

**Framework Plan for the China (Shanghai) Pilot Free Trade Zone**  
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**The China (Shanghai) Pilot Free Trade Zone is established based on the strategic decision by the Central Government, and is a significant measure to boost China 's reform and opening up under the new circumstances. This Framework Plan provides detailed guidance on initiatives and their respective implementation measures.**

## **1. General requisition**

**The China (Shanghai) Pilot Free Trade Zone is a national strategy aiming to expedite the functional transformation of government, explore administrative innovation, stimulate trading and investment facilitation, and accumulate experience on achieving a more open Chinese economy.**

### **1) Guiding principles**

**We should hold high the great socialism banner with Chinese characteristics, take Deng Xiaoping Theory, "Three Represents" important thought and scientific development approach to guide this national strategy. We should further unleash our minds, dare to pilot, and promote reform and development by opening up the economy. The China (Shanghai) Pilot Free Trade Zone will create a regulatory environment on cross border investment and trading that is in line with international practices, enhance China's economic position globally, and contribute to achieving the revival of the Chinese People's China Dream.**

### **2) Overall objectives**

**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.

### **3) Scope of implementation**

The China (Shanghai) Pilot Free Trade Zone is comprised of the four customs supervision areas, including Shanghai Waigaoqiao Bonded Zone, *Waigaoqiao Bonded Logistics Zone*, *Yangshan Bonded Port* and *Shanghai Pudong Airport Free Trade Zone*, and based on the ongoing results of the implementation, as well as to develop industry and the need to spur the radiating effect, the scope of implementation and the scope of the pilot measures will be progressively expanded, forming a supporting mechanism for building Shanghai as an international economic, finance, trade and transportation center.

## **2. Major tasks and measures**

Based on the unity of openness expansion and system reform, and the unity of functional development and policy innovation, the China (Shanghai) Pilot Free Trade Zone aims to develop a framework in line with international norms for investment and trade. To do so, one needs to bear in mind the strategic requirements of going to the world and serving the nation, as well as the strategic task of building "The Four Centers" of Shanghai, and take actions to experiment step by step with risks under control.

### **1) Accelerate the functional transformation of government**

- a. Deepened reform in administration system.** The China (Shanghai) Pilot Free Trade Zone will accelerate the functional transformation of government and governmental administrative management innovation. An administrative management system meets and fits with international trade and investment standards will be established. The focus of administrative management procedures will shift from prior approval to mid-event control and subsequent supervision. 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. A comprehensive assessment mechanism of industry information tracking, supervision and collection will be established, to strengthen the tracking, administration and supervision of activities outside of the zone conducted by entities registered in the China (Shanghai) Pilot Free Trade Zone. A joint supervision and enforcement system will be implemented to cover the areas of quality and technical supervision, food and drug supervision, intellectual property, industry and commercial administration, and tax administration to enhance efficiency. In addition to relevant administrative

authorities, the social forces are also encouraged to take an active part in market supervision. Transparency in administrative management will be enhanced, and the information disclosure mechanism that reflects the participation of investors and is in line with international norms will be established. To protect the interests of investors, various administration reforms will be put in place, for instance enhancing fair competition, and allowing qualified foreign investors to remit investment gains at their discretion. An intellectual property related dispute resolution and assistance system will be established.

## **2) Opening up of investment sectors**

- b. Opening up of service sectors. The financial services, transportation services, commerce and trade services, professional services, cultural services, and public services sectors are selected to be enlarged and opened (for a detailed list please refer to the appendix), and 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.**
- c. Explore the "Negative List" administrative approach. 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. For the projects that are not stated in the "Negative List", foreign investors and domestic investors will receive the same treatment, by going through filing procedures instead of approving requirements (with the exception of areas specifically defined by the State Council). Shanghai Municipal People's Government will be in charge of the project filing procedures. The approving requirement on foreign investment contracts and Articles of Association will be replaced by a filing procedure with Shanghai Municipal People's Government, with the same follow up procedures finished according to the current laws and regulations. The registration process with the Administration of Industry and Commerce will be aligned with the business registration system reform, and the process will be optimized. National security review system will be improved, and pilot national security review on foreign investment projects will be trialed in the China (Shanghai) Pilot Free Trade Zone to constitute a safe and efficient open economic system. A foreign investment administrative system that is aligned with international standard will be set up.**
- d. Set up a system to support outbound investment. The China (Shanghai) Pilot Free Trade Zone is aiming at the reform of outbound investment administration by principally implementing the filing system on the setup of overseas companies and on the general outbound investment projects. The Shanghai Municipal People's Government will be in charge of the filing procedure on general outbound investment projects to facilitate the convenience on outbound investment. A new**

