diversification argument

The China+1 strategy, the idea that companies should maintain a China presence while building a secondary manufacturing base elsewhere, has now largely run its course as a novel idea. Most large manufacturers that could execute a meaningful diversification have done so. The low-hanging fruit has been picked. What has emerged is a clearer picture of what China's alternatives can and cannot offer.

For labor-intensive, relatively low-complexity goods, such as apparel, basic furniture, and simple consumer electronics assembly, diversification to Vietnam, Bangladesh, and comparable markets has worked reasonably well. Labor costs are lower, and the relatively straightforward manufacturing processes can be replicated without deep supplier ecosystems.

But this logic breaks down quickly as product complexity increases. Vietnam's manufacturing sector, for all its genuine growth, still lacks the depth of China's industrial clusters. The supplier density that allows a manufacturer in Shenzhen or Suzhou to source a hundred different components within a one-hour drive does not exist in Ho Chi Minh City or Hanoi. India has scale advantages in labor and a growing policy commitment to manufacturing, particularly under the Production-Linked Incentive (PLI) schemes, but its logistics infrastructure, port capacity, component supply chains, and power reliability lag significantly behind China's. Mexico offers proximity to the US market and USMCA advantages, but its industrial base is largely confined to specific sectors and geographic corridors.

For anything beyond simple, labor-intensive assembly, the China ecosystem has no close equivalent. China's tooling capability, specialized labor, material sourcing, quality management infrastructure, and the logistics networks that tie them together have been built over decades and at enormous scale. They cannot be replicated any time soon.

The total cost of manufacturing conversation

Part of what has driven the diversification narrative is a fixation on a single cost variable: direct labor. China's wages have risen substantially over the past two decades, and this is real. But labor cost is a declining share of total manufacturing cost, particularly in sectors moving toward higher automation. When the full picture of total landed cost is considered, factoring in quality reject rates, logistics costs, lead times, tooling reliability, and the management overhead of operating in less mature industrial environments, the economics of leaving

China often look considerably less attractive than the headline wage numbers suggest.

This is not an argument that cost is irrelevant. For some products and some business models, the arithmetic genuinely favors other locations. The point is that the arithmetic needs to be done in full, with all relevant variables accounted for, rather than relying on a simplified comparison of labor costs.

Beyond cost: Innovation and R&D competitiveness as structural advantages

China's innovation advantage is not just about scale – it's defined by speed and integration. Domestic firms excel in rapid product development and digital adoption, often compressing design-to-market timelines from months to weeks. This agility, combined with deep integration between research institutions and industry, allows breakthroughs to move quickly from lab to large-scale production.

For manufacturers competing on product cycles rather than unit costs alone, innovation and speed-to-market matter enormously. A company that can develop a new product variant in China and bring it to market in six weeks is operating at a fundamentally different competitive rhythm than one managing design iteration across fragmented, lower-cost supply chains. The total landed cost calculation needs to include this dimension, and when it does, the case for China often looks considerably stronger than the headline wage numbers suggest.

The tariff dimension: Risk, not elimination

The tariff environment has undeniably changed the export economics for some categories of goods. In

2025, the US imposed escalating tariffs on Chinese imports, creating ongoing trade uncertainty despite later adjustments. For companies manufacturing in China primarily to serve the US market, this has forced genuine reassessment.

But two points are worth noting. First, the tariff pressure on China-origin goods has been matched, to a meaningful extent, by tariffs on many alternative locations. Vietnam faces a 19-20 percent US tariff rate. India's trade-weighted average tariff rate approaches China's according to some analysts. As a result, the tariff differential that made China+1 attractive in the first round of Trump-era trade measures is considerably narrower in the current environment. Second, and more fundamentally, the US is only one market. The global manufacturing landscape is not defined solely by US-China trade flows, and companies producing for European, Asian, or other markets face a materially different set of considerations.

The domestic demand opportunity

There is a dimension to the China manufacturing story that rarely features prominently in Western executive conversations – the opportunity to manufacture in China not for export, but for China's own enormous and growing domestic market.

China's consumer base continues to expand, and its appetite for higher-quality manufactured goods in sectors ranging from automotive and industrial equipment to healthcare devices and consumer electronics is substantial. Structuring manufacturing operations through foreign-invested enterprises (FIEs) oriented toward the domestic market – rather than purely export – offers a strategic rationale that exists largely independent of the US-China trade relationship.

For companies that have traditionally viewed China primarily as an export production hub, repositioning it as a market served by local manufacturing represents a meaningful strategic shift.

The real question

The companies most likely to capture value from China's manufacturing ecosystem over the next decade are not necessarily those with the longest operating history, nor those making the most aggressive moves toward alternative locations. Rather, they are the ones asking the right question: not whether to be in China, but how to structure their presence effectively for the current environment.

That requires getting the fundamentals right – entity structure, compliance posture, incentive negotiation, and operational model – right from the beginning or correcting them where needed. It also means recognizing when acquisition may offer a faster and more capital-efficient route than greenfield investment and being prepared to restructure when existing models no longer reflect market realities. The following chapters address each of these questions in turn. 



CROSS-COUNTRY COMPETITIVENESS BENCHMARKING

Through tailored cross-country competitiveness benchmarking, we compare critical investment drivers to help companies select and prioritize markets that align with their goals, risk appetite, and operational needs.

