



News Focus No.10 2015

China's State Council released framework plans for the Guangdong, Tianjin and Fujian Free Trade Zones along with a new negative list and national security review measures

On Apr 20 2015, China's State Council officially announced the framework plans regarding pilot free trade zones (hereinafter "FTZs") in Guangdong, Tianjin and Fujian as well as plans to further reform and open up the China (Shanghai) Pilot Free Trade Zone (hereinafter "PFTZ"). Coinciding with the official launching of the FTZs, an updated negative list for foreign investment and measures to build a national security review system were issued on the same day. These regulations generally follow the model of PFTZ with a couple of modifications to adapt for local characteristics. We will be introducing the highlights of the FTZ framework plans in the following report.

I Background

FTZs are part of the government efforts to test reform policies and better integrate the economy with international practices in a landscape where China's old export-reliant model is no longer sustainable. Serving as a testing ground, PFTZ was officially launched in Sep 2013, and expanded from 28.78 square kilometers to 120.72 square kilometers on Dec 28 2014, together with proposals for 3 new FTZs in Guangdong, Tianjin and Fujian announced by the Standing Committee of the National People's Congress. Each of the three new FTZs will make full use of its geographic location. For example, the Guangdong FTZ aims to deepen economic cooperation between the mainland, Hong Kong and Macao; the Tianjin FTZ is part of a push to coordinate development of the Beijing-Tianjin-Hebei region, while the Fujian FTZ is focused on deepening economic cooperation between the mainland and Taiwan.

The State Council also released an updated negative list for foreign investment. Foreign companies can invest without restrictions in any sector not on the list. The negative list will be applicable to all the four FTZs. It included a total of 122 items, down slightly from the 139 of the 2014 PFTZ negative list. To be compatible with the negative list management approach, measures of establishing a national security review system of foreign investment projects in the FTZs were also issued. The measures are planned to be introduced in the FTZs on a trial basis, aiming to further open up while strengthening supervision, preventing risk and guiding the orderly development of foreign investment.

II Comparison on the major features of the FTZs

Many of the key favorable policies available to foreign investors in PFTZ have also been replicated in other three FTZs in Guangdong, Tianjin and Fujian, including the negative list approach, simplification of custom check procedures, and liberalization of the financial sector. However, different measures will be adopted for each new FTZs according to their distinctive geographic advantages. Please refer to below table for reference.

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	Guangdong FTZ	Tianjin FTZ	Fujian FTZ	PFTZ
Development Goal	To build an international FTZ with free foreign trade, convenient investment, high-tech industry cluster, sophisticated financial services, sound law system, efficient regulation and strong driving effect for the economy development after 3 to 5 years of exploration			To be the most open international FTZ in the country
Area (km²)	1.Nansha New Area (60 km ²) 2.Qianhai & Shekou Area (28.2 km ²) 3.Hengqin New Area (28 km ²) (116.2 km ² in total)	1.Binhai New Area (46.8 km ²) 2.Tianjin airport (43.1 km ²) 3.Tianjin Port (30 km ²) (119.9 km ² in total)	1.Pingtang Area (43 km ²) 2.Xiamen City (43.78 km ²) 3.Fuzhou City (31.26 km ²) (118.04 km ² in total)	1.Existing Area ¹ (28.8 km ²) 2.Expanded Area ² (91.9 km ²) (120.7 km ² in total)
Positioning	<ul style="list-style-type: none"> • A pilot area for next round of economic reforms nationwide • A key hub for the 21st Century Maritime Silk Road initiative • A demonstration area for deeper collaboration between Guangdong, Hong Kong and Macau 	<ul style="list-style-type: none"> • A platform for economic integration of Beijing, Tianjin and Hebei Province • An innovation test ground for economic reforms nationwide • A highly developed FTZ with further opening up to the world 	<ul style="list-style-type: none"> • A connection point on the cross-strait economy and trade with Taiwan • A core area for construction of the 21st-Century Maritime Silk Road 	<ul style="list-style-type: none"> • Pioneering China's reform and innovation development serving as a key part of national strategic development • Exploring new models of regional economic cooperation • Creating a more comprehensive rule of law environment
Feature industry	<p><i>Nansha New Area</i> Shipping and logistics, financial industry, International business & trading, high-end manufacturing</p> <p><i>Qianhai & Shekou</i> Financial industry, modern logistics,</p>	<p><i>Tianjin Port</i> Shipping, logistics, International trading, financial leasing</p> <p><i>Tianjin Airport</i> High-end manufacturing in relation to aviation, equipment and new information</p>	<p><i>Pingtang Area</i> International tourism, liberalization of investment and trade</p> <p><i>Xiamen City</i> Cross-straits emerging industries and modern services,</p>	Further improve the national security review system; strengthen intellectual property protection; more liberalization on the convertibility of the capital account and opening up of financial sector; expansion of

