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Shanghai Pilot FTZ and Future Reform and Opening Policy

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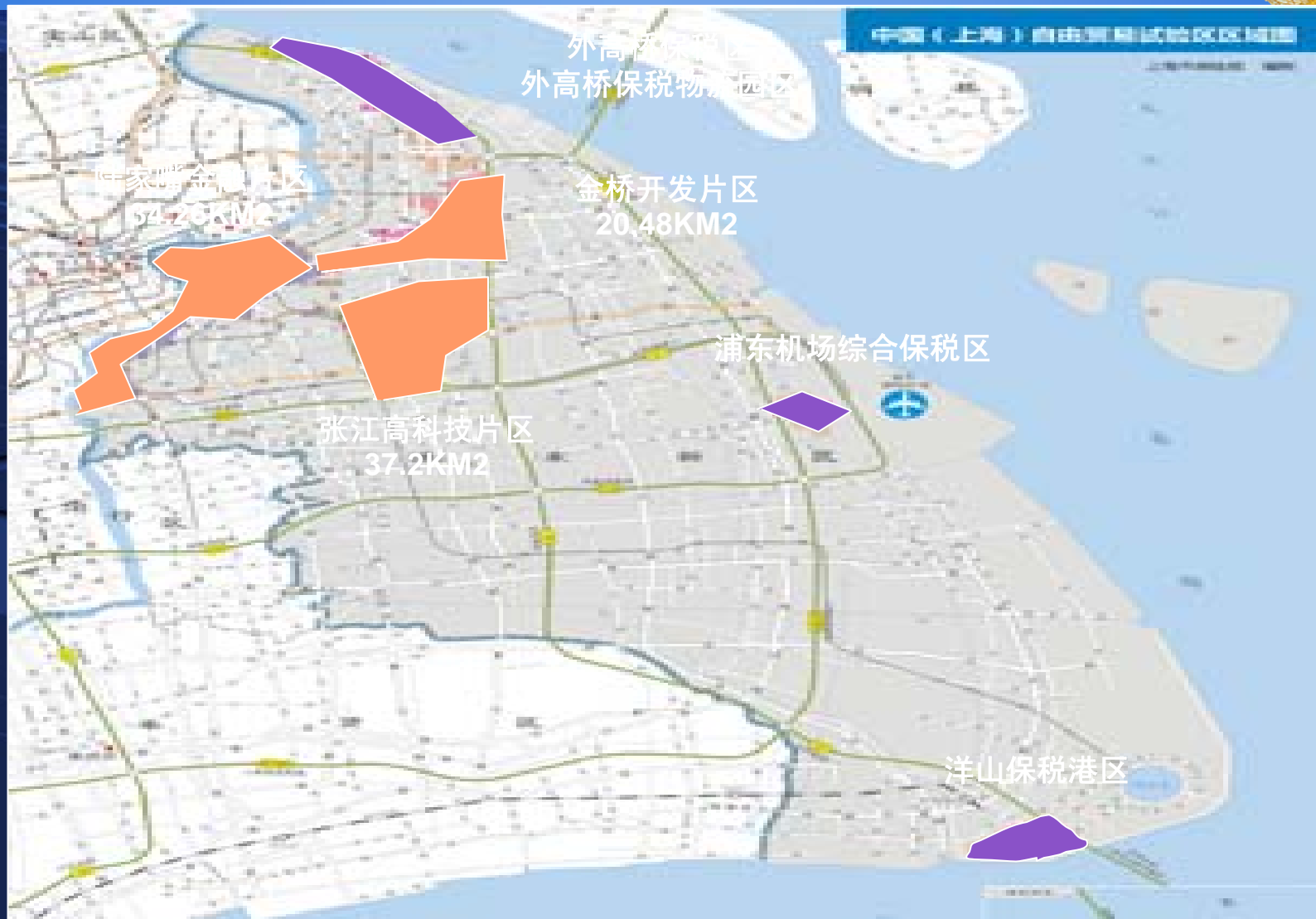
What is FTZs



- China (Shanghai) Pilot Free Trade Zone has been operating for more than 4 years since September 29, 2013.
- In March 2015, Shanghai FTZ was expended to 120.72 square km from 28.78 square km and at same time Guangdong, Tianjin, Fujian FTZs were set up.
- The other seven FTZs were newly established in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shan'xi Provinces and Municipality in April 1, 2017.
- FTZs are testing grounds of further reform and opening measures that could be replicable in whole China.



