Charltons - China News Alerts Newsletter - 08 October 2013

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# Special Topic - Shanghai Free-Trade Zone

## Shanghai Launches Free-Trade Zone

On the morning of 29 September, the China (Shanghai) Pilot Free-Trade Zone and its administrative committee held an opening ceremony in Gaoqiao, just outside Pudong, Shanghai to mark the official launch of the China (Shanghai) Pilot Free-Trade Zone. This is expected to facilitate changes in governmental functions and the diligent exploration of innovation in management styles, resulting in a repeatable and promotable experience to better serve the development of the entire country.

In the Shanghai Free-Trade Zone briefing that took place that afternoon, Secretary Wang Wei of the Ministry of Finance's Department of Tariffs stated that the 15% tax rate that applies to the Shanghai Free-Trade Zone is not final. Deputy director of the Shanghai headquarters of the Central Bank and secretary of the Shanghai branch of the State Administration of Foreign Exchange Zhang Xin stated that pilot programs for interest rate marketisation and the conversion of Renminbi capital will be conducted within the Free-Trade Zone. Secretary Kong Ling Long of the National Development and Reform Commission's Department of Foreign Investment stated that a registry for foreign investment projects with the Free-Trade Zone has been implemented. Secretary Liu Chang Chun of the Finance Laws Office of the Legislative Affairs Office of the State Council stated in response to questions from reporters that, after the establishment of the Free-Trade Zone Administrative Committee, the management of the administrative services for which the Waigaoqiao Bonded Area Committee, the Yang Shan Bonded Port Area Committee and the Shanghai Joint Bonded Area Committee were originally responsible will be unified. The policies of the new pilot program are applicable to the existing bonded areas and the existing laws and regulations are still in effect.

[Source](http://news.stcn.com/2013/0930/10787183.shtml) ([see archive](1.pdf))

## Shanghai Free-Trade Zone's Issuance of Negative List Prohibits the Opening of Internet Cafés and Gambling Businesses

In accordance with foreign investment laws and regulations, such as the General Plan of the China (Shanghai) Pilot Free-Trade Zone and the Catalogue of Industries for Guiding Foreign Investment (2011 Revision), the China Shanghai Pilot Free-Trade Zone's Special Regulatory Measures for Foreign Investment Access (Negative List) (2013) (the Negative List) sets out the access measures adopted within the China (Shanghai) Pilot Free-Trade Zone (the FTZ) for foreign investment projects and the establishment of foreign investment enterprises, which are unequal to the treatment of Chinese citizens. The Negative List was drafted according to the categories under the Categories and Codes of Citizens' Economic Industries (2011) and includes 18 categories of industry. The Negative List is not applicable to two categories: S - Public Administration, Social Welfare and Social Organisations and T - International Organisations.

Outside the limits of the Negative List, foreign investment projects are now regulated under a registration regime rather than an approval regime (not including domestic investment projects that require the State Council's approval); the approval of the articles of association and contracts of foreign investment enterprises has been changed to management by registration.

Aside from the foreign investment access special regulatory measures that have been set out, industries that are prohibited (restricted) by international treaties to which a foreign investment country and China are signatories or participants are now prohibited (restricted), foreign investment projects that may endanger national security and public safety are now prohibited and engagement in economic activities that harm social and public interests are now prohibited.

Foreign acquisitions, foreign investors' strategic investments in listed companies and overseas investors' equity investments in domestic Chinese enterprises that are the subjects of such acquisitions and strategic investments within the FTZ must meet the requirements of the relevant regulations; this includes national security reviews and anti-trust reviews conducted in accordance with the relevant regulations.

[Source](http://news.stcn.com/2013/0930/10787482.shtml) ([see archive](2.pdf))

## Nine Ministries Issue more than 30 Policies for the Free-Trade Zone

On the morning of 29 September, the China (Shanghai) Pilot Free-Trade Zone (the FTZ) was established in Gaoqiao outside Pudong, Shanghai, and its various services are officially operational. On that day, 25 Sino-foreign funded enterprises and 11 Sino-foreign funded financial institutions were received licences and first admitted into the FTZ. During the briefing of the launch of the FTZ that took place that afternoon, nine ministries, including the National Development and Reform Commission, the Ministry of Finance, the Ministry of Commerce, the Shanghai headquarters of the Central Bank, the Shanghai Banking Regulatory Bureau, the General Administration of Customs, the General Administration of Quality Supervision, Inspection and Quarantine, the Legislative Affairs Office of the State Council and the FTZ Administrative Committee issued new initiatives relevant to the FTZ. Preliminarily, the first batch of politicies include a total of 35 policies that touch on investment, commerce, taxation, finance and other areas.

