A12

Web content

This research project is supported by Science Foundation of Beijing Language and Culture University (Supported by the Fundamental Research Funds for the Central Universities) (Approval number 16YJ090002).

Chunhong Liu

Franchise Your Business in China

Translated by
Davide Caffi

Aracne editrice

www.aracneeditrice.it
info@aracneeditrice.it

www.gioacchinoonoratieditore.it
info@gioacchinoonoratieditore.it

via Vittorio Veneto, 20
00020 Canterano (Rome)
(06) 45551463

ISBN 978-88-255-1581-7

Ist edition: June 2018

Contents

Abstract

Intellectual Property is the proprietary right over an intangible asset, the exclusive right to exploit an invention, an idea, an innovative and original productive process.

At the same time, an Intellectual Property right can be given in use, for example through franchising or commercial affiliation agreements, contracts that protect the owner (franchisor) rights and discipline the use of the same rights by a third person legally authorized (franchisee). Specific rules and regulations are related to these contracts, and many IP issues stand behind them.

The idea for this work came up from the fact that more and more Italian (and international) companies are willing to export their services or products into a fast growing and huge market like the Chinese one. China is, without doubt, the largest consumer market in the whole world and is hailed as the most important consumer market of the 21st century. However, this operation could not be easy, and a strong knowledge of Chinese legal system is, without doubt, an indispensable pre–requisite for any kind of commercial operations.

By using Franchising Agreements, Italian companies could obtain an easy chain and expansion capital, high financial returns for relatively little risk, additional and increasing revenue streams through royalties, less risk of management frauds and better productivity performances. A large number of Italian firms hold valuable intangible assets that could be used for international expansion in many diverse businesses sectors.

Italian firms that already expanded their international presence have already succeeded in upgrading their well–known brand name and finding a lucrative business. If the small size of Italian firms prevents them from internationalizing through direct investment, then arrangements like franchising allow them to minimize the management risk and save on financial resources. In this respect, Italian firms can gain international development and experience thought international franchising. Developing international capabilities could be crucial characteristic Italian companies would need to possess to emerge in the future globalized market.

In China the consumer class, already big, is continuously expanding and western brands are highly regarded and capable of bringing new and modern business systems. Big and medium cities are opened targets and Italian brands are particularly requested and appreciated.

However, many foreign companies are still afraid in franchising in China due to a sometimes–inadequate intellectual property framework and enforcement. I personally think that going to China does put IP at risk, but not going to China also puts IP at risk and beyond that, there will be no profits in China. The key is simply being able to protect IP in China: one of the objectives of this work will be to explain how it would be possible to maintain a good IP system protection in the country.

In the end, the work is supposed to help Italian and international companies interested in the process of expanding their business overseas.

Chapter I

Franchising and IP Franchise Agreements

1.1. Definition

In the current market situation, competition between sellers is — without any doubt — increasingly high. In order to reach consumers, various strategies of distribution need to be thought and putted in practice. Franchising is one of them: an innovative distribution model.

Franchising was born in the USA[1], and since its creation started to spread all over the world. It can be defined as a contract in which one party (the so–called franchisor) confers to another party (the so–called franchisee) the right to use its Intellectual Property along with his business models and expertise. The aim of this conferral is to make the franchisee being able to produce and sell a product (or eventually, a service) pursuant to specific characteristics and quality standards. In return, the franchisee pays to the franchisor some royalties: specifically, a franchise fee together with revenue depending on the sales the franchise business produces.

Naturally, the advantage for the franchisee is that it can obtain a strong name recognition using the well–known brand of a franchisor, since the products sold in the business would be already tested and ready for the market. In this process, the franchisee will not be alone: it will gain techniques for running and developing the business, and also upgrading the goods (the so–called franchising package), as well as a constant support from the franchisor.

While the franchisor needs to make sure to have his IP and knowledge well protected, the franchisee has the duty, under the contract, to sell the products or services pertaining to the franchisor's trademark. In a franchise business, standardization is the key: the outlet has to show the franchisor's building design and décor, as well as his mark and logos in the appropriate place.

