China’s Free Trade Zones 3.0: Extending pilot reforms to inland and western regions
1. China’s FTZ 1.0-3.0: an overview
2. The 7 new FTZs: positioning, missions, and industry focuses
3. Characteristics of and key reform measures adopted in the 7 new FTZs
4. Assessments
China’s FTZ 1.0-3.0: an overview
China’s FTZs 1.0 & 2.0: testing grounds for structural reforms and institutional innovations

<table>
<thead>
<tr>
<th>Stages</th>
<th>Date of launch</th>
<th>FTZs</th>
<th>Goals and characteristics</th>
<th>Official positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTZ 1.0</td>
<td>29 Sep 2013</td>
<td>1. Shanghai FTZ (phase I)</td>
<td>• To provide a testing ground for nationwide deregulation and market-opening reforms</td>
<td>A world-class FTZ with liberalized trade and investment environment, transparent regulations, efficient administration, and enabling business environment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Guangdong FTZ</td>
<td>• Reform measures in the zone should be replicable and expandable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>21 April 2015</td>
<td>3. Tianjin FTZ</td>
<td>• Following the Shanghai FTZ model, but with “local characteristics”</td>
<td>A demonstration area for in-depth cooperation among Guangdong, Hong Kong and Macau; an important hub of the 21st Century Maritime Silk Road; a leader in China’s new round of reform and opening up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Fujian FTZ</td>
<td></td>
<td>A high-standard platform showcasing the opening up of the Beijing-Tianjin-Hebei Region; a leading area and a testing ground for institutional innovation; a high-level FTZ opening to the world</td>
</tr>
<tr>
<td>FTZ 2.0</td>
<td>21 April 2015</td>
<td>4. Fujian FTZ</td>
<td></td>
<td>A testing ground for reform and innovation; a demonstration area for deeper Taiwan-Mainland cooperation; a core area of the 21st Century Maritime Silk Road, promoting cooperation among and opening up of countries along the 21st Century Maritime Silk Road</td>
</tr>
</tbody>
</table>
FTZ 1.0 & 2.0: location and positioning

**Tianjin FTZ**
- To promote the coordinated development of the Beijing-Tianjin-Hebei area through reform and liberalization
- An offshore financial center in Northern China
- A focus on financial leasing and cross-border financing
- To promote innovation in the shipping industry

**Guangdong FTZ**
- Focused on deepening Hong Kong-Macau-Guangdong co-operation in modern services to help upgrade Guangdong’s industrial structure
- Reform and liberalization measures in financial, trade, logistics and technological services to attract investments from Hong Kong and elsewhere

**Shanghai FTZ**
- A testing ground for nationwide deregulation and market-opening reforms
- Plays a central role among all FTZs
- Reform measures in the zone should be replicable and expandable
- Includes China’s *de facto* financial center, Lujiazui

**Fujian FTZ**
- Focused on promoting cross-strait cooperation in trade and investment
- A financial center serving cross-strait business
- Pilot policies to attract investments from Taiwan in advanced manufacturing, tourism, financial services
FTZs 3.0: 7 new FTZs to replicate reform measures adopted in previous stages

- FTZs 3.0 was announced in August 2016, with comprehensive plans released on 31 March 2017.
- The 7 new FTZs locate in the provinces of Liaoning, Zhejiang, Henan, Hubei, Sichuan and Shaanxi, as well as Chongqing Municipality.
- With the new FTZs, China is hoping to press ahead with wider reforms, while allowing the new FTZs to tap their unique geographical and industrial advantages for further experiments.
7 New FTZs to extend reform measures to inland and western region

- The new FTZs are in China’s tier-two and tier-three cities: 1 in coastal areas, 1 in Northeast China, 3 in central China, and 2 in western region

- To extend reform measures adopted in the previous stages to inland and western regions
# China’s FTZ 3.0: 7 New FTZs to extend reform measures to inland and western regions

