

## Chapter IX

# Pilot Free Trade Zone and Free Trade Port Mark New Heights of Reform and Opening-up

The construction of pilot free trade zones is an important strategic move of the Party Central Committee to promote Reform and Opening-up in the new era. The construction of a free trade port with Chinese characteristics in Hainan is a major reform and opening-up initiative that Xi Jinping, general secretary of the CPC Central Committee, has planned, deployed, and promoted. Since the establishment of the first pilot free trade zone in Shanghai in 2013, much headway has been made in the construction of free trade zones and ports, and they have become a pilot field and mark a new height for Reform and Opening-up in the new era.

### I. Active Exploration of Opening-up to the Outside World in the New Era

General Secretary Xi Jinping stressed that it is necessary to take more forceful and down-to-earth measures to comprehensively deepen reforms and expand opening-up to the outside world. The construction of free trade zone ports is, in a sense, a key step in revitalizing the grand game of reform and opening-up. It has important theoretical and practical significance for better promote reform and development through opening-up.

#### 1. Important significance

**Good first moves for promoting higher-level opening-up.** The establishment of free trade zones and ports has further shown to the world China's clear attitude of all-round opening-up, which aims to accumulate experiences for exploring new

ideas, new systems, and new models of opening-up. ***New engine promoting high-quality development.*** With institutional innovation as the core, the free trade zones and ports aim to remove the institutional and systematic barriers that hinder opening-up to the outside world, and have played a demonstrative and guiding role for the quality, efficiency, and driving force evolution of the country's economic development. ***Accelerator promoting economic globalization.*** The establishment of free trade zones and ports is a move to proactively respond to changes in the global economic and trade situation. It promotes trade and investment liberalization and facilitation at a higher level in accordance with high-standard international economic and trade rules and common practices, injecting impetus into efforts to build an open world economy and push forward economic globalization.

## 2. Development characteristics

**Increasing number of pilot free trade zones.** In September 2013, the first pilot free trade zone was launched in Shanghai. Since then, China has successively approved a total of 21 free trade pilot zones in Guangdong, Liaoning, Hainan and other provinces and regions. It also approved the Lingang New Area of the China (Shanghai) Pilot Free Trade Zone and the expansion of the China (Zhejiang) Pilot Free Trade Zone. In 2018, China decided to explore the construction of a free trade port in Hainan. At present, there have been pilot free trade zones and ports in the eastern, western, southern, northern, and central regions.

**Expanding coverage of pilot free trade zones.** At the initial stage of the establishment of pilot free trade zones, they only covered 28.8 square kilometers. Then it was expanded several times in the following seven years. At present, the China (Shanghai) Pilot Free Trade Zone covers 240.22 square kilometers, the China (Hainan) Pilot Free Trade Zone covers the whole of the Hainan island, and the China (Zhejiang) Free Trade Pilot Zone has been expanded to cover a total of 239.45 square kilometers. The other 18 pilot free trade zones cover an area of nearly 120 square kilometers, which has created space for institutional innovation.

**More diversified openness positioning.** The pilot free trade zone has proactively carried out first-hand trials in accordance with high-standard international economic and trade rules. The tasks it undertakes include serving and integrating into the building of the BRI, the coordinated Beijing-Tianjin-Hebei development, the development of