The International Franchise Association defines franchising as a continuous relationship in which the franchisee is provided with a benefit to do business, along with assistance, training and advertising, asking in exchange a monetary recognition[2].

1. See D.J. Kaufmann, *Understanding Franchising, Business and legal issues*, 2001.
2. International Franchise Association, *What is a franchise?*, 2013.

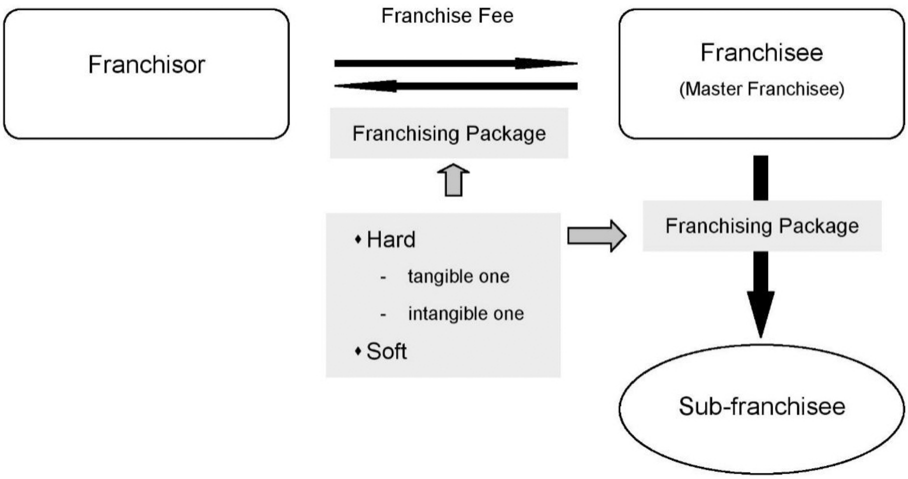

Figure 1.1. Source: "IP Franchising Agreements in the Republic of Korea" — Italian IP Rights DESK.

Franchising can therefore be defined as an agreement in which the franchisee operates a business making utilization of the franchisor's procedures, and the franchisor assists the franchisee's business by promotion and in general, advisory services[3].

In a franchised business, tangible assets (products) and intangible assets (Intellectual Property, such as trademarks, copyright and patents) are employed. In particular, as shown in the picture above, the wider differentiation is between "hard" and "soft" elements. Hard elements include tangible assets such as goods, facilities, equipment, interiors and intangible assets like marks and designs. Soft elements include guides, manuals, marketing techniques and educational documents, all made with the objective of improving the sales through the training of the franchisee and his personnel.

A franchised business normally has a fixed and pre–established duration and operates on a determined territory. Finally, a sub franchisor, member of a master franchise relationship, is a party holding the same qualities and functions of a franchisor. This means that a sub–franchisor has the power to grant a franchise business to sub–franchisees, providing them the necessary franchising package[4].

3. Legaldictionary.com, definition of franchise.
4. For more information, see the *Master Franchising* chapter *infra*.

1.2. Advantages and Disadvantages

Franchising brings certain advantages and disadvantages for both the parties of the relationship (franchisor and franchisee). In this book, we will focus mainly on the franchisor's point of view. For the franchisor, franchising is another source of income and profit. Of course, the income we are talking about comes from franchise fees and royalties. The monetary capital so obtained provides the franchisor's company a continuous cash flow as well as higher investment returns.

Another benefit of employing the model is reduced costs. If compared with the costs of owning an outlet, in a franchising structure distribution, operational and advertising costs are indeed reduced. This means that the franchisor could destiny the funds so allocated for R&D (research and development) or other purposes. Additionally, through franchising a franchisor can expand its brand making its business grown internationally.

If compared with owning locations, in franchising a smaller central organization is needed. With a smaller central organization, the labor force is less expensive while the recruitment is more effective. Moreover, through franchising, uniformity of procedures — along with the original quality of the products or services concerned — is maintained.