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Getting It Right from Day One: The Setup Decisions That Define Your China Operation

Early setup choices in China manufacturing shape operational flexibility for years. From entity structuring to tax and employment frameworks, getting these decisions right at the outset avoids costly constraints that are difficult, and sometimes impossible, to reverse.



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Every experienced China hand will tell you the same thing eventually: the decisions made in the first six months of setting up a China manufacturing operation have consequences that last for years. Entity structure, registered business scope, capital contribution plan, employment framework, tax registration sequencing – these are not administrative formalities but strategic decisions. And getting them wrong creates constraints that are expensive, time-consuming, and sometimes genuinely painful to undo.

The good news is that China's foreign investment framework has become more transparent and, in important respects, more accessible in recent years. The 2024 revision to the Foreign Investment Negative List eliminated the last remaining restrictions on foreign investment in manufacturing, making 100 percent foreign ownership of operations now effectively available across most manufacturing subsectors. The Action Plan for Stabilizing Foreign Investment, released by the State Council in early 2025, reaffirmed Beijing's

commitment to expanding market access and treating foreign and domestic investors on equal terms in unrestricted sectors.

The challenge is not access – it is structure – and the difference between a well-structured entry and a poorly designed one is substantial.

Entity structure: More decisions than it appears

For foreign manufacturers entering China, the primary entity structure of choice typically comes down to a wholly foreign-owned enterprise (WFOE) or some form of joint venture (JV).

In practice, the WFOE, established as a foreign-invested limited liability company (LLC) under China's Company Law, has become the default choice for most manufacturers seeking operational control, clear intellectual property ownership, and straightforward profit repatriation. With manufacturing restrictions now eliminated from

the Negative List, the WFOE path is cleaner and more accessible than it has ever been.

However, the WFOE-versus-JV decision, while significant, is only part of the structural equation. Within the WFOE framework itself, a range of additional considerations require careful planning – yet are often treated as secondary details rather than the strategic variables they are.

Registered capital and the five-year contribution rule

The revised Company Law, effective July 2024, requires newly established LLCs, including manufacturing WFOEs, to fully contribute their subscribed registered capital within five years of establishment, with specific transitional arrangements applying to existing entities. This sounds straightforward, but the implications extend into cashflow planning, banking relationships, and the cost of capital. Under-capitalizing at the outset to minimize upfront commitment is a common mistake, while over-subscribing without a credible funding plan creates a different set of problems. The capital plan needs to be modeled properly before Articles of Association are finalized.

Business scope

The business scope registered with the market authority defines what activities the entity can legally conduct in China. Under-scoping, which means registering a narrow scope that fits the immediate need without anticipating future activities, is among the most common and avoidable setup errors. Expanding business scope post-registration is possible but requires regulatory engagement, creates administrative cost, and introduces delays at exactly the moment you want to be focused on operations. A well-advised setup process maps current activities,

anticipated future activities, and any cross-border flows against the business scope from the beginning.

IP ownership and structure

Determining where IP sits and how it is licensed, valued, and transferred across a corporate structure that may include offshore entities, a China operating company, and potentially an overseas holding entity in Hong Kong, Singapore, etc. – is a decision that cuts across tax, legal, and operational considerations. While China's IP protection framework has strengthened significantly over the past decade, the level of protection in practice differs materially between entities that are well structured and those that have not addressed IP ownership strategically from the outset. This becomes especially critical in sectors where manufacturing know-how, product design, or process technology form the core of competitive advantage.

