

## The State Council of the People's Republic of China Announces Framework Plan for the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone

China Business Solution Office  
RMB Internationalization Business Promotion Office

On August 6, 2019, the State Council of the People's Republic of China approved the establishment<sup>1</sup> of and announced a framework plan<sup>2</sup> for the Lingang New Area of the Shanghai Pilot Free Trade Zone (hereinafter, "Shanghai FTZ").

<sup>1</sup> Official Response regarding the Approval of the Establishment of the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone (Guohan [2019] No. 68)

<sup>2</sup> Notice of Issuance of the Framework Plan for the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone (Guofa [2019] No. 15) (hereinafter, "the Framework Plan")

### 1. Background of the Policy

The Shanghai FTZ was established in September 2013, spanning an area of 28.78 km<sup>2</sup> and four special zones within the city of Shanghai: the Waigaoqiao Free Trade Zone, the Waigaoqiao Free Trade Logistics Park, the Yangshan Free Trade Port Area, and the Pudong Airport Free Trade Zone.

In April 2015, the Shanghai FTZ was officially expanded to include the Lujiazui Finance and Trade Zone, the Jinqiao Economic and Technological Development Zone, and the Zhangjiang Hi-Tech Park, increasing in size to cover an area of 120.72 km<sup>2</sup>.

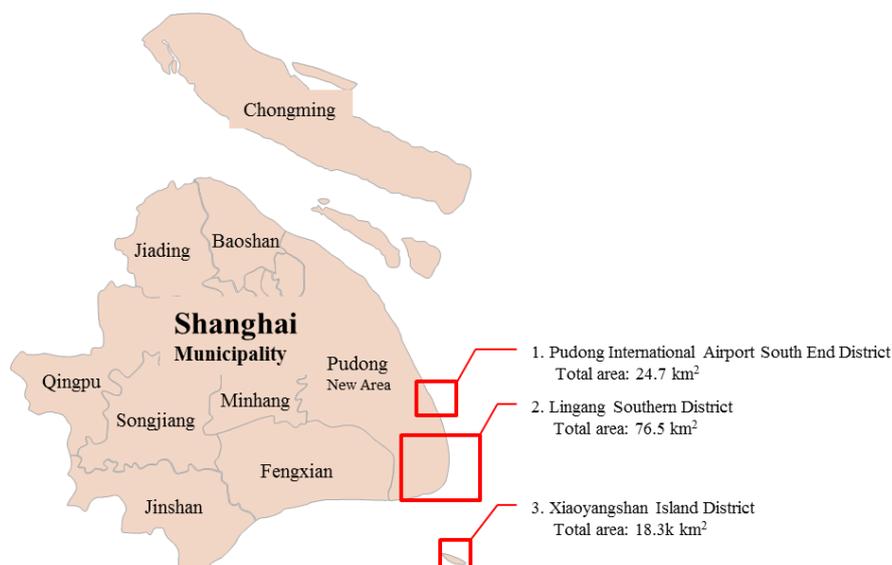
In November 2018, Chinese President Xi Jinping delivered the keynote speech at the opening ceremony of the inaugural China International Import Expo, in which he stated, "we will **expand the China (Shanghai) Pilot Free Trade Zone to include a new section**, and we will encourage and support bold and creative steps by Shanghai to advance investment and trade liberalization and facilitation so that more of its successful practices may be replicated in other parts of China."

In August 2019, that new section of the Shanghai FTZ was designated as **the Lingang New Area**.

The State Council has indicated it is paving the way for Shanghai to become a "**global financial hub**" and a "**global shipping hub**" by 2020. The Lingang New Area, founded as China approaches the apex of its steps to open up the nation to the world, has a higher status than other zones, and as a strategic move is expected to bring more abundant and larger-scale opening-up policies elsewhere in China.

### 2. Main Contents of the Announcement

The Lingang New Area comprises three districts: (1) **Pudong International Airport South End District**, (24.7 km<sup>2</sup>), (2) **Lingang Area Southern District** (76.5 km<sup>2</sup>), and (3) **the Xiaoyangshan Island District** (18.3 km<sup>2</sup>), with a total area of 119.5 km<sup>2</sup>.