In a non–franchised business, an employee may not always operate in the correct way in managing the activity. In order to reduce this risk, a management system need to be constituted. In most of the cases, this management system is expensive. However, in franchising, motivation is what pushes the franchisee to do better, since it has utilized time and money in putting in practice the franchisor's idea. The franchisee will work well to obtain good organizational and monetary results: his performance is putted at the possible maximum level. In franchising, the synergy (or connection) between parties is strong and there is almost no need to put much control in the relationship.

Several are the resources that could eliminate (or reduce) the franchisor's risk. For instance, among others, low cost capital, managerial expertise and local market knowledge were regarded as factors having a positive impact[5]. The presence of all the key factors can bring improved sales and satisfied consumers, benefiting the whole franchise system.

Owning a store brings certain risks. However, a franchisor does not own a franchised business: through franchising, the franchisor can spread the risks by multiplying business locations gaining advantage of the investment (and consequently, of the risk) of other people (franchisees). Multiplying the presence of a brand in other territories brings a faster network expansion;

5. M. Abell, *The Franchising Advantage*, 2010.

Table 1.1. Source: IP Panorama, "IP Issues in Franchising" 2015.

To the Franchisor	
Advantages	Disadvantages
– Business Expansion – Infusion of new capital through franchise fee – Additional revenue stream through royalties – Franchisees perform better than employees – Reduced operating costs – Spreading of risks – Smaller central organization	– Cost of launching a franchise – A bad choise of franchise could be a disastrous for the whole franchise – Cost of maintaining the franchise network – Confidential business information has to be shared and thus become vulnerable

if the expansion is accompanied by the appropriate focus on local market needs, the act could result in a reduced effect from competitors[6].

Every franchisor should have in mind that at the beginning of the franchise program, a considerable capital allocation is required. The franchisor need to have the appropriate resources to recruit, train and support franchisees. Additionally, other costs are needed to maintain the franchising network.

Finding and training good franchisees is vital. It has been written that the ideal franchisee is equipped with entrepreneurial skills plus the inclination to follow schemes and work in synergy[7]. In any case, complete such research could be not easy, and a bad franchisee choice could have disastrous consequences for the whole franchise system, for several factors[8].

In the process of selecting the suitable franchisee, potential candidates could spoil the franchisor's trade name and brand: in China, this is one of the risks a franchisor could face. Additionally, even later, when a franchisee is found, the risk continues: as we know, a franchisor is obliged to disclose confidential information (know–how and trade secrets) to franchisees. This act, if not appropriately secured, may be able to damage the business of the entire chain.

Regarding a franchise international expansion, among different factors, the size of the organization (number of outlets and number of employees) affects the internationalization of franchise systems. Large resources to allocate are present in large franchise systems, along with a higher capacity to absorb failure (since the possible impact of costs is lower).

The larger the chain system size, the less the risk connected with international expansion. Additionally, the more the experience in operating

6. I. Bradauskaitė, V. Filipavičius, *Franchising and its place in today's business world*, 2012.
7. D.E. Holmes, *The advantages and disadvantages of franchising*, 2003.
8. For detailed information, see the *Selection of franchisees*, chapter.

franchise businesses, the less the risk the company will perceive as part of its internationalization. In the end, the capacity to tolerate environmental factors also plays an important role in expanding a franchise business internationally.

1.3. Development of Franchising in China

As we said before, franchising was created in the western world. Therefore, the model did not exist in China for a long time[9]. Franchising was introduced in China (as in other countries) by the international enlargement of US franchise companies, especially in the fast food industry. The first example was the US franchise company Kentucky Fried Chicken (KFC)[10], which entered the market as a joint venture in 1986.

At the beginning, at is earliest stage, the franchise industry in China did not develop in the correct way. The problems were principally caused by the not yet developed legal system. In this situation, several problems took place, for instance violations of intellectual property and delay of payments.

In 1997 the government released the first Chinese franchise law. The law included information and solutions on several IP issues concerning trademarks or copyrights and putted the IP protection at a better level. However, the rules contained in the law applied only to domestic franchising: there was no mention of foreign direct investments and consequently, only few foreign companies held franchise businesses in China. At the beginning, the Chinese government put less focus on franchising; nonetheless, later the government found that franchising could help to solve China's un–employment rate as well as its private capital market, since the model allows the assembly of big capitals.