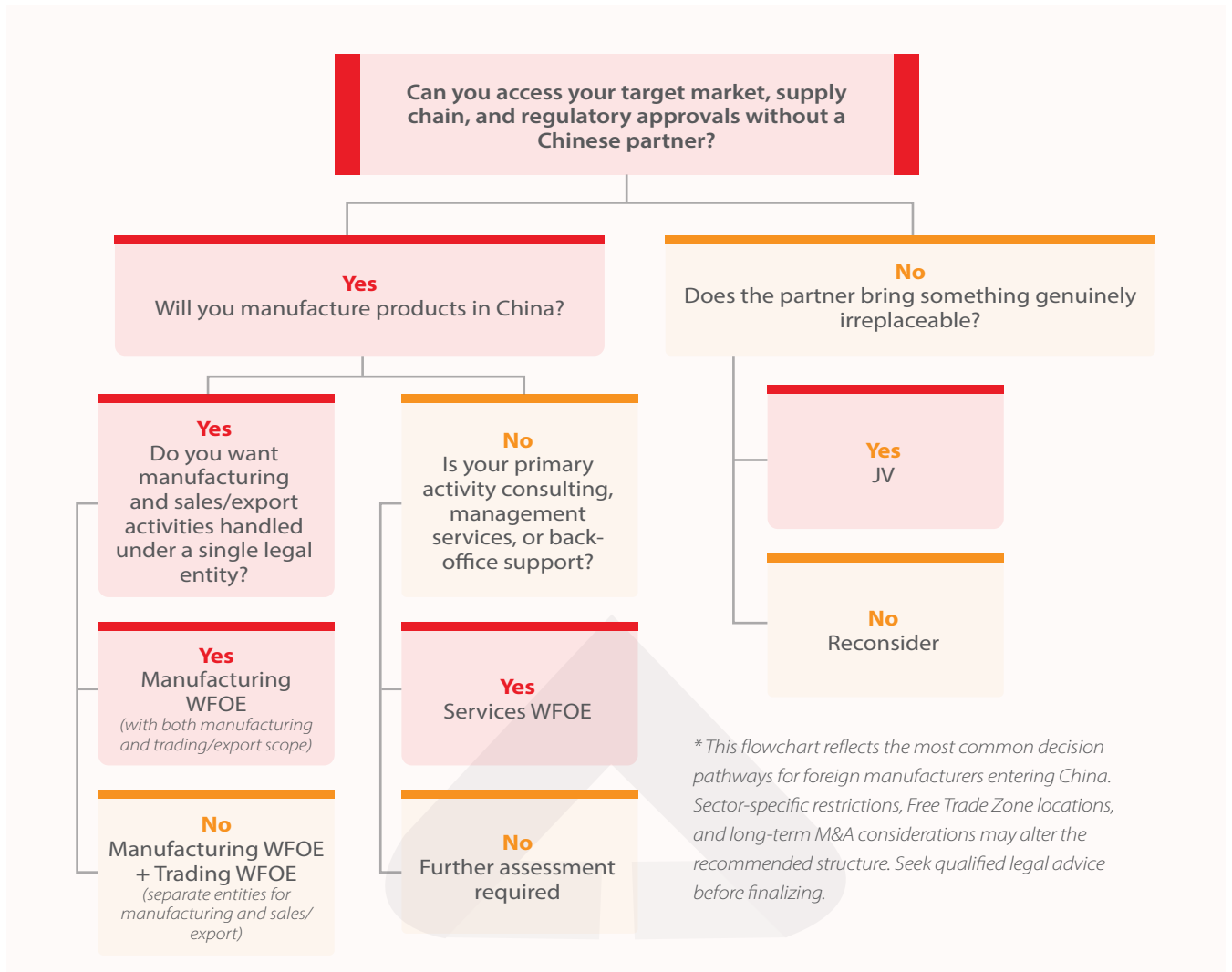
Export versus domestic orientation

A manufacturing WFOE structured primarily for export will have different customs registration requirements, value-added tax (VAT) refund eligibility, and regulatory interactions than one oriented toward domestic sales. This distinction matters more than many entrants realize, and a structure that serves one orientation well may create friction or outright barriers for the other. Companies that anticipate any meaningful domestic sales component should structure accordingly from the beginning, even if export dominates the initial model.

The JV question: When it still makes sense

The joint venture has fallen somewhat out of fashion as China has liberalized manufacturing access, and for good reason. Compared to WFOEs, JVs introduce governance complexity, profit sharing obligations,

WFOE or JV and What Kind?



and the perpetual challenge of aligning the strategic interests of parties who may have fundamentally different time horizons and objectives.

That case still exists, but it is narrower than it once was. A JV can make sense where a foreign manufacturer lacks capabilities that are genuinely decisive to commercial success: entrenched market access, privileged regulatory relationships, or established local supply chain control that cannot be replicated within a reasonable timeframe. In certain regulated or relationship-driven environments, a well-aligned Chinese partner can accelerate execution in ways a standalone WFOE may struggle to match. Moreover, under the current geopolitical environment, many

investors are increasingly cautious about committing significant upfront capital, locking in long term balance sheet exposure, or building fully standalone operations from day one.

Where a JV is pursued, the key discipline is honesty about what the partner actually brings, and rigor about governance: exit mechanisms, deadlock provisions, IP protection clauses, and a clear-eyed view of what happens if the relationship deteriorates. JVs that are structured poorly at the outset, in the hope that goodwill and commercial alignment will resolve future conflicts, reliably produce difficult restructuring situations down the road.

The top five compliance traps

Even a well-structured entity can accumulate compliance problems quickly if day-to-day operations are not aligned with PRC legal requirements from the beginning. Five areas account for a disproportionate share of the compliance difficulties that foreign manufacturers encounter in the first two years of operation:

Licenses, permits, and regulatory certificates

Entity registration is only the first step. Manufacturing operations in China typically require multiple approvals beyond the business license, including environmental impact assessments, fire safety inspections, customs registration for import-export activities, and sector-specific production permits. Foreign manufacturers often underestimate both the number of requirements and their sequencing, as certain permits depend on others and production cannot legally begin until all are secured. Missteps can lead to delays, penalties, or, in serious cases, forced suspension of operations.

Facility strategy: Lease, build-to-suit, or land acquisition

Facility decisions carry legal, financial, and operational consequences well beyond real estate. Leasing space in development zones allows faster setup but limits customization and permitted activities. Build-to-suit structures offer greater facility control without land ownership, though lease terms require careful negotiation.

Acquiring land use rights and building independently provides maximum control and asset value but involves complex approvals, higher upfront costs, and longer lead times. Each option affects balance-sheet treatment, capital repatriation, and exit flexibility.

Compliance policy: Operations, workforce, and supply chain

Manufacturing in China requires localized internal compliance frameworks aligned with PRC labor, environmental, workplace safety, anti-corruption, and procurement rules. This typically includes factory-specific employment practices, tailored safety and environmental systems, procedures for regulated materials, and formal supplier qualification and review processes. Underestimating these obligations or failing to localize global standards can trigger labor disputes, regulatory penalties, supply chain disruptions, and heightened inspection exposure.

IP protection: Registration, production use, and OEM control.

Companies relying on proprietary technology, processes, tooling, or brands must secure IP early under China's first-to-file system. Manufacturing-related IP should be registered in China or protected through enforceable contracts before production or outsourcing begins. Licensing, OEM authorization, and tooling arrangements must comply with PRC technology and competition rules while tightly controlling permitted use. Misalignment can result in loss of control, ownership disputes, unauthorized manufacturing, or barriers to technology transfer.

