

## The China (Shanghai) Pilot Free Trade Zone Opens: A Bold Milestone in China's Economic Reform Journey

The China (Shanghai) Pilot Free Trade Zone (FTZ) was declared open yesterday amid much anticipation from Chinese and foreign businesses.

Hot on the heels of the Grand Opening, this morning saw the issuance of a "Negative List" and at least five sets of FTZ regulations. The Negative List includes prohibited and restricted businesses; any business not on the list requires no approval but must file for the purposes of records. The five sets of regulations relate to the administrative measures of the FTZ Management Committee, and to the filing of enterprises and projects both of foreign investors as well as of Chinese enterprises investing overseas.

The FTZ consists of Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area, and Pudong Airport Comprehensive Free Trade Zone, and covers an area of nearly 29 square kilometres in Shanghai.

Two days earlier, on 27 September, the China State Council released the Overall Plan for China (Shanghai) Pilot Free Trade Zone ("Overall Plan").

According to the Overall Plan, the FTZ has been designed as an experimental platform for the Chinese government to transform its functions in the new era, to actively explore the innovation of management patterns, to promote the facilitation of trade and investment, and to explore new channels and accumulate new experience for overall deepening of economic reform and opening-up.

The major tasks and measures in connection with the FTZ are:

### 1. Acceleration of the transformation of government functions by deepening administrative management system reform.

### 2. Deepening the opening-up of investment areas through the following measures:

- Deepening the opening-up of service sectors. According to the Overall Plan, the FTZ will offer easier investment access and provide support for the following 18 service sectors in the FTZ:
  - i. Banking services
    - » Allowing qualified foreign finance institutions to set up foreign-invested banks, and permitting qualified private capital to set up Sino-foreign joint venture banks with foreign finance institutions.
    - » Allowing qualified Chinese banks to conduct offshore business.
  - ii. Professional healthcare medical insurance
    - » Allowing the establishment of foreign invested professional healthcare medical insurance institutions.
  - iii. Financial leasing
    - » Cancelling the minimum registered capital requirements for the establishment of single aircraft or single vessel company subsidiaries by financial leasing companies.
    - » Allowing financial leasing companies to concurrently operate factoring businesses that are associated with their primary business.
  - iv. Ocean cargo transportation
    - » Relaxing the restriction over the proportion of foreign equities in equity, and cooperation joint venture international shipping enterprises.
    - » Allowing the non-Chinese Flag vessels owned or controlled by the Chinese