Moreover, pursuant to the obligations agreed for the entrance into the WTO, China pursued the aim to remove any restriction on cross border supply and foreign investments in franchising. In 2005 China created a new franchise law that allowed international companies to establish a company in China to conduct franchise operations. In reality, we must say that the WTO commitment did not comprehend the publication of any new franchise law. The rulemaking process was a complete initiative (and idea) of the Chinese legislator. Therefore, it must be noted that the WTO–accession phenomenon fasted the rulemaking process[11].

9. See W. English & C. Xau, *Franchising in China: A 1994 Look at KFC and McDonald's*, in *International Franchising in emerging markets: China, India and other Asian countries*, 2002.

10. Z. Wang, M. Zhu, A. Terry, *The development of franchising in China*, 2008.

11. E.B. Wulff, T. Xu, *Franchise Regulation in China*, 2005.

However, the new 2005 Franchise Measures, like the previous 1997 Measures, were general in the form and also in the structure. The law was not complete and deficient in important areas, since it did not address how international franchisors could operate in China, nor how their franchise systems could be adapted and implemented according to Chinese Law.

Both domestic and foreign franchisors were left confused by the 2005 Franchise Measures. No indications were provided as to how operate in the domestic market and also how it was possible to develop international franchise activities[12]. To put an end to the uncertainty of the situation, just after the publication of the 2005 Measures, the Ministry of Commerce stated that the State Council would have issued new laws to detail the clauses of the previous measures and solve the system's issues.

In 2007, the State Council of the PRC adopted the Franchise Regulations. The law, effective still today, is applicable to all the franchise operations pertaining to the territory of the PRC[13]. The law applies to both international and Chinese franchisors and franchisees willing to operate a franchise business in China without regard to the adopted company structure. The 2007 Franchise Regulations could be defined as a comprehensive law inspired by western standards, an appropriate regulatory basis for franchising in accordance with international practice[14]. The law provides a unitary legal regime by eliminating the discriminatory requisites for foreigners[15], in this way subordinating both foreign and Chinese franchisors to the same law[16]. The Regulations implemented the previous provisions, advancing the development of Chinese franchising and finally presenting detailed operational prescriptions for international franchisors[17].

12. R. Wageman, *China's New Franchise Rules*, 2007.

13. Art. 2 of the Regulations on the Administration of Commercial Franchises, 2007.

14. Z.J. Wang & A. Terry, *Franchising in China: Legal Reform and Commercial Reality*, 2012.

15. Z.J. Wang, M. Zhu, A. Terry, *The Development of Franchising in China*, Journal of Marketing Channels, 2008.

16. J.J. Tang, *Viewpoit: Beijing Makes Red Tape Less of a Burden for Foreign Franchisors*, Financial Times, Jun. 6, 2007.

17. Leila, *Franchising in China — paradise or hell?*, 2013.

Chapter II

Commercializing IP in China

2.1. Company Models

In China, a franchisor must be in the form of an enterprise. Organizations or individuals that are not companies cannot conduct any franchise business[1]. The requirement can be full–filled by establishing a Joint Venture, in the form of an Equity Joint Venture (EJV) or Cooperative Joint Venture (CJV) with the collaboration of a Chinese partner, or in alternative operating alone with a Wholly Foreign Owned Entity (WFOE). All the three company models present certain advantages and disadvantages, and the choice regarding the selection of one model or another relies on the protection of the franchise package, on the ability to navigate the local market or in general, on the availability of resources[2].

Under Chinese company law, the classification of a company depends on the kind of liability it guarantees, so limited and not–limited liability companies (LLCs) are present. LLCs include one–person limited liability companies and state–owned companies. In a one–person LLC, the owner has to separate his assets from the company assets; failure to perform this division would lead to joint and personal liability for the company's overall responsibility.