In relation to the implementation of the "Negative List" which has attracted public attention, executive deputy director Dai Haibo of the FTZ Administrative Committee stated that the Negative List comprises 18 categories, 89 sub-categories and 190 management measures. Most foreign investment projects that have not yet been included in the Negative List may receive a business licence and organisation code in four days at the soonest.

As explained by Dai Haibo, the Negative List includes 190 management measures, which comprise approximately 17.8% of the 1069 categories of small economic industries within the FTZ. The FTZ will manage foreign investments that are included in the Negative List according to existing practices. In accordance with the principle of consistency between domestic and foreign investment, foreign investment projects that are not yet included in the Negative List will adopt a registration regime instead of an approval regime, and their articles of asociation and contracts will be managed by registration instead of approval.

[Source](http://news.stcn.com/2013/0930/10787434.shtml) ([see archive](3.pdf))

## Central Bank: Financial Liberalisation of Free-Trade Zone Emphasises Risk Controls

Risk controls is the premise of the Free-Trade Zone's financial reform liberalisation pilot program. During the China (Shanghai) Pilot Free-Trade Zone briefing held in the afternoon of 29 September, although the Central bank had not yet announced any details on the financial liberalisation and innovation in relation to the General Plan of the Free-Trade Zone, deputy director Zhang Xin of the Shanghai headquarters of the Central Bank, in response to questions from STCN reporters, stated that the crux of regulation is to prevent large influxes and outfluxes of short-term investment and short-term capital in order to maintain macro-economic stability.

Zhang stated that normal capital flow should be encouraged, especially medium- and long-term capital flow, which the Central Bank would facilitate. "Within the Shanghai Free-Trade Zone, (the Central Bank) will fully consider the prevention of shocks upon the domestic financial market and the real domestic economy caused by hot money." Zhang Xin stated that the Central Bank and the State Administration of Foreign Exchagne will promote four areas of trial financial reform in the Free-Trade Zone.

First is the creation of conditions within the Pilot Free-Trade Zone to expand the overseas use of Renminbi. Second is to conduct an interest rate marketisation trial in the financial market within the Pilot Free-Trade Zone. Zhang emphasised the need to adhere to existing interest rate management policies and the continued promotion of interest rate marketisation reform in the realisation of interest rate marketisation in the financial market within the Pilot Free-Trade Zone. "Interest rate marketisation within the Pilot Free-Trade Zone will proceed steadily within the framework of macro-prudential financial management and in accordance with the actual economic developmental needs within the service sector, the main training objectives for the financial market and the developmental status of the market environment." Third is the testing of the convertibility of Renminbi-financed projects within the Pilot Free-Trade Zone. Fourth is the establishment of a foreign exchange management system that is compatible with the Pilot Free-Trade Zone.

[Source](http://news.stcn.com/2013/0930/10787267.shtml) ([see archive](4.pdf))

## CSRC Supports the Development of Capital Markets within the Free-Trade Zone in Five Areas

The China Securities Regulatory Commission (CSRC) issued several policies on 29 September in support of the development of the capital market of the China (Shanghai) Pilot Free-Trade Zone. They cover five areas, including consent for the Shanghai Futures Exchange (SHFE) to establish an international energy company and support for overseas trading of derivative products within the Free-Trade Zone. The CSRC emphasised that it will deepen capital market reforms, increase market openness to the rest of the world and strengthen financial support for the development of the Free-Trade Zone.

According to reports, the CSRC has allowed the SHFE to establish the Shanghai International Energy Trading Centre Limited Company within the Free-Trade Zone, which will bear the specific responsibility of advancing efforts of establishing an international platform for the trading of futures in crude oil. This platform will invite overseas investors to participate in the trading of domestic futures. This will provide the opportunity to increase the openness of the Chinese futures market to the rest of the world.

