



COALITION FOR PEACE & ETHICS WORKING PAPERS

NO. 4-1 (APRIL 2014)

INTRODUCTION TO CHINA (SHANGHAI) PILOT FREE TRADE ZONE

SHAOMING ZHU

ABSTRACT: China is experimenting with economic development along socialist lines but which embrace principles of market efficiencies. The establishment of China (Shanghai) Pilot Free Trade Zone (hereinafter CSPFTZ) is meant to serve as a significant measure taken by the Chinese Communist Party Central Committee to promote reform and opening-up under changing global economic conditions and to undertake exploration of new systems of foreign investment management within China's structures of Socialist Democracy. These systems are grounded in greater parity of access for foreign and domestic enterprises. This paper explores the parameters within which this effort is being undertaken.



COALITION FOR
PEACE AND ETHICS

Introduction of China (Shanghai) Pilot Free Trade Zone Shaoming Zhu¹

I. What is Shanghai Pilot Free Trade Zone (FTZ)?

A. The scope of FTZ

CSPFTZ is composed of four specially supervised zones by the customs, namely, Waigaoqiao Free Zone, Waigaoqiao Bonded Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Free Trade Zone, covering a planning area of 28.78 square kilometers.²

Waigaoqiao Free Trade Zone, the first free trade zone in China, was approved by the State Council in June 1990. It is an area covering four specially supervised zones by the customs, which boasts the largest economic scale and diversified functions in China.³

Waigaoqiao Bonded Logistics Park was set up on a closed operation of customs area with the approval of the State Council in December 2003. As the first pilot project of integrating free trade zone and port in China, Waigaoqiao Bonded Logistics Park is an important base for the development of modern international logistics.⁴

Being the first trade port area in China, Yangshan Free Trade Port Area was approved by the State Council in June 2005. It operates closed customs administration based on "Free Trade Zone-Port Integration". It is recognized as the critical carrier for the comprehensive pilot zone of international shipment development in Shanghai.⁵

With the approval of the State Council in July 2009, Pudong Airport Free Zone operates on integration of a bonded logistics area and the West Freight Area of the airport. It has Pudong Airport's advantage as a compound hub of Asia-Pacific airlines, and is a pilot zone for the development of Shanghai airport-based service industry.⁶

B. Why to choose Shanghai

Minister Gao Hucheng of Minister of Commerce of PRC revealed the reasons why to choose Shanghai to establish the Free Trade Zone in China (Shanghai) Free Trade Zone listing ceremony. First of all, there is a good foundation in Shanghai, like large-scale open economy, wide range of internal and external economic relations and high aggregation of international business, which means that the pilot could be operated with a

¹ SJD Candidate Penn State University.

² Available at http://101.231.250.98/WebViewPublic/item_page.aspx?parentId=594&id=599#

³ Available at http://101.231.250.98/WebViewPublic/item_page.aspx?parentId=594&id=599#

⁴ Available at http://101.231.250.98/WebViewPublic/item_page.aspx?parentId=594&id=599#

⁵ Available at http://101.231.250.98/WebViewPublic/item_page.aspx?parentId=594&id=599#

⁶ Available at http://101.231.250.98/WebViewPublic/item_page.aspx?parentId=594&id=599#

relatively high standard and the risk tolerance is relatively strong. Secondly, there is amore effective regulatory mechanism and management experiences. In 2009, the Shanghai City Government established a comprehensive Free Trade Zone Management Committee, which has more experiences on managing areas with high opening up level to help with the innovation of regulation and service and the promotion of the free flow of all kinds of elements. The third reason is location. Shanghai locates in Ynagtze River Delta region with vast economic hinterland. It can promote the opening up and development within a wider region and higher degree by radiation effects.⁷

C. What's the difference between FTZ and other duty-free zones from China and abroad⁸

1. Be different with the former trade areas

Since 1990, the main feature of the development within the Free Trade Zones is breakthrough with policies. Let's take Waigaoqiao Free Trade Zone, the first free trade zone in China, as an example. Relying on the foreign investment access policy, there was the birth of China's first foreign-funded trade enterprises, China's first Sino-foreign logistics enterprises, the first joint venture Bonded export processing enterprises all over the country. Based on the bonded policy and exempting taxation, the processing trade, bonded warehousing and other industries got developed rapidly.

In 2009, Pudong Airport Free Zone was established. This is a major decision of Shanghai Government, which is characterized by function expansion. The first function isto become a multinational operation center. The second function is to create new commercial patterns and economic capabilities, promote international trade settlement, futures bonded delivery, FOB port rebates, bonded ship registration, finance lease, international transit, global maintenance testing and so on.

However, for Shanghai Pilot Free Trade Zone, the main feature should be the institutional innovation. It has been given the higher mission of national strategies that facing the critical issues in the process of opening and taking the first test in the difficult fields.