Data localization and cross-border data requirements

China's data protection and cross-border data transfer rules impose obligations many manufacturers overlook. Processing personal data, such as employee or supplier information, can restrict overseas transfers, requiring approved mechanisms such as security assessments or standard contracts. Companies that build IT systems without accounting for these rules often face costly post-setup restructuring.

Incentive negotiation: The value most entrants leave behind

China's industrial policy landscape offers a substantial menu of incentives to qualifying manufacturers: reduced CIT rates, land use rights at below-market rates, workforce training subsidies, utility pricing concessions, and in some cases – direct grants. These incentives are real, they are material, and they are negotiable, but they require active and informed engagement with local government counterparts to access.

China's current industrial policy environment has placed particular emphasis on green manufacturing, advanced manufacturing, and sectors aligned with China's strategic industrial priorities.

Manufacturers in these categories, broadly defined to include energy-efficient production processes, high-value-added outputs, and sectors listed in the Foreign Investment Encouraged Industries Catalogue, have access to preferential treatment that can meaningfully change the economics of a China investment.

Despite the National Unified Market initiative, local governments, particularly at the district and development zone level, retain considerable discretion over incentive packages. Understanding the negotiating landscape, such as what is available in which locations, what conditions apply, and how to structure an approach that is credible to local officials, is a distinct skill. Most foreign manufacturers underestimate both what is available and what it takes to access it. The difference between a negotiated incentive package and a default arrangement can run to millions of dollars over the life of an investment.

The incentive landscape is also a material input into the location decision itself. Two industrial parks in the same province may offer substantially different

conditions for a given investor profile. This analysis needs to happen before location decisions are made, not after.

Getting the setup right

The picture that emerges from this review is not one of prohibitive complexity. China's foreign investment framework in 2026 is more transparent, more accessible, and better documented than it was a decade ago. For manufacturers who approach the setup process with rigor, the pathway to a well-functioning China manufacturing operation is clearer than it may appear from the outside.

What the picture does confirm is that the decisions made at setup have long tails. The business scope registered today determines what the entity can do for years. The employment framework established for the first 50 employees defines the obligations that accrue as the workforce grows. The repatriation structure put in place at incorporation shapes what can be done with China-generated profits for the life of the entity.

These decisions deserve the time, expertise, and multi-disciplinary thinking they require. The cost of getting them right at the outset is a fraction of the cost of fixing them later. 



CORPORATE ESTABLISHMENT

A well-planned corporate structuring and governance strategy enhances operational efficiency and ensures compliance. Dezan Shira & Associates advises on company establishment and legal incorporation across multiple Asian jurisdictions. Combined with our tax planning expertise, we offer a fully integrated corporate establishment solution. To arrange a consultation, please contact China@dezshira.com.

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Buying In: Using M&A to Accelerate, De-Risk, and Reposition China Manufacturing

In today's China manufacturing landscape, M&A is emerging as a faster, smarter way to build in China, offering speed, risk reduction, and strategic repositioning in a market undergoing structural and valuation shifts.



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For decades, the default entry mode for foreign manufacturers in China was greenfield. This meant finding a location, negotiating a lease or land use rights, building or fit outing a facility, hiring a workforce, and gradually building up a supply chain.

It was capital-intensive, time-consuming, and operationally demanding, but it gave investors full control over how the operation was built from the ground up.

That calculus is changing. A growing number of foreign manufacturers and investors are concluding that acquisition – buying an existing Chinese manufacturing business or a controlling stake in one, offers a faster, and in many cases more capital-efficient, path to a meaningful China manufacturing presence. The logic is straightforward: you inherit operating facilities, an established workforce, existing supplier relationships, certifications and licenses that would take years to acquire independently, and typically a customer base that provides immediate revenue visibility.

The current market environment adds an additional dimension that makes this moment particularly interesting for well-advised buyers. Valuation compression in segments of China's manufacturing sector, driven by export pressure from US tariffs, domestic demand softness in certain sectors, and the ongoing adjustment of capital markets expectations, has created acquisition opportunities at multiples that would not have been available two or three years ago.

“Valuation compression and a buyer's market are converging with regulatory reform, creating a distinctive window for well-structured acquirers.”

Where the opportunities are

Not all corners of China's manufacturing sector offer equivalent acquisition opportunities for foreign buyers. The most compelling targets share a combination of characteristics, such as genuine operational capability, defensible market positions, and valuations that have been compressed by

sector-specific headwinds that a well-capitalized foreign operator is better positioned to manage than the current ownership.

Electronics components and precision manufacturing

The electronics supply chains across the Yangtze River Delta and Pearl River Delta regions remain extraordinarily dense and capable. Smaller components manufacturers, including printed circuit board fabricators, precision machined parts suppliers, connector manufacturers, have faced margin pressure from both increased raw material costs and customer consolidation pressure, creating acquisition opportunities for foreign stakeholders that want to secure supply chain positions or vertically integrate.

Automotive parts and EV-related manufacturing

China's rapid transition to electric vehicles (EV) has created both disruption and opportunity in automotive parts manufacturing. Traditional internal combustion engine (ICE)-component suppliers face structural demand headwinds, creating distressed acquisition scenarios. EV-related manufacturing, such as battery components, power electronics, lightweight structural parts, presents a different set of opportunities, though with more competition from domestic buyers and more regulatory sensitivity around technology.