The Lingang New Area has a higher status than other areas in the Shanghai FTZ, as it **has the objective of earning international recognition and becoming the most competitive free trade zone**. For this purpose, the **development objectives are divided into two steps**.

Step 1: **By 2025**, establish relatively mature systems for the liberalization and facilitation of investment and trade, build a more open and highly functional platform, attract top global companies, dramatically increase creativity and competitiveness in the area, and greatly develop the economic power and scale of the area.

Step 2: **By 2035**, deliver an area with special economic functions that has relatively strong influence and competitiveness in global markets, develop a more mature regulatory system, develop innovative functionality that has access to high-end global resources, and become a key way for China to more deeply integrate with the global economy.

The Framework Plan provides a systematic allocation of (1) **investment and trade liberalization**, (2) **comprehensive risk management**, and (3) **open industry framework**.

**(1) Investment and Trade Liberalization**

The system for **investment and trade liberalization** in the Lingang New Area incorporates seven items: **freedom of investment, free trade, free movement of funds, free movement of cargo, freedom of employment, freedom of transnational data, and a special taxation policy**.

**[Fig. 1] Investment and Trade Liberalization**

No.	Domain	Details
1	Freedom of Investment Facilitate investment operations in a level playing field	➤ Administer a <b>security evaluation system for foreign commercial investment</b> ; further expand the opening-up of focus industries including <b>long-distance communications, insurance, securities, scientific research and technology services, education, and sanitation</b> ; ease restrictions on <b>registered capital and investment methods</b> .
		➤ Implement a pilot system for <b>the registration and verification of traders</b> ; conduct a <b>formal screening process</b> for documents submitted by applicants.
		➤ Thoroughly carry out reforms <b>separating operation permits and business licenses</b> .
		➤ Support the establishment of <b>international commercial arbitration</b>

		<b>organizations</b> in the new area.
2	<b>Free Trade</b> Liberalize trade to a high degree	<ul style="list-style-type: none"> <li>➤ Within the New Area, establish the <b>Yangshan Special Customs Bonded Zone</b> within an area surrounded by a physical fence.</li> <li>➤ Explore ways to implement a supervisory model for <b>liberalization and convenience</b> that will attain an even higher level, focusing on <b>security oversight</b>, for <b>freight arriving from abroad at the fenced zone</b>.</li> <li>➤ Support the development of <b>internationally competitive focus industries</b> in the New Area; actively search out an <b>appropriate customs supervision system</b>.</li> <li>➤ Accelerate the development of <b>capital- and technology-intensive service trade including cultural services, technology products, ICT, and medical care</b>; reform <b>cross-border e-commerce</b> service models; encourage the establishment of an <b>international distribution platform</b> for cross-border e-commerce within the New Area.</li> <li>➤ Grant <b>crude oil import permits</b> to eligible companies in the New Area.</li> </ul>
3	<b>Free Movement of Funds</b> Implement a cross-border financial management system for facilitating the cross-border receipt and payment of funds	<ul style="list-style-type: none"> <li>➤ Further <b>simplify the process for handling cross-border RMB operations for companies in good standing</b>.</li> <li>➤ Conduct research related to the trial of functionality for <b>integrated RMB and foreign currency free trade accounts</b> to explore <b>free capital inflow/outflow and free currency exchange</b> in the New Area.</li> <li>➤ Support <b>companies</b> in the New Area in expanding <b>cross-border financial operations</b>; support <b>financial institutions</b> in providing <b>cross-border financial services for companies and non-residents</b> within the New Area—including <b>cross-border bond issuance, cross-border M&amp;As, and cross-border centralized management of funds</b>.</li> <li>➤ Allow <b>companies</b> in the New Area to independently allocate <b>funds procured from abroad, funds and revenue acquired abroad using the cross-border services provided</b> by certified financial institutions to <b>operating and investment activities in the New Area or abroad</b>.</li> <li>➤ Support the development of <b>financial institution</b> operations including <b>cross-border securities investments and cross-border insurance asset management</b>.</li> <li>➤ Steadily promote <b>free currency exchange in the capital account</b>.</li> <li>➤ Actively implement measures including <b>easing the foreign equity ratio restrictions on financial institutions</b> and <b>expanding the scope of business operations that foreign-owned financial institutions</b> can conduct; support the <b>establishment of various types of financial institutions by foreign investors</b>; <b>guarantee equality in the management of joint Chinese-foreign financial institutions</b>.</li> <li>➤ With the authorization of national-level financial administration departments, use new technologies to raise the level of financial services and improve supervisory capabilities, and create a <b>framework and mechanism for unified and efficient financial administration and steadily prevent financial risk</b>.</li> </ul>