investment service enhancement mechanism will be created to strengthen the post outbound-investment administration and service, and to set up an information-monitoring platform shared by multiple government departments for statistics and annual inspection purposes. Various types of investors in the China (Shanghai) Pilot Free Trade Zone are encouraged to conduct outbound investment in different forms. 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.

### **3) Promote the transformation of trade development approach**

- e. Promote the transformation and upgrading of trade. The China (Shanghai) Pilot Free Trade Zone is cultivating new trading types and functions, aiming to increase China 's competitive advantage and enhance their position in the global trade value chain by focusing on the development of technology, brands, quality and service. Multinational companies are encouraged to set up Asia-Pacific regional headquarters and/or operation centers with comprehensive functions of trading, logistics, settlement, etc. More efforts will be made to promote Shanghai as the international trade settlement center, and to expand the function of the special account on cross-border receipt or payment and financing under trade in service. Enterprises in the China (Shanghai) Pilot Free Trade Zone will be supported to develop offshore business. Enterprises are encouraged to employ an overall plan in international and domestic trade to integrate the development of domestic and foreign trading business. International commodity trading and resource configuration platform will be explored to trade energy products, basic industrial raw materials and agriculture commodities. The ongoing pilot bonded futures delivery will be expanded and improved and the warehouse receipt financing and other functions will be extended. The establishment of outbound cultural trade bases will be accelerated. The outsourcing service sectors include bio-pharmaceuticals, software and information, management consulting, data services etc. will be encouraged. 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. Third-party inspection and appraisal institutions are encouraged to set up with appraisal results be acceptable in accordance with international standards. High-tech and value-added maintenance services will be trialed in the China (Shanghai) Pilot Free Trade Zone. 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.**
  
- f. Elevate the capacity of the shipping service. The China (Shanghai) Pilot Free Trade Zone will leverage on the Waigaoqiao Port , Yangshan Deep-Water Port and Pudong International Airport to form a shipping development system and operation model that will have strong global competitive advantages. Shipping related services such as shipping financing, international ship transportation, international ship management, and international ship brokerage, will be**

proactively encouraged. Additionally, the development of freight index derivatives will be accelerated. Transition and LCL businesses will be further promoted. Foreign ships owned or indirectly owned by Chinese invested companies are allowed to pilot the coastal shipping between domestic coastal ports and Shanghai port. Pudong International Airport is encouraged to increase the number of flights for cargo transition. By utilizing the geographic advantages of Shanghai and the preferential taxation on Chinese “flag of convenience” ships, qualified ships will be encouraged to register in Shanghai . 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.

#### **4) Deepen innovation and opening up of financial services**

- g. Accelerate the innovation of the financial system. 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. In China (Shanghai) Pilot Free Trade Zone, the assets by the financial institutions will be at market rate. 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. 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. Foreign exchange centralized operation by multinational companies' headquarters will be enhanced to encourage the setup of regional or global treasury centers in Shanghai . 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.**
- h. Enhance the financial service function. The finance sector will be fully opened to private investors and foreign invested financial institutions. Foreign-invested and Sino-foreign equity joint venture banks will be allowed to incorporate in the China (Shanghai) Pilot Free Trade Zone. 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. 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. The cross-border RMB reinsurance business is also encouraged to cultivate reinsurance market.**

#### **5) Improve regulatory supporting systems**

- i. Strengthen protection through regulatory system enhancements. A regulatory system of high standard investment and trade rules will be developed rapidly to**

serve the needs of the China (Shanghai) Pilot Free Trade Zone. In regard to the content of the pilot, some administrative regulations and provisions in the State Council's documents will be terminated according to the prescribed procedures. Among these regulations and provisions, certain administrative examination and approval requirements under "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. The government departments shall support the expansion and opening of service industry in the China (Shanghai) Pilot Free Trade Zone, the deepening of pilot reforms on the implementation of "National Treatment" on investment permission and "the Negative List" management approach, and solve the problems in regulatory protection during the pilot period. The Shanghai Municipal People's Government will establish an administrative system through local legislation in correspondence to the demands of the China (Shanghai) Pilot Free Trade Zone.

