

China Kicks Off Free Trade Zone Momentum In Second Quarter Of 2017

New 21-point plan for Shanghai Free Trade Zone, seven new FTZs launched



Introduction

On 31 March 2017, China's State Council issued the *Plan for the Comprehensive Deepening of the Reform and Opening-up of the China (Shanghai) Pilot Free Trade Zone* (the "**Further Plan**"), which lists 21 new initiatives for the Shanghai Pilot Free Trade Zone ("the **Shanghai FTZ**").

On the same day, the State Council released an "overall plan" for the launch of seven new free trade zones (the "**New FTZs**") in Chongqing Municipality and the provinces of Henan, Hubei, Liaoning, Shaanxi, Sichuan and Zhejiang from 1 April 2017 (each, a "**New Overall Plan**") outlining the key areas of reform and industry focus in each New FTZ. The State Council outlined its broad objectives of introducing new incentives and measures in each New FTZ to implement the New Overall Plans, including cooperation between the authorities of the New FTZs and the relevant local government.

We consider below the key improvements contemplated for the Shanghai FTZ in the Further Plan and the developments for the New FTZs outlined in the New Overall Plans.

Shanghai FTZ to renew its focus on business efficacy

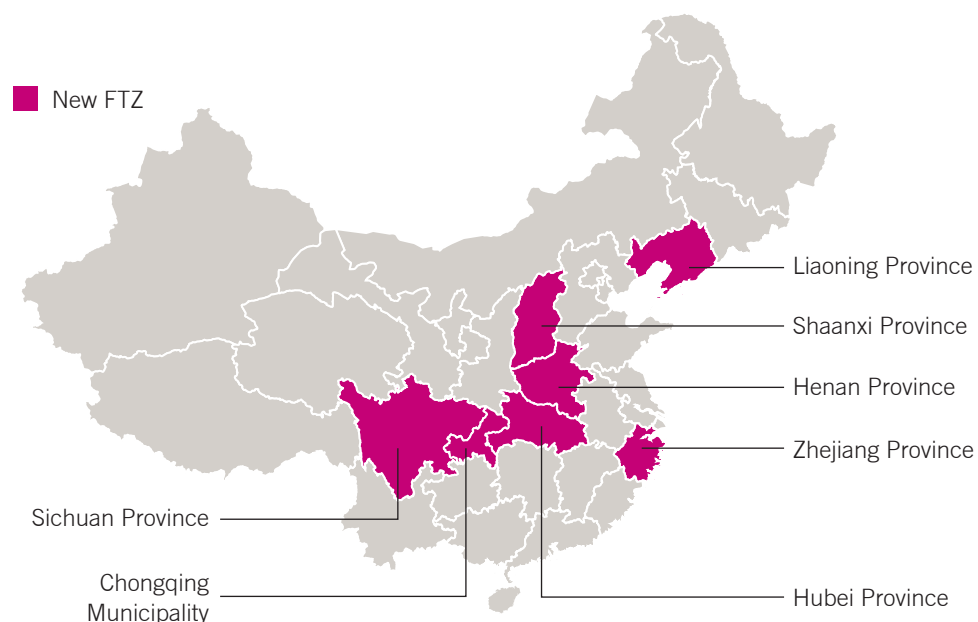
The Further Plan seeks to expand on the reforms already introduced in the Shanghai FTZ, including:

Business Names	<p>To abolish pre-approval filing of a proposed company name before registering a new company.</p> <p>A 6 April 2017 consultation draft of the State Administration for Industry and Commerce shows this is being planned nationwide. In the past, similar reforms have first been issued in Shanghai FTZ on a pilot basis.</p>
Other Corporate Reforms	<p>Business address registration is to be further facilitated, building on Shanghai's March 2015 reforms that permit affiliated enterprises to share an address. New option to allow inclusion of multiple business premises in a single registration.</p> <p>Allowing foreign-invested enterprises to have a perpetual term and simplifying deregistration procedures.</p>
Foreign Trade	<p>A "single window" for trade in goods and services based on United Nations standards, including setting up free port zones.</p> <p>Initiatives could include a single point for certifications and customs approvals, interconnected logistics, supply chain and customs clearance information networks, segmented regulation of different categories of bulk shipments and connectivity with other major ports.</p>
Foreign Investment	<p>Further opening up services sectors to foreign investment, including finance, telecoms, internet, culture, and maritime services.</p>

Regional focus of Seven New FTZs

The New FTZs are expected to introduce many of the key benefits of the existing free trade zones in Shanghai, Guangdong, Fujian and Tianjin, including the simplified customs administration procedures and single point filing of customs information in the existing free trade zones, and the convenience of a one-stop agency to process multiple regulatory applications for foreign investment, business registration, customs, tax, quality supervision and other matters.

In addition to this, the New Overall Plans focus on geographic and sector specific advantages of each individual New FTZ, with the use of inland and western China as a springboard for “One Belt, One Road” (“**OBOR**”)¹ investments being a common theme. For example, each New FTZ aims to promote cooperation with OBOR countries in customs, quarantine, certification, standards and supply chain security.



¹ The “One Belt, One Road” initiative is the Chinese government’s economic development policy for the Asia region and into the Middle East, Eurasia and Africa. Launched by President Xi Jinping in 2013, the two land and sea routes between China and Europe seek to develop the economy of underdeveloped parts of mainland China via trade and cooperation channels covering over 60 countries, in particular through investment in infrastructure by China’s Silk Road Fund and various international partnerships between China and countries along these two routes. A report, co-sponsored by Linklaters, which provides more information on OBOR can be found by clicking “[China-Britain Belt and Road Case Studies Report 2016](#)”.