Specialty chemicals and advanced materials

Environmental regulatory tightening in China over the past several years has forced consolidation in the specialty chemicals sector. Smaller operators that cannot meet tightened discharge and safety requirements have become acquisition candidates for larger, better-capitalized operators, including

foreign investors with the operational systems and capital to bring facilities into compliance.

Precision tooling and industrial equipment

China has developed substantial capability in precision tooling, mold-making, and industrial equipment manufacturing over the past two decades. This sector has seen less foreign interest historically, but it offers compelling acquisition targets for foreign manufacturers seeking to internalize tooling capability or access Chinese-made capital equipment for their own production.

From a geographic perspective, the Yangtze River Delta (Shanghai, Jiangsu, Zhejiang) remains the deepest and most sophisticated manufacturing acquisition market. The Pearl River Delta (Guangdong) offers strong opportunities in electronics and consumer goods-related manufacturing. Inland provinces, such as Sichuan, Hubei, and Hunan, have seen significant manufacturing investment over the past decade and offer lower cost bases, though typically with thinner deal markets and more complex local government dynamics.

The acqui-hire phenomenon

One of the more interesting trends in China manufacturing M&A over the past two to three years has been the rise of what might be called the 'acqui-hire' acquisition model – deals that are motivated not primarily by the target's revenue or asset base, but by what the business represents in terms of supply chain relationships, certifications, production know-how, and the human capital that would take years to assemble independently.

A foreign manufacturer entering a new product category in China or seeking to establish a more defensible supply chain position can spend two to

three years building supplier relationships, quality management systems, and regulatory certifications from scratch. Or it can acquire a business that already has them. In the current environment, where valuations in some sectors are compressed relative to the genuine operational value of what is being acquired, the arithmetic increasingly favors the latter.

Acqui-hire transactions require a different due diligence approach than conventional acquisitions. The standard financial statement analysis remains necessary, but the most important questions are often qualitative: How deep are the supplier

relationships? How dependent is the business on its current owners personally? Are the key certifications held by the entity or by individuals? How much of the operational know-how is documented versus residing in the heads of a handful of long-tenured employees? These questions need explicit answers before signing.

Due diligence: China is different

China-specific M&A due diligence is not simply a translation of standard international deal practice into Mandarin. The structural characteristics of



*Timelines are illustrative and vary by sector, location, and regulatory environment. Due diligence should verify the depth and transferability of each value layer before deal close.

Chinese businesses, accounting conventions, regulatory compliance history, the role of informal relationships in commercial arrangements, and the treatment of off-balance-sheet items, create due diligence requirements that are genuinely different, and that consistently surprise buyers who approach the process with generic international templates.

Financial statements

Chinese statutory financial statements, prepared under China Accounting Standards (CAS, also referred to as China GAAP), differ from IFRS and US GAAP in ways that affect how revenues, assets, and liabilities are reported.

More fundamentally, the historical use of informal financial arrangements, including undisclosed related-party transactions, off-balance-sheet financing, and multiple sets of accounts for different audiences, remains a real feature of China deal environments.

Financial due diligence needs to involve practitioners with China-specific experience and Mandarin-language capability, not just international accountants applying standard procedures.

Environmental liabilities

China's environmental regulatory tightening over the past decade has created a substantial potential liability pool, particularly for manufacturing businesses that have been operating for more than 10 years.

Undisclosed soil contamination, historical violations of discharge standards, and unresolved regulatory notices represent the kind of contingent liabilities that can materially change deal economics. Environmental due diligence in China needs to include physical site assessment, not just document review.

Labor compliance history

The compliance status of a target's employment arrangements, including social insurance contributions, labor contract documentation, and the handling of any historical workforce reductions, creates contingent liabilities that survive acquisition in an equity deal.

This is an area where PRC labor law requirements create a distinct due diligence requirement. A buyer needs to understand not just current compliance, but the historical compliance record and the potential for claims from former or current employees.

IP ownership

In many Chinese manufacturing businesses, the formal ownership of IP, including patents, trademarks, product designs, software, does not sit cleanly within the corporate entity. IP may be held personally by founders, licensed informally from related parties, or simply undocumented.

IP due diligence in a China acquisition needs to be thorough and needs to include verification that the entity actually owns what it appears to own.

Data compliance

The implications of China's data laws for deal structuring, particularly for transactions involving technology or any business that processes significant volumes of personal data, have become a standard deal consideration.

Data rooms need to be structured to comply with PIPL requirements, and post-closing IT integration plans need to account for data localization obligations.

Deal structuring: Equity, assets, or something else

China M&A transactions can be structured as equity acquisitions (purchasing shares in the target entity), asset deals (purchasing specific assets and

establishing a new vehicle to operate them), or JV buy-ins (acquiring a stake in an existing operation). Each structure carries different implications for tax, liability, regulatory approval, and operational continuity.