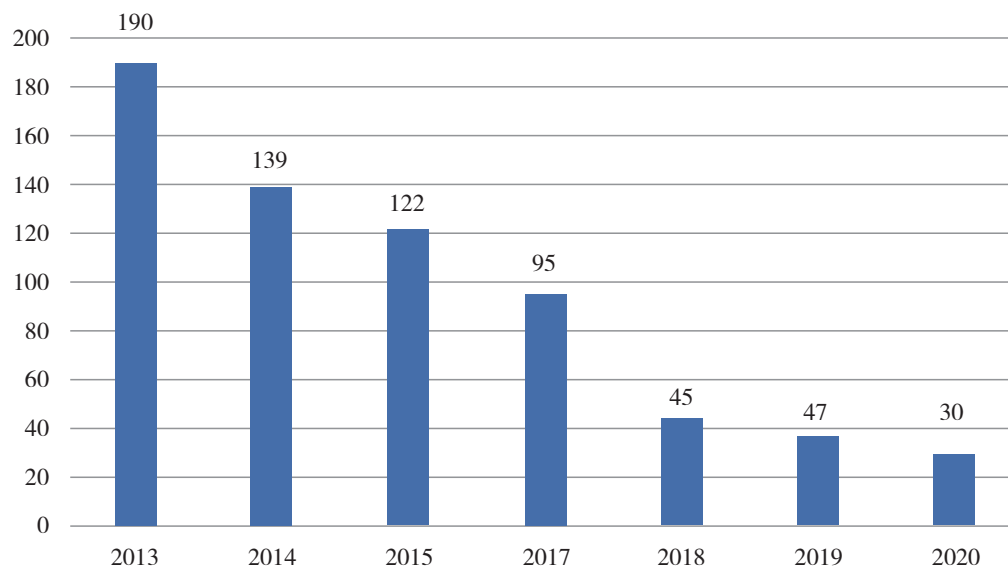
the Yangtze River Economic Belt, the construction of the Guangdong-Hong Kong, SAR-Macao, SAR Greater Bay Area, the integrated development of the Yangtze River Delta, as well as initiatives such as the Western Development, the comprehensive revitalization of the Northeast region, and the rise of central region. The China (Hainan) Free Trade Port is responsible for leading China's new era of opening-up to the outside world with a clear banner and serving as an important opening-up forefront.

## II. New Results of First Trials in Reform and Opening-up

In the construction of the free trade zones and ports, China has adhered to the principle of taking institutional innovation as the core task. It has, through bold trials and experiments, a number of high-level institutional innovations have been achieved and a number of world-leading industrial clusters have been built, making important contributions to high-quality development. There are more than 3,300 pilot reform tasks set for the relevant plans of the pilot free trade zones. The pilot reform tasks of the first 12 pilot free trade zones have been largely implemented. In the 6 pilot free trade zones established in 2019 and the Lingang New Area of the China (Shanghai) pilot free trade zone, more than 90 percent of the pilot reform tasks have been accomplished. The three pilot free trade zones established in 2020 and the expansion of the Zhejiang pilot free trade zone have been proactively making efforts to implement their pre-set pilot reform tasks.

### 1. Major change in investment management system, with negative list management as the core

**Investment more freely.** Foreign investment approval has changed from case-by-case approval to filing management, and the implementation of the pre-establishment national treatment plus negative list management mode has been adopted, which marks a historic change in foreign investment management system over the past 40 years of Reform and Opening-up. It is one of the most significant and effective innovative measures in pilot free trade zones. After 6 rounds of voluntary reductions, the number of items in the negative list governing foreign investment access in pilot free trade zones has been reduced from 190 initially to 30 in the 2020 version, a reduction of more than 80%.



**Figure 9-1 Number of Special Management Measures in the Negative List for Pilot Free Trade Zones since 2013**

Source: Ministry of Commerce of China.

### **Box 9-1 China's First Negative List for Foreign Investment Access to Domestic Market**

Before the establishment of pilot free trade zones, China adopted a management mode combining case-by-case approval and industry guidance catalogs for foreign investment. The advantage of this mode is its clear guiding role in the direction of industrial development, but it has higher administrative and business costs.

In 2013, China's first negative list for foreign investment access was released in the China (Shanghai) Pilot Free Trade Zone, and foreign investment management was changed to filing-based mode, and the pre-establishment national treatment plus negative list management mode was implemented. This mode has been adopted by at least 77 countries in the world, reflecting the principle of "anything not prohibited by law can be done". In 2020, China officially promulgated the Foreign Investment Law. The establishment of foreign direct investment enterprises will no longer be subject to approval and filing management. The establishment of the foreign investment information reporting system means that China's investment environment is more open, stable and transparent.