<p>4</p>	<p><b>Free Movement of Cargo</b> Implement a highly open international shipping system</p>	<ul style="list-style-type: none"> <li>➤ Boost the port’s functionality to be a <b>global hub</b>; enhance the opening up of <b>domestic coastal cargo transport, international vessel registration, and international freedoms of the air</b>; improve integration and distribution capabilities related to <b>international sea routes and cargo resources</b>.</li> <li>➤ Gradually internationalize the <b>legal inspection of vessels</b>.</li> <li>➤ If a <b>ship built in China is registered to the “Yangshan Port of China” and engaged in international transport of goods</b>, its activities will be deemed export and the <b>export tax will be refunded</b>.</li> <li>➤ Further improve the policies relating to <b>tax refunds at outbound ports</b>; streamline the supervisory process; increase the effectiveness of policies regarding the <b>domestic coastal cargo transport of Chinese-owned flag-of-convenience ships</b>; consider permitting, under the principle of reciprocity, a <b>foreign-registered international shipping vessel in international transit at Yangshan Port to transport foreign trade containers domestically on the coast</b>.</li> <li>➤ Promote the “<b>fifth freedom of the air</b>” for commercial air transport by encouraging airlines based in <b>Belt and Road Initiative countries and regions</b> to create routes that go through <b>Pudong International Airport</b>, attract airlines from relevant countries and regions to <b>open up stop- and-go routes</b>.</li> <li>➤ Support finding ways to increase the number of <b>air routes that transit through Pudong International Airport</b>.</li> <li>➤ With <b>Yangshan Port, Pudong International Airport, and the Luchaogang Railway Station Container Terminal</b> as the centers, promote the sharing of information related to <b>sea, air, and rail transport</b> concerns to improve the efficiency of <b>intermodal freight transport</b>.</li> </ul>
<p>5</p>	<p><b>Freedom of Employment</b> Manage employment in an open and effective manner</p>	<ul style="list-style-type: none"> <li>➤ <b>Ease employment restrictions relating to highly skilled persons in modern service industries</b>; enact more open and useful policy measures in areas such as <b>worker immigration and permanent residency</b> for foreign workers.</li> <li>➤ Create systems for <b>work permits and employee visas for foreign employees</b> in the New Area.</li> <li>➤ Allow specialist workers in domains including <b>finance, architecture, planning, and design</b>, who hold <b>professional certifications issued in foreign countries</b> and meet certain conditions, to provide their services within the New Area <b>after submitting an application</b> and also <b>allow their foreign work history to be considered part of their domestic work history</b>.</li> <li>➤ Permit <b>foreign residents</b> in the New Area to <b>take exams for Chinese vocational certifications</b>.</li> <li>➤ Explore ways to enforce and strengthen technical cooperation in highly technical fields including <b>legal forensics and poison analysis and legal environmental damage analysis</b>.</li> <li>➤ Provide policy measures that make getting a <b>visa and stopping or residing</b></li> </ul>