### **3. Establish an appropriate regulatory environment for supervision and tax**

In order to establish a service system for investment and trade with international standard, an innovative supervision model will be created to facilitate smooth transactions for all goods and services under a highly transparent administrative system within the China (Shanghai) Pilot Free Trade Zone and to promote opening up in service sectors and further development in goods trade. Meanwhile, under the premise of keeping a fair, consistent and standardized current tax system, related policies for the purpose of functional development will be improved.

#### **1) Create new mode of supervision**

- a. Simplify the import supervision model to realize "Frontier Opening". Enterprises are allowed to bring goods into the China (Shanghai) Pilot Free Trade Zone with import manifests before completing the customs declaration formalities with entry and exit record list. The simplification on entry and exit record list as well as the formalities on international transit, LCL and distribution business will be explored. The supervision techniques and approaches will be improved to pilot the model of "import quarantine and relaxed import/export inspection". The construction of relatively separated goods trading area (focusing on trade facilitation) and service trade area (focusing on opening up of service sectors) will be explored. Under the condition of ensuring effective supervision, a categorized supervision model will be explored to monitor goods based on their import status. With respect to exploration on function expansion, under the condition of strict implementation of tax collection on imported and exported goods, exhibition and trading platforms**

for bonded goods may be set up within specified areas of China (Shanghai) Pilot Free Trade Zone.

- b. **Strictly enforce “Second-tier Effective and Efficient Control”. The Customs administration process will be optimized while the administration of "frontier" (i.e. goods flow between overseas and the zone) and "second-tier" (i.e. goods flow between the zone and other domestic areas) will be coordinated by improvement on e-information network, entry and exit record lists cross check, accounting books management, physical verification, and risk analysis. An inspection and quarantine model of "easily import and export, with strict quality and safety risk control" will be promoted. Actions will be taken to strengthen the management of electronic Customs books and facilitate the smooth flow of goods moving between the China (Shanghai) Free Trade Zone and other domestic places in the charge of different Customs offices. Enterprises within the China (Shanghai) Pilot Free Trade Zone in principle will be allowed to re-invest and conduct business outside of the zone without geographic restriction, unless specific procedures required under the applicable laws and regulations. The government will enhance the connection of enterprises' operation information and the government's supervision system, through which effective supervision can be realized through risk monitoring, third-party management and security deposits etc. The government will, through the development and utilization of Shanghai 's credit system, accelerate the formulation of policies and mechanism in respect of enterprises' business credit management and exclusive jurisdiction of business activities.**
- c. **Enhance cooperation among authorities. Under the principle of protecting national security and fair competition in the market, collaboration will be strengthened between the relevant departments and the Shanghai Municipal People's Government to improve the capability to protect the economic and social security. The China (Shanghai) Pilot Free Trade Zone will collaborate with relevant departments of the State Council to strictly implement the provisions in respect of anti-monopoly investigations. In order to streamline supervision, cooperation among various government bodies will be enhanced, including that between the Customs, Inspection & Quarantine, Industry & Commerce, Taxation, Foreign Exchange and other administrative authorities. The China (Shanghai) Pilot Free Trade Zone will set up a port supervision institution with integrated functions, and explore the feasibility of applying an electronic monitoring system and setting up of effective risk management system.**

## **2) Explore a supporting tax regime**

- d. **Implement tax policies to boost investment. For enterprises or individual shareholders registered in the China (Shanghai) Pilot Free Trade Zone that carry out investment using non-monetary assets, the income tax payable due to the increase in asset valuation can be paid by installments within a five-year period. Where enterprises within the China (Shanghai) Pilot Free Trade Zone award highly-skilled employees or employees in short supply by means of shares or**

capital contributions, the relevant individual income tax may be paid by installments as same as the policies piloted in Zhongguancun.