**Investment more convenient.** China has made efforts to break the *information island* bottleneck in all departments and carry out business management-related procedural integration pilot reforms, such as integration of multiple certificates, one-form filing (only one form is needed in filing corporate information), one-window management (all business-related matters can be dealt with in one window), one license with one code (integration of licenses, with a unified social credit code, to facilitate license application), separation of license and certificate (an enterprise with business license will be subject to reduced certificate requirements), one-stamp approval (reduction of approval procedures), parallel approval (approval procedures by multiple regulatory departments proceed at the same time), commitment-based approval (approval based on commitment of applicant enterprises), and advance commission, so that applicant enterprises can go through their application procedures within a day. Xiangyang area of China (Hubei) Pilot Free Trade Zone has implemented the *all-pass version* of food and drug licensing, with nine licenses combined in one. Originally, applicants need to go through five links, which now have reduced to one (application received, examined and approved only by one department each, with only one license issued). The China (Jiangsu) Pilot Free Trade Zone has implemented a new *credit plus commitment* approval mode for construction projects, and construction permits for key projects can be obtained within 30 working days. The China (Yunnan) Pilot Free Trade Zone has launched a *smart administrative affairs* information platform to create a new service environment, in which one can easily and independently go through relevant procedures, without meeting officials, and one needs to go to the government only once.

### Box 9-2 China's First License-certificate Separation Reform

License and certificate are the two keys for enterprises to enter the market. License refers to business license issued by the industry and commerce department; certificate refers to business certificate issued by relevant industry regulatory authorities. Previously, to start a company, one needs to obtain a business certificate before they can apply for a business license.

In December 2015, the China (Shanghai) Pilot Free Trade Zone took the lead in launching the pilot license-certificate separation reform, making “license before certificate” a reality regarding market access. That is, as long as one obtains a business license from the industry and commerce department, they can engage in general

production and other business activities. If what they engage in requires a certificate, then they can apply to relevant regulatory departments for a certificate. The license-certificate separation system clarifies the relationship between the government and the market, innovates government management, and made it more convenient and efficient for enterprises to apply for certificates. In 2019, the State Council issued a document announcing to carry out pilot license-certificate separation reforms that cover all related matters in the pilot free trade zone. In 2021, the State Council issued a document to implement the license-certificate separation reform in all places and sectors all over the country.

## 2. Forming trade supervision system in line with internationally accepted rules based on breakthrough in single window reform in international trade

**Creating *single window* for international trade.** China has explored the building of a high-standard international trade *single window* system to cover function modules, such as cargo declaration, means of transport declaration, cross-border e-commerce, and logistics information. It connects departments such as customs, border inspection, maritime, commerce, and port, and extends it nationwide. As of July 2020, there had been more than 3.3 million registered users of the *single window* system nationwide, and the daily declaration has reached 10 million; the application rates of the three main businesses of cargo, manifests and means of transport had reached 100%.

### Box 9-3 China's First International Trade *Single Window*

Building a *single window* for international trade is an important way to follow common international rules, reduce corporate costs, and improve trade facilitation.

In 2014, the China (Shanghai) Pilot Free Trade Zone, based on the local public information platform (electronic port) to take the lead in launching the construction of a *single window* for international trade. Currently, the *single window* for international trade has had 10 functional modules and 53 local applications, covering 22 departments and units at the central and local levels. Enterprises have had their declared data items reduced by 65% in the process of ship declaration and 24% in the process of cargo declaration. In the five years after its establishment, it has saved more than 2 billion yuan in costs for relevant enterprises; and it has become a service brand, which has been replicated and promoted throughout the country.

**Innovating the customs clearance management mode.** China has sped up exchange of port supervision information, mutual recognition of supervision, and mutual assistance in law enforcement, implemented the practice of *one declaration, one inspection, one clearance* in customs check, and steadily implemented the cargo supervision model (free entry of cargo from abroad and within the free trade zones but tax will be imposed if the cargo goes beyond the free trade zones). The China (Fujian) Pilot Free Trade Zone provides “one-stop” services for relevant businesses. Required documents are submitted electronically, with import and export goods declaration documents reduