“1+3+7” China’s brand new pattern of Pilot Free Trade Zones (1): Achievements review and general introduction of the new PFTZs

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In brief

The launch of the Shanghai Pilot Free Trade Zone (PFTZ) in 2012 and the Guangdong, Tianjin, Fujian PFTZs in 2015 (hereinafter referred to as the “Four PFTZs”) to explore in areas, such as opening up of investment, trade and finance, encouraging entrepreneurship and innovations, as well as interim and post establishment administration, etc. have accomplished prominent achievements. Building on the successful experience of the first two batches of PFTZs, on 31 March 2017, the State Council officially released the development plan for the 3rd batch of 7 new PFTZs. The 3rd batch of PFTZs will be located within the designated area of 6 provinces and 1 municipality, i.e., the province of Liaoning, Zhejiang, Henan, Hubei, Shaanxi and Sichuan and the Chongqing municipality.

The 3rd batch of PFTZs covers 5 inland provinces and 2 coastal provinces. After the official launch, a new geographic pattern of PFTZs encompassing 6 coastal provinces, 2 central provinces and 3 western provinces will be formed. China will embrace a new round of reform under the national 13th Five-Year Plan. The expansion of PFTZs will re-cluster industries and complement national strategies such as the “One Belt One Road” initiative, “rise of central China”, “the development of western China”, “rejuvenation of the old northeast industrial bases” and “Yangtze River Economic Belt”, etc.

The 7 new PFTZs have respectively set their functions and development objectives based on their geographical characteristics. In this News Flash, we will provide a general introduction of these PFTZs and highlight their respective key areas. We will release a series of publications to analyse in detail the policy highlights in the implementation measures of each PFTZ, and to share our observations on the potential investment opportunities.

In detail

Review of the achievements of the Four PFTZs

After 4 years of exploration in areas, such as opening up of investment, trade and finance, encouraging entrepreneurship and innovations, as well as interim and post establishment administration, etc. since the launch of the Four PFTZs, a replicable reform experience has been developed. In terms of the reform on the investment administrative regime, the Four PFTZs have successfully adopted the “pre-entry national treatment” plus “Negative List” administration model for foreign investment, underwent business registration reform, and set up “One Stop” service for company establishment and foreign investment. In terms of trading supervision system, the customs supervision model of “first-line released and second-line controlled” is constantly being optimized and the “classified supervision” according to the status of bonded goods have improved customs clearance efficiency by approximately 40% on average. In terms of financial innovations, the two-way RMB cash pooling has simplified the capital transfer procedures for enterprises in the PFTZs and largely improved the efficiency of intra-group capital flow of multinational corporations; the piloted free trade account in the Shanghai PFTZ was expanded to include both RMB and foreign currency business; and the Guangdong, Tianjin and Fujian PFTZs have also implemented innovative financial measures, e.g.,
trust-worthy small-scaled and thin-profit enterprises can obtain loans without providing guaranty.

In October 2016, the State Council released a circular to replicate and push forward a new batch of 12 items of reform experience nationwide, including the reform of the approval mechanism for the establishment and modification of foreign-invested enterprises which are outside the negative list, simplified procedure for de-registration, administration of export processing, innovative reform for the administration of certification for place of origin, customs' information public system for import and export credit of enterprises, etc., which demonstrates the achievements of the PFTZs.

In general, business environment in the PFTZs is welcomed by both domestic and foreign investors. According to the research conducted by third parties, such as the Development and Research Centre of the Ministry of Commerce, 82% of the interviewees said the business environment has been significantly improved, and over 95% of the interviewees are optimistic about the PFTZs' future development.

General introduction of the seven new PFTZs

The 3rd batch of seven newly-established PFTZs not only includes coastal areas, but also extends to the inland provinces and covers the eastern, as well as the central and western regions. The pilot plan is well balanced by incorporating their respective geographical characteristics and strategic tasks to form a pilot plan. In particular:

Liaoning PFTZ

It is comprised of 3 areas in Shenyang, Dalian and Yingkou. The Dalian area covers the Dalian Bonded Zone, Dalian Export Processing Zone and Dalian Dayaowan Free Trade Port Area. The key objectives of Liaoning PFTZ are to improve the competitive power of China’s northeast old industrial base and to build it into an advanced equipment manufacturing base with international competitiveness. The development objectives include developing the “Jinpu New Area” in Dalian and “China-Germany High-end Equipment Manufacturing Industrial Park” in Shenyang. Further, Liaoning PFTZ will be a new engine to conduct the opening-up and cooperation in the northeast Asia and an important hub in international sea transportation and railway transportation.

Zhejiang PFTZ

It is comprised of 3 areas in the Zhoushan offshore island area, North Zhoushan island area and South Zhoushan island area. The key objectives of Zhejiang PFTZ are to boost the liberalization of bulk trade of commodities (oil products etc.), to build an international competitive integrated base for resources with logistic, warehouse and manufacturing facilities. There will be breakthroughs in pre-entry, financial supporting policies, convenience in customs supervision and tax policies, etc. Zhoushan offshore island area will focus on the establishment of a world-class green petrochemical base in the Yushan island, North Zhoushan island area will focus on bulk trade of commodities such as oil products, and South Zhoushan island area will put effort on the development of bulk trade of commodities, aviation and spare parts logistics.

Henan PFTZ

It is comprised of 3 areas in Zhengzhou, Kaifeng and Luoyang. The Zhengzhou area covers the Henan Zhengzhou Export Processing Zone and Henan Bonded Logistics Centre. The Henan PFTZ focuses on establishing a modern comprehensive transportation hub along the “One Belt One Road”, developing large logistics business, nurturing large industries, forming large metropolis, etc. The Zhengzhou area in Henan PFTZ will put effort on the development of advanced manufacturing industry and cross-border E-commerce. The Kaifeng area will focus on the development of modern service sectors such as medical tourism, cultural financing, innovative design, etc. The Luoyang area will focus on high-end manufacturing sectors and modern service sectors.

Hubei PFTZ

It is comprised of 3 areas in Wuhan (including the Wuhan East Lake Free Trade Zone), Xiangyang (Xiangyang Bonded Logistics Center) and Yichang. It aims to develop a group of new strategic emerging industries and into a high-tech industry base so as to accommodate industry transfer to central China. As a key city in the Hubei PFTZ as well as a core city in the national strategy of the rise of central China, Wuhan will explore facilitated measures in opening up investment financial innovations, talent introduction, supervision and administration to promote development in new strategic emerging industries and the science and new/high-tech sectors.

Shaanxi PFTZ

It is comprised of the central area in Shaanxi (XI’an high-tech new area, XI’an economic development zone and XI’an new area), XI’an international trade and logistic park and Yangling area. It aims to expedite the opening-up of the gateway cities in the western region in relation to key sectors, such as, logistics, science and technology, education, culture, tourism, health and medical services, to further explore new cooperative pattern in economic and cultural exchanges with countries along “One Belt One Road”. The central area in the Shaanxi PFTZ will put efforts on the development of new strategic emerging industries and new/high-tech industries. The XI’an international trade and logistics park area will focus on the development in international trade, modern logistics, financial service, tourism and exhibition as well as E-commerce.

Sichuan PFTZ

It is comprised of the Chengdu Tianfu new area, Chengdu Qingbaijiang Railway port area and South Sichuan Port area. As the region in the central and western China that has the closest international connection, the Sichuan PFTZ aims to encourage the development of modern services, high-end manufacturing, new/high-tech industry, airport economy, international transshipment of commodities and industry with specific characteristics advantages. The Sichuan PFTZ will strive to develop an open style economic highland in the western China and promote Western Reform and play an important role in the “Yangtze River Economic Belt”.

Chongqing PFTZ

It is comprised of 3 areas in the Liangjiang area (covering Chongqing LiangLu-CunTan Free Trade Port Area), Xiyong area (covering Chongqing Xiyong Comprehensive Free Trade Zone and Chongqing Railway Bonded Logistics Center) and Guoysuan port area. Chongqing PFTZ has the task of expanding and improving the advanced manufacturing sectors and will
dedicate itself in serving the development of the “One Belt One Road” initiative and the transportation hub and port highland along the “Yangtze River Economic Belt”. Chongqing PFTZ will further build a new pattern of opening-up in the western regions and push forward the implementation of the strategy to develop the western regions. The Liangjiang area will focus on the high-end manufacturing sectors and a trading market for high-end essential elements. Xiyong area will focus on a demonstration zone for the transformation and upgrading of the processing trade. And Guoyan port area will focus on the establishment of a multi-model logistics transhipment centre.

**The takeaway**

After the 3rd batch of PFTZs are officially launched, the total coverage of PFTZs in China is expanded to 11 provinces, which not only involves coastal areas but also extends into China’s central, western and border areas. It earmarks the new economic layout under China’s new round of open-up reform and is favourable to the re-clustering of industries. Taking into account the state’s development strategy, the 3rd batch of PFTZs is set up with specific objectives and priorities. Specifically, Liaoning and Zhejiang, are coastal provinces in the new PFTZ list. Liaoning is a coastal as well as a border province with the major objective of reforming China’s northeast old industrial base. It is a major player in the new PFTZ batch. Meanwhile, the inclusion of Chongqing municipality, Sichuan and Shaanxi province in the 3rd batch of PFTZs is in line with China’s “One Belt One Road” and “Western Gateway” national strategies; the inclusion of Zhejiang, Hubei, Sichuan provinces and Chongqing municipality is to support the “Yangtze River Economic Belt” state strategy; and the inclusion of Henan and Hubei, key provinces in central China, is for the development of central China. All in all, the layout of the 3rd batch PFTZs is interconnected and interacts with the respective local characteristics and will effectively create a new impetus for China’s economic growth.

For enterprises, facilitation and innovation in the PFTZs are the key areas, which are reflected in investment administration, customs administration, cross-border capital flow, consumption of services, etc. The provinces selected will follow this model and formulate their own specific pilot plans with local characteristics. Looking at the effectiveness of the first Four PFTZs, 90% of the pilot measures in the overall plan have been implemented. Enterprises who are interested in investing or operating business in the 3rd batch of PFTZs are recommended to study and understand the implementation schemes for each of the PFTZs. We will release a series of publications in this regard to share our observations on the policy incentives and potential investment opportunities in each of the PFTZs, please stay tuned.

**Endnote**

1. For the development plans of the 3rd batch of PFTZs, please refer to the official link below:
   Development plan for Liaoning PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182284.htm
   Development plan for Zhejiang PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182288.htm
   Development plan for Henan PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182296.htm
   Development plan for Hubei PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182299.htm
   Development plan for Shaanxi PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182306.htm
   Development plan for Sichuan PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182304.htm
   Development plan for Chongqing PFTZ: http://www.gov.cn/zhengce/content/2017-03/31/content_5182300.htm

2. Notice Issued by the State Council Improving the Work in Replicating and Promoting the New Pilot Experiences of the Pilot Free Trade Zones (Guofa [2016] No.63), please refer to the official link below:
   http://www.gov.cn/zhengce/content/2016-11/10/content_5130918.htm
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