<table>
<thead>
<tr>
<th>Stage</th>
<th>Date of launch</th>
<th>FTZs</th>
<th>Goals and characteristics</th>
<th>Official positioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTZ 3.0</td>
<td>31 March 2017</td>
<td>Liaoning</td>
<td>• Replicating reform measures adopted in the previous stages to Central and Western China</td>
<td>A new engine to lift the overall competitiveness and openness of China’s “Northeast Rustbelt”</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Zhejiang</td>
<td>• New positioning and reform measures with local features for each FTZ</td>
<td>An important demonstration area for the opening up of Eastern coastal region; a world’s leading area for the liberalization of trade in commodities (petroleum products in particular); and an international base commanding resource allocation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Henan</td>
<td>• Roles in promoting regional economic integration and Belt and Road Initiatives</td>
<td>A modern comprehensive transport hub serving the construction of the “Belt and Road”; a testing ground for comprehensive reform and opening-up; and a demonstration area for economic opening up in inland China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hubei</td>
<td>• New positioning and reform measures with local features for each FTZ</td>
<td>A demonstration area for accommodating industrial transfer from coastal regions to Central China; an area for clustering of emerging strategic industries and high-tech industries; a testing ground for comprehensive reform and opening-up in inland China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chongqing</td>
<td>• Roles in promoting regional economic integration and Belt and Road Initiatives</td>
<td>An important hub linking the “Belt and Road” and the Yangtze River Economic Belt; a strategic anchor of the “Development of Western China” strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sichuan</td>
<td>• New positioning and reform measures with local features for each FTZ</td>
<td>A leading area for the opening-up of Western region and inland China; a corridor and hub linking to the global economy; a demonstration area for collaboration between inland and costal regions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shaanxi</td>
<td>• Roles in promoting regional economic integration and Belt and Road Initiatives</td>
<td>A testing ground for comprehensive reform and opening-up in inland China; an important anchor for economic cooperation and cultural exchanges along the “Belt and Road”</td>
</tr>
</tbody>
</table>

Source: Development plan of respective pilot Free Trade Zones
GDP and GDP rankings (2016) of the provinces/municipalities that have set up FTZs

<table>
<thead>
<tr>
<th>Province</th>
<th>GDP (billion Yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guangdong</td>
<td>795.12</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>464.85</td>
</tr>
<tr>
<td>Henan</td>
<td>401.60</td>
</tr>
<tr>
<td>Sichuan</td>
<td>326.81</td>
</tr>
<tr>
<td>Hubei</td>
<td>322.98</td>
</tr>
<tr>
<td>Fujian</td>
<td>285.19</td>
</tr>
<tr>
<td>Shanghai</td>
<td>274.66</td>
</tr>
<tr>
<td>Liaoning</td>
<td>220.38</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>191.65</td>
</tr>
<tr>
<td>Tianjin</td>
<td>178.85</td>
</tr>
<tr>
<td>Chongqing</td>
<td>175.59</td>
</tr>
</tbody>
</table>

* Estimated by Fung Business Intelligence

Data source: Statistical Communiqué of respective provinces/ municipalities; Thepaper.cn
The 7 new FTZs: positioning, missions, and industry focuses
Liaoning FTZ: a new engine to enhance the competitiveness and openness of China’s “Northeast Rustbelt”

- Liaoning Province:
  - Ranked the 14th in terms of GDP (2016) and the 9th in terms of GDP per capita (2015) nationally

- The Liaoning FTZ:
  - 3 areas, a total of 119.89 sq. km
  - The only FTZ in Northeast China

- Missions of the Liaoning FTZ:
  - To lift the competitiveness of Northeast China through deepening opening-up and adopting market-oriented reform measures
  - To establish a high-quality FTZ with internationalized and enabling business environment

Source: [http://d-maps.com/](http://d-maps.com/), compiled by Fung Business Intelligence
The 3 areas of the Liaoning FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dalian Area</td>
<td>59.96</td>
<td>• An international logistics center in Northeast Asia</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced equipment manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Financial services</td>
</tr>
<tr>
<td>Shenyang Area</td>
<td>29.97</td>
<td>• An advanced equipment manufacturing hub with global competitiveness; an</td>
</tr>
<tr>
<td></td>
<td></td>
<td>model industrial city in China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Heavy equipment manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced manufacturing including automobile and aerospace</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced services including finance, IT and logistics</td>
</tr>
<tr>
<td>Yingkou Area</td>
<td>29.96</td>
<td>• An international logistics hub; an advanced manufacturing hub</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Trade and logistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Cross-border e-commerce</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Financial services</td>
</tr>
</tbody>
</table>

Source:
Zhejiang FTZ: an international commodity (petrochemicals) trading hub

- Zhejiang Province:
  - Ranked the 4th in terms of GDP (2016) and the 5th in terms of GDP per capita (2015) nationally

- The Zhejiang FTZ:
  - 3 areas, a total of 119.95 sq. km
  - Both on-shore facilities and off-shore mooring resources

- Missions of the Zhejiang FTZ:
  - To explore liberalization of international commodity trading with a focus on oil and petrochemicals
  - To significantly increase China’s influence in global commodities markets within three years
  - To develop an international maritime services centre with associated oil storage and transport networks