2. Be different with the traditional trade areas

As an important carrier of international trade, trade areas all over the world have grown to more than 1200. Especially after the financial crisis, the global free trade zoned maintained a sustained increase on the aspects of number and influence. In Europe, the status of free trade area is an international trading hub, with the functions of entrepot trade and goods distribution base. In the United States, who has the largest free trade zones, free trade zone is used to develop manufacturing, and bonded logistics business and promote employment. In Asia, free trade zone is used to attract foreign investment

⁷ September 30,2009, Securities Daily,(Zhengquan Ribao), available at <http://news.cnfol.com/130930/101,1281,16071633,00.shtml>

⁸Jian Danian: the introduction of setting up China(Shanghai) Free Trade Zone 自贸区管委会副主任简大年: 建立中国上海自贸区有关情况介绍

and technology, expand exports and develop outward economy with the advantage of relatively cheap labor. As a policy tool, free trade zone has been applied with a variety of common.

However, Shanghai Free Trade Zone is different with others. In the basis of the original features of foreign trade, shipping services, trade facilitation environment and other functions of traditional free trade zones, Shanghai Free Trade Zone will pay more attention to wider opening on service and the institutional innovation in the financial sector. It will attach equal importance to good trades and service trade, even lay more stress on service trade. That is what President Xi Jinping and Premier Li Keqiang has talked about the expanded opening in the service sector, which is one of the three major tasks of Shanghai Free Trade Zone. It will regard both onshore business and offshore business as equally important, and gradually focus more on the expanding of capabilities of offshore business. It will not only develop introduction of foreign capital but also promote foreign investment.

Shanghai Free Trade Zone will benefit both foreign enterprises and domestic enterprises. Foreign enterprises can enjoy the right of national treatment on access to domestic investment by negative inventory management. While for China's domestic enterprises, free trade zone will become an important channel and center to invest abroad.

Shanghai Free Zone will achieve the changes from a hub of traditional general trade, export processing and bonded warehousing logistics to sale management center, supply chain management center, fund-balance center and other substantive operational headquarters to seize the high-end location of global value chain.

3. Be different with Freeport

Openness is a basic condition for Freeport and low taxes forms the international competitiveness of Freeport. As a narrow economic hinterland, Freeport is the best choice for Singapore because of the geographical advantages of being the main channel in the world. By opening within Freeport, Singapore gather capitals, information and human resources from all over the world. The main policy and system of Singapore Freeport includes freedom of trade, no restriction and tariff barriers of import and export trade, simple formalities of import and export trade, freedom of investment operations, residents treatment system, low enterprise income tax system, financing currency system and so on. The main feature of Singapore Freeport is its openness and facilitation.

Shanghai Free Trade Zone also draws on international practice. But compared with trade facilitation and international degree, Shanghai Free Trade Zone has another core mission, namely the national government function reform, administrative approval system reform and opening up in order to accumulate experiences and promote reform and innovation nationwide.

II. Why Chinese government wants to set up FTZ?

A. The background and necessity for setting up FTZ

1. National strategy

After 30 years of reform and opening up, China's reform has entered a crucial stage and the deepwater area. Especially with the 18th National Congress of CCP, there are new tasks for the Party and government to further expand opening up, promote the concept and system innovation, implement administrative approval system reform, accelerate the transformation of government functions, and innovative government management. Generally speaking, it is to promote reform and development through further opening up and create a new pattern for opening up. Consequently, Shanghai Free Trade Zone is actually needed for China's reform and opening up.⁹

The bonded function with China's current customs supervision is already very established and liberalization of trade goods have reached a very high level. Except for further implement the regulatory facilitation, there is nothing more to develop. This situation is also reflected by China's overall trade patterns that the scale of trade in goods has become one of the best all over the world while trade in services is still needed to be developed. Therefore, it is a speculative approach to expand opening up by making experiments in six areas based on the needs of enterprises and industries within Shanghai Pilot Free Trade Zone. If these liberalization measures has been proved that they can effectively promote services and trade in services and become a new growth point of the local economy, they will be considered to be implemented all over the country. If it is proved that these measures don't work well, they will be recovered. Therefore, Pilot Free Trade Zone is actually plots of the opening of services sector.¹⁰

2. International environment

Since the global financial crisis, the big changes of the industry chain, global value chain and the innovation chain, are driving the reconstruction of global investment rules and trade rules. There are some characters of the reconstruction. Firstly, it is led by developed countries under the leadership of the United States. Secondly, it is high standard. Thirdly, it is not formed and conducted under the WTO multilateral trading system that China is familiar with and has been deeply involved. This is the issue that China is facing: whether to accept this new remodeling trend.¹¹

At present, China encountered some difficulties with the participation in international economic integration, especially in some FTA negotiations and investment negotiations. The main reason is that China's competitiveness is not so strong that there is fear to take