Location of Shanghai Pilot FTZ





- 4 bonded areas and three special purposed zones all have original special functions when they were designed and formulated by State Council.
- The main Feature of all these zones and area is to attract special capital and investment to form a economic development model and to serve for the wider region where they were located to promote growth by spill over effects.
- They were zones of concentration of investments and economic activities.
- Now, they are made of FTZ to test further reform and opening policies.





- The reform measures are basically focus on eliminating unnecessary government license and approval procedures and to form a rule of law and more transparent governing system which is comparable to international standard.
- New opening measures are basically focused on providing national treatment to foreign investors and opening service industries.
- Financial reform and opening are aimed at gradually opening capital account and realizing RMB full convertibility.





- In the overall plan of Shanghai FTZ formulated by the State Council, 6 service industries have been laid out for further opening, namely: financial service, transportation service, commercial service, professional service, cultural service and social service.
- So FTZ is not same as all other previous zones or industrial parks established in China since early 1980s, whose main purpose is to attract foreign investment with some special preferable policies.
- FTZ is trying to set up a new open economic system that can meet international standard.





- Setting up FTZs is also to serve for the negotiations with our trade partners on higher level FTA or BIT so as to reform current institutions that are not comparable to international standard.
- TPP was one of the consideration at early days as China become aware that further opening is inevitable trend and we should prepare for it.
- In APEC leaders meeting 2014 in Beijing, China actively promoted FTAAP and accept the notion of high quality FTA. This showed Chinese government determination of pursuing further opening policy.





- FTZ is also for the purpose of promoting China's government administration reform.
- After more than 30 years successful economic growth, the institutional settings and legal framework for governing economic activities may have been improper as many new developments took place both at home and abroad. Further reform is badly needed.
- However, further reform become difficult as established interest groups become obstacles of further system reforms.
- FTZ is used by central government to clear away the obstacles and to pursue the institutions that are comparable to international standard.



What have been achieved in FTZs



- New regime for foreign investment administration.
- Trade facilitation new system
- Government administration reform
- New measures of financial system opening and reforms
- Further opening of service industries



New regime for foreign investment



- In FTZs a new regime of FDI administration has been adopted. Pre-establishment national treatment is granted to foreign investors. A negative list has been introduced and special control items are reduce from 190 in 2013 to 93 in 2017.
- Theoretically speaking, foreign company can be registered as quickly as within two days.
- By the end of 2017, about 7806 foreign companies newly registered in Shanghai FTZ, more than 90% were out of negative list and directly got registered without pre-reviewing by Chinese government departments and only about 8% fell into negative list and will be reviewed by foreign investment reviewing authority first.



Trade facilitation



- Trade in the FTZs is further liberalized although is not yet totally free as compared to that of other country's traditional FTZ or free trade parks.
- New measures are basically focused in reducing and simplifying the customs and quarantine procedures.
- One stop and single window handling was adopted in Shanghai FTZ and now introducing to all FTZs for trade facilitation.
- An electronic platform for processing import and export has been established.
- Customs, quarantine, port authority and other 20 government departments all go through this E-platform to handle their checking and regulating duties.





- Paper documentation are greatly reduced as they processed through this e-platform on internet.
- Measures concerning customs procedures and quarantine and quality checking have been reducing. Each of them might need 5 working days handling before and now have been reduced to only 2 days altogether.
- This greatly reduced the cost for trading companies and fostered trade in terms of faster handling goods in the port and provide more business opportunities.





- Other measures include connecting nearby provinces' customs in inland customs without seaport facilities to port customs and save redundant checking and documentation.
- This enhance the integration of nationwide network of customs and quarantine and increased efficiency of government work.
- Shanghai FTZ is trying to follow Singapore model to enhance efficiency in trade handling and checking system and reach the level and efficiency the same as Singapore by 2020.