		<p>in China easier for <b>foreign persons</b> who are in the New Area for economic and trade activities including <b>business, exchange, and visits</b>.</p> <p>➤ Enact and improve policies and administrative methods to <b>attract foreign workers</b> by granting <b>work permits</b> and “<b>green cards</b>” which allow <b>permanent or long-term residency</b> to <b>high-level foreign workers who work as leaders or on leading teams in scientific research and innovation</b>, and the like.</p> <p>➤ Explore ways to implement a system for <b>controlling foreign employee limits</b>.</p>
6	<p><b>Freedom of Transnational Data</b> Allow the safe and orderly transnational movement of online data</p>	<p>➤ Establish cross-border telecommunications facilities; accelerate the building of next-generation <b>information infrastructure</b> including <b>5G, IPv6, cloud computing, IoT, and connected cars</b>; improve <b>broadband access, quality of internet service, and application scope</b> in the New Area; establish safe and convenient <b>channels dedicated to international online data</b>.</p> <p>➤ Support focus areas in the New Area including <b>integrated circuitry, AI, biomedical sciences, and business economics</b>; run a pilot <b>security evaluation of transnational data transfer</b>; create a <b>data security management mechanism</b> that includes <b>data protection capability verification, data distribution and backup appraisal, and evaluation of transnational data distribution and trade risk</b>.</p> <p>➤ Enact <b>international cooperation regulations on a trial basis</b>; focus on the protection of rights and data including <b>patent rights, copyright, and corporate trade secrets</b>; actively plan and lead exchange and cooperation in the <b>global data economy</b>.</p>
7	<p><b>Special Taxation Policy</b> Implement a globally competitive taxation system and policy</p>	<p>➤ Implement a <b>special taxation policy</b> for <b>foreign cargo goods brought into the fenced zone and for trade in goods and services conducted among companies within the fenced zone</b>.</p> <p>➤ Expand the applicability scope of the <b>export value-added tax policy for services</b> in the New Area; research a tax policy for the New Area that can be applied to the development of <b>foreign investment and off-shoring</b>.</p> <p>➤ Collect corporate income tax based on a <b>reduced rate of 15% for five years from the date of establishment</b> for companies which are involved in the production, research, and/or development of the core processes of focus fields including <b>integrated circuitry, AI, biomedical sciences, and civil aviation</b>, are located within the New Area, and meet certain conditions.</p> <p>➤ Consider the application of a <b>policy which subsidizes individual income tax payments for foreign workers</b>.</p> <p>➤ Explore the pilot implementation of <b>tax policies for free trade accounts</b>.</p>

**(2) Comprehensive Risk Management**

The Lingang New Area system for **comprehensive risk management** includes the following three items: **administrative supervision of focus areas, credit rating supervision, and border security**.

**[Fig. 2] Comprehensive Risk Management**

No.	Domain	Details
1	<b>Administrative Supervision of Focus Areas</b>	➤ Create an <b>information management service platform</b> which covers the <b>administrative authority of the New Area, industry administration departments, companies within the Area, and related operating organizations.</b>
		➤ Further improve administrative measures regarding <b>security assessment, anti-monopoly assessment, industry regulations, user verification, and conduct assessment</b> , etc. for foreign investments with regard to focus areas including <b>investment, trade, finance, networks, ecology, cultural security, immigration, anti-terrorism and anti-separatism, and public morals</b> ; strengthen the <b>practical application of IT</b> for risk research, evaluation, and prevention controls; create a <b>unified control</b> mechanism for this.
		➤ Create an <b>accurate monitoring mechanism for risks</b> in special areas including <b>quarantine, place of origin risks, intellectual property rights, international treaties, and cross-border funding</b> ; implement <b>real-time risk monitoring and dynamic alert management</b> for all processes.
2	<b>Credit Rating Supervision</b>	➤ Provide <b>basic rules and criteria for credit evaluation</b> ; implement <b>management competency control</b> ; make <b>credit ratings a major factor</b> for companies to <b>receive preferential policy treatment and access to beneficial systems.</b>
		➤ Create a <b>proactive disclosure mechanism</b> ; publically release <b>credit blacklists</b> and implement <b>market entry prohibition and expulsion systems.</b>
		➤ Improve the commercial deregistration system so that if a company was <b>registered illegitimately</b> , such as through <b>fraud or bribery</b> , the registration authority will <b>revoke that registration by order of law.</b>
3	<b>Border Security</b>	➤ Construct high-level <b>intelligent monitoring infrastructure</b> ; attain <b>interconnected and mutually acknowledged sharing of monitoring information.</b>
		➤ The <b>“first line”</b> is to protect <b>national security</b> ; the <b>“second line”</b> is to protect <b>the security of the economic order.</b>
		➤ Strengthen immigration security controls; implement <b>“two-step entry permission” supervision for cargo</b> being brought into the New Area.
		➤ Perform national <b>“entry permission” supervision</b> as prescribed by law for <b>prohibited and restricted goods (CBRNE, narcotics, etc.), potential major epidemic contaminants, and high-risk items</b> that pose a major threat to security (etc.) and could cause a difficult-to-control hazardous situation if they are cleared to enter, and are explicitly mentioned in law and regulations.
		➤ For the inspection of <b>non-high risk goods</b> and the control of other risks such as <b>controllable-risk quarantine</b> , perform <b>“area entry approval” supervision</b> as prescribed by law.

