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**Special Edition.**

**China (Shanghai) Free Trade Pilot Area:  
Dawn of a New Era**

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# Agenda

- Introduction and background
- Possible reforms and pilot sectors
- Selected “new” business models: discussion
- Our recommendation
- Questions & Answers

# Polling question 1

Which industry are you in?

- Distribution and outsourced services (i.e., shipping, logistics, warehousing)
- Telecommunications, media, and technology (including culture and media)
- Life sciences and healthcare
- Banking and finance
- Education and training
- Others (manufacturing, real estate, energy, etc.)

# Introduction and background

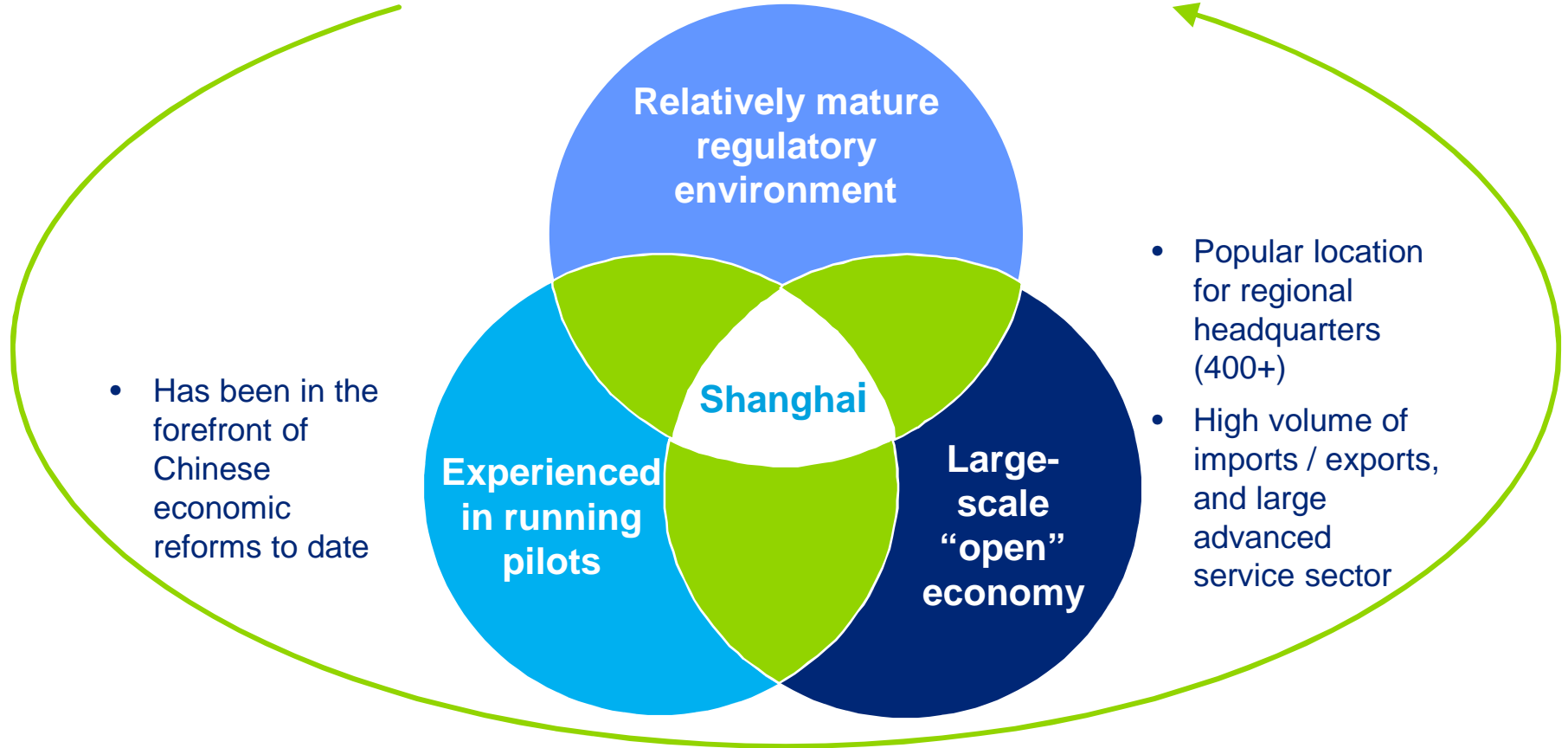
# Why China (Shanghai) Free Trade Pilot Area (FTPA)?