Additionally, the CSRC will also support two-way investments in the domestic and overseas securities and futures market within the Free-Trade Zone made in accordance with regulations by qualified entities and individuals. The overall situation is as follows: financial institutions and enterprises within the Free-Trade Zone may access and make investments and trade in the local securities and futures market of Shanghai in accordance with regulations; qualified overseas individuals employed within the Free-Trade Zone may open a non-resident's individual domestic investment account in an operational securities and futures institution within the Free-Trade Zone in accordance with regulations, and make investments in domestic securities and futures; qualified financial institutions and enterprises in the Free-Trade Zone are allowed to make investments in overseas securities and futures in accordance with regulations; and qualified individials employed within the Free-Trade Zone may make investments in overseas securites and futures in accordance with regulations.

[Source](http://news.stcn.com/2013/0930/10787176.shtml) ([see archive](5.pdf))

## CIRC Supports the Development of Renminbi Overseas Investment Trial

Yesterday, the China insurance Regulatory Commission (CIRC) officially issued a document entitled "CIRC Supports the Development of the China (Shanghai) Pilot Free-Trade Zone". The CIRC submitted mainly eight supporting measures in support of the development of an overseas investment trial, including the development of cross-border Renminbi reinsurance services.

There are mainly four areas in which the CIRC supports the establishment of insurance agencies within the Free-Trade Zone: support for a trial establishment of foreign-funded professional health insurance agencies within the Free-Trade Zone; support for the establishment of branch agencies of insurance companies within the Free-Trade Zone to develop cross-border Renminbi reinsurance services and to support Shanghai's study and exploration of a disaster insurance mechanism; support for the development of an overseas investment trial by insurance agencies within the Free-Trade Zone in order to study the trial expansion of the scope and proportions of overseas investment by insurance agencies in the Free-Trade Zone; and support for internationally renowned professional insurance intermediaries and other service agencies and social organisations and individuals who operate reinsurance businesses to develop their respective businesses in the Free-Trade Zone in accordance with the law, for the purpose of providing complementary professional technical services for the development of the insurance industry.

The CIRC's support for industrial innovation and market creation in the insurance industry covers three chief areas: support for the development of shipping insurance in Shanghai, the training of shipping insurance operating agencies and shipping insurance brokers and the development of the Shanghai Shipping Insurance Association; support for insurance companies' innovation in insurance products, continuous expansion of liability insurance services; and support for perfecting Shanghai's insurance market system and advancing the development of function-based insurance organisations such as the shipping insurance pricing centre, reinsurance centre and insurance capital utilisation centre.

[Source](http://news.stcn.com/2013/0930/10787181.shtml) ([see archive](6.pdf))

## CBRC Encourages Banks to Develop Overseas Finance and Investment Industry

On 29 September, the China Banking Regulatory Commission (CBRC) issued a "Notice in Relation to Questions Regarding the Regulation of the Banking Industry in the China (Shanghai) Pilot Free-Trade Zone" (the Notice). The Notice is in 8 parts, in which support for the entry of private capital into the banking industry within the Free-Trade Zone is detailed and the development of cross-border financial investment services is encouraged.

The Notice confirmed support for Chinese banks' entry and development in the Free-Trade Zone, allowing national Chinese commericial banks, policy-based banks and local Shanghai banks to open new branches or franchises within the Free-Trade Zone, and allowing existing banking outlets within the Free-Trade Zone to be upgraded to branches or sub-branches. Bank branches that are newly created or upgraded in the Free-Trade Zone are not limited by the annual plan to increase outlets.

The Notice supports the establishment of conglomerate financial services companies in the Free-Trade Zone by qualified conglomerates; the establishment of automobile financing companies and consumer finance companies in the Free-Trade Zone by qualified promoters; the relocation of trust companies within the jurisdiction of Shanghai to the Free-Trade Zone for development; the establishment of branch offices in the Free-Trade Zone by national asset management companies; and the establishment of professional subsidiaries in the Free-Trade Zone by leasing companies.

Qualified foreign investment banks will be allowed to establish subsidiaries, branches, franchises and joint venture banks within the Free-Trade Zone. Foreign investment bank outlets in the Free-Trade Zone may be upgraded to branch offices. Studies will be conducted to advance the appropriate shortening of the annual limits imposed upon the upgrade of foreign investment bank representative offices to branch offices and foreign investment banks' operation of Renminbi services.

The Notice clarifies that, in supporting the establishment of financial institutions such as risk-bearing private capital banks, leasing companies and consumer financing companies by qualified private capital, qualified private capital contributions in domestically- and foreign-funded financial institutions to establish joint venture banks within the Free-Trade Zone are supported.