● Advantageous
 ● Neutral / Conditional
 ● Disadvantageous

Criteria	Equity Deal	Asset Deal	JV Buy In
Transaction overview	Acquiring shares in the target entity	Acquiring selected valuable assets via a new vehicle	Buying a stake in an existing operation
Speed to close	● Faster – single transaction, no re registration of assets	● Slower – fresh registrations, license transfers, and employee consents required	● Variable – depends on shareholder structure and governance complexity
Legacy liability exposure	● High – buyer inherits all historical liabilities, including undisclosed contingencies	● Low – historic liabilities remain with the seller entity	● Partial – exposure proportional to stake acquired and deal structure
License and permit continuity	● Automatic – existing licenses and permits transfer with the entity	● Requires reapplication – permits are not automatically transferable; gaps risk operational delay	● Maintained – entity continues to operate under existing approvals
Employee transfer	● Automatic – workforce remains employed by the entity under existing contracts	● Requires individual consent – each employee must agree to transfer; renegotiation risk	● No change – employees remain with the existing entity
Tax efficiency	● Moderate – historic tax liabilities remain in the entity; buyer bears indirect risk	● Moderate – no transfer of historic tax liabilities, but VAT, stamp duty, deed tax, and potentially land appreciation tax may apply	● Depends on structure – offshore vs. onshore acquisition materially affects withholding tax
Regulatory approval burden	● Lower – MOFCOM registration and SAMR notification if thresholds met	● Moderate – asset by asset transfer registrations; sector specific approvals may apply	● Moderate – foreign investment registration; SAMR notification if thresholds met
Exit flexibility	● Clean – sell equity stake or wind down entity	● Clean – no ongoing obligations to seller entity post transfer	● Complex – exit subject to JV agreement terms, partner consent, and pre-emption rights
Best suited for	Companies seeking operational continuity, existing licenses, and a complete workforce, and prepared to manage legacy risk through diligence and contractual protection	Buyers prioritizing a clean liability profile and willing to accept time and cost for re-registration and employee re-engagement	Investors seeking partial exposure, or where the existing operator's continued involvement provides genuine strategic value

The choice of structure also affects regulatory approval requirements. Transactions meeting the turnover thresholds under China's Anti-Monopoly Law require notification to and approval by the State Administration for Market Regulation (SAMR).

Manufacturing industries accounted for the largest share of SAMR filings in both 2024 and 2025. SAMR's simplified procedure, available for transactions meeting specific market share criteria, has become more predictable, with average Phase I clearance times around 19 days following the completeness review. Complex deals, particularly in sectors of strategic sensitivity, require more careful preparation and proactive engagement with SAMR's case handlers.

Post-acquisition integration: Where most deals fail

The uncomfortable truth about China manufacturing M&A is that most value destruction does not occur in deal structuring or due diligence. It happens after closing, when post acquisition realities begin to diverge from the transaction model and

management attention is diverted to resolving operational, cultural, and control issues that were underestimated or deferred during the deal process.

Integration planning must begin during due diligence, not after signing – but effective integration does not end with a 100 day plan. While an initial integration roadmap covering operational control, workforce communication, financial reporting alignment, systems integration, and key customer and supplier continuity should be prepared pre closing, these early initiatives require ongoing monitoring and adjustment once the business is operating under new ownership. Assumptions made at deal stage frequently prove incomplete when exposed to day to day operating conditions.

Successful acquirers therefore treat integration as a phased process: early stabilization, followed by continuous oversight, performance tracking, and corrective intervention where outcomes deviate from plan.

This requires experienced post acquisition managers who can operate across both the foreign parent's

Post M&A Integration – Legal	
Phase	Key Focus Areas
Integration 	• Governance structuring (entity reorganization, company changes, deregistration) • Legal path for asset transfers, license changes, and internal transactions • Contract transition and renegotiation with key customers and suppliers • Integration of contract management systems and standardized templates • Alignment of compliance policies (anti corruption, data privacy, etc.) • Unified license and company chop management • Alignment of IP filing, renewal, and enforcement procedures
Long term monitoring 	• Track new litigation, arbitration, and regulatory investigations • Monitor ongoing compliance with unified group policies • Conduct periodic legal and regulatory watch • Issue periodic legal risk and compliance alerts
Corrective action 	• Lead legal response to material disputes or investigations • Remediate contract breaches or non performing agreements • Implement corrective action plans for regulatory or compliance violations

governance expectations and the local Chinese operating environment, and who remain actively engaged well beyond the initial transition period.

In addition, cultural integration deserves sustained attention rather than one time alignment. Founder led Chinese manufacturing businesses often rely on informal decision making structures, personal authority, and long established relationships.

Long tenured local managers frequently hold operational knowledge that is critical to continuity but difficult to document.

Preserving this knowledge while progressively introducing group controls, reporting discipline, and accountability requires a management approach that balances cultural sensitivity with long term operational rigor, and the ability to intervene when initial integration measures fail to deliver the intended results.

The full-service advantage in China M&A

China manufacturing acquisitions require capabilities that span legal, financial, operational, and regulatory domains and the intersection of these domains is where most deal complications arise. A legal structure that is efficient from a tax perspective may create operational complications. A due diligence finding that has legal liability implications also has financial model implications.

An integration plan that makes sense operationally may need to be adjusted for employment law compliance.

Advisory teams that carry all of these capabilities under one roof and that communicate across them throughout the deal process consistently produce better outcomes than fragmented advisory structures where legal, financial, and operational work proceeds in parallel without sufficient integration.