In order to create a partnership enterprise — which, according to what we said, could be either a normal or a limited one — two or more individuals need to enter into a partnership agreement. As part of the contract, the two partners will have to make an (equal or different) contribution and then complete the registration process. The difference between a partner in a normal enterprise or in a LLC is substantial: while in the first case the partner will assume unlimited liability for the enterprises' debts, a partner in a LLC will be liable for the debts of the company only concerning the contribution capital[3].

In a joint–stock cooperative enterprise, a unique model in China, the employees, its mainly contributors, are liable until the amount of their

1. Art. 3 of the Regulations on the Administration of Commercial Franchises.

2. K.S. Kaplan, *Deciding to Go International: Organizational and Business Considerations*, in Fundamentals of International Franchising, 2006, like human and financial capital and the well–known status of the franchise.

3. Y. Ren, *Franchise in 33 jurisdictions worldwide*, China chapter, 2013.

contributions, while a sole proprietorship company, contributed by one individual, is characterized by having the investor bearing responsibility for all the company's debts.

Every international franchisor shall refer to the rules implemented by the Ministry of Commerce regarding Foreign Direct Investment. The *Foreign Investment Sectors Law*[4] is the crucial document every foreign franchisor needs to pay attention to before commencing any kind of business in China.

Different business laws will apply to the formation and operations of a company depending on his nature, structure and specific company characteristics. If the foreign franchisor is a exclusive proprietorship firm, the *Sole Proprietorship Company Law*[5] will regulate the formation of the company; if the franchisor is a partnership company, the formation of the enterprise will follow the rules of the *Partnership Enterprises Law*[6] and if the franchisor is a joint–stock cooperative enterprise, as no complete and uniform law is present in this regard, the local *Joint–Stock Cooperative Enterprises Guidance*[7], along with the relevant local regulations, will apply; depending on the franchisor's company structure, the *Sino–Foreign Equity Joint Venture Law*[8] will apply for EJVs, the *Sino–Foreign Cooperative Joint Venture Law*[9] for CJVs and the *Wholly Foreign Owned Enterprises Law*[10] for WFOEs.

Once a company is legally created, the franchisor must obtain a business license permitting franchise activities[11].

In order to successfully begin operations, determined companies[12] need to be established with the approval of the Industry and Commerce Agency (SAIC); a foreign invested enterprise (FIE) will need to obtain the approval of the Ministry of Commerce. Moreover, depending on the business sectors in which the FIE will operate, special approvals by government agencies could be required.

While Chinese law prescribes no minimum capital threshold for a partnership company or a sole proprietary company, it instead specifies the minimum registered capital a one–person LLC needs for operating in China[13].

4. Published by the Ministry of Commerce in 2004. See infra, the *Restrictions to foreign investment*, chapter.
5. Published in 2000 by the Standing Committee of the National People's Congress.
6. Published by the Standing Committee of the National People's Congress in 2007.
7. Promulgated by the National Development and Reform Commission in 1997.
8. Promulgated by the National People's Congress with the 2001 latest modifications.
9. Published by the National People's Congress with the 2000 latest modifications.
10. Promulgated by the National People's Congress with the 2000 latest modifications.
11. Art. 8 of the Regulations on the Administration of Commercial Franchise.
12. Enterprises invested by Chinese, sole proprietary companies, partnership enterprises.
13. 30.000 RMB or 100.000 RMB, depending on the format.

Any company should comply with other various laws regarding registration[14], taxation, labor, foreign exchange control and customs. Pursuant to the Enterprise Registration Regulations[15], registered companies are supervised by the SAIC every year. An annual report, a document presenting the annual assets and liabilities and the balance sheet, will have to be showed, among other documents[16]. The materials shall also include the situation of the branches of the firm in China. If, during the examination, a violation[17] occurs, the business license of the entity may be removed.

In China, several are the available forms of franchising: direct, regional and composite. In the direct franchising model, a local individual (franchisee) represents the enterprise of the franchisor and establishes a franchise business pursuant with the provisions of a franchise contract. This model is known for not bringing any foreign capital (and new technologies) into the Chinese economy.