Source: [http://d-maps.com](http://d-maps.com), compiled by Fung Business Intelligence
The 3 areas of the Zhejiang FTZ

Outlying Island Area

- Size: 78.98 km²
- Functions:
  - A leading green petrochemical refinery, manufacturing and trading hub in the world
  - Industry focuses:
    - Storage, transport and trading of oil and petrochemicals
    - An international ore transportation hub

Northern Zhoushan Island Area

- Size: 15.62 km²
- Functions:
  - An international trading hub for petrochemicals and other commodities
  - Industry focuses:
    - Petrochemical equipment manufacturing and logistics

Southern Zhoushan Island Area

- Size: 25.35 km²
- Functions:
  - An international commodity trading hub
  - Industry focuses:
    - Aviation manufacturing base
    - Maritime-related advanced services

Source: http://n.cztv.com/lanmei/zjzs/12477070.html
Henan FTZ: a comprehensive transportation and logistics hub serving the Belt and Road Initiative

• Henan Province:
  ✓ Ranked the 5th in terms of GDP (2016) and the 22nd in terms of GDP per capita (2015) nationally
  ✓ Located at the center of the national railway and highway network

• The Henan FTZ:
  ✓ 3 areas, a total of 119.77 sq km

• Missions of the Henan FTZ:
  ✓ To tap its central location and build a modern transportation and logistics hub connecting China with the Silk Road Economic Belt
  ✓ To build a testing ground for economic reform and opening up in inland China

Source: [http://d-maps.com/](http://d-maps.com/), compiled by Fung Business Intelligence
The 3 areas of the Henan FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
</table>
| Zhengzhou Area | 73.17     | • An international multimodal transportation and logistics and hub for China’s Belt and Road Initiative  
|               |           |   • Industry focuses:                                                   |
|               |           |     ✓ high-end equipment, automobile and biomedical industries          |
|               |           |     ✓ Advanced services including cross-border e-commerce and related financial services, exhibition and creative industries |
| Kaifeng Area  | 19.94     | • A hub for international cultural trade and center for heritage tourism  
|               |           |   • Industry focuses:                                                   |
|               |           |     ✓ Advanced services including service outsourcing, medical tourism, creative industries, cultural finance, cultural mass media |
| Luoyang Area  | 26.66     | • An international demonstration zone for smart manufacturing and a Chinese cultural heritage landmark  
|               |           |   • Industry focuses:                                                   |
|               |           |     ✓ Advanced manufacturing including equipment manufacturing, robotics, and advanced material |
|               |           |     ✓ Advanced services including e-commerce and service outsourcing     |
|               |           |     ✓ International cultural tourism                                    |

• Hubei Province:
  ✓ Ranked the 7th in terms of GDP (2016) and the 13th in terms of GDP per capita (2015) nationally

• The Hubei FTZ:
  ✓ 3 areas, a total of 119.96 sq. km

• Missions of the Hubei FTZ:
  ✓ To support the ‘Rise of Central China’ strategy and facilitate the development of Yangtze River Economic Belt
  ✓ To accommodate industrial transfer from coastal regions to central China
  ✓ To build a industry cluster consisting of strategic, emerging and high-tech industries

Source: [http://d-maps.com](http://d-maps.com), compiled by Fung Business Intelligence
# The 3 areas of the Hubei FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wuhan Area</td>
<td>70</td>
<td>- A hub for strategic and emerging industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced manufacturing, next-generation IT, healthcare technology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Financial services, including angel investment for high-tech</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services, including international trade services, logistics,</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Information services</td>
</tr>
<tr>
<td>Xiangyang Area</td>
<td>21.99</td>
<td>- An advanced equipment manufacturing hub</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ New energy vehicle manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services including bid data and cloud computing, trade and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Logistics services and testing and certification services</td>
</tr>
<tr>
<td>Yichang Area</td>
<td>27.97</td>
<td>- A high-tech industrial center</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced manufacturing industries including biomedical, IT and new</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services including R&amp;D, headquarter functions and e-commerce</td>
</tr>
</tbody>
</table>

Source: [http://www.hb.xinhuanet.com/2017-04/01/1120735765_14910035147321n.jpg](http://www.hb.xinhuanet.com/2017-04/01/1120735765_14910035147321n.jpg)
Shannxi FTZ: a testing ground for comprehensive reform and opening-up in Western and inland China and a platform for economic cooperation and cultural exchange along the Belt and Road

