

COMPLIANCE & RISK

Case-Related Compliance for FIEs: Turn China's Legal Risks into Growth Opportunities

As foreign-invested enterprises (FIEs), including wholly foreignowned enterprises (WFOEs) and Sino -foreign joint ventures (JVs), remain integral to China's economic landscape, they face potential legal risks tied to operational violations that could trigger criminal investigations.

Pablo Deng · 20 July 2026 · 6 min read



WHAT IS CASE-RELATED COMPLIANCE FOR FIES IN CHINA?

?

As foreign-invested enterprises (FIEs), including wholly foreignowned enterprises (WFOEs) and Sino -foreign joint ventures (JVs), remain integral to China's economic landscape, they face potential legal risks tied to operational violations that could trigger criminal investigations. For FIEs, these risks aren't just "paper threats": A single misstep can lead to

police detention of key personnel, blacklisting from government projects, or financial losses that cripple your bottom line.

To balance strict law enforcement with protecting enterprise vitality, China has established an innovative judicial mechanism: case-related compliance for enterprises.

Led by the country's people's procuratorates (primary prosecutorial authorities), this regime targets FIEs (or their key personnel) suspected of economic crimes, duty-related offenses, or other violations linked to production and operation.

Its core logic follows a “remedial and lenient” approach: instead of imposing immediate crippling penalties (such as shutdowns), procuratorates supervise FIEs to identify the root causes of illegal conduct, build or upgrade targeted compliance systems, and eliminate recurring risks.

If an FIE completes rectification to the procuratorates' satisfaction, lenient treatment—such as nonprosecution for the enterprise or reduced sentences for responsible individuals— may be granted.

For FIEs, this mechanism is not a “nice -to-have” for “good corporate citizenship,” it's a survival tool to avoid the worst-case scenarios that directly harm your business.

WHY DOES CASE-RELATED COMPLIANCE MATTER FOR FIES?

?

Case-related compliance is a strategic necessity for FIEs operating in China, as it directly protects their core interests: it preserves business continuity by preventing shutdowns that would break global supply chains and displace local employees; shields global reputation from the harm of a criminal record, which could alienate international investors, clients, or ESG regulators; and strengthens trust with Chinese authorities, supporting stable market access for long-term growth.

Most critically, it mitigates the risks that hit your bottom line hardest: police detention of executives (which grinds operations) to a halt), blacklisting from lucrative contracts, and fines that drain profits.

Unlike vague “best practices,” this regime is tied to concrete legal consequences, meaning FIEs can no longer rely on “minimal effort” to stay out of trouble.

PRACTICAL IMPLEMENTATION: HOW CAN FIES INITIATE & CONDUCT COMPLIANCE?

?

Navigating China's case -related compliance process requires clarity on eligibility, initiation pathways, and core steps, all tailored to FIEs' unique operational contexts. To qualify, FIEs must satisfy four key conditions.

First, there must be subject fit: the entity must be a legally registered FIE, such as a WFOE or joint venture, or the case must involve its key personnel—such as general managers—whose violations are tied to the company’s production or operations.

Second, there must be voluntary admission, meaning the FIE and the relevant individuals admit guilt, accept punishment, and commit to rectification.

Third, the enterprise must demonstrate operational viability by maintaining normal business operations and possessing sufficient financial and human resources to establish effective compliance systems.

Finally, there must be no prohibited circumstances, including involvement in national security or terrorism -related crimes, or cases where the FIE is merely a shell company established for illegal activities.

Initiation Pathways FIEs typically start compliance through three channels, the first being proactive application. The FIE (or its legal representatives/lawyers) submits a written request to the procuratorate, outlining eligibility and rectification willingness.

There is also procuratorate -initiated, where procuratorates take the lead if the FIE has rectification potential and supports the local economy (e.g., high tax contributions, large employment scale).

Finally, through a authority recommendation, public security organs, industry regulators, or discipline inspection commissions may recommend compliance to procuratorates.

The process usually lasts 3–12 months and follows four stages , starting with development. With legal counsel, the FIE investigates the roots of the violation and drafts a compliance plan (e.g., returning illegal gains, building targeted systems like antibribery protocols).

Following development comes third-party supervision. Procuratorates entrust a group of experts (law, FIE management, industry) to oversee implementation via on-site inspections and document reviews.

Acceptance and evaluation follow. The FIE submits a rectification report; the thirdparty group issues an evaluation on whether compliance requirements are met.

If passed, a lenient decision ensues, and procuratorates may grant nonprosecution or reduced sentences; if not, normal criminal proceedings resume.

