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The Rationale for WFOE's to Appoint a Chinese Liaison

A new regulation on the registration and administration of foreign-invested enterprises in China, effective from July 2026, has attracted attention in the cross-border investment community: a wholly foreign-owned enterprise (WFOE) is required to designate a Chinese citizen as its liaison officer during its establishment and ongoing operations.

This requirement has raised concerns among some overseas investors as to whether it signals a tightening of China's market access and regulatory policies toward foreign-invested enterprises, whether it will increase compliance costs for businesses operating in China, and whether it will affect day-to-day operational efficiency.

From Kaizen's perspective, viewed against the long-term trajectory of China's ongoing efforts to improve its foreign investment service system, this regulation is not intended to add an additional layer of regulatory oversight, but rather to establish a routine communication channel between enterprises and government authorities.

This article briefly reviews the development trajectory of the liaison officer system, its personnel requirements, and its practical functions, for the reference of Kaizen's clients.

1. The liaison officer system is an implementation measure of the foreign investment service system

China's Foreign Investment Law explicitly stipulates that the state shall establish and improve a foreign investment service system to provide foreign investors and foreign-invested enterprises with advisory and support services in areas such as laws and regulations, policies and measures, and investment project information. This demonstrates that one of the fundamental directions set by the Foreign Investment Law is to continuously enhance the level of foreign investment promotion and services, and to require relevant government departments to streamline procedures and improve administrative efficiency in accordance with the principles of convenience, efficiency, and transparency.

How can the government establish a convenient and efficient service system for overseas investors coming to China? When an enterprise controlled by overseas investors needs to communicate with various Chinese government departments, who serves as the consistent and stable point of contact on the enterprise side? The liaison officer system addresses precisely these practical issues by establishing a stable channel

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between government and business. The government needs a window through which it can contact enterprises in a timely manner, and enterprises equally need a channel through which they can effectively access the administrative service system. Through a fixed contact person mechanism, when enterprises encounter policy questions or administrative processing obstacles, they can more quickly identify the competent authority, clarify the application procedures, and resolve practical difficulties.

From this perspective, the liaison officer system is not inconsistent with this policy direction; rather, it is the operational implementation of the foreign investment service system at the enterprise level. This system does not add an additional approval hurdle between enterprises and government, but rather establishes a standardized communication pathway between the two parties.

2. The implementation trajectory of the liaison officer system

The liaison officer system is not being introduced for the first time under these new regulations. As early as 2005, Fuzhou took the lead in exploring a liaison officer system for foreign-invested enterprises, under which relevant responsible persons from foreign-invested enterprises served as liaison officers and maintained day-to-day contact with government departments via telephone, fax, and email, so as to promptly reflect issues encountered in business operations.

In 2008, the industrial and commercial authorities in Pudong, Shanghai, also launched a pilot program for foreign enterprise liaison officers, requiring that liaison officer information be updated in the enterprise's annual inspection reports, with a view to strengthening two-way communication between government departments and foreign-invested enterprises.

Thereafter, similar mechanisms were gradually rolled out in other regions across China. Some regions require enterprises to designate full-time liaison officers, while others have established a "service steward + liaison officer" model. Although the names of these systems vary by region, their purposes and functions are largely consistent: the liaison officer serves as the day-to-day communication window between the enterprise and the government, responsible for collecting enterprise inquiries, tracking the progress of matters under processing, and conveying relevant policy information.

In terms of the essence and practice of these systems, the core function of the liaison officer mechanism is not to replace enterprise management, nor to add an additional approval procedure, but rather to establish a stable, clear, and sustainable interface for government-business communication.

3. The liaison officer shall be a Chinese citizen

A key reason this requirement has attracted significant attention is that it imposes a clear eligibility criterion for the liaison officer—namely, that the position must be held by a Chinese citizen.

The rationale behind requiring the liaison officer of a foreign-invested enterprise to be a Chinese citizen can be understood from the following three perspectives:

(a) The legal representative and the liaison officer perform different functions

First, it is necessary to distinguish between the legal representative and the liaison officer in terms of their legal and practical functions.

