

China Launches 7 New Free Trade Zones

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On 31 March 2017, the State Council issued framework plans for the new free trade zones (hereinafter "FTZ(s)") in the provinces of Liaoning, Zhejiang, Henan, Hubei, Sichuan, Shaanxi and Chongqing Municipality. It is expected that new launch of the FTZs will contribute to stimulate economic growth under China's "new normal".

BACKGROUND

Since the first launch of FTZ in 2013, positive achievements have been recognised in China's FTZ construction. It is said that in 2016, there were nearly 140 thousand enterprises newly set up in the existing 4 FTZs in Shanghai, Guangdong, Fujian and Tianjin. Among which, nearly 10 thousand were foreign-invested enterprises, boosting the actual use of foreign capital with a more than 80% year-on-year increase. At present, around one-tenth of China's foreign investment is drawn from the 4 FTZs. Moreover, 114 reform measures piloted in the 4 FTZs have been implemented nationwide.

Encouraged by the results, China approved the establishment plans of the 7 new FTZs in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shaanxi in August 2016, in order to replicate the success of previous trials and to further deepen reform and open up in a wider range. Soon after release of the framework plans, the 7 new FTZs were officially opened on 1 April 2017, bringing China's total number of FTZs to 11.

Unlike the existing ones which are all located on the coast, most of the new FTZs are located inland, with the aims to facilitate China's "Belt and Road" initiative as well as the regional development strategies.



HIGHLIGHTS

I) BASIC INFORMATION

With reference to the existing FTZs, each of the 7 new FTZs contains 3 areas with a total designated area of around 120 km². Each FTZ has its own strategic position and development orientation according to its geographic advantages and competitive industries. Generally speaking, the 7 FTZs will be dedicated to promote development of the national strategies like the “China western development”, “revitalising north eastern China”, “rise of central China”, “Yangtze River Economic Belt” as well as the “Belt and Road” initiative.

Each FTZ’s position and development prospect, as well as location and key industries of each area will be introduced respectively as follows.

1. Liaoning FTZ (119.89 km²)

A new engine to reignite the competitiveness of northeast China’s traditional industries.

- Dalian Area (59.96 km²): Shipping and logistics, finance and commerce, advanced equipment manufacturing, high-tech, recycling economy¹, etc.
- Shenyang Area (29.97 km²): Equipment manufacturing, automobile and spare parts, aviation equipment, finance, technology, logistics, etc.
- Yingkou Area (29.96 km²): Trade logistics, cross-border e-commerce, finance, next generation information technology, high-end equipment manufacturing, etc.

2. Zhejiang FTZ (119.95 km²)

An international transit hub in eastern China with global allocation capability for bulk commodities with petroleum products at the core.

- Zhoushan Offshore Island Area (78.98 km²): Green petrochemicals, oil and other bulk commodities storage, transit and trade, bonded fuel oil supply, etc.
- North Zhoushan Island Area (15.62 km²): Oil and other bulk commodities trading, bonded fuel oil supply, bonded logistics, storage and manufacturing of oil and petrochemical supporting equipment, etc.
- South Zhoushan Island Area (25.35 km²): Bulk commodities trading, aviation manufacturing, spare parts logistics, R&D, aquatic products trading, marine tourism, seawater utilising, modern commerce, financial services, shipping, information consulting, high-tech, etc.

3. Henan FTZ (119.77 km²)

An integrated transport hub with a modern three-dimensional traffic and logistics system to support the development of the “Belt and Road” initiative and the inland economy.

- Zhengzhou Area (73.17 km²): Intelligent terminal, high-end equipment and automobile manufacturing, biomedicine, modern logistics, international trade, cross-border e-commerce, modern financial services, service outsourcing, creative design, business exhibition, animation and games, etc.
- Kaifeng Area (19.94 km²): Service outsourcing, medical tourism, creative design, cultural finance, art trade, modern logistics, etc.
- Luoyang Area (26.66 km²): Equipment manufacturing, robots, new materials, R&D, e-commerce, service outsourcing, international cultural tourism, etc.

¹ A “circular economy” is a continuous positive development cycle that preserves and enhances natural capital, prioritizes regenerative resources and uses waste as a resource.

4. Hubei FTZ (119.96km²)

A demonstration area for industrial transfer with the aims to accelerate rise of the central China and promote development of the Yangtze River economic belt.

- Wuhan Area (70 km²): Next generation information technology, life science, intelligent manufacturing, international trade, financial services, modern logistics, inspection and testing, R&D, information services, etc.
- Xiangyang Area (21.99 km²): High-end equipment manufacturing, new energy vehicles, big data, cloud computing, trade logistics, inspection and testing, etc.
- Yichang Area (27.97 km²): Advanced manufacturing, biomedicine, electronic information, new materials, R&D, headquarters economy², e-commerce, etc.

5. Chongqing FTZ (119.98km²)

A major pivot to interconnect the “Belt and Road” initiative and the Yangtze River economic belt, as well as to implement the strategy to develop China’s western regions.

- Liangjiang Area (66.29 km²): High-end equipment, electronic components, cloud computing, biomedicine, headquarters economy, trade in services, e-commerce, finance lease, R&D, etc.
- Xiyong Area (22.81 km²): Electronic information, intelligent equipment manufacturing, bonded logistics, etc.
- Guoyuan Port Area (30.88 km²): Logistics and distribution, etc.

6. Sichuan FTZ (119.99 km²)

A gateway to support the inland economy growth, as well as to promote development in China’s western regions and the Yangtze River economic belt.

- Chengdu Tianfu New Area (90.32 km²): Modern service industry, high-end manufacturing, high-tech, aviation economy³, port services, etc.
- Chengdu Qingbaijiang Railway Port Area (9.68 km²): Logistics and distribution, bonded logistics and warehousing, international freight forwarding, finished vehicle import, finance, information services, etc.
- Chuannan Port Area (19.99 km²): Shipping and logistics, port trade, education and medical care, equipment manufacturing, modern medicine, food and beverage, etc.

7. Shaanxi FTZ (119.95 km²)

A key zone to promote development in China’s inland and western regions, as well as to enhance international economic cooperation and cultural exchanges under the “Belt and Road” initiative.

- Central Area (87.76 km²): High-end manufacturing, aviation logistics, trade finance, etc.
- Xi’an International Trade & Logistics Park (26.43 km²): International trade, modern logistics, financial services, tourism exhibition, e-commerce, etc.
- Yangling Demonstration Zone (5.76 km²): Modern agriculture, etc.

² A “headquarters economy” is an economic development model to attract MNCs to set up headquarters in some resource-rich areas. It is expected that formation of the corporate headquarters cluster will help to optimize regional and industrial value chain management and to improve operational efficiency.

³ An “aviation economy” refers to the cluster-based economic development in air transportation related industries, such as aviation manufacturing, etc.

II) FINANCIAL OPENING UP

In the financial field, more innovative explorations are, or will be made, to deepen the financial reform and facilitate the opening up.

Category	Measure	Liaoning	Zhejiang	Henan	Hubei	Chongqing	Sichuan	Shaanxi
Account (RMB/FCY)	Explore improvement on free trade account to manage RMB and FCY in the FTZ	✓	✓	✓	✓	✓	✓	✓
Account (RMB)	Allow leasing company in the FTZ to open an RMB account abroad for cross-border RMB leasing business	✓				✓		
Leasing (FCY)	Allow FCY funds to be collected from eligible financial leasing operation in the FTZ	✓	✓	✓	✓	✓	✓	✓
Pooling (RMB)	Support MNC to carry out cross-border two-way RMB pooling business	✓	✓	✓	✓	✓	✓	✓
Pooling (FCY)	Relax the entry criteria for MNC's centralised management of FCY funds	✓	✓	✓	✓	✓		✓
Derivatives	Support eligible fund product in the FTZ to participate in fund product's mutual recognition between the Mainland China and Hong Kong	✓	✓	✓	✓	✓		✓
Derivatives	Gradually open the commodity futures market to the overseas enterprise	✓	✓	✓	✓	✓		
Financing (RMB)	Allow foreign parent company or subsidiary of enterprise in the FTZ to issue onshore RMB bond	✓		✓ (※1)	✓ (※1)			
Financing	Support eligible enterprise in the FTZ to issue bond overseas and transfer the funds to China			✓		✓	✓	
Financing	Support eligible enterprise in the FTZ to be listed overseas and transfer the funds to China				✓ (※2)	✓		
Investment	Support eligible enterprise in the FTZ to carry out overseas securities investment business		✓ (※3)	✓	✓ (※4)	✓ (※3)	✓	✓
Investment	Support eligible enterprise in the FTZ to carry out domestic securities investment business			✓		✓	✓	

(Remarks)

- ※1 For foreign parent company only.
- ※2 Support science and technology enterprise to carry out overseas listing or offshore mergers and acquisitions through foreign financial institutions.
- ※3 For RMB securities investment only.
- ※4 For brokerage which is QDII (Qualified Domestic Institutional Investor) or RQDII (RMB Qualified Domestic Institutional Investors).

COMMENTS

Learn from the existing FTZs, the new 7 FTZs will continue to carry out reform and exploration on institutional innovation in the administration, investment, trade and finance sectors, and to create replicable and scalable experiences.

Meanwhile, diversification and differentiation can be observed through the tasks of the third group of FTZs. While the new FTZs are targeting different markets based on their unique geographical and industrial advantages, they have the same mission. That is, to drive regional growth. In line with the national strategies, it is believed that opening the FTZs will support the central and western regions to bring out their economic vitality and achieve dynamic growth in the coming years. To achieve, measures are in place to support industrial transformation and upgrade, as well as encourage domestic enterprises in the FTZ to “go global”.

In addition, measures to facilitate foreign investment is also worth noticing. All the 7 new FTZs will operate on the same “Negative List”⁴ basis as the existing FTZs. As is known, comparing to the national version, less restricted or prohibited industries for foreign investments are listed on the FTZ version of “Negative List”. With the business environment becomes more convenient and more key markets open for foreign investment in the new FTZs, it is expected that more foreign capital will be invited and level of utility can be improved.

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⁴ The “Negative List” lists the special administration measures on market entry for foreign investment. Foreign investment is subject to the restricted or prohibited sectors on the list, while for industries not on the list, same treatment with domestic enterprise will be offered.