⁹ Jian Danian: the introduction of setting up China(Shanghai) Free Trade Zone 自贸区管委会副主任 简大年: 建立中国上海自贸区有关情况介绍

¹⁰ The lecture on NDRC trade system: China's participation in international economic integration and free trade zone, Dec 25, 2013 我国参与国□□□一体化和□展自由□易园区有关情况 (□改□□系 □会□□□座稿) 2013年12月25日

¹¹ Wang Xinkui: Shanghai Pilot Free Trade Zone: the national strategy of promoting reform and development by opening up. 王新奎: 上海自贸试验区: 以开放促改革、促发展的国家战略

further opening. At the same time, some important negotiating issues, like the national treatment before the access of foreign investment may be involved the reform of institutional mechanisms. Pilot Free Trade Zone can find the way to solve this problem during the bilateral investment negotiations. During Sino-US investment agreement negotiations, the United States insisted on negotiating with pre-entry national treatment plus the negative list mode. While the current management of foreign investment is authorized system based on hierarchical projects, which cannot meet the requirement of pre-entry national treatment. Therefore, Pilot Free Trade Zone can take the test to apply the negative list and national treatment management within a small area and attempt to connect with prevailing rules of international trade, in order to gain experience for the investment negotiation and lay the foundation of the investment management reform.¹²

B. The regional functions

The Pilot FTZ shall promote the expanding and opening up of service sectors and the reform of investment administration mechanism, push forward trade transformation and upgrading, deepen the opening up of financial services, create a new mode of supervision and service, explore to establish the administrative management system that conforms to the rule setups of international investment and trade, cultivate an international and legalized business environment, and play its active role of setting in motion by demonstration and serving the whole county.¹³

C. The goals of FTZ

During the course of two to three years of piloting reforms, the China (Shanghai) Pilot Free Trade Zone shall expedite the functional transformation of government, expand the opening up of service sectors and promote the reform of the foreign investment administrative system, and develop headquarter economy and new trade forms; shall explore RMB convertibility under capital account items and opening up of financial services; shall explore to improve Customs' supervision efficiency; and shall create a framework to support investment and innovation activities to cultivate an internationalized business environment. The China (Shanghai) Pilot Free Trade Zone shall pilot a free trade zone, as measured by international standards, with convenient investment and trading procedure, full convertibility of currencies, effective and efficient goods supervision, and investor-friendly regulatory environment. As such, experience hence gained shall serve nationwide with the new ideas and approaches for opening up of the economy and deepen the reform further.¹⁴

¹²The lecture on NDRC trade system: China's participation in international economic integration and free trade zone, Dec 25, 2013 我国参与国际经济一体化和发展自由贸易园区有关情况（发改经贸系统会专题讲座稿）2013年12月25日

¹³ Article 3, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone (Promulgated by Decree No. 7 of Shanghai Municipal People Government on September 29, 2013)

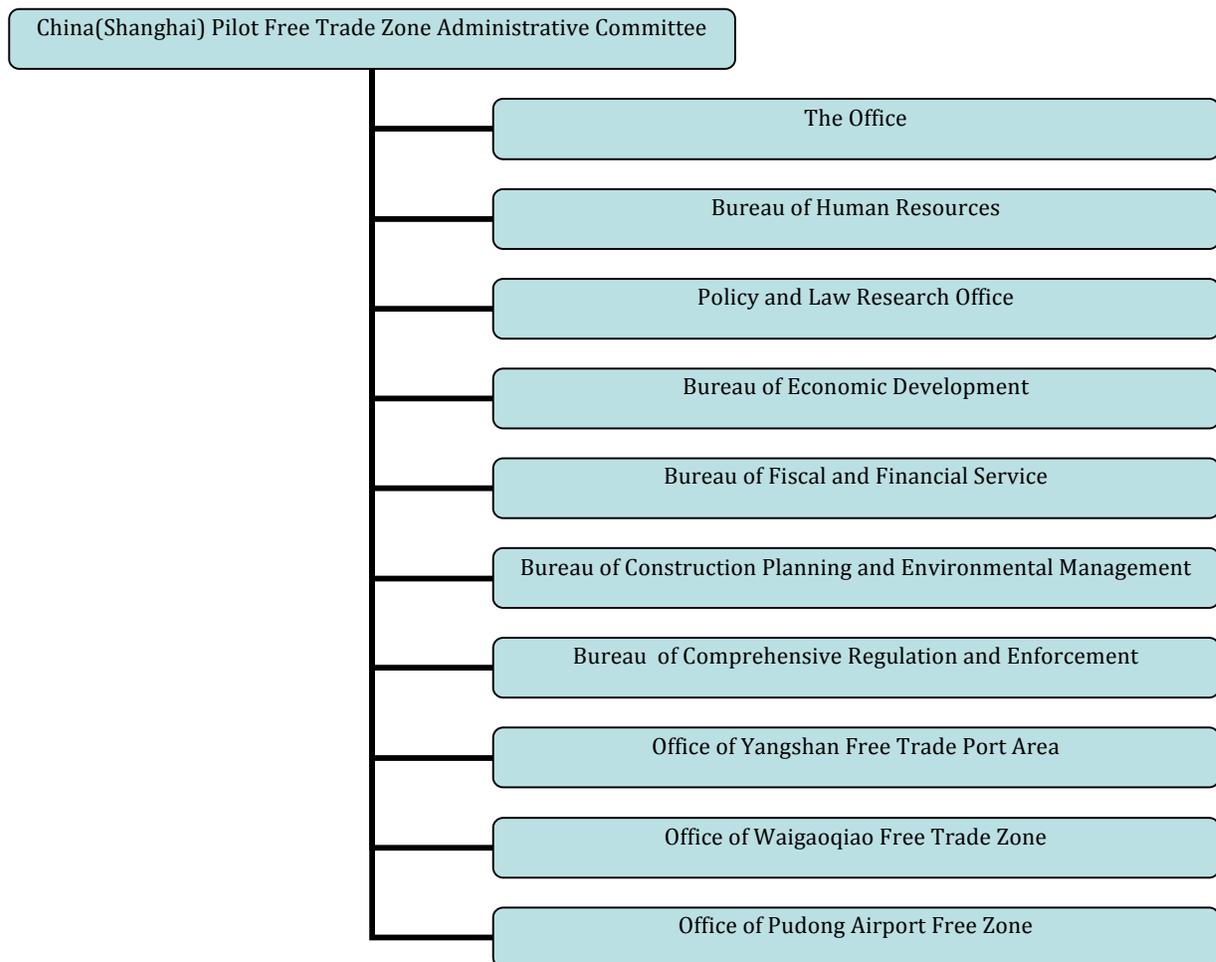
¹⁴Article 1 General requisition (2)Overall objectives, Framework Plan for the China (Shanghai) Pilot Free Trade Zone