The legal representative represents the enterprise in conducting various civil activities in accordance with the law, and his or her authority is directly tied to the enterprise's legal person status. The liaison officer, by contrast, is essentially responsible for day-to-day administrative communication and coordination functions. For example, the liaison officer's duties typically include enterprise information reporting, receiving policy notifications, handling administrative matters, and conveying enterprise feedback—a role that is more akin to a routine operational interface between the enterprise and government departments. Having a person familiar with the Chinese language environment, China's administrative system, and local operational procedures assume this function helps improve the timeliness and accuracy of information transmission.

(b) Practical demand for localized services

A wholly foreign-owned enterprise conducting business operations in China inevitably needs to interface and communicate with various government departments, including market regulation, commerce, taxation, human resources, foreign exchange administration, and other relevant authorities. For overseas investors, what often affects administrative efficiency is not the legal rules themselves, but rather a lack of understanding of specific administrative procedures, documentation requirements, competent authorities, and local practices.

As the designated point of contact for external communications, the liaison officer is responsible for receiving policy information, relaying it internally, providing feedback on issues, and tracking matters. This role requires strong local communication and coordination skills—essentially reflecting a need for localized services. Especially for overseas shareholders, overseas directors, or managers who are not based in China for extended periods, having a stable Chinese liaison officer to maintain day-to-day contact with government departments can actually reduce communication costs arising from language barriers, time differences, and differences in administrative procedures.

(c) Establishing a routine and stable communication mechanism

Another important purpose of the liaison officer system is to gradually institutionalize what was previously a more fragmented approach to government-enterprise communication. As observed in practices across certain regions, government departments typically establish enterprise service records through regular contact, on-site visits, complaint registration, and subsequent feedback. This service model requires the enterprise to designate a correspondingly stable contact person on its end. If the enterprise is represented each time by different overseas shareholders, directors, or temporary staff, it is not only prone to information gaps but also increases communication costs for both sides. Establishing a fixed liaison officer is, in essence, a way for the enterprise to create a sustained and effective administrative communication node, enabling policy dissemination, matter handling, and issue feedback to form a relatively complete closed loop.

4. Key points of concern for overseas investors coming to China

For overseas investors who are currently operating or planning to establish a wholly-owned enterprise in China, rather than focusing on the formal requirement of "having to designate a liaison officer," it would be more worthwhile to pay greater attention to the actual functions that the liaison officer can serve in the enterprise's day-to-day operations. If this mechanism is properly utilized, a liaison officer who is familiar with the enterprise's operations can, in fact, help overseas investors reduce friction in policy interpretation, administrative processing, and inter-departmental communication.

Kaizen suggests that when selecting a candidate, priority may be given to Chinese management or administrative personnel who are familiar with the enterprise's business and internal management processes, are able to work stably within China, possess good Chinese communication skills, and are well-versed in the procedures for handling routine administrative matters with market regulation, commerce, taxation, and other authorities.

For smaller foreign-invested enterprises that have not yet established a full-fledged local management team, it is equally important to ensure that the designated liaison officer is capable of continuously and promptly receiving government communications and accurately relaying relevant matters to overseas shareholders and management. Kaizen wishes to emphasize that the liaison officer is not a senior executive such as the legal representative, a director, or the actual responsible person of the enterprise; the core role is communication, coordination, and information transmission, rather than replacing the enterprise's governance bodies in making operational decisions.

In summary, for wholly foreign-owned enterprises, the liaison officer system need not be viewed as a new threshold; rather, it is better understood as a bridge for enterprises to integrate into China's local business environment. A bridge connects two directions. It enables the government to more promptly understand the needs of enterprises, and it also allows overseas investors to more smoothly comprehend and utilize China's administrative service system—ensuring that after foreign-invested enterprises enter China, they not only "come in" but also "proceed steadily and go far."

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