In a regional franchise model, a franchisee is invested with the power to operate determined numbers of outlets in a pre–assigned region or territory. The amount of businesses is chosen by the franchisor; however, government authorities may change the decision depending on several factors. Since the model grants the franchisor great control over the franchise package, including intellectual property as well as product quality standards, this form is viewed as one of the best franchise models for the international franchisor[18].

In the end, in the composite franchising a designated franchisee is granted, by a franchisor, the right to establish not pre–determined franchise business in an entire region. The difference with the regional franchise model is that here the franchisee acts as a secondary franchisor conceding franchise rights to sub–franchisees (nonetheless, the powers of the franchisee are constrained in the specific territory: a franchisee is not able to grant franchise rights beyond the territory determined by the original franchisor). The sub–franchisor usually holds a good knowledge of the local market. The model is also called Master Franchising[19].

Before starting a franchise business, a franchisor has to ideate his franchise package. As we will see later, the franchise package should contain

14. Regulations of the People's Republic of China on the Administration of Registration of Company promulgated by the State Council on 1994, effective with the 2005 latest modifications.

15. Art. 59 of the Regulations of the People's Republic of China on the Administration of Company Registration.

16. Art. 60 of the Regulations of the People's Republic of China on the Administration of Company Registration.

17. For example, forgery of a capital injection account or of other application documents, failure to operate without a good cause or intentional cessation of the activities.

18. R.P. Zarkos, *Journey to the West: A comparative analysis of China's 2003 proposed, WTO complaint, franchise rules*, 12 Willamette Journal International Law and Dispute Resolution, p. 315, 2004.

19. See the chapter *Master Franchising* for detailed information.

management resources, models, marketing techniques, training manuals and service standards. If the industry requires specific supplies — like in food & beverage — the franchisor needs to select the suppliers that are able to ensure (and not deteriorate) the quality of the products the chain serves. Normally, the supply of materials is an issue determined prior in the contract. A franchisor usually provides a list of suppliers which includes the sourcing of all the commodities necessary to guarantee the quality of the franchise business. However, the list cannot be seen as immutable: if other local materials (present and available) are able to meet the quality standards required by the chain, a franchisee can make use of them: in other words, a franchisor cannot oblige the franchisee to buy the supply material designated by him[20].

2.2. Selling Agency

In the Selling Agency contract, according to the definition, a contractor give an agent the right to negotiate the selling of his good of services. In return, the agent gains a fee calculated on the amount of the selling achieved.

An agency relationship is usually based on the trust between the international company and its Chinese partner. The trust is required since, under Chinese law, the acts concluded by the agent will make the international enterprise jointly liable to third companies[21].

The concept is different from franchising since an agent does not own any franchise business and does not make use of the franchisor's intellectual property. Moreover, the powers of a commercial agent are less than the ones obtained by a franchisee. The duty of commercial agents is to do product promotion, find buyers (creating a network) and essentially make selling but they are not real representatives of his contractor, they cannot act on his behalf nor sign contracts in his powers[22]. Usually, a Chinese agent pays royalties to a license owner because it does not have an import–export permit[23]. Additionally, commercial agents are very different from distributors. The latter normally purchase a product and resell it, but commercial agents do not buy and sell again the goods of a foreign supplier since they do not want to lie in the uncertainty of an unsuccessful selling — or maybe, they do not possess sufficient resources.

20. For more information concerning the problems of quality preservation in a franchise, see the chapter *Quality Supervision*, *infra*.

21. *Distribution Contracts in China,* International Contracts, 2015.

22. J. Huang, K. Qian, W. Zhao, F. Schoneveld, *Distribution in China — Legal Issues*, 2015.

23. *Ibidem*.

A commercial agent is not considered the best method by which international companies can distribute their products in China. The trademark, comprehending its reputation, may be not protected appropriately through a selling agency. The goods may arrive to the market in the un–correct time and upon the un–correct pre–established standards; marketing could be done in a way that damages the image of the products, and not vice versa. That could happens because agents may not have the scope (or alternatively, the experience) to do the best interests of their contractors and may be only concerned by making more selling, at any costs. Nevertheless, if the agent is chose carefully, is well–trained and keeps continuous communication with his contractor, it may represent well the international brand[24]. All depends on if (and in which amount) the foreign company is willing to invest in the above–mentioned factors.