## National strategy to reform China's economy

- China under pressure to “further open up” economy
  - Which sectors?
  - How? To what extent?
  - Timing: how fast?
- Reform government administration, and establish trade and investment policies that align with international standards
  - Japan invited to join Trans-Pacific Partnership
  - Many other major trading partners concluding Free Trade Agreements (FTAs) with each other
  - China under pressure to conclude FTAs
    - Negotiation strategy?
    - What concessions? What “asks” in return?
- China (Shanghai) Free Trade Pilot Area
  - “Pilot” the “opening up” of economy in the FTPA
  - “Pilot”, observe, learn... for application nationwide

# Why Shanghai?

- High administrative efficiency, transparency, low administrative charges, and developed legal environment



**Solid foundation to conduct pilot measures geared towards opening-up the economy and policy reform**

# China (Shanghai) FTPA

- Combines
  - **Waigaoqiao** Free Trade Zone
  - **Waigaoqiao** Bonded Logistics Zone
  - **Pudong** Airport Free Trade Zone
  - **Yangshan** Bonded Port
- Combined area of over 28 square kilometers
- Will the pilot area be expanded?



# China (Shanghai) FTPA: concept

<b>China (Shanghai) FTPA</b>	≠	<b>Free Trade Area</b>	An area covered by a bilateral / multilateral free trade agreement (e.g. Sino-Swiss Free Trade Agreement) executed among countries or separate customs territories to eliminate customs and non-customs barriers to realize liberalization on trade and investment in such area
	>	<b>Comprehensive bonded zone</b>	A single functioned special economic zone in Mainland China, free from duties, and quotas to certain extent
	≧	<b>Free Trade Zone</b>	A specific area under special Customs supervision that allows trade liberalization in a country with preferential policies

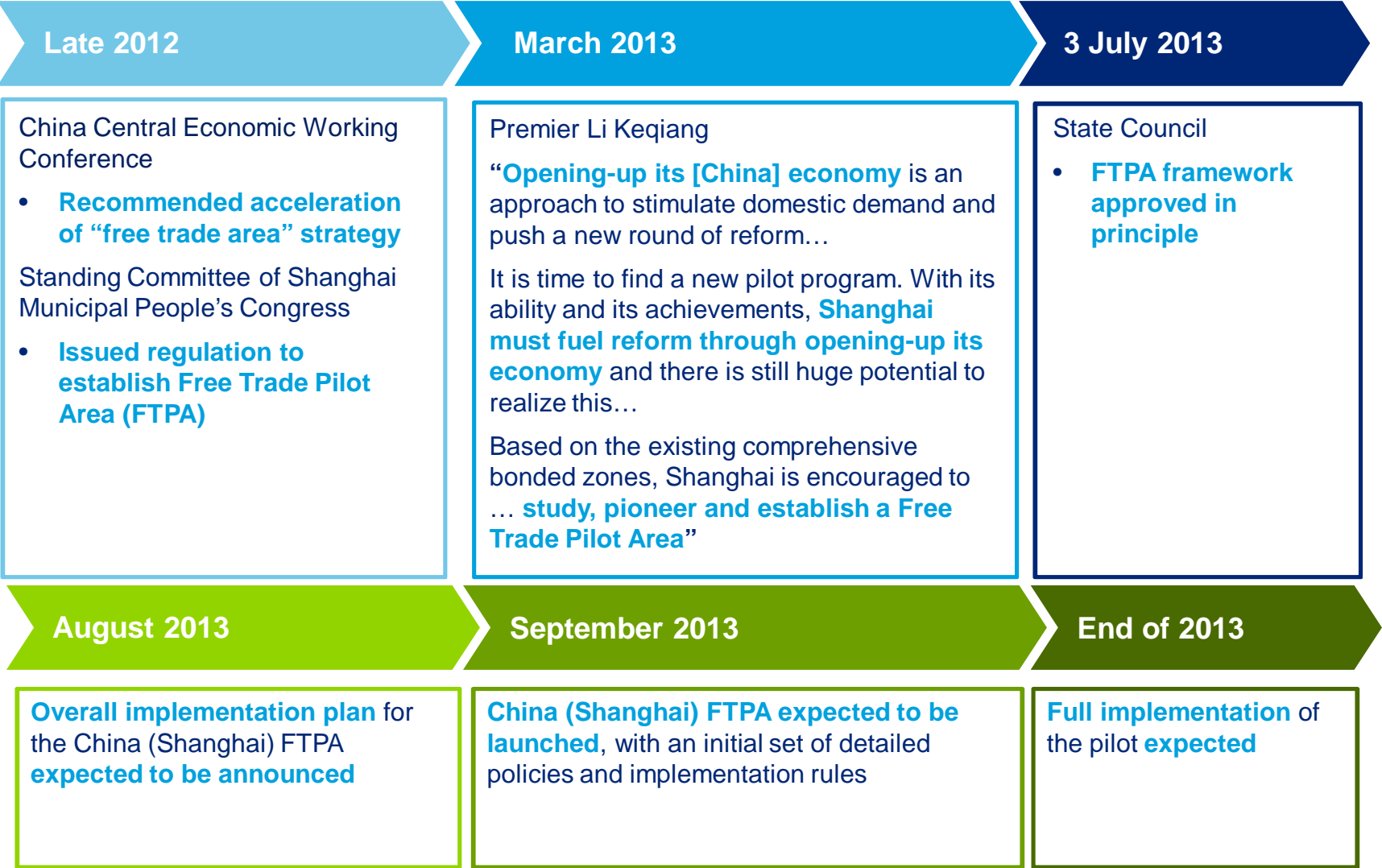


**China (Shanghai) FTPA is similar to Free Trade Zone, but more focus on policy reform, less focus on preferential treatment**

- Focus on physical goods trade and modern service industries, encouraging the operations of regional headquarters
- Focus on onshore and offshore business, expanding offshore function
- Realize trade, investment, and finance liberalization



# Timeline (based on information currently available)



# Possible reforms and pilot sectors

# Possible reforms

<p><b>China (Shanghai) FTP</b></p>	<p><b>Finance</b></p>	<ul style="list-style-type: none"> <li>• Potentially             <ul style="list-style-type: none"> <li>– RMB fully convertible (includes capital account)</li> <li>– Financial market interest rates liberalized</li> <li>– Pilot international trade and settlement center</li> <li>– Wholly foreign-owned banks permitted and set-up procedures for foreign invested joint venture (JV) banks simplified</li> <li>– Chinese banks permitted to engage in “offshore banking” business</li> </ul> </li> </ul>
<p><b>Deepen reform and opening up by policy innovations to establish advanced rules on trade and investment</b></p>	<p><b>Investment controls and approvals</b></p>	<ul style="list-style-type: none"> <li>• Inbound foreign investment approval and registration procedures simplified             <ul style="list-style-type: none"> <li>– Procedure of setup and alteration simplified</li> <li>– Administration based on “negative list – what is not allowed”</li> <li>– National treatment for foreign investors, modern service sector relaxed</li> </ul> </li> <li>• Outbound investment controls also simplified</li> </ul>
	<p><b>Customs</b></p>	<ul style="list-style-type: none"> <li>• Customs supervision procedures simplified and modernized             <ul style="list-style-type: none"> <li>– Shift to electronic supervision</li> <li>– Post declaration audits</li> <li>– Favorable in particular, for entrepot trades</li> <li>– Explore the possibility of new supervision model with contract flow, cash flow, goods flow separated</li> </ul> </li> </ul>
<p><b>Tax</b></p>	<ul style="list-style-type: none"> <li>• Internationally competitive tax regime</li> </ul>	

**Free flow of the commodities in the FTP with efficient supervision on flow into domestic market**

# Pilot sectors being considered: focus on service sectors and regional headquarters (RHQs)

<b>Enterprises</b>	<b>Industries</b>
<b>Transition from traditional production and trade business vehicles to headquarters</b>	<b>Transition from traditional goods trade to goods trade + modern service industries</b>
<ul style="list-style-type: none"><li>• Promotion of regional headquarter and regional operations center activities<ul style="list-style-type: none"><li>– Regional headquarters</li><li>– Regional sales, operations, and treasury centers</li><li>– Outbound investment platform</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Promotion of modern service industries<ul style="list-style-type: none"><li>– Finance and leasing</li><li>– Shipping and logistics</li><li>– International trade</li><li>– Professional and outsourcing services</li><li>– Cultural, creative, and media services</li><li>– Education, training, and healthcare services</li><li>– Public sector services</li><li>– Inspection and maintenance services</li></ul></li></ul>

## Polling question 2

Which of the areas of reform are the most significant for your company?

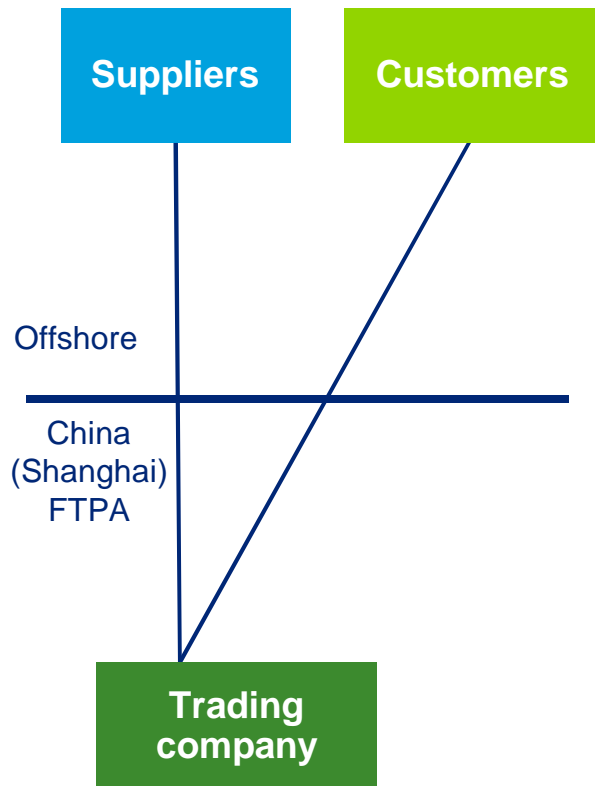
- Banking and finance
- Relaxation on market entry
- Government approval and administration
- Customs supervision
- More competitive tax regime
- Other

# Current challenges

<b>Policy</b>	<ul style="list-style-type: none"><li>• Further opening-up and status quo: where balance to be struck</li></ul>
<b>Alignment</b>	<ul style="list-style-type: none"><li>• Respective responsible governmental authorities</li><li>• Relevant laws and regulations</li></ul>
<b>Timing</b>	<ul style="list-style-type: none"><li>• Finalization of the overall plan and detailed implementation rules</li></ul>
<b>“New”</b>	<ul style="list-style-type: none"><li>• Lack of precedents, in particular, in relation to new business models</li></ul>
<b>Communication</b>	<ul style="list-style-type: none"><li>• Effective and efficient communication platforms between industry and government required</li></ul>
<b>Stability / predictability</b>	<ul style="list-style-type: none"><li>• Pilot policies: how stable and predictable?</li></ul>

# Selected “new” business models: discussion

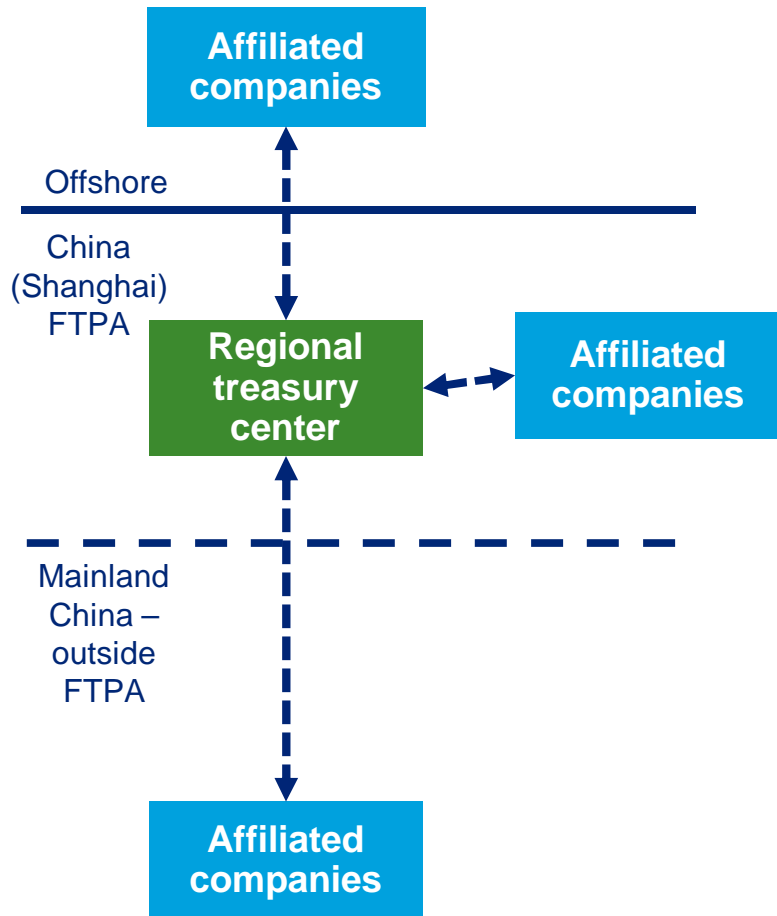
# Entrepot / offshore trading



	Expected in the China (Shanghai) FTPA
<b>Finance</b>	Foreign exchange controls relaxed, and possible significant reforms to facilitate cross-border transactions
<b>Investment controls and approvals</b>	<p>Approval and setup procedures, and administration simplified</p> <ul style="list-style-type: none"> <li>• Based on possibly short “negative list”</li> <li>• “Filing” + “post investigation” instead of pre-approval</li> </ul> <p>Use of innovative trading/hedging instruments and strategies potentially encouraged</p>
<b>Customs</b>	Customs procedures simplified and modernized, to encourage entrepot trading
<b>Tax</b>	Possible internationally competitive tax treatment