¹ Existing area including Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone

² Since Apr 21 2015, PFTZ expanded to including Lujiazui Financial and Trade Zone, Shanghai Jinqiao Economic and Technological Development Zone (former Jinqiao Export Processing Zone) and Zhangjiang Hi-Tech Park



	information services, science and technology services Hengqin New Area Tourism, leisure and health care, Business and financial services; Cultural, science and education services; High-new tech	technology R&D and design, aviation and logistics Binhai New Area Financial innovation	cross-straits regional financial and trading center Fuzhou City Advanced manufacturing, international cooperation platform of 21st century "Maritime Silk Road", cross-straits service & financial innovation	international cargo transfer transport and shipping; accelerate the reform of integrated regional customs clearance in the Yangtze River Delta
Main Mission	1.Build an international, market-oriented business environment with a sound law system; 2.Deepen the liberalization of service trade among Hong Kong, Guangdong and Macau; 3.Strengthen the integration of international trade functions; 4.Deepen the innovation and opening up of financial service; 5.Enhance FTZ's leading role in the Pearl River Delta region	1.Accelerate the transformation of government functions; 2.Expand the opening-up of investment fields; 3.Promote the transformation and upgrading of trade; 4.Deepen the innovation and opening up of financial service; 5.Promote the economic integration of the region encompassing Beijing, Tianjin and Hebei Province	1.Accelerate the transformation of government functions; 2.Promote the reform in investment management mechanism; 3.Promote the transformation and upgrading of trade; 4.Initiate the liberalization of investment and trade with Taiwan; 5.Deepen the innovation and opening up of financial service; 6.Cultivate new advantages in the further opening up of Pingtan area	1.Accelerate the transformation of government functions; 2.Further deepen suitable investment management mechanism innovation; 3.Promote the innovation in trade supervision system; 4.Enhance legislation in regulations and policies
Uniqueness	Restrictions lifted in service provisions between Hong Kong, Macau and Guangdong, for example, Hong	Financial innovation in financial leasing and further opening up of industry sectors covering	Pioneer the promotion of investment and trade liberalization with Taiwan. For	Further explore implementing the negative list approach and reduce restrictions on foreign access;

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	Kong and Macau service providers are now allowed to set up wholly foreign-owned international shipping enterprise within the FTZ and provide high-end medical services.	international shipping management and agency service, etc.	example, the plan will explore permitting Taiwanese financial institutions to establish equity joint venture fund management companies, with Taiwan investors holding at least 50% of the equity therein.	Continue to play a leading role in promoting the facilitation of investment and trade, liberalization of currency conversion, effective and convenient oversight and a comprehensive rule of law environment.
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III Comments

Following the footprint of PFTZ, a number of pilot reforms have been implemented and expanded all over China. The launch of the new FTZs in Guangdong, Fujian and Tianjin will mark another step forward in China's efforts to open its economy wider to international investors.

To keep up with the latest development progress of FTZs, we attended the launching ceremony of Guangdong FTZ and the following seminar explaining the policy measures, which both took place in Nansha district in Guangzhou, with top provincial officials in attendance on Apr 21 2015. During the ceremony, 10 innovative businesses were launched, covering custom clearance and processing, online tax administration system, financial leasing and cross-border financial products offered by domestic banks. Officials of Nansha said focus will be given to high-end financial service, modern shipping service, and advanced manufacturing industry, aiming to build Nansha into the third sizable financial leasing center after Tianjin and Shanghai.

Another seminar on policy measures of Guangdong FTZ was co-organized by Guangdong government and Hong Kong government on May 8 2015. At the seminar, officials in charge of Guangdong FTZ development explained the recent FTZ progress and introduced the preferential policies of each area in Guangdong FTZ. The governments demonstrated great confidence in the future cooperation and development of the Guangdong FTZ. As the detailed plan is still in discussion, we will keep an eye on the policy update in the near future.

The interpretation and actual implementation of the FTZ progress should be worthy of attention. The up-to-date information will be provided continuously by our bank.

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