SHIFT BEHAVIOR TO AVOID DETENTION, BLACKLISTING & LOSSES

To move beyond “minimal effort” and protect your business, adopt these 5 nonnegotiable behaviors—each directly tied to mitigating the risks that matter most: Stop Treating Compliance as a “Back -Office Task.” Assign a senior executive (e.g., China CEO or COO) as the “compliance owner” with direct reporting to headquarters.

This ensures compliance isn’t sidelined for short-term profits. It works because FIEs that treat compliance as a leadership priority is 40% less likely to face police investigations. They catch gaps before they escalate.

Don't Wait for an Investigation , Audit High-Risk Areas Quarterly. Replace “annual check-ins” with quarterly audits of detention-prone areas: environmental waste disposal, tax filings, land use approvals, and third-party payments (e.g., “consulting fees” or gifts). The Sino-German JV in our case could have avoided charges if it had audited waste protocols earlier. Don't let “routine” violations become criminal risks.

Hire Bilingual Criminal Lawyers Before a Crisis Hits. Ditch the “wait-and-see” approach and retain a Chinese lawyer with criminal compliance expertise (not just commercial lawyers) to advise on day-to-day operations. If police contact your team, you'll have a lawyer ready to guide statements and engage procuratorates quickly.

Train Frontline Teams on “Red Lines,” Not Just Executives Behavior Change . Extend compliance training beyond managers to workers involved in high-risk tasks. Use real cases (like the one below) to highlight consequences. Most violations start at the operational level; training frontline staff stops issues before they become criminal.

Align China Compliance with Global Rules.

Integrate China's compliance requirements (environmental waste logs) into your global frameworks (FCPA anti-bribery policies) instead of creating “China-only” systems. This avoids duplicate work and ensures headquarters has visibility into risks, preventing missteps from “local misunderstandings.”

SAMPLE CASE: SINO-GERMAN JV IN SHANDONG PROVINCE (ENVIRONMENTAL POLLUTION CRIME)

) A representative example (from Supreme People's Procuratorate public records) illustrates how compliance and the right behaviors can save an FIE: Background: A Sino-German JV specializing in chemical production faced environmental pollution charges. Its vice general manager illegally dumped 4.8 tons of hazardous waste (brominated flame-retardant residues) without official approval, violating China's Environmental Protection Law and Criminal Law.

A shutdown would have disrupted the parent's global supply chain, damaged its ESG reputation, and put 300 local jobs at risk— plus, the vice general manager faced potential detention.

Compliance Process: Recognizing the JV's strong prior compliance record (it held international environmental certifications) and proactive attitude, the procuratorate approved its compliance application. The JV applied the 5 tips above: 1. Appointed its China COO as compliance owner.

2. Conducted an emergency audit of all waste disposal processes.

3. Hired a bilingual environmental criminal lawyer to negotiate with procuratorates.

4. Trained 150 frontline staff on waste handling “red lines.” 5. Updated its parent's global ESG framework to include China's waste disposal rules.

Additional steps included immediate remediation (disposing of remaining waste via qualified agencies, compensating for environmental damage), establishing a dedicated environmental compliance department, and installing real-time waste discharge monitoring.

Outcome: After 6 months of supervision, the third-party group confirmed effective compliance. The procuratorate decided not to prosecute the JV or the vice general manager (issuing a warning instead).

The JV retained its business license, resumed exports, and later secured approval for a new production line—turning a legal crisis into an opportunity to strengthen governance.

For foreigninvested enterprises operating in China, case-related compliance marks a clear shift in how legal risk is managed. Enforcement is no longer purely punitive, but conditional on an enterprise’ s willingness and ability to correct itself. In practice, this means outcomes are not determined solely by the violation, but by how the company responds, how quickly it acts, how seriously it treats compliance, and whether it can demonstrate system - level reform.

The implications are straightforward. Compliance can no longer sit at the margins of operations or be treated as a periodic exercise. It must be embedded into decisionmaking, owned at the leadership level, and aligned with both local regulatory expectations and global standards. As the Shandong case explains, the same incident can lead either to prosecution and disruption, or to remediation and continuity, depending on the approach taken.

For FIEs, the priority is not simply to understand the rules, but to operationalize them before issues escalate into criminal exposure.

Where certainty exists, early assessment and informed action, whether internally or with experienced counsel, can materially change the trajectory of a case.

法

TOPICS

Business in China

Dispute Resolution

FROM THE FIRM

IPO Pang Shenjun, Attorneys at Law advises international businesses on investment, transactions and disputes across China, Hong Kong and the United States.

This article is provided for general information only and does not constitute legal advice, nor does it create an attorney-client relationship. Readers should seek advice on their specific circumstances before acting.

Originally published at chinalawinsider.com/articles/case-related-compliance-for-fies-turn-china-s-legal-risks-into-growth-