- enterprises to pioneer the passing business of the containers for import and export between Shanghai Port and other domestic coastal ports.
- v. International ship management
    - » Allowing the establishment of wholly foreign-owned shipping management enterprises.
  - vi. Value-added telecommunications
    - » Allowing foreign enterprises to run certain designated value-added telecommunications businesses.
  - vii. Selling and servicing of game consoles and machines
    - » Allowing foreign enterprises to produce and sell game consoles and machines.
  - viii. Legal services
    - » Exploring methods and mechanisms to enhance cooperation between Mainland Chinese law firms and foreign law firms (Hong Kong, Macau and Taiwan).
  - ix. Credit investigation services
    - » Allowing the establishment of foreign-invested investigation enterprises.
  - x. Travel agencies
    - » Allowing Sino-foreign joint venture travel agencies to be registered to provide overseas travel services (except in Taiwan).
  - xi. Human resources agencies
    - » Allowing the establishment of Sino-foreign joint venture human resources agencies, provided that the foreign equity interests do not exceed 70 percent of the total equity interests. Hong Kong and Macau service providers are allowed to establish wholly-owned human resources agencies.
    - » Reducing the minimum registered capital for foreign human resources agencies from US\$300,000 to US\$125,000.
  - xii. Investment management
    - » Allowing the establishment of joint stock foreign-invested investment companies.
  - xiii. Engineering design
    - » Cancelling the engineering design performance requirement, when applying for the qualification for the first time, for foreign-invested engineering design enterprises (excluding engineering investigation enterprises) that provide services in the FTZ to Shanghai.
  - xiv. Construction services
    - » Cancelling the equity restriction for Sino-foreign joint construction projects in Shanghai taken over by wholly foreign-owned construction enterprises established in the FTZ.
  - xv. Performance brokerage
    - » Cancelling the equity restriction for foreign-invested performance agencies and allowing the establishment of wholly foreign-owned performance agencies to provide services to Shanghai.
  - xvi. Entertainment venues
    - » Allowing the establishment of wholly foreign-owned entertainment venues to provide services in the FTZ.
  - xvii. Educational and vocational training
    - » Allowing the establishment of Sino-foreign cooperation education training institutions.
    - » Allowing the establishment of Sino-foreign cooperation vocational training institutions.
  - xviii. Medical service
    - » Allowing the establishment of wholly foreign-owned healthcare institutions.
  - Exploring and establishing a Negative List management pattern. The Negative List issued today covers 18 sectors including manufacturing, finance, public services, education and real estate. It is stipulated in the list that foreign investors are banned from conducting certain types of business including, among others, salt wholesaling, auctioning cultural relics, air traffic control, and making new websites available. In addition, foreign companies are prohibited from constructing and operating villas. Foreign investment in businesses not included on the Negative List will only need to be filed (for the purposes of records) with the government without any approval required.
  - Establishing overseas investment service promotion system. The FTZ will implement a filing-based management approach for overseas investment, so as to promote the facilitation of overseas investment.

### 3. Promoting the transformation of trade development pattern.

In short, the FTZ will encourage multinationals to establish their Asia-Pacific regional headquarters within the zone. In addition, the FTZ will actively develop shipping finance, international shipping, international ship management, international shipping brokers and other industries within the zone.

### 4. Deepening the opening-up and innovation of the finance sector through the implementation of the following measures:

- Accelerating finance system innovation. The FTZ will start trial programs of RMB convertibility under the capital account, market-oriented interest rates, and cross-border RMB transactions.
- Enhancing financial service functions. Financial services will be opened up to eligible domestic capital and foreign financial institutions. Establishment of wholly foreign-owned and Sino-foreign joint ventures in the FTZ will also be encouraged. Foreign companies will be gradually permitted to participate in commodity futures trading.

### 5. Perfecting the legal environment.

With a view to accelerating the formation of a high-standard investment and trade rule system, starting from 1 October 2013, the relevant administrative examination and approval items stipulated in the three foreign-invested enterprise laws will be adjusted in the FTZ on a three-year trial basis.

In addition, relevant supervisory and tax policies would also be implemented within the FTZ according to the Overall Plan. For example, Customs supervision in the FTZ would be greatly simplified, allowing goods to be imported into and processed in the FTZ and re-exported with less intervention or supervision from Customs. Companies and individuals can pay income taxes by instalment within a period of five years for the added value from non-currency asset outbound investment. Tax exemption will be granted to companies registered in the zone concerning their imports of machines and equipment for production except otherwise provided by law.

The five main regulations announced early this morning are:

1. Administrative Measures for China (Shanghai) Pilot Free Trade Zone
2. Administrative Measures for Filing of Overseas Investment Enterprises of China (Shanghai) Pilot Free Trade Zone
3. Administrative Measures for Filing Foreign-invested Enterprises of China (Shanghai) Pilot Free Trade Zone
4. Administrative Measures for Filing of Overseas Investment Projects of China (Shanghai) Pilot Free Trade Zone
5. Administrative Measures for Filing Foreign-invested Projects of China (Shanghai) Pilot Free Trade Zone

In the days ahead, it is expected that more regulations and guidelines will be issued by the government with the aim of implementing the objectives mentioned in the Overall Plan. The regulations and policies are unlikely to be as drastic as the speculation and rumours in the press and on the internet suggest, but will at least attest to the determination of the government to test out important, and long awaited, economic reforms.

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