**(3) Open Industry Framework**

Finally, the Lingang New Area system for an **open industry framework** is comprised of the following six items: **leading-edge industrial clusters with breakthrough core technologies, new types of international trade, a high capability international air/sea terminal, cross-border financial services, unified industrial-urban development, and cooperative innovation and development in the Yangtze River Delta.**

[Fig. 3] Open Industry Framework		
No.	Domain	Details
1	Leading-edge industrial clusters with breakthrough core technologies	➤ Build a <b>comprehensive industrial base for integrated circuitry</b> ; streamline the customs <b>bond model for all processes relating to import materials</b> ; support the establishment of offshore research and development and manufacturing centers by multinational corporations; promote the development of focus areas including <b>core chips, special technologies, core equipment, and basic materials</b> .
		➤ Design a <b>model area for AI innovation and application</b> ; accelerate the <b>opening up of applications</b> ; accelerate the development of new industries and lines of business including <b>smart cars, smart manufacturing, and smart robotics</b> .
		➤ Design a <b>civil aviation industrial cluster</b> ; focusing on <b>large passenger aircraft and civil aviation engines</b> , accelerate the accumulation of related industries including <b>fundamental research, technology development, product development, and testing and verification</b> ; promote the development of the entire aviation industry chain including <b>assembly subcontracting, production support, operation and maintenance, and cultural tourism services</b> .
2	New types of international trade	➤ Build <b>remanufacturing centers with maintenance and the environment</b> in mind in the Belt and Road countries and regions; create <b>green verification and rating mechanisms</b> ; support the <b>maintenance and remanufacturing</b> of products including <b>CNC machine tools and construction equipment</b> within the general bonded zone.
		➤ Establish an <b>Asia-Pacific supply chain management center</b> ; improve the support mechanism for systems related to new <b>global trade and global market investment services</b> ; encourage headquarter-type organizations to congregate in the area.
		➤ Develop <b>cross-border digital trade</b> ; support the establishment of <b>cross-border e-commerce warehouses abroad</b> .
		➤ Create an <b>international medical services cluster zone</b> ; develop <b>cross-border medical insurance products</b> in cooperation with foreign institutions; support the trial development of <b>international medical insurance settlement</b> .
3	High capability international air/sea	➤ Permit the <b>exhibition, auction, and trade of cultural artworks</b> for an international audience by qualified wholly foreign-owned enterprises.
		➤ Build an <b>international air and sea terminal</b> at Pudong International Airport; build an <b>air cargo station</b> with consolidated <b>distribution, sorting,</b>