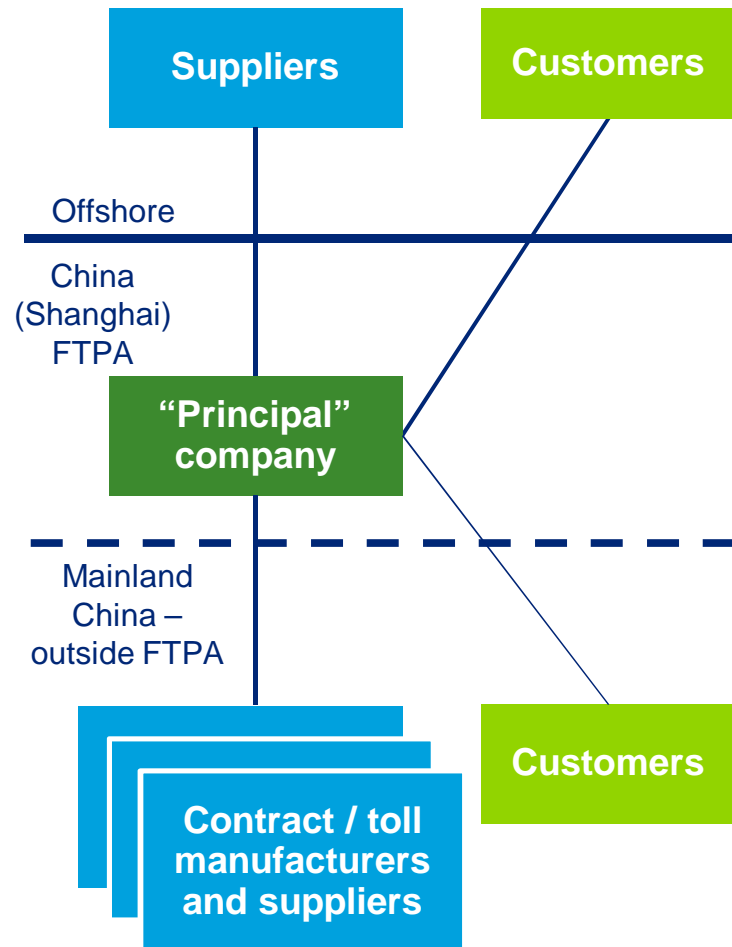


# Regional treasury center



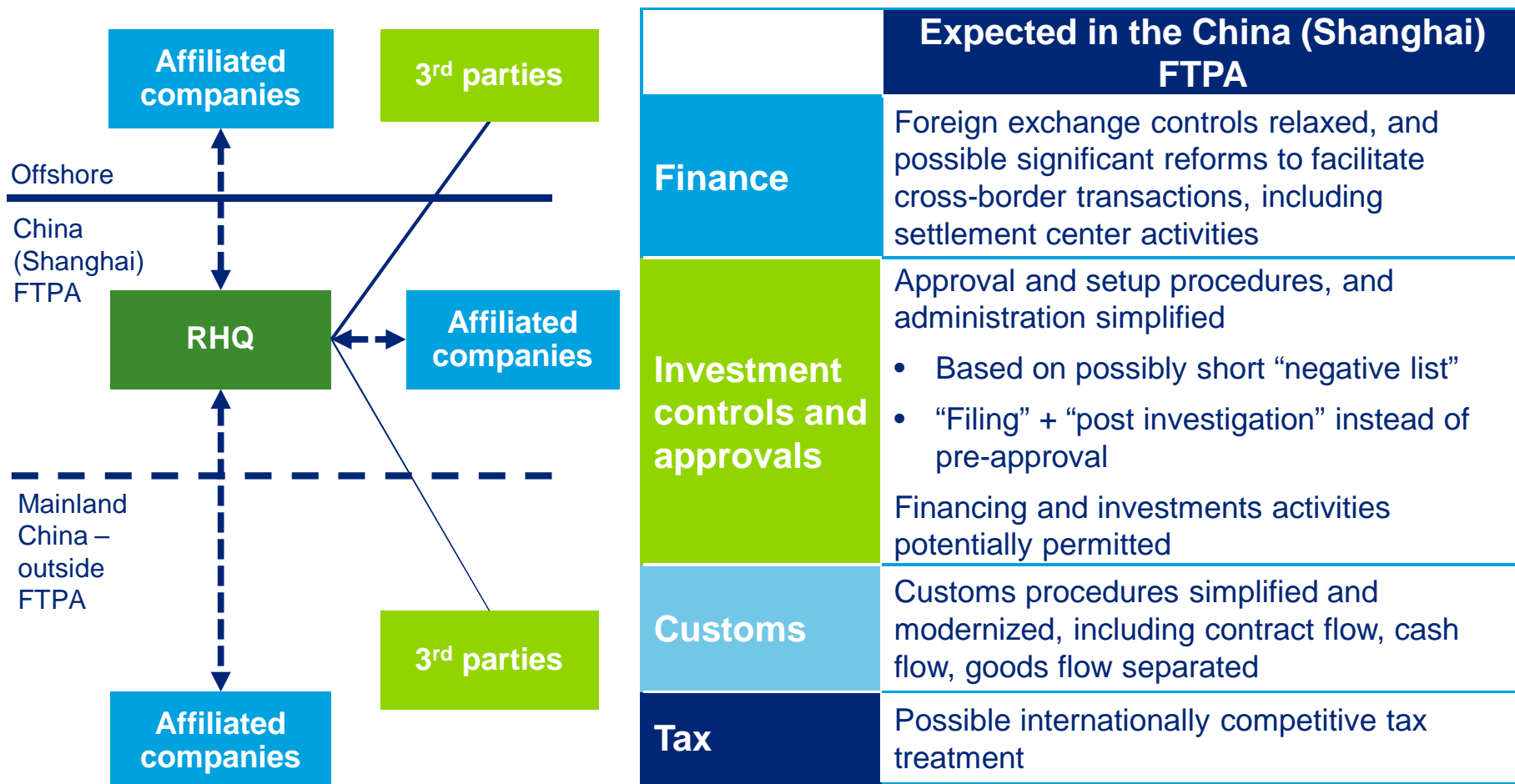
	Expected in the China (Shanghai) FTPA
<b>Finance</b>	Foreign exchange controls relaxed, and possible significant reforms to facilitate cross-border transactions
<b>Investment controls and approvals</b>	Approval and setup procedures, and administration simplified <ul style="list-style-type: none"> <li>• Based on possibly short “negative list”</li> <li>• “Filing” + “post investigation” instead of pre-approval</li> </ul>
<b>Customs</b>	N/A
<b>Tax</b>	Possible internationally competitive tax treatment

# “Principal” company

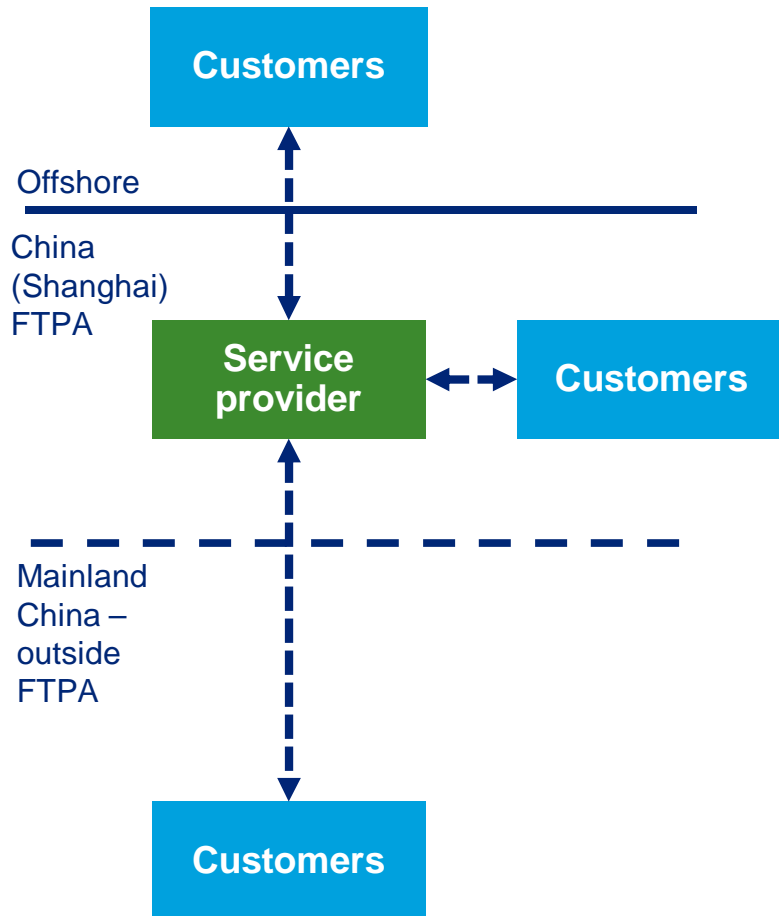


	Expected in the China (Shanghai) FTFA
<b>Finance</b>	Foreign exchange controls relaxed, and possible significant reforms to facilitate cross-border transactions, including settlement center activities, and simplification associated with simplified customs supervision
<b>Investment controls and approvals</b>	Approval and setup procedures, and administration simplified <ul style="list-style-type: none"> <li>• Based on possibly short “negative list”</li> <li>• “Filing” + “post investigation” instead of pre-approval</li> </ul>
<b>Customs</b>	Customs procedures simplified and modernized, including contract flow, cash flow, goods flow separated
<b>Tax</b>	VAT refund procedures simplified, possible internationally competitive tax treatment
<b>Commercial considerations</b>	A principal company close to Chinese market

# RHQ (including trading, investment, cash management, and shared services activities)



# Services (or activities) not currently permitted



	Expected in the China (Shanghai) FTPA
<b>Finance</b>	Foreign exchange controls relaxed, including the setup of settlement centers, and possible significant reforms to facilitate cross-border transactions
<b>Investment controls and approvals</b>	<p>Modern service sectors permitted and procedures of setup and alternation simplified</p> <ul style="list-style-type: none"> <li>• Finance and leasing</li> <li>• Cultural, creative, and media</li> <li>• Education, training, and healthcare</li> <li>• Inspection and maintenance</li> <li>• Public sector</li> </ul> <p>(Potentially eliminating need for JV and VIE structures)</p>
<b>Customs</b>	N/A
<b>Tax</b>	Possible internationally competitive tax treatment

## Polling question 3

How would you consider using the China (Shanghai) FTFA?

- Entrepot / offshore trading
- Regional treasury center
- “Principal” company
- RHQ (including trading, investment, cash management, and shared services activities)
- Services (or activities) not currently permitted
- Other

Our recommendation

# Our recommendation – stay one step ahead

<b>Understand</b>	<ul style="list-style-type: none"><li>• Objectives of governing framework and rules</li><li>• Information concerning detailed scope and rules</li></ul>
<b>Prepare</b>	<ul style="list-style-type: none"><li>• Review business plans, business models</li></ul>
<b>Consider</b>	<ul style="list-style-type: none"><li>• Alternative business models and transaction structures that are now possible using China (Shanghai) FTFA</li></ul>
<b>Focus on</b>	<ul style="list-style-type: none"><li>• How China (Shanghai) FTFA might benefit you</li></ul>
<b>Participate in</b>	<ul style="list-style-type: none"><li>• Ask questions of and actively communicate with the relevant authorities</li></ul>

# Questions & Answers





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