Post M&A Integration – Human Resources	
Integration	 - Identify critical roles and design talent retention plans - Align internal HR documentation (employment contracts, handbook, leave, travel, reimbursement, etc.) - Unify performance review and appraisal systems - Workforce optimization through transfers, negotiated exits, or hiring model adjustments - Unify compensation structures, bonus schemes, and benefits plans - Integrate equity or incentive arrangements where applicable - HR system integration and migration of payroll, attendance, and employee data
Long term monitoring	 - Ongoing monitoring of compliance with PRC labor law developments - Regular HR compliance audits - Continuous HR and compliance training - Attrition and retention tracking for key personnel
Corrective action	 - Remediate non compliant employment practices - Manage layoffs or workforce reductions in compliance with PRC procedural requirements - Resolve labor disputes and government inspections - Adjust incentive and retention structures where initial plans underperform

Post M&A Integration – Finance and Tax

Integration



- Establish or update financial management and internal control systems aligned with group policy
- Unify accounting standards and determine acquisition date book values
- Manage transitional tax risks and design tax optimization strategy
- Align local finance team with group reporting standards and timelines

Long term monitoring



- Monitor cash flow performance during transition and steady state operations
- Ongoing review of tax compliance, filing accuracy, and audit exposure
- Monitor transfer pricing execution and intercompany transactions
- Review effectiveness of tax optimization structures under evolving PRC tax practice

Corrective action



- Adjust tax positions in response to audits or regulatory changes
- Remediate historical compliance gaps or legacy tax risks
- Restructure cash, dividend, or intercompany funding flows if inefficiencies emerge
- Update financial forecasts and internal controls when assumptions prove inaccurate

Post M&A Integration – IT and Information Systems

Integration



- ERP advisory, implementation, customization, and localization (accounting, e invoice, expense systems)
- Data migration and system integration
- Cloud services deployment (Microsoft 365 / Azure), backup, and disaster recovery
- Infrastructure setup (network, servers, office IT, helpdesk)
- Data security and PRC data compliance alignment

Long term monitoring



- Monitor system stability, data integrity, and access controls
- Ongoing cybersecurity and data compliance review
- Performance monitoring of ERP and reporting systems
- User adoption and process effectiveness evaluation

Corrective action



- System redesign or optimization where workflows prove inefficient
- Remediate data security or compliance gaps
- Adjust system permissions, reporting logic, or integrations
- Upgrade or replace systems that fail to support post integration operations

This is particularly true in China, where the interactions between different regulatory and operational domains are numerous and often non-obvious. Deals managed by fully integrated advisory teams close faster, produce fewer post-closing surprises, and integrate more effectively than those managed by advisors working in silos. 

M&A ADVISORY



Dezan Shira & Associates M&A advisory team provide end-to-end support across all deal stages, including target evaluation, due diligence, financial and tax modeling, regulatory compliance, and deal negotiation—ensuring transactions are feasible, risk-mitigated, and positioned for success. We leverage blended advisory taskforces, combining in-house legal, tax, HR, and financial experts for cohesive, insight-driven execution on both buy- and sell-side projects. To arrange a consultation, please contact China@dezshira.com.

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When the Model Breaks: The Case for Restructuring

When China operations no longer reflect their original logic, restructuring offers a third path – neither exit nor endurance, but deliberate adaptation to new commercial, regulatory, and operational realities.



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Not every foreign manufacturer operating in China today is doing so on the terms they would choose.

For many, the past three to five years have introduced a combination of headwinds: tariff-driven export economics, post-COVID demand and supply disruptions, increased regulatory complexity, and, in some cases, the accumulated consequences of setup decisions that were not optimally structured from the beginning, which have left their China operations materially different from what was planned.

The response to this situation is not obvious, and the instinct to frame it as a binary choice between "stay and absorb" and "exit" misses a substantial middle ground. Restructuring, understood as the disciplined process of rightsizing, repositioning, and reconfiguring a China manufacturing operation to fit the current environment, is a legitimate and frequently optimal strategic response. It is adaptation, rather than retreating.

Operational vs. structural restructuring

The first discipline in any restructuring process is clarity about what kind of restructuring is actually needed. Two categories of restructuring are often conflated but are substantively different:

- **Operational restructuring** addresses the performance of the business as an ongoing operation, such as the cost base, workforce efficiency, supplier relationships, production processes, and market positioning. It does not change the legal structure of the entity but changes how it operates. Operational restructuring is often the right first response to performance deterioration, and it can frequently be executed without triggering the more complex and costly processes associated with structural change.
- **Legal and structural restructuring** addresses the legal form, ownership, and regulatory status of the entity itself, including entity consolidation

(combining multiple China entities into one), equity restructuring (changing ownership percentages or introducing new shareholders), business scope modification, or in some cases the formal closure of entities that are no longer needed. This type of restructuring is more complex, more regulated, and carries higher execution risk. But it is sometimes the necessary precondition for genuine improvement.

The most effective restructuring processes typically begin with an honest assessment of which category of problems is actually driving the underperformance. Companies that go straight to structural solutions without first resolving the operational problems that created the need for restructuring often find that they have incurred substantial transaction costs without meaningfully improving the underlying business.

The Context: Why many operations need restructuring now

The case for thinking seriously about restructuring is more compelling in 2026 than it has been for some time, for a specific set of reasons.

Post-COVID operational hangovers

During the 2021-2022 demand surge, many foreign manufacturers in China made commitments (such as lease extensions, headcount expansion, and supply agreements) based on demand conditions that proved temporary. Those commitments are now sitting on cost structures that do not fit current revenue levels. Lease obligations signed at peak rates in Tier 1 cities, workforce sizes that made sense for volumes that have not returned, and supplier relationships maintained at committed minimum volumes regardless of actual need – these are the operational consequences of the COVID-era

demand spike, and they might be recoverable, but they require active management.