	<b>terminal</b>	<p>and <b>monitoring</b> functions; support the building of a <b>regional air transport main base</b> and an <b>international terminal center for air express post</b>.</p> <ul style="list-style-type: none"> <li>➤ Promote the <b>unification</b> of all processes involved in the <b>transport of international passengers and their luggage</b>.</li> <li>➤ Create an <b>international air-sea supplies services system</b>; improve general service capabilities including the <b>provision of supplies, maintenance, parts, and fuel for ships and aircraft</b>;</li> <li>➤ Support the development of services by local and foreign companies and organizations including <b>air/sea cargo transport financing, air/sea cargo transport insurance, air/sea cargo transport settlement, air/sea cargo transport parts rental; ship trading, and air/sea cargo transport mediation</b>; explore ways of working to develop <b>derivative products based on air-sea cargo transport indicators</b>; improve the high-end air/sea cargo transport service functionality.</li> </ul>
4	<b>Cross-border financial services</b>	<ul style="list-style-type: none"> <li>➤ Put effort into improving the capabilities of <b>RMB cross-border financial services</b>; increase the depth and extent of RMB cross-border financial services.</li> <li>➤ Support the development of <b>RMB cross-border trade finance and refinancing operations</b>.</li> <li>➤ Encourage the establishment of <b>global or regional funds management centers</b> by multinational corporations.</li> <li>➤ Accelerate the provision of <b>finance leasing</b> including for <b>aircraft and ships</b>; encourage the development of <b>green finance businesses</b> including <b>pollution legal liability insurance</b>.</li> </ul>
5	<b>Unified industrial-urban development</b>	<ul style="list-style-type: none"> <li>➤ Use internationally high-level capital and experience to expand channels that promote public service fields such as <b>education, medical care, culture, sports, park construction, and urban administration</b>; strengthen the construction management of all types of infrastructure in the New Area; increase the functionalities of high-quality, internationalized urban services.</li> </ul>
6	<b>Cooperative innovation and development in the Yangtze River Delta</b>	<ul style="list-style-type: none"> <li>➤ Support the establishment of a <b>specialized fund for cooperative innovation</b> by local and foreign investors in the New Area; cooperate on critical scientific research projects; permit the <b>unrestricted use of related funds in the Yangtze River Delta</b>.</li> <li>➤ Support participation in <b>private placement funds</b> which were started <b>abroad by local investors</b> regarding the <b>financing of innovative research and technology companies in the New Area</b>; permit <b>investment in the Yangtze River Delta region</b> if it meets certain conditions.</li> <li>➤ Support the <b>formation of industrial clusters in the Yangtze River Delta region for priority industries</b> of the New Area.</li> </ul>

### 3. Impact on Companies

In recent years, many free trade zones have been created within the Chinese borders. The innovative policies being trialed in the FTZs encompass the daily manufacturing operations and management of companies that deal in investment, trade, finance, administration, and others. Matured policies go on to be replicated and

developed across the country so the resulting reforms can be experienced everywhere.

With this Framework Plan as its base, the Lingang New Area will strive for a high degree of openness, implementing opening-up measures in all directions to a greater depth and broader range. Related policies are expected to reform and open up China to a level never seen before. Looking back on the history of the development of the FTZs, even just some of the innovative policies to be trialed in the Lingang New Area have high potential for being expanded outside the Area in the future. The FTZs have a resonating effect from which many companies can be expected to benefit.

Otherwise, based on the details of the Framework Plan, the objective of the Lingang New Area is to create a region with special economic functions that is influential and competitive in global markets. The Lingang New Area is currently aiming to implement opening-up policies and systems that will be competitive in global markets. The New Area is expected to achieve smooth investment management, liberalized expansion of cargo operations, smooth movement of funds, highly open transport, liberalized employment, and accelerated transfer of information between the Area and foreign countries. It is anticipated to provide new opportunities as it lays the groundwork for multinational corporations to enter and expand into the Chinese business realm.

In the future, Shanghai's Lingang is expected to become an international free trade port in the Asia-Pacific region alongside Singapore and Hong Kong.

We will continue to follow up on relevant information and reveal the details as they come.

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