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MEMBER OF THE CONFEDERATION OF EUROPEAN BUSINESS (BUSINESSEUROPE)

Headquarters: Meşrutiyet Cad. No: 46 Tepebaşı 34420 İstanbul – Turkey

Ankara: İnan Cad. No: 39/4 Gaziosmanpaşa 06700 Ankara – Turkey

Brussels: 13, Avenue des Gaulois, 1040 Brussels – Belgium

Washington D.C. : 1250 24th Street, N.W., Suite Nr. 300, Washington D.C. 20037 - USA

Berlin: Märkisches Ufer, 28 Berlin 10179 Germany

Paris: 33, Rue de Galilée 75116 Paris – France

Beijing: Beijing Lufthansa Centre, Office C-319, Beijing 100016, P. R. China

Phone: +90 (212) 249 19 29 **Fax:** +90 (212) 249 13 50

Phone: +90 (312) 468 10 11 **Fax:** +90 (312) 428 86 76

Phone: +32 (2) 736 40 47 **Fax:** +32 (2) 736 3993

Phone: +1 (202) 776 77 70 **Fax:** +1 (202) 776 77 71

Phone: +49 (30) 288 786 300 **Fax:** +49(30) 288 786 399

Phone: +33 (1) 44 43 55 35 **Fax:** +33 (1) 44 43 55 46

Phone: +86 (10) 6462 2066 **Fax:** +86 (10) 6462 2067

e-mail: tusiad@tusiad.org

e-mail: ankoffice@tusiad.org

e-mail: bxloffice@tusiad.org

e-mail: usoffice@tusiad.us

e-mail: berlinoffice@tusiad.org

e-mail: parisoffice@tusiad.org

e-mail: tusiad.china@euccc.com.cn

Overview of Free Trade Zone in China



The Free trade zone (FTZ) refers to an area outside customs, and inside the border of the country. It is subjected to customs protection and is an tariff-free area. Comparing to the normal economic region the basic features of FTZ can be summarized as “acts of state (approved and established by the state council and supervised by the customs), located inside the border and outside the customs territory, with diversified trade function and under highly freedom business environment.”

Since 1996 China has established 15 free trade zones, which fulfilled the functions of international trade investment, bonded warehousing, and processing of export business. Nowadays China free trade zone is facing regulation and management problems, FTZ needs to be in accordance with international structure, in order to be more efficient and practical. With this problems Chinese government begun fixing it and start issuing new regulations and measures to solve some of these issue.

Introduction to Chinese Free Trade Zone

Free Trade Zone (FTZs) in China is a new segment in the Chinese reform and open process. It is an open economic area established under Chinese conditions and subjected to the common international practice of free trade zone in the world. In China the free trade zone is also called as bonded zone.

In general, FTZ refers to the territory outside the customs territory and inside the borders of the country, is an ad hoc open area approved by the State Council in carrying out international trade and bonded business. The main function is similar with the free trade zone and export processing zone in foreign countries. It permits foreign investment in international trade; develops bonded warehousing, and the processing of export business.

Preferential policy

In China, the Free Trade Zone (bonded zone) is usually located near the port or airport, foreign goods brought into this zone is not imported, there is non-payment of import duties. It is the outside custom territory but supervised under the customs. Goods in the free trade zone could be transferred between enterprises, and be transferred and exported to the other countries with complete freedom. The duty and value-added tax will be charged if foreign goods enter into the Chinese domestic market, while domestic goods (mainland goods) which enters the free trade zone will be subjected to the normal export practices. The re-export and storage of goods in this zone are in accordance with the management of bonded goods. Goods transported into the zone

can be stored, modified, classified, mixed, displayed and processed. FTZ is an economic area with the highest openness and freedom.

Since 1996, China has established 15 free trade zones, Shanghai Waigaoqiao Free trade zone in Pudong New area, Tianjin Port free Trade Zone, Shenzhen Sha tou Free trade zone, Futian Free Trade Zone, Dalian Free trade zone, Guangzhou Free trade zone, Zhangjiagang Free trade zone, Haikou Free trade zone, Xiamen Xiangyu Free trade zone, Fuzhou Free trade zone, Ningbo Free Trade Zone, Qingdao Free Trade zone, Shantou Free Trade Zone, Shenzhen Yantian port Free trade zone, Zhuhai Free Trade Zone.