Key individual features particular to each Overall Plan are summarised below.

New FTZ	Features
Chongqing Municipality	<ul style="list-style-type: none"> > Develop as strategic pivot and connection point to OBOR countries and a gateway city to West China > Build on its strategic position on Sino-European road/rail links, pan-Asia rail links through Kunming and waterway transport with Shanghai > Encourage New FTZ enterprises to set up sales, distribution, logistics, clearing and other operating centres in OBOR countries > Permit its banks to provide cross-border payment services with New FTZ e-payment firms > Encourage RMB outbound investment funds and foreign funds to establish RMB funds
Henan Province	<ul style="list-style-type: none"> > Establish transport and modern logistics system connecting China and the countries along the route of the OBOR with more international air cargo and inland traffic routes > Use Zhengzhou’s air and rail links to develop its inland port economy through high-quality imports, processing, mail hub and after-sales industries > Promote international medical tourism through first-class medical firms and R&D institutions with emphasis on personal healthcare and wellness
Hubei Province	<ul style="list-style-type: none"> > Formation of diversified transportation links to develop the New FTZ into an international logistics hub offering high-end maritime services > Permit its banks to provide cross-border payment services with New FTZ e-payment firms and encourage credit asset securitisation > Enable securities institutions to obtain QDII and RQDII qualifications for investment in offshore securities, and support their offshore subsidiaries to obtain QFII and RQFII qualifications for investment in Chinese securities > Support foreign private equity funds investing in China through onshore RMB funds, and encourage inbound and outbound investment funds

New FTZ	Features
Liaoning Province	<ul style="list-style-type: none"> > Enhance competitiveness of North-East China and its key industrial base > Encourage state-owned enterprises to develop value-added services, alternative energy vehicles and smart equipment > Expansion of international economic cooperation in North-East Asia with OBOR countries, including through an international logistics and shipping centre
Shaanxi Province	<ul style="list-style-type: none"> > Develop as an OBOR transport, commerce, courier and logistics centre > Use OBOR to develop West China, with a focus on archaeology and cultural relics, and become a gateway to West China > Develop inland economy through links with OBOR, including supporting OBOR countries to use RMB to establish financial institutions in the New FTZ
Sichuan Province	<ul style="list-style-type: none"> > Develop inland economy using transport and logistics synergies between its border and coastal areas > Develop inland economy through links with OBOR including supporting OBOR countries to use RMB to establish financial institutions in the New FTZ > Promote its trading centres for unlisted equities, technology, pollutant rights and carbon credit trading in West China > Develop centre for innovation in the production and distribution of local white spirits (<i>baijiu</i>)
Zhejiang Province	<ul style="list-style-type: none"> > Play a lead role in international commodity trading with a focus on oil, to significantly increase China's influence in global commodities markets within three years > Develop regionally-focused industries in the storage, transport, trading, supply of oil, petrochemicals and other commodities > Develop an international maritime services centre with associated oil storage and transport networks > Liberalise crude oil processing sectors; encourage leading petrochemical enterprises and enterprises from oil-rich OBOR states to invest in petrochemicals

Looking forward

Market participants will welcome the initiatives under the Further Plan to maintain Shanghai FTZ as the leading testbed for pioneering investment and business reform in China. At the same time, the purpose of the New FTZs is both to build on the experience of such reform in the Shanghai FTZ, and use development and incentive policies to rebalance the Chinese economy away from the eastern seaboard (where the first four FTZs are located) towards central and western China (with five of the New FTZs being situated in more inland regions). This rebalancing supports the partial shift in geographical focus emphasised in China's 13th "Five Year Plan: 2016-2020".

It is thus not surprising that a key part of the reforms for the New FTZs is centred on the OBOR initiative, which has gained significant momentum and frequent press coverage over the course of 2016, and 2017 to-date. Whilst implementing the New Overall Plans (as well as the Further Plan) will require further detailed rules and specific incentives, the text released so far does assist investors in deciding where to locate future China operations by providing an outline of key changes that can be expected in the relevant regions going forward – especially when other general OBOR-linked incentives are taken into account. For example, those New FTZs which have outlined intentions to promote activities relating to the OBOR could provide additional benefits to investors with ambitions to raise capital or ultimately exit via flotation, following recent reports that the Hong Kong Securities and Futures Commission may relax conditions applicable to OBOR-linked enterprises seeking to list in Hong Kong.

The Further Plan and the New Overall Plans combine to show the Chinese government's renewed focus on inbound investment as a growth engine and its continued determination to liberalise selected key sectors of the economy. Domestic and foreign investors should draw positives from this impetus at a time when the slower Chinese economy and the imposition of tightening capital controls have been overshadowing growth that nonetheless continues to lead by far any other economy in the developed world.

References

[Plan for the Comprehensive Deepening of the Reform and Opening-up of the China \(Shanghai\) Pilot Free Trade Zone](#) (全面深化中国（上海）自由贸易试验区改革开放方案), State Council, 30 March 2017

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Key contacts

For further information please contact:



Jian Fang
Partner
(+86) 21 2891 1858
jian.fang@linklaters.com



Richard Gu
Senior Consultant
(+86) 21 2891 1839
richard.gu@linklaters.com



John Xu
Counsel (Partner-elect)
(+86) 21 2891 1809
john.xu@linklaters.com



Alex Roberts
Managing Associate
(+86) 21 2891 1842
alex.roberts@linklaters.com

Authors

Bryan Chan, Alex Roberts, Allen Yan, Michael Gu

linklaters.com



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