[Source](http://news.stcn.com/2013/0930/10787178.shtml) ([see archive](7.pdf))

## Ministry of Finance: Free-Trade Zone Tax Rate of 15% is not Final

On 29 September, Secretary Wang Wei of the Ministry of Finance's Tariff Policy Department stated, in response to the press, that the 15% corporate income tax rate implemented in the Shanghai Free-Trade Zone is not final. He stated that according to the General Plan of the Free-Trade Zone, the main principle of the Shanghai Free-Trade Zone is that the experience is repeatable and promotable. The corporate income tax rate is 15% at present and cannot be repeated and promoted nationwide. Taxation reform in the Free-Trade Zone must conform with the direction of national taxation reform and abide by the principle of a fair, unified and standardised taxation system.

Director of the Peking University Finance Law Research Centre and Chairman of the Chinese Finance Law Research Association Liu Jianwen explained to reporters that a 25% proportional corporate income tax rate is applicable to domestic and overseas enterprises. At the same time, a tax rate of 15% applies to high-tech enterprises on which the country needs to focus its support and an average tax rate of 20% applies to small businesses and non-resident businesses. The arbitrary implementation of a 15% corporate income tax rate within the Free-Trade Zone is detrimental to the nation's taxation system. Any plans to implement a special corporate income tax rate within the Free-Trade Zone in the future should follow a prior amendment to the law.

Liu Jianwen states that arbitary changes to tax rates do not in fact conform with principles of market fairness and tax neutrality. The implementation of a low corporate income tax rate of 15% within the Free-Trade Zone will present an environment of unfair competition to the businesses that are subject to a proportional corporate income tax rate of 25%.

[Source](http://news.stcn.com/2013/0930/10787479.shtml) ([see archive](8.pdf))

## Ministry of Commerce: Three Reasons to Establish Free-Trade Zone in Shanghai

During the opening ceremony of the China (Shanghai) Pilot Free-Trade Zone on 29 September, Minister Gao Hucheng of the Ministry of Commerce revealed that the decision to establish a Pilot Free-Trade Zone in Shanghai was based on three reasons.

Gao Hucheng stated that the first reason is that Shanghai has a relatively good foundation. The scope of Shanghai's open economy is large, its domestic-overseas economic connections are vast, it has a high concentration of international businesses, it can conduct the pilot program from a relatively high starting point and its ability to tolerate risks is relatively strong. The Shanghai Pilot Free-Trade Zone is established from 4 existing special customs regulatory zones and meets the criteria of sound foundational infrastructure. This area has attracted 12000 various investment businesses, of which 230 projects are invested in by Fortune 500 companies, and its trading volume for 2012 was USD113 billion.

Gao Hucheng said that the second reason is that Shanghai ha a relatively mature regulatory regime and management experience. In 2009, the People's Government of Shanghai created a unified free-trade zone management committee whose management standards are efficient, is very experienced in the management of a relatively open jurisdiction and is well equipped to further innovate in model regulatory services to advance the free flow of various elements.

The third reason is a relatively good locational advantage. Shanghai is located in the Yangtze River Delta, possesses a vast economic hinterland and can spur the liberalisation and development of larger areas within larger scopes through a radiation effect.

Gao Hucheng pointed out that the Central Committee and the State Council place great importance to the preparatory work in relation to the Pilot Zone and clearly requires the Pilot Zone to focus on institutional innovation, reform and liberalisation. In the process of formulating the General Plan of the Pilot Zone, the People's Government of Shanghai and the relevant departments of the State Council have, according to the requirements of the Central Committee and the State Council, realised important breakthroughs in such areas as the changing of government functions, reform of the foreign investment management regime, testing of the Negative List management model, expansion of the liberalisation of the service industries, innovation in regulatory services, convertibility of Renminbi-funded projects, interest rate marketisation in the financial market and cross-border trial utilisation of Renminbi. The Standing Committee of the National People's Congress has decided specifically to authorise the State Council to suspend the implementation of the approval matters within the Shanghai Pilot Free-Trade Zone required by the relevant laws, in provide robust legal protection for the development of the Pilot Zone.

[Source](http://news.stcn.com/2013/0930/10787119.shtml) ([see archive](9.pdf))

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**Charltons - China News Alerts Newsletter - Issue 376 - 08 October 2013**