After a decade of development, FTZ in China is gradually becoming a regional pattern: In south there is Guangzhou, Shenzhen-based Pearl River Delta region; In the middle, there are Shanghai, Qingdao-based Yangtze River Delta region, and In North we have Tianjin, Dalian, Qingdao-based Bohai Bay region. These three regional free trade zones made a significant contribution to the economic development of China.

Introduction to FTZ in the three regions

Shanghai Wai Gaoqiao Free Trade Zone in Yangtze River Delta Region

Wai Gaoqiao, Shanghai free trade zone is the first free trade zone approved by the State Council in June 1990. Located in the Northeast Shanghai, and was located close to the Waigaoqiao port. Its planning area is 10

square Kilometers which is the biggest free trade zone in China.

The Shang hai Waigaoqiao free trade zone gathers many economic functions like export processing, bonded warehousing, logistics warehousing and goods exhibition and trade. It is an important import and export bases, and also an important part of the microelectronics industry in Shanghai.

Tianjin free trade zone in the Bohai Bay region

Tianjin FTZ was founded on may 1991. Locaed with in the Tianjin port, Tian Jin free trade zone is the first zone in north China that meets the requirement of the international economic development . It's total area is 5.1 sqaure Kilometers.

Tianjin FTZ has been equiped with international cargo distribution fuctions, trade fair funtions and also the funtions of foreign exchange, insurance and information support. It has built the largest grain and oil processing base and the tomato products export processing base. And has also formed many industrial cluster in electronic information, biological pharmaceuticals, machinery and auto parts, metal products, high-tech textile, green food field. Tian jin free trade zone has built a good investment enviornment to attract more domestic and foreign investment.

Guangzhou free trade zone in Pearl River Delta region

On May 1992, by the approval of the stage council , Shenzhen free trade zone was founded. It is mainly engaged in processing trade, bonded warehousing, logistics and distribution, international service and trade, and the merchandise display, providing trade, bonded warehousing, logistics and distribution, bonded exhibition to most of the Pearl River Delta export processing enterprised.

Guangzhou FTZ is divided into four main parks: Computer Industrial City, South car import city, Export processing zone, and International logistics park. The zone has been completed with customs building, wharf, bonded warehouse, general workshop, open yard, showrooms, and cargo inspection yard.

The Guangzhou FTZ is divided into two sites: one site was planned to develop business trade, storage, display, commercial processing, and publc servises; the other site is used to develop high-tech industry.

Problems of the Chinese Free Trade Zones and new measures by the government

Inefficiency and complexity of customs clearance and inspection procedure and government's new measures

FTZs in China are established near the port, but does not include the port. The zone and the port are under the management of different departments, which leads to the two times customs clearance when goods enters or leaves the zone and the port. The repeated and complex working procedure has increased business operation cost and reduced efficiency.

Unlike China, most of the well developed FTZ in the world are managed together with port, practicing a integrated management. The re-export trade, export processing, bonded warehousing and international trade are based on the port's function. So only the implementation of the integrated port and zone operation would made the a large development of the various function of FTZ.

Government's new measures

FTZ is adjacent to the port but doesnt includes the port, which is the "bottle-neck" of the development of the FTZ in China. In May 18, 2010 The State Council has approved 14 "bonded ports". The bonded port is established inside the national port and its connected to a special area. Its main function focuses on bonded area for logistics, foreign trade, international procurement, distribution, international transfer, testing and after-sales

service, product display, research and development, processing, manufacturing and port operation. The bonded port links the tax and the foreign exchange policy of both FTZ and export processing zones, holding more advantages on location, function and policies.

Closely cooperating with the neighboring port, the "bonded port" could reduce the complex steps of custom clearance, increases the efficiency of custom clearance and decrease the business cost.

As of 18 May 2010 China State Council has approved 18 bonded ports:

2005.6.22 Shanghai Yangshan bonded port;

2008.8.31 Tianjin or Tianjin Dongjiang Bonded Port;

2006.8.31 Dalian Dayaowan Bonded Port;

2007.9.24 Hainan Yangpu Bonded Port;

2008.2.24 Ningbo Meishan Bonded Port;

2008.5.29 Guangxi qinzhou Bonded Port;

2008.6.5 Xiamen Haicangbao Bonded Port;

2008.9.7 Qingdao qianwanbao Bonded Port;

2008.10.18 Shenzhen Qianhaiwan Bonded Port;

2008.10.18. Guangzhou Nansha Bonded Port;

2008.11.12 Chongqing Lianglucuntan Bonded Port;

2008.11.18 Zhangjigang Bonded Port;

2009.9.22 Yantai Bonded Port;

2010.5.18 Fuzhou Bonded Port;

Strict control policies

Some of the control policies is too strict in the free trade zone, such as customs checks (needs to check each batch of goods,) which not only increase the workload of customs, but added many troubles to the business operation inside the zone.