III. How does FTZ work?

A. The organizations

China (Shanghai) Pilot Free Trade Zone Administrative Committee (hereinafter referred to as the Administrative Committee), established by this Municipality as the on-site agency of the Municipal People Government, shall specifically carry out reforms in the Pilot FTZ, manage and coordinate in an overall way the relevant administrative affairs therein.¹⁵

The organizations structure is as follows:¹⁶



According to the "Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone " The Administrative Committee shall exercise the following duties:¹⁷

¹⁵ Article 4, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

¹⁶ <http://101.231.250.98/WebViewPublic/GovInfo.aspx>

¹⁷ Article 5, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

1. Take charge of promoting the implementation of various pilot reforms in the Pilot FTZ, study to put forward and organize to carry out the development planning of the Pilot FTZ and the policy-related measures thereof, and formulate the administrative management system related thereto;
2. Take charge of the administrative work in the aspects of investment, trade, financial service, planning and land, construction, greening and city appearance, environmental protection, labor and human resources, food and drug supervision, intellectual property right, culture, public health, and statistics within the Pilot FTZ;
3. Direct the administrative work of the departments of industry and commerce, quality supervision, taxation, and public security within the Pilot FTZ; coordinate the administrative work of the departments of customs, inspection and quarantine, marine affairs, and finance within the Pilot FTZ;
4. Undertake the work related to security examination and anti-monopoly investigation;
5. Take charge of the comprehensive law enforcement work within the Pilot FTZ and organize to carry out the administrative law enforcement in the fields of city management, and culture therein;
6. Take charge of the comprehensive service work within the Pilot FTZ and provide guidance, consultation and service for the enterprises and related agencies therein;
7. Take charge of the informatization construction work within the Pilot FTZ, and organize to establish the Pilot FTZ supervision information sharing mechanism and platform to release public information in a timely manner;
8. Guide in an overall manner the industrial layout and the development and construction activities in the Pilot FTZ, and coordinate to promote the major investment project construction therein; and
9. Other duties designated by the Municipal People Government.

Relevant administrative affairs formerly undertaken respectively by the Shanghai Waigaoqiao Bonded Zone Administrative Committee, Yangshan Bonded Port Administrative Committee, Shanghai Comprehensive Bonded Zone Administrative Committee shall all be in the charge of the Administrative Committee.

B. The tasks and implement

According to the "Framework Plan for the China (Shanghai) Pilot Free Trade Zone", the main tasks and implement includes that accelerating the functional transformation of

government, opening up of investment sectors, promoting the transformation of trade development approach, deepening innovation and opening up of financial services, and improving regulatory supporting systems.

After the Framework Plan has been issued, other government departments of State Council and Shanghai Government have gradually promulgated a package of specific policy measures. Generally speaking, the important new institutional measures are reflected as follows:¹⁸

Tasks	Implement
Financial service	1. Under proper risk control, the China (Shanghai) Pilot Free Trade Zone will pilot RMB capital account convertibility, interest rate liberalization, and the cross-border use of RMB.
	2. In China (Shanghai) Pilot Free Trade Zone, the assets by the financial institutions will be at market rate.
	3. The China (Shanghai) Pilot Free Trade Zone will explore the trial of a foreign exchange administrative system that is in line with international practice to better facilitate trade and investment.
	4. Enterprises are encouraged to leverage on both domestic and international market resources to liberalize cross-border financing. Administration on foreign debt will be further reformed to facilitate cross-border financing.
	5. Foreign exchange centralized operation by multinational companies' headquarters will be enhanced to encourage the setup of regional or global treasury centers in Shanghai.
	6. A mechanism needs to be established to associate financial reforms in the China (Shanghai) Pilot Free Trade Zone and Shanghai's development into an international financial center.
	7. Foreign-invested and Sino-foreign equity joint venture banks will be allowed to incorporate in the China (Shanghai) Pilot Free Trade Zone.
	8. Platforms for international transactions will also be permitted to be established in the China (Shanghai) Pilot Free Trade Zone by financial markets. The oversea companies will gradually be allowed to engage in commodity futures trading.
	9. Financial market innovations are encouraged. Equity escrow institutions will be supported to setup comprehensive financial service platform in the China (Shanghai) Pilot Free Trade Zone
	10. The cross-border RMB reinsurance business is also encouraged to cultivate reinsurance market.
Trade	1. Enterprises in the China (Shanghai) Pilot Free Trade Zone will be supported to develop offshore business.
	2. International commodity trading and resource configuration platform will be explored to trade energy products, basic industrial raw materials and agriculture commodities.
	3. The ongoing pilot bonded futures delivery will be expanded and improved and the warehouse receipt financing and other functions will be extended.
	4. Financial leasing companies will be allowed and encouraged to set up project companies in the China (Shanghai) Pilot Free Trade Zone and to carry out domestic and international leasing business.
	5. Third-party inspection and appraisal institutions are encouraged to set up with appraisal

¹⁸ Framework Plan for the China (Shanghai) Pilot Free Trade Zone

	<p>results be acceptable in accordance with international standards.</p> <p>6. High-tech and value-added maintenance services will be trialed in the China (Shanghai) Pilot Free Trade Zone.</p> <p>7. Cross border e-business service function will be cultivated, and a system covering customs, inspection & quarantine, tax refunds, cross-border payment and logistics will be set up to support cross-border e-business.</p> <p>8. Foreign ships owned or indirectly owned by Chinese invested companies are allowed to pilot the coastal shipping between domestic coastal ports and Shanghai port.</p> <p>9. Pudong International Airport is encouraged to increase the number of flights for cargo transition.</p> <p>10. The China (Shanghai) Pilot Free Trade Zone will implement the international ship registration policy as piloted in Tianjin. The application process on permitting international shipping will be simplified to create a more efficient ship registration system.</p>
Investment	<p>1. Market access restrictions such as requirements concerning the qualification of investors, limitations on foreign participation, restrictions concerning business scope, etc., (except in respect of banks, information and communication services) will be suspended or cancelled, in order to create an environment of equal market access for the benefit of all investors.</p> <p>2. The China (Shanghai) Pilot Free Trade Zone will reform the administrative approach of foreign investment based on international norms. Trial national treatment on investment permission and a "Negative List" mechanism will be implemented within the zone.</p> <p>3. Various types of investors in the China (Shanghai) Pilot Free Trade Zone are encouraged to conduct outbound investment in different forms.</p> <p>4. SPVs specializing in overseas equity investment are encouraged to be set up in the China (Shanghai) Pilot Free Trade Zone, and qualified investors are encouraged to establish fund of funds for making offshore equity investments.</p>
Government functions	<p>1. A service pattern will be set up to materialize one-off acceptance, integrated examination and approval, and efficient operation. An online information platform will be established to consolidate information and improve information sharing amongst various departments.</p> <p>2. A comprehensive assessment mechanism of industry information tracking, supervision and collection will be established.</p> <p>3. A joint supervision and enforcement system will be implemented.</p> <p>4. Allow qualified foreign investors to remit investment gains at their discretion.</p> <p>5. An intellectual property related dispute resolution and assistance system will be established.</p>
Law	<p>"Law of the People's Republic of China on Wholly Foreign Owned Enterprises", "Law of the People's Republic of China on Sino-Foreign Equity Joint Venture Companies", "Law of the People's Republic of China on Sino-Foreign Cooperative Joint Venture Companies" will be temporarily adjusted and such adjustment will be tentatively implemented in the next three years started from 1 October 2013.</p>

C. Regulations and policies

Some regulations and policies are explicit.

Service Industry Expansion	<p>1. The service sectors such as financial services, shipping services, commerce and trade services, professional services, cultural services, and social services in the Pilot FTZ shall be expanded in accordance with the Framework Plan for the China (Shanghai) Pilot Free Trade</p>
----------------------------	--

	<p>Zone; requirements on the qualification of investors and some access restriction measures including restrictions on equity ratio and operation scope shall be suspended or canceled.¹⁹</p> <p>2. Efforts shall be made to continuously explore the fields of service expansion, pilot items and corresponding system innovation measures within the Pilot FTZ in line with the promotion of the first to make practice, the first to make an experiment and the requirements of industrial development.²⁰</p> <p>3. The specific measures have been explicit in "Measures to open up the service sectors in the China (Shanghai) Pilot Free Trade Zone"</p>
Foreign investment management	<p>1. Pre-establishment national treatment on foreign investment permission and special management measures on foreign investment permission (negative list) shall be practiced in the Pilot FTZ²¹.</p> <p>2. "Catalogue of Industries for Guiding Foreign Investment (2011)"</p> <p>3. For sectors that are not stated in the special management measures on foreign investment permission (negative list), the approval system for foreign investment projects shall be altered to the filing system in compliance with the principle of foreign and domestic investors receiving the same treatment, with the exception of foreign investors domestic investment projects of which the approval is retained as required by the State Council; the approval requirement on foreign investment contracts and Articles of Association will be replaced by the filing management.²²</p> <p>4. "Special Administrative Measures (Negative List) on Foreign Investment Access to the China (Shanghai) Pilot Free Trade Zone (2013)"</p> <p>5. "Filling Administrative Measures for Foreign Investment Projects in China(Shanghai) Pilot Free Trade Zone"</p> <p>6. "Filling Administrative Measures for Foreign Investment Enterprises in China(Shanghai) Pilot Free Trade Zone"</p>
Investment overseas	<p>1. In respect to enterprises in the Pilot FTZ making investment overseas to start up enterprises, the management mode mainly with the filing system is exercised, and the general projects with investment overseas shall be under the filing system.²³</p> <p>2. "Procedures of China (Shanghai) Pilot Free Trade Zone on Filing Administration of Investment in Businesses Overseas"</p> <p>3. "Procedures of China(Shanghai)Pilot Free Trade Zone on the Filing Administration of Overseas Investment Projects"</p>
Registration system	<p>1. The registration system for registered capital pledged shall be exercised in the Pilot FTZ, and the shareholders (sponsors) shall independently agree on and state the pledged capital contribution, the mode and time limit of capital contribution in the company article of association, with the exception of the registered capital registration for special enterprises otherwise provided by laws and administrative regulations.</p> <p>The shareholders (sponsors) shall be responsible for the authenticity and legality of the capital paid, and shall undertake their responsibility to the company only for the pledged</p>

¹⁹ Article 10, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁰ Article 10, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²¹ Article 11, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²² Article 11, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²³ Article 12, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

	<p>capital contribution or subscribed shares.²⁴</p> <p>2. Enterprises with business license in the Pilot FTZ may carry out the general production and operation activities; those engaged in production and operation activities under permission may, after acquiring the business license, make an application to the competent administrative department.</p> <p>Where the establishment of an enterprise must be approved as provided by laws and administrative regulations, the approval procedures shall be done according to law before application for a business license.²⁵</p> <p>3. "Opinions of the State Administration for Industry and Commerce of the People's Republic of China on Supporting the Establishment of the China (Shanghai) Pilot Trade Zone"</p>
Entry and exit regulation	<p>1. For goods flowing between overseas and the Pilot FTZ, enterprises in the Pilot FTZ are allowed to bring goods into the zone with import manifests before completing the entry filing formality.²⁶</p> <p>2. For goods flowing between the Pilot FTZ and other domestic areas, the intelligent checkpoint, e-information network and such other management pattern are practiced to perfect the supervision system of bill check, accounting book management and checkpoint physical verification.²⁷</p> <p>3. Enterprises in the Pilot FTZ are allowed to initiatively choose time to apply for inspection before the goods flow out of the zone.²⁸</p> <p>4. A goods condition categorized supervision model shall be promoted in the Pilot FTZ. Goods in bonded storage or in processing in the Pilot FTZ shall be supervised as bonded goods; imports and exports or international transit goods through the Pilot FTZ port shall be supervised as port goods; the particular domestic trade goods entering the Pilot FTZ shall be supervised as non-bonded goods.²⁹</p> <p>5. The Pilot FTZ promotes the pattern of one-time declaration, one-time inspection and one-time clearance.³⁰</p> <p>6. Procedures for goods interflow within the Pilot FTZ are simplified, and goods interflow among enterprises within the Pilot FTZ is promoted by way of entralized declaration and transportation by oneself.³¹</p>
Financial Innovation	<p>1. The Pilot FTZ carries out capital account convertibility, and under the precondition of controllable risks, by way of separated accounts settlement, makes innovations on business and management pattern.³²</p> <p>2. The Pilot FTZ cultivates the mechanism of financial institution independent-pricing in line with the development of the real economy, and gradually promotes the interest rate market-oriented reform.³³</p>

²⁴ Article 13, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁵ Article 14, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁶ Article 17, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁷ Article 17, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁸ Article 17, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

²⁹ Article 17, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁰ Article 18, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³¹ Article 18, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³² Article 20, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³³ Article 21, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

	<p>3. The RMB cross-border settlement of institutions in the Pilot FTZ is disjoined from the pre-approval link. Enterprises in the Pilot FTZ may, as required by its own business, carry out innovatory RMB cross-border business to facilitate the cross-border use of RMB.³⁴</p>
	<p>4. The foreign exchange management mechanism compatible with the requirements of the Pilot FTZ development is established to facilities trade investment.³⁵</p>
Comprehensive administration	<p>1. Relevant information such as policies, administrative provisions, procedures and rules that the Administrative Committee and relevant departments made or acquired in the process of performing duties shall be open and transparent to facilitate enterprises to get access thereto. In respect to the formulation and adjustment of policy-related measures and institutional norms, the Pilot FTZ shall initiatively solicit the opinions of the enterprises therein.³⁶</p>
	<p>2. The administrative department of industry and commerce shall, jointly with the administrative departments of taxation, quality supervision and the Administrative Committee, set up a working mechanism in which the approval (filing) of foreign investment projects and the establishment (alteration) of enterprises may be handled by one application form, one service window. The administrative department of industry and commerce shall accept submissions of applicants and deliver relevant papers to the applicants in a unified way. The Administrative Committee shall establish a working mechanism of one application form, one service window for filing overseas investment of enterprises in the Pilot FTZ, and shall accept submissions of applicants and deliver relevant papers to the applicants in a unified way.³⁷</p>
	<p>3. The Pilot FTZ shall exercise the system of enterprises annual report publication. Enterprises in the Pilot FTZ shall submit their annual report to the administrative department of industry and commerce. The annual report shall be open to the public with the exception of those involving commercial secrets. Enterprises shall be responsible for the authenticity and legality of the annual reports. The procedures on the publication of enterprises annual reports in the Pilot FTZ shall be formulated separately.³⁸</p>
	<p>4. The Administrative Committee shall organize to establish the supervision information sharing mechanism and platform in the Pilot FTZ to intercommunicate, exchange and share the supervision information of the administrative departments of customs, inspection and quarantine, marine affairs, finance, development and reform, business, industry and commerce, quality supervision, public finance, taxation, environmental protection, production safety supervision, ports and shipping, so as to provide support for optimizing management procedures, offering high-efficient and convenient services and strengthening mid- and post-event supervision.³⁹ At the same time, the Pilot FTZ shall establish the system of recording, opening, sharing and using enterprises credit information, and promote the joint-action mechanism of rewarding good credit and punishing bad credit.⁴⁰</p>
	<p>5. The Pilot FTZ shall establish the working mechanism of safety examination and anti-monopoly investigation. Where an investment project or enterprise is in the scope of safety</p>

³⁴ Article 22, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁵ Article 23, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁶ Article 27, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁷ Article 28, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁸ Article 32, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

³⁹ Article 34, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

⁴⁰ Article 33, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

examination and anti-monopoly investigation, the Administrative Committee shall promptly request to make such examination and investigation. ⁴¹
--

IV. Resistance encountered in the construction of FTZ

Since the very beginning of the idea of Shanghai Pilot Free Trade Zone, there are already some voices against its construction. The resistance encountered includes lack of related legal system, crosscurrent from financial institutions regulatory administration, inconsistencies between the central government and local governments on the pace of reform, and resistance from vested interest group.⁴²

Some people hold the idea that the most biggest resistances are from financial institutions regulatory administration and the vested interest group.⁴³

Chenbo, Professor from Shanghai University of Financial and Economics, said in the interview with the IBT Chinese website that FTA construction was opposed by the financial regulatory authorities, which is not the first case during the reform of Chinese economic. The former Prime Ministers were also facing the same problem. The so called reform into deep water is exactly reform of financial services industry. There were never real changes in this area because of its huge benefits and large resistance.⁴⁴

Zhang Ming, Professor from Renmin University of China, told BBC Chinese network that, the central leaders of the new term plan to launch a new round of in-depth market reforms to reduce government intervention. But market-oriented economic behavior means that the market will reduce government intervention, which will harm the inherent benefits of the vested interest group and face great resistance and pressure.⁴⁵

II. Review of related reports and comments

A. Comments within China

Some people gave positive comments on FTZ.

Sun Lijian, Professor from Fudan University told the reporter of "Caijing", Shanghai want to activate the functions of four centers (International Financial Centre, International Trade Center, International shipping center and logistics center) and revive the Yangtze River Delta and the country's economy. Shanghai might achieve the upgrade of economic in the next decades.⁴⁶

⁴¹ Article 30, Procedures for the Administration of China (Shanghai) Pilot Free Trade Zone

⁴² <http://special.cnfol.com/6388,00.shtml#>

⁴³ <http://review.cnfol.com/130819/436,1702,15788223,00.shtml>

⁴⁴ <http://review.cnfol.com/130819/436,1702,15788223,00.shtml>

⁴⁵ http://www.bbc.co.uk/zhongwen/simp/business/2013/11/131101_ana_china_shanghai_ftz.shtml

⁴⁶ <http://finance.sina.com.cn/zl/china/20130823/114116543483.shtml> Aug 23, 2013

Guan Jianyi said that Free Trade Zone will promote the development of the new economy, push forward the consumption of information and culture and environmental governance, and promote financial reform, marketization of interest rate and internationalization of the RMB.⁴⁷

Some people don't think it is easy to implement the reform and polit.

Senior financial commentator Zhou Zixun commented that the central bank made a great breakthrough to explore investment and financing exchange facilities, promote cross-border use of RMB, impulse interest rate market steadily, and deepen foreign exchange management. These are becoming the cornerstone of the FTA commanding financial innovation. However, the measures of marketization of the two central bank rate (interest rates and exchange rates) , as well as financial regulation has become very conservative.⁴⁸

CEIBS Lujiazui International Finance Research executive vice president Liu Shengjun published an article on the British "Financial Times" Chinese net. He thinks that people should take rational expectations on Shanghai FTA. There is actually venture of capital arbitrage with financial reform(marketization of interest rate and capital account convertibility), which has been given high hopes. Since there is no strict border control between the FTA and the mainland, it is hard to "release at first-line release while control at second-line". And also the "Negative list" is significantly below the market expectations.⁴⁹

There are also some people who offer a lot of suggestions for the development of FTZ.

Wang Xinkui, one of the designer of the framework plan for Shanghai Free Trade Zone holds the idea that reform cannot be taken too fast.⁵⁰ Wang Jiangzhen and Yu Fenghui think that financial innovation should take a bigger step.⁵¹ Zhang Monan put forward the idea that the new round of financial reform must adjust with fiscal reform. For the purposes of the field of financial reform, the most critical issue is to reform the financial resources allocation.⁵² Zhu Haibin emphasized that it should re-define to the relationship between the government and the market during the development of Shanghai Free Trade Zone.⁵³

B. Comments from the United States

⁴⁷ <http://news.cnfol.com/130812/101,1281,15738321,00.shtml> Aug 12, 2013

⁴⁸ <http://finance.sina.com.cn/review/hgds/20131204/021517519267.shtml>

⁴⁹ <http://www.ftchinese.com/story/001052969> Oct 17, 2013

⁵⁰ <http://finance.sina.com.cn/china/20140307/014418431312.shtml> Mar 7, 2014

⁵¹ <http://finance.sina.com.cn/review/hgds/20140106/011917848985.shtml> Jan 6, 2014

⁵² <http://finance.sina.com.cn/review/hgds/20131205/015817532586.shtml> Dec 5, 2013

⁵³ <http://finance.sina.com.cn/zl/china/20130917/123616786245.shtml> Sep 17, 2013

There are some medias that introduced the basic situation of Shanghai Free Trade Zone. They issued some questioned voices.

When a reporter had an interview with Peter Garrison, an associate director for industrial investment and advisory for Colliers International in Shanghai, they talked about the issue that among Hong Kong, Shanghai and other cities, there are some differences to take the responsibility of a Free Trade Zone. Peter Carrison said that " In Hong Kong it is easier to implement policy and carry it out because you have a boarder sealed off from the rest of the country. In Shanghai there are four separate areas in one city with a larger country surrounding it " And " China is trying to split this out into a tiny area and hope that it can control it. I think execution is going to the interesting to way. The blueprint is going to be Shenzhen, where they were able to keep it cordoned off and (then) it moved to other zones."⁵⁴

Some people put forward the question that " Have free trade zones become a victim of power struggle in China? " He thinks that the premier's original initiative to get Shanghai to lead the next round of economic reform in China now appears to have given way to another round of power struggles between city and provincial officials.⁵⁵

Some people doubt about the potential effects of Shanghai Free Trade Zone. They think that some evidences have proved that the degree of opening up and being free is disappointed. Even for Facebook and Twitter for aspiring free-trades still remain banned across the mainland.⁵⁶

⁵⁴ <http://www.forbes.com/sites/russellflannery/2013/10/28/shanghai-free-trade-zone-may-create-a-new-financial-hub-in-the-city/>

⁵⁵ <http://www.scmp.com/business/economy/article/1414376/have-trade-zones-become-victim-power-struggle> Jan 27, 2014

⁵⁶ <http://translate.google.com/#en/zh-CN/>