- Shannxi Province:
  - Ranked the 15th in term of GDP (2016) and the 14th in terms of GDP per capita (2015) nationally
  - The starting point of the ancient Silk Road and the New Silk Road Economic Belt

- The Shannxi FTZ:
  - 3 areas, a total of 119.95 sq km

- Missions:
  - To explore a new model of economic cooperation and people-to-people exchanges along the Belt and Road
  - To expedite the opening-up of cities in western region and bring out their economic vitality

Source: [http://d-maps.com/](http://d-maps.com/), compiled by Fung Business Intelligence
### The 3 areas of the Shannxi FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
</table>
| The Central Area                           | 87.76      | • A hub for high-end industrial development and people-to-people exchanges along the Belt and Road  
• Industry focuses:  
  ✓ Advanced manufacturing  
  ✓ Modern services including air freight logistics, trade finance and trade in services |
| Xi’an International Trade and Logistics Park Area | 26.43      | • A hub for domestic-international transshipment along the Belt and Road; a platform for Eurasia trade and cultural exchange, and a hub for financial innovation  
• Industry focuses:  
  ✓ International trade, modern logistics, financial services, tourism and exhibition, e-commerce |
| Yangling Agricultural Hi-tech Industries Demonstration Zone | 5.76      | • A zone for agriculture cooperation along the Belt and Road  
• Industry focuses:  
  ✓ Agricultural innovation and exhibition |

**Source:** CCTV News

**Xi’an** is the starting point of the New Silk Road Economic Belt
Chongqing FTZ: an important hub linking the ‘Belt & Road’ and the Yangtze River Economic Belt; a strategic anchor of the ‘Development of Western China’ strategy

- Chongqing Municipality:
  - The 20th in terms of GDP (2016) and 11th in terms of GDP per capita (2015) nationally
  - An economic center in the Upper Reaches of the Yangtze River and Western China
  - A key industry base in Western China and the world’s largest motor vehicle and laptop production base
  - A key node in the railway routes connecting countries along the Silk Road Economic Belt

- The Chongqing FTZ:
  - 3 areas, a total of 119.98 sq. km

- Missions of the Chongqing FTZ:
  - To establish an international logistics hub for the ‘Belt and Road’ and the Yangtze River Economic Belt
  - To promote comprehensive reform and opening-up in Western Region

Source: http://d-maps.com/, compiled by Fung Business Intelligence
The 3 areas of the Chongqing FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liangjiang Area</td>
<td>66.29</td>
<td>• A cluster of advanced industries and high-end factors of production</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced industries including high-tech equipment manufacturing, core electrical components, cloud computing and biomedical industries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services such as trade in services, headquarter services, e-commerce, exhibitions, professional services, leasing and finance</td>
</tr>
<tr>
<td>Xiyong Area</td>
<td>22.81</td>
<td>• A demonstration zone for upgrading of processing trade</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Information technology and high-tech equipment manufacturing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Producer services such as bonded logistics, freight consolidation and allocation</td>
</tr>
<tr>
<td>Guoyuan Port Area</td>
<td>30.88</td>
<td>• A comprehensive logistics center</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ National and international transit logistics</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ advanced manufacturing</td>
</tr>
</tbody>
</table>

Source: [http://chuansong.me/n/1764645652131](http://chuansong.me/n/1764645652131)
Sichuan FTZ: a gateway for the opening-up of Western and inland China and a demonstration area for collaboration between inland and coastal regions

- Sichuan Province:
  - Ranked the 6th in terms of GDP (2016) and the 23rd in terms of GDP per capita (2015) nationally

- The Sichuan FTZ:
  - 119.99 sq km

- Missions of the Sichuan FTZ:
  - To build a high-standard FTZ in inland China
  - To establish a demonstration area for development in Western China and the Yangtze River Economic Belt

Source: [http://d-maps.com/](http://d-maps.com/), compiled by Fung Business Intelligence
### The 3 areas of the Sichuan FTZ

<table>
<thead>
<tr>
<th>Areas</th>
<th>Size (km²)</th>
<th>Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chengdu Tianfu New Area</td>
<td>90.32</td>
<td>• A hub for advanced industries; an innovative financial services center; a trade and logistics center and an international aviation hub</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services, advanced manufacturing, high-tech industries, airport economy, and port services</td>
</tr>
<tr>
<td>Chengdu Qingbaijiang Railway Port Area</td>
<td>9.68</td>
<td>• A platform for international trade and related services; a node linking inland cities westward with the Silk Road Economic Belt</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Trade related services, including logistics, exhibition, financial services; Port services, information services, hi-tech services</td>
</tr>
<tr>
<td>Sichuan South Port Area</td>
<td>19.99</td>
<td>• A comprehensive regional logistics hub and gateway to Southwestern region</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Industry focuses:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Modern services including logistics and trade, medical services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>✓ Advanced manufacturing including equipment manufacturing, modern medicine and food and beverages</td>
</tr>
</tbody>
</table>