Decentralized departments

More and more department interferes with the management of the Free Trade zones, which leads to a more and more stringent management.. Not only the necessary administrative authorities, but many other organizations with no relationship or connection with the FTZs' operations take charge of the management and because of the different departmental interests, the administrative authorities of FTZ are not independent; they need to take orders from the outside department which has badly affected the management's efficiency and development.

Lack of standard regulation

FTZ in china lacks national law to regulate their operation. In the absence of standard regulations, each zone has set up their own local regulations. On the 15 zone in China, 10 have their own local laws and regulations or local government documents. The regulatory content varies to different place or even different zone. For instance, the 3 FTZs in Shenzhen implements 3 different regulations.

Problems of the import and export operation right

According to Ministry of Foreign Trade and Economic Cooperation (MOFTEC), the enterprises investing and registering inside the FTZ will be deemed as overseas enterprises. They have no rights to operate foreign trade. If they want to engage in import and export operation, they need go through the outside zone import and export enterprises. This not only increases the operation costs of the business in the zone, but also increases the risk of divulging trade secrets. So it is necessary to give the import and export right to the enterprises registering and investing in the zone.

To solve this problem, in July 2003, Ministry of commerce and General administration of Customs has decided to start the pilot program of granting import and export right for the enterprises registered or invested in the following 4 FTZs: Waigaoqiao, shanghai FTZ, Tianjin FTZ, Shenzhen FTZ, and Xiamen xianguyFTZ.

Types of the import and export rights granted in FTZ

1. Domestic enterprises import and export rights
- 2.Domestic producers import and export rights
- 3.Joint venture foreign trade company
- 4.Foreign-invested manufacturing enterprises import and export rights.

Granting import and export right to the inside zone enterprises is a "big release". Skipping from the import and export business agency, the operating cost of the inside zone companies could be greatly reduced. Take the Waigaoqiao Free trade zone as an example, currently, it holds 6461

investment projects, 4845 of them belongs to the foreign investment. When granted the right to import and export, these enterprises can intergrate production and sales channel and gain much more developing space. Besides the new measure will also improve the

function of Waigaoqiao free trade zone, make it more attractive for the foreign investment.

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MEMBER OF THE CONFEDERATION OF EUROPEAN BUSINESS (BUSINESSEUROPE)

Headquarters: Meşrutiyet Cad. No: 46 Tepebaşı 34420 İstanbul – Turkey
Ankara: Iran Cad. No: 39/4 Gaziosmanpaşa 06700 Ankara – Turkey
Brussels: 13, Avenue des Gaulois, 1040 Brussels – Belgium
Washington D.C. : 1250 24th Street, N.W., Suite Nr. 300, Washington D.C. 20037 - USA
Berlin: Märkisches Ufer, 28 Berlin 10179 Germany
Paris: 33, Rue de Galilée 75116 Paris – France
Beijing: Beijing Lufthansa Centre, Office C-319, Beijing 100025, P. R. China

Phone: +90 (212) 249 19 29 **Fax:** +90 (212) 249 13 50
Phone: +90 (312) 468 10 11 **Fax:** +90 (312) 428 86 76
Phone: +32 (2) 736 40 47 **Fax:** +32 (2) 736 3993
Phone: +1 (202) 776 77 70 **Fax:** +1 (202) 776 77 71
Phone: +49 (30) 288 786 300 **Fax:** +49(30) 288 786 399
Phone: +33 (1) 44 43 55 35 **Fax:** +33 (1) 44 43 55 46
Phone: +86 (10) 6462 2066 **Fax:** +86 (10) 6462 3206
www.tusiad.org

e-mail: tusiad@tusiad.org
e-mail: ankoffice@tusiad.org
e-mail: bxloffice@tusiad.org
e-mail: usoffice@tusiad.us
e-mail: berlinoffice@tusiad.org
e-mail: parisoffice@tusiad.org
e-mail: tusiad.china@euccc.com.cn