Government administration reform



- For government administration reform, a lot of internal reviewing and licensing have been reduced. Many redundant checking and qualification granting have been removed.
- A set of new administration have been simplified. Government departments that have rights to enforce the law and regulation were asked to merge their enforcement activities.
- Annual renewal of license of companies has been removed and changed to public announcement of company status.



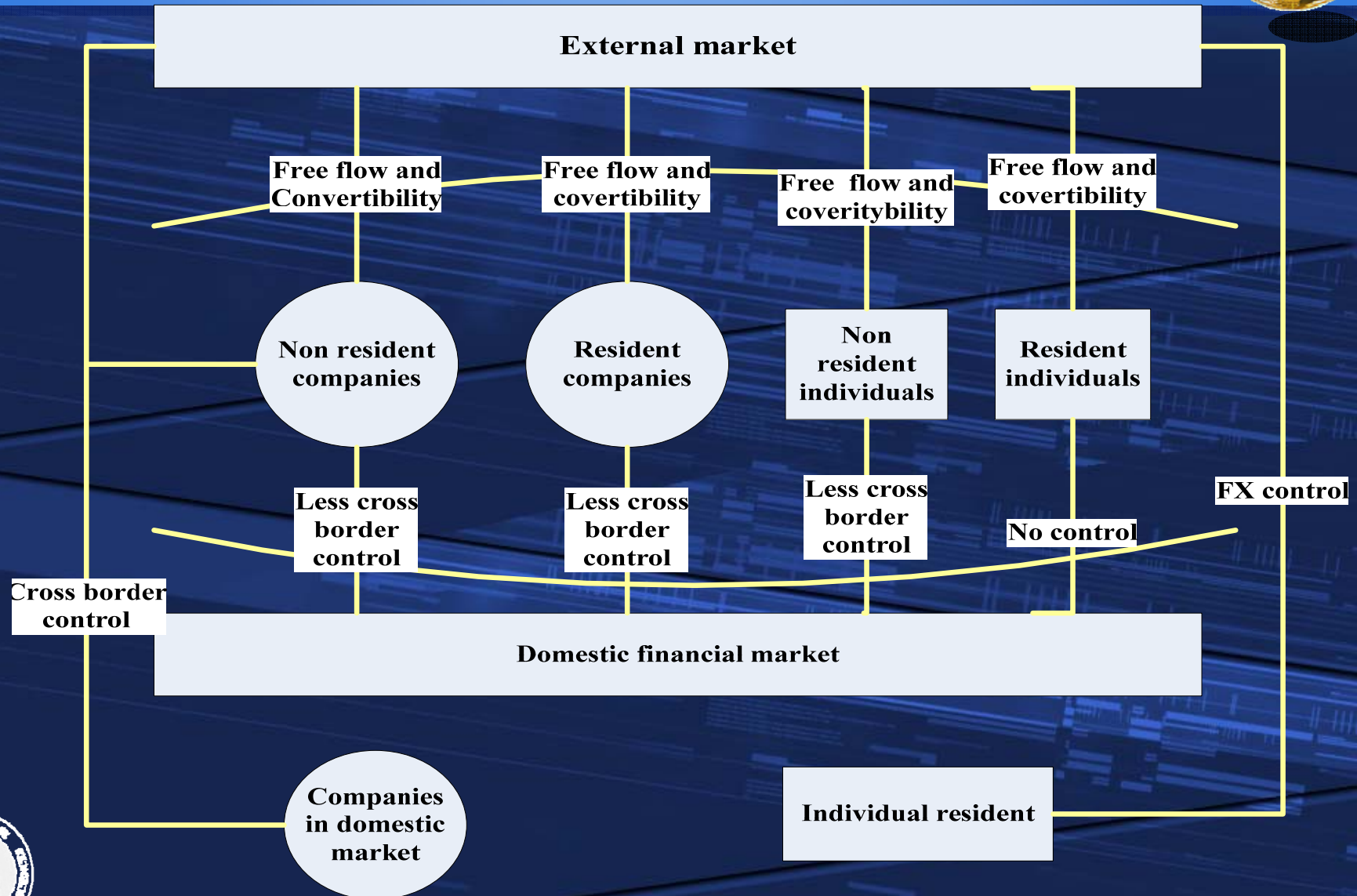
Financial opening and reform



- In the financial sector, further reforms and opening measures also have been tested.
- Capital account liberalization has been tested with FT account.
- Convertibility of RMB is also applied to FT account and oversea accounts.
- MNC are granted with rights to set up RMB pool to use the pooling fund freely.
- International petroleum and gold futures market are being built in FTZ.