Characteristics of and key reform measures adopted in the 7 new FTZs
The spatial layout of the 11 FTZs: extending reform measures to inland and western China to achieve geographically more balanced development across the nation.
Liberalization of trade in goods *

- The strategy of “opening the 1st-tier border and controlling effectively the 2nd-tier border” is implemented in bonded areas/ports within the 7 new FTZs*

- 1st-tier border:
  - Tariff and non-tariff barriers to trade between the FTZ and overseas markets to be lifted
  - Customs procedures to be streamlined towards a “single window” of customs declaration
  - New rules of inspection and quarantine to make it easier to import and export, while maintaining strict quality and safety risk control
  - Goods can be imported, manufactured, and re-exported under centralized, categorized and electronic customs supervision

- 2nd-tier border:
  - Customs duties will apply when the merchandize leaves the zone and enters the domestic market

- No breakthroughs in liberalization of trade in goods compared to previous FTZs

*: Please refers to “China’s Free Trade Zones After 3 Years: A review and Assessment” by Fung business Intelligence for more details
A negative-list approach to liberalize investment in the FTZs*

• A negative-list approach to market access is adopted in the 7 new FTZs, which means foreign investors enjoy equal treatment to that of Chinese domestic enterprises in any industry not explicitly restricted or prohibited on the negative list.

• The negative list applied in the FTZs 1.0 and 2.0 is adopted across all the new FTZs.

However, the current negative list for FTZs is still vaguely worded and need to be further clarified.

• In practice, however, the negative list stipulates that foreign investments in FTZs shall comply with “current relevant national regulations” under certain circumstances, without spelling out the specific circumstances and the detailed regulations, making the list vague and opaque.

• There also exist a different version of negative list which is applied in several provinces/municipalities (Shanghai, Guangdong, Fujian and Tianjin), and investors are asked to “comply with both lists”, which is causing confusion to investors.

*: Please refers to “China’s Free Trade Zones After 3 Years: A review and Assessment” by Fung business Intelligence for more details.
The business-filing mechanism to streamline corporate registration process*

- A business-filing mechanism replaces the mandatory administrative approval system for establishing companies in the FTZs in business areas not included in the negative list.
- One-stop service for corporate registration is adopted to reduce red tape and paperwork.
- The objective is to reduce bureaucracy and remove unnecessary interventions by the government in the market.

However, FTZs’ more liberal approach to foreign investment is subject to a more stringent national security scrutiny regime:

- However, both the business-filing mechanism and the negative list approach to foreign investment are subject to an enhanced national security scrutiny regime for FTZs which came into effect in April 2015, indicating China’s intention to counterbalance the FTZs’ more liberalized approach to foreign investment.
- Under the new national security scrutiny regime, a national security review is required for any foreign investment in FTZs which may affect national security or the nation’s ability to defend itself or is made by a sensitive investment vehicle, or is in a sensitive target, territory, or sector.

*: Please refers to “China’s Free Trade Zones After 3 Years: A review and Assessment” by Fung business Intelligence for more details
Financial reforms in the FTZs*

- Major reform and deregulation measures in the financial sector adopted in FTZs 1.0 and 2.0 will be generally adopted in the 7 new FTZs.

- However, financial security and stability is emphasized as the prerequisite for any reform in the zones.

- For example, measures of capital account liberalization which allows capital flows not generated by trade have not yet been implemented in the new FTZs as China attempts to rein in capital outflows.

- The liberalization of outbound investment by Chinese enterprises has also been tightened up by authorities, indicating that the government is reluctant to push ahead with measures in FTZs that would enable even greater outflows.

*: Please refers to “China’s Free Trade Zones After 3 Years: A review and Assessment” by Fung business Intelligence for more details.
Promoting trade in services

- Policies for promoting and facilitating trade in services are adopted in the 7 new FTZs and are especially emphasized in Sichuan, Chongqing, Shannxi, Henan and Hubei

- Key policies:
  - Facilitating trade in services in the FTZs’ respective targeted industries, including e-commerce, finance, insurance, logistics, information, R&D, cultural and creative industries, supply chain management etc. for cross-border provision of services
  - Foster employment of foreign high-skilled labor in the FTZs: Sichuan and Chongqing FTZs will simplify application procedures for employing foreign high-skilled labor and experts in the FTZs

What is trade in services?

- Trade in services refers to import and export of services. General Agreement on Trade in Services (GATS) by the World Trade Organization (WTO) defines four modes of supply in trade in services:
  1. Cross-border trade: service supplied from the territory of one country into the territory of another country
  2. Consumption aboard: services supplied in the territory of one country to the service consumer of any other country
  3. Commercial presence: services supplied by a service supplier of one country, through commercial presence, in the territory of any other country. Usually requires investments aboard.
  4. Presence of natural persons: services supplied by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other country.

Source: World Trade Organization
Participating and promoting the Belt and Road Initiative

- Each of the 7 new FTZs has its own positioning in the Belt and Road Initiatives, with Shannxi, Henan, Sichuan and Chongqing FTZs having dedicated chapters on promoting Belt and Road Initiative in their FTZ development plans.

- General measures adopted include:
  - Promoting cooperation with countries along the Belt and Road in customs clearance, quarantine and inspection, product testing and certification, information exchange, law enforcement, etc.
  - Promoting cooperation in different industries such as agricultural, mining, technology, culture, tourism and education.
  - Promoting production capacity cooperation with countries along the Belt and Road.

<table>
<thead>
<tr>
<th>FTZs</th>
<th>Key measures to promote the Belt and Road Initiative</th>
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<tbody>
<tr>
<td>Liaoning</td>
<td>• Fostering cooperation with Russia and Mongolia under the framework of the Belt and Road Initiative</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>• Supporting petroleum enterprise from countries along the Belt and Road to invest in petro-chemical industry in the FTZ</td>
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</tbody>
</table>
| Henan | • Building a modern comprehensive logistics hub in the development of Belt and Road  
• Expanding international freight network in air, rail and courier  
• Jointly developing economic and trade cooperation zones in both the Henan FTZ and countries along the Belt and Road |
| Hubei | • Building a cargo consolidation hub for the China Railway Express that connects China to countries along the Belt and Road |
| Chongqing | • Building a multi-modal (railway, road, air and maritime) logistics hub connecting the Belt and Road and the Yangtze River Economic Belt  
• Supporting Chinese enterprises in the FTZ to set up regional headquarters in countries along the Belt and Road |
| Sichuan | • Supporting financial institutions from countries along the Belt and Road to set up subsidiaries or to invest in FTZ  
• Building an inter-modal transport hub interconnecting the Belt and Road and the Yangtze River Economic Belt |
| Shaanxi | • Supporting the utilization of RMB as the settlement currency in trade between the FTZ and countries along the Belt and Road  
• Supporting financial institutions from the Belt and Road countries to invest in the FTZ  
• Building a transport, trade and logistics center interconnecting China and countries along the Belt and Road |
4

Assessments
China’s FTZs have become sites of dynamic regulatory changes

• The newly launched 7 FTZs are located in China’s tier-two and -three cities, mainly in inland and western China

• With the new FTZs, China is hoping to extend reform and opening-up measures adopted in the previous stages to inland and western regions to achieve geographically more balanced development across the nation

• In general, efforts will be made to further lift restrictions on foreign investment and improve opening-up and transparency to invite foreign capital, technologies, and talent into the FTZs with the objective of testing innovative reform measures that will help boost high-end industrial development in the zones and empower the economic upgrading in western and central China

• At the same time, the 7 new FTZs are allowed to tap their unique geographical features and local industrial advantages for further experiments
However, the experiments in the ‘Free’ Trade Zones have yet to create a real ‘free’ environment for business

- However, 4 years on since the establishment of the 1st FTZ in Shanghai, the results seem “not that exiting” as commented by foreign business executives. In fact, the experiments in the FTZs 1.0 & 2.0 have yet to create a real free environment for free flows of goods, capital and information.

- Financial reforms in the FTZs are constrained by concerns over arbitrage and financial risks; Most investment liberalization measures are vaguely defined, lack of detail, and keep going forth and back constantly; Customs regulations, which differ from area to area within FTZs, fluctuate between loosening and tightening.

- We can see that China’s leaders are exercising caution in advancing reforms in the FTZs since they are intended to be “replicable and expandable” nationwide.

- In sum, China’s FTZs still have a way to go to live up to the high expectations many foreign investors hold for a real free business environment.
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