- e. **Implement tax policies to promote trade.** Financial leasing companies registered or project companies set up by financial leasing companies with registration in the China (Shanghai) Pilot Free Trade Zone may enjoy the pilot policies of export tax refund for qualified financial leasing business. A domestic leasing company registered or its project companies with registration in the Pilot Free Trade Zone may enjoy reduced import VAT on an aircraft with empty weight no less than 25 tons, provided that such aircraft is to be leased to a domestic airline with approval from competent authorities. Import VAT and consumption taxes will be applicable in accordance with relevant laws and regulations, on the products manufactured or processed by a company within the China (Shanghai) Pilot Free Trade Zone but sold to the Mainland China outside of the China (Shanghai) Pilot Free Trade Zone. Enterprises will be provided with the option of calculating import duty according to the duty rates applicable to the finished goods or the imported parts. Currently, the imported machines, equipment and other goods required by manufacturing enterprises as well as manufacturing service companies that are set up in the China (Shanghai) Pilot Free Trade Zone, may be exempt from import taxes, other than those imported by consumer services companies or those which cannot enjoy import taxes exemption as stipulated in laws and regulations. Tax refund policies on the port-of-departure will be improved, and the expansion on pilot scope (e.g. departure ports, carriers and means of transport) will be studied.

Additionally, in line with the direction of tax reform and international practice, tax policies will be studied to support the development of overseas equity investment and offshore business, under the condition that such tax polities do not lead to base erosion or profit shifting.

#### **4. Organize and implement effectively**

The State Council will lead and coordinate the promotion of the China (Shanghai) Pilot Free Trade Zone. The Shanghai Municipal People's Government is responsible for organizing implementation, improving the working mechanism, and allocating detail responsibilities. Based on the targets which were clearly set out in the Framework Plan and pilot tasks, in accordance with the principle of "go ahead with the matured ones and follow by perfection", the Shanghai Municipal People's Government can create a practical implementation plan and enforce without delay. During the implementing, the Shanghai Municipal People's Government shall study new cases, resolve new problems and report to the State Council in a timely fashion on significant issues. All relevant departments need to support actively, provide cooperation, guidance and evaluation feedbacks, work together to promote the innovation on relevant system, mechanism and policy, and construct and well-manage the China (Shanghai) Pilot Free Trade Zone.

## Appendix

### Measures to open up the service sectors in the China (Shanghai) Pilot Free Trade Zone

#### 1. Financial services

1. Banking service (Classification of National Economic Industries: J Finance industry – 6620 Monetary banking service)	
Opening up measures	(1) Qualified foreign financial institutions will be allowed to set up wholly foreign-owned banks and Sinoforeign equity joint venture banks with eligible private capital within the China (Shanghai) Pilot Free Trade Zone. Restricted license banks will be allowed to be incorporated under certain conditions.  (2) Qualified Chinese banks will be allowed to conduct offshore business under the condition of improving related regulations and enhancing supervision.
2. Specialized health and medical insurance (Classification of National Economic Industries: J Finance industry – 6812 Health and accident insurance)	
Opening up measures	Setup of foreign invested specialized health and medical insurance institutions will be allowed.
3. Financial leasing (Classification of National Economic Industries: J Finance industry – 6631 Finance leasing service)	
Opening up	(1) The minimum registered capital requirements for a project company (i.e. single-ship/aircraft company) set up by financial leasing companies within the China (Shanghai) Pilot Free Trade Zone will be removed.  (2) Financial leasing companies will be allowed to conduct commercial factoring that

measures	are related to its primary businesses.
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## 2. Transportation services

4. Ocean transportation (Classification of National Economic Industries: G Transportation, warehousing and postal industry – 5521 Ocean transportation)	
Opening up measures	(1) Limitations on foreign participation in Sino-foreign equity joint venture and Sino-foreign cooperative joint venture international shipping enterprises will be relaxed. The transport administrative authorities of the State Council shall be in charge of the rulemaking.  (2) Foreign ships owned or indirectly owned by Chinese-invested companies are allowed to pilot the coastal shipping between domestic coastal ports and Shanghai port.
5. International ship management (Classification of National Economic Industries: G Transportation, warehousing and postal industry – 5539 Other water transportation auxiliary service)	
Opening up measures	Incorporation of wholly foreign-owned ship management enterprises will be allowed.