FT account capital free flow





- Companies could open FTZ account with which funds could be freely moving between FTZ and oversea accounts.
- By the end of 2017, there are 55 financial institutions that have been authorized to set up FT account system (46 banks, 3 securities companies, 4 financial companies and 2 exchanges.)
- By the end of 2017, there are 67800 FT accounts have been opened with which, settlement of RMB 13.7 trillion have been processed.





- Interests rate are being liberalized in FTZ first.
- Private banks are allowed be set up and oversea small and medium sized financial institution will be allowed to come into FTZ to do business.
- Heath insurance market is opened to foreign company. Insurance company registered in FTZ will be allowed to invest their funds in international market without pre-approval.
- Companies in FTA outbound investment are liberalized and need not to be approved by government departments first.





- Financial leasing companies are allowed to do business cross border and borrow abroad.
- Financial leasing companies cross border payment is free from foreign exchange control.
- This attract 1895 financial leasing companies into Shanghai FTZ by the end of June 2016. 33.2% of all leasing companies in China are located in Shanghai FTZ.
- Among all the leasing companies, 1868 are foreign invested companies.
- Registered capital of financing leasing companies reached to RMB 695 billion and 32.7% of all registered leasing companies capital in China.





- By all these further reform and opening measures, FTZs served as a pioneer for whole country's next stage reform and opening. It also serves as preparation for responding external pressure of new area and new industries opening.
- So with successful operation of Shanghai FTZ and replication the experience of Shanghai FTZ to other FTZs and rest of China, China becomes more confident to take responsibility of further opening its market and implementing higher international standard of free trade and investment.



Relation between FTZ and FTA



- As I mentioned earlier, FTZ is a pressure test ground for high standard FTA.
- China is trying to negotiate FTA with our trading partners as more as possible. For the existing FTAs between China and its partners will be upgraded if there is demand for both sides. For example, China now is negotiating with New Zealand to upgrade bilateral FTA.
- China is willing to further liberalize trade and investment with our trade partner.
- FTZ will provide the test and experience for higher level of liberalization of trade and investment with our trading partners.





- It was under this background, China took an active move towards FTAAP and hope to gain more welfare through trade and investment liberalization.
- It is from this point of view, I believe that China will uphold the policy of further opening and promote globalization to the right direction rather than retreat and reverse the globalization trend.
- Chinese president Xi Jin Ping made it clear in many international occasions that China will open wider its door and promote free trade.
- AS the second largest economy and number one trading country in the world China is imperative to uphold free and open economic policy.



Future Development of Shanghai FTZ



- Central government requested Shanghai FTZ to be a highest level opening FTZ and pioneer among the pioneers. Therefore, Shanghai is facing the heavy task of further opening and reform. This also showed Chinese government determination to stick to open and higher opening economic system.
- How to make Shanghai FTZ to serve Belt and Roads Initiative to be the bridgehead of financial and investment for Belt and Road Area and serve to the Yangtze River Economic Belt are our next stage task.
- Therefore, Shanghai FTZ needs to adopt innovative means to carry out new opening measures to implement the task.



Further opening of service industries



- In the Grand Plan of Shanghai Pilot FTZ formulated by the State Council, 6 service sectors have been laid out for further opening: financial service, transportation service, commercial service, professional service, cultural service and social service.
- To some extent, there is not yet a breakthrough in this regard.
- Further opening of service sector is not a easy task. There is a need to further reform the government internal regulatory institution and stipulations.





- In many service industries, there exist complicated government departments' supervisory and regulatory stipulations. Without reform of these, only remove entry barrier does not solve the problem.
- Therefore, systematic and integrated reforms are next stage's most important task, just as what President Xi Jinping emphasized "deepening and bettering the basic system to form a convenient business environment up to international standard on the basis of rule of law."





Thank you !