Export economics disruption from tariffs

For manufacturers whose China operations exist primarily to serve US market demand, the tariff environment has in some cases fundamentally changed the math. Operations that were established on the basis of tariff-free or low-tariff access to the US market and that now face effective tariff rates of 20, 40, or higher percentage points need to be evaluated honestly against the current economics. Some of these operations will benefit from structural changes, such as pivoting toward non-US markets, shifting toward domestic sales, and changing product mix, etc.

Multi-entity footprint complexity

Many foreign manufacturers have accumulated China corporate structures that were logical at each point of addition but are collectively more complex than they need to be – multiple WFOEs in different cities, entities with overlapping or redundant business scopes, or holding structures that made sense for a previous ownership configuration but no longer serve their original purpose. The consolidation of these multi-entity structures into leaner, more defensible configurations is one of the most consistently impactful forms of restructuring available, and it is one that often surfaces hidden value in the form of reduced compliance overhead, simplified management reporting, and more efficient capital management.

The labor dimension: Where most restructuring efforts get into trouble

While many initiatives are meant to improve efficiency, streamline decision-making, or redeploy

capabilities rather than reduce headcount, these objectives are frequently undermined when workforce adjustments are treated as mechanical or purely cost-driven. Effective restructuring requires reassessing the underlying business rationale of each function and realigning roles accordingly. This is an exercise that inevitably intersects with strict labor rules and employee expectations.

China's labor law is substantively protective, with rigid procedural requirements governing role changes, transfers, and terminations. Missteps do not only create legal exposure.

They disrupt operations, erode management credibility, and slow integration. Equally important are employee perceptions of communication, fairness, and trust. Where roles are redefined or teams consolidated, early engagement and legally compliant execution are critical to maintaining productivity and retaining institutional knowledge. In this sense, labor is not merely a risk during restructuring but the primary determinant of success or failure.

Reputational risk further magnifies the issue. China's labor markets are highly localized, and a poorly handled restructuring that draws media attention, labor bureau involvement, or social media scrutiny can impair hiring in a specific market for years. In many cases, reputational damage outweighs the cost of properly managing workforce transitions.

Several principles, while well understood, are often sidelined under time pressure:

- **Clear communication and cultural alignment are essential.** Trust can erode quickly when global decision-making styles clash with local expectations, especially if employees feel excluded or uncertain about the business rationale.

- **Key talent retention requires deliberate planning. High performers are often the first to leave during periods of uncertainty.** Retaining them requires intentional measures, such as retention bonuses, equity participation, or KPI adjustments that reflect the post-restructuring operating model.
- **Responsible handling of laid-off employees matters.** Labor authorities and local communities closely watch resettlement efforts, including job matching, training support, and coordination with labor bureaus. Insufficient support increases the risk of disputes and external scrutiny.
- **The order of execution has legal consequences.** Operational changes, employee communication, formal notices, negotiations, and facility adjustments must follow a legally sound sequence. Missteps can lead to unfair dismissal claims, regulatory intervention, and lasting reputational damage.

Withholding tax, reinvestment, and the management of idle RMB

As capital controls have eased in practice, repatriation itself is no longer the main constraint for most FIEs. The more material questions are how distributions are taxed, whether reinvestment incentives are leveraged, and how surplus or temporarily idle RMB generated by restructuring is managed.

Organizational simplification, divestments, or changes in operating scope often cause cash to accumulate faster than it can be redeployed. Economic efficiency matters in this case.

Withholding tax exposure on dividends, the timing and eligibility of reinvestment incentives, and the design of compliant internal funding pathways can

materially alter outcomes. Decisions to distribute, reinvest domestically, redeploy within the group, or temporarily retain earnings carry different tax and cash-flow implications.

A well-designed restructuring should therefore integrate cash and tax planning from the outset.

Forward-looking assessment of how excess RMB will be handled under post-restructuring scenarios helps avoid reactive decisions, preserves flexibility, and ensures capital is either reinvested efficiently or exited on terms aligned with long-term commercial and tax objectives.

Restructure or sell? The decision framework

For some foreign manufacturers, the honest answer to the question of what to do with their China operation is sale rather than restructuring. Recognizing which situation you are in and reaching that conclusion at the right moment is arguably the most important decision in the entire process.

Indicators that point toward restructuring

- An operation with genuine underlying capabilities, but impaired by identifiable and addressable issues (for example, cost structure, workforce size, entity complexity, or market positioning)
- A China strategy that remains fundamentally sound, even if the current operating model is not that smooth
- An ownership group with capital, management bandwidth, and time horizon required to execute a restructuring and wait for results to materialize

The indicators that point toward sale:

- An operation whose challenges are structural to the business model, rather than operational and fixable
- A China rationale that has been fundamentally eroded, rather than temporarily disrupted
- An ownership group whose capital and management attention would be more productively deployed elsewhere

Valuations for manufacturing operations in certain sectors are currently compressed, which creates a natural reluctance to sell at what feels like a cyclically low price.

But valuation compression also means that the alternative of restructuring and holding needs to be evaluated against the real cost of carrying an underperforming operation through whatever recovery timeline is realistic, rather than against an optimistic scenario in which current conditions are simply temporary.

This analysis needs to be done honestly, with realistic assumptions and with the cost of the restructuring process itself properly accounted for. 



COMPANY RESTRUCTURING ADVISORY

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