## 3. Commerce and trade services

6. Value-added telecommunications (Classification of National Economic Industries: I Information transmission, software and information technology service – 6319 Other telecommunication service, 6420 Internet information service, 6540 Data processing and storage service, 6592 call centre)	
Opening up measures	Subject to the network information security, qualified FIEs will be allowed to engage in specific value added telecommunication services. Approval by the State Council is required if the limitations exist in current administrative regulations.
7. Entertainment and gaming consoles sales and service (Classification of National Economic Industries: F Wholesale and retailing – 5179 Wholesale of other mechanical and electronic	

products)	
Opening up measures	FIEs will be allowed to engage in the manufacturing and sales of entertainment and gaming consoles. The consoles with content passing the censorship by the culture administrative authorities will be allowed to be sold in the domestic market.

#### 4. Professional services

8. Lawyer service (Classification of National Economic Industries: L Leasing and business service – 7221 Lawyers and related legal service)	
Opening up measures	Cooperative mechanism between Chinese and foreign law firms will be explored.
9. Credit inquiry (Classification of National Economic Industries: L Leasing and business service – 7295 Credit service)	
Opening up measures	Incorporation of foreign invested credit information companies will be allowed.
10. Tourism companies (Classification of National Economic Industries: L Leasing and business service – 7271 Travel agency service)	
Opening up measures	Sino-foreign equity joint venture tourism companies registered in the China (Shanghai) Pilot Free Trade Zone will be allowed to engage in overseas tourism business activities, with the exception of Taiwan .
11. Human resources service (Classification of National Economic Industries: L Leasing and business service – 7262 Professional intermediary service)	
Opening up measures	(1)Setup of Sino-foreign equity joint venture human resources agencies will be allowed with the foreign participation at 70% or below. Investors from Hong Kong and Macau will be allowed to set up wholly foreign-owned human resources agencies. (2)The minimum registered capital for foreign invested human resources agencies will be reduced from USD300,000 to USD125,000.

12. Investment management (Classification of National Economic Industries: L Leasing and business service – 7211 Headquarter s management)	
Opening up measures	Incorporation of foreign-invested joint-stock holding companies will be allowed.
13. Engineering design (Classification of National Economic Industries: M Scientific research and technology service company – 7482 Engineering investigation and design)	
Opening up measures	Foreign-invested engineering design (excluding engineering survey) companies registered in the China (Shanghai) Pilot Free Trade Zone may be waived from the requirement to provide the investor's previous project records on initial application of the relevant qualifications for those applicants providing services in Shanghai.
14. Construction service (Classification of National Economic Industries: E Construction industry – 47 Housing construction industry, 48 Civil Engineering Construction, 49 Construction and Installation, 50 Building decoration and other construction)	
Opening up measures	Wholly foreign-owned construction enterprises registered within the China (Shanghai) Pilot Free Trade Zone will be allowed to conduct Sino-foreign joint construction projects in Shanghai regardless of the extent of foreign participation in the project.

## 5. Cultural services

15. Entertainment artist agency (Classification of National Economic Industries: R Culture, sports and entertainment – 8941 Culture and entertainment agency)	
Opening up measures	The limitation on foreign participation in entertainment artist agencies will be removed. A wholly foreign owned entertainment artist agency will be allowed to set up to provide service in Shanghai .
16. Entertainment facilities (Classification of National Economic Industries: R Culture, sports and entertainment – 8911 ballroom recreation activities)	

Opening up measures	Wholly foreign-owned entertainment facilities will be allowed to set up and provide service in the China (Shanghai) Pilot Free Trade Zone.

## 6. Public services

17. Education and training, vocational skills training (Classification of National Economic Industries: P Education – 8291 Vocational skills training)	
Opening up measures	(1) Establishment of Sino-foreign cooperative joint venture education and training institutions will be allowed.  (2) Establishment of Sino-foreign cooperative joint venture vocational skills training institutions will be allowed.
18. Medical service (Classification of National Economic Industries: Q Health and social work – 8311 General hospital, 8315 Specialized hospital, 8330 Out-patient department)	
Opening up measures	Establishment of wholly foreign-owned medical institutions will be allowed.

**Note: The opening up measures above only applicable to the enterprises registered within the China (Shanghai) Pilot Free Trade Zone.**