2.3. Joint Ventures

The Joint Venture is defined as a contractual agreement between two or more partners to create and prosecute a common business strategy on a specific project. The concept is different from franchising since a JV agreement is limited in time and to a particular purpose and all the partners share the profits and losses of their business through the shareholdings putted in common.

The Joint Venture is particularly relevant in the actual globalized market in which creating connections and collaboration all over the world — in different contexts and with different partners — is essential to keep an internationally competitive enterprise.

During the '80s in China, the model was widespread as the first business choice because foreign enterprises wanted to find a Chinese partner capable of dealing with the market[25].

In China, as we said before[26], there are two types of joint ventures:

1. the equity JV (EJV);
2. the cooperative JV (CJV).

The cooperative joint venture model is regarded as the most flexible JV model since the gained profits does not have to be strictly shared depending on the respective contributions; the investors, based on what is agreed in

24. *Ibidem*.

25. See A.S. Konigsberg, *Practical Problems and Suggested Solutions Associated with International Franchising*, p. 41, 1988.

26. See the *Company models*, chapter *supra*.

their joint venture contracts, may decide it freely[27]. On the contrary, the EJV model presents more restrictions: for example, the foreign partner's capital cannot be less than 25% of the overall capital[28]. Contributions may be made in cash as in other forms, such as buildings, land rights, intangible assets or equipment. However, the technology and equipment contributed must be advanced technology necessary for the needs of the PRC[29]. For CJVs, this requirement is not prescribed, as the law requires only general contributions, even technology not patented[30]. Differently from CJVs, EJVs profits and losses will be equally distributed among the parties according to their contributions — reduced by the payment of taxes and some other deductions[31]. The cessation of the partnership depends on the partner's will and needs the unanimity of the parties to be performed[32].

The EJV contract, and the respective founding articles of association, must be firstly submitted to determined examination authorities which will decide to approve or either disapprove the venture within three months[33]. In addition, even production and operative plans need to be submitted for recordation[34]. The same applies for CJVs[35]. Necessary provisions of a CJV contract include the specifics, aims, methods and also the termination of the cooperation, the distribution of profits and losses, the ownership of property and business management approaches[36]. A CJV may also enjoy favorable treatment in tax payments, in the form of a reduction or an exemption[37].

Decision making in joint ventures usually represents equity shares. However, a JV contract is also characterized by detailing specific voting rules, ranging from simple majority to unanimity, in accordance to the importance and specialty of the different issues the project will encounter[38]. One of the distinctive features of a JV is the veto power the parties have over the use of the company assets. If the parties do not agree on the use of the

27. Art. 21 and art. 44 of the Law on Sino–Foreign Equity Joint Ventures.

28. Art. 4 of the Law on Sino–Foreign Equity Joint Ventures.

29. Art. 5 of the Law on Sino–Foreign Equity Joint Ventures.

30. Art. 8 of the Law on Sino–Foreign Cooperative Joint Ventures.

31. Art. 7 of the Law on Sino–Foreign Equity Joint Ventures: «Deduction from the gross profit of a reserve fund, a bonus and welfare fund for workers and staff members and a venture expansion fund».

32. Art. 4 of the Law on Sino–Foreign Equity Joint Ventures.

33. Art. 3 of the Sino–Foreign Equity Joint Venture Law. When approved, an EJV has to register with the Industry and Commerce Administration, and obtain a business license.

34. Art. 9 of the Law on Sino–Foreign Equity Joint Ventures.

35. Art. 5 of the Law on Sino–Foreign Cooperative Joint Ventures.

36. Art. 2 of the Sino–Foreign Cooperative Joint Ventures.

37. Art. 20 of the Law on Sino–Foreign Cooperative Equity Joint Ventures.

38. C.E. Bai, Z. Tao, & C. Wu (2004), *Revenue sharing and control rights in team production: Theories and evidence from joint ventures*, RAND Journal of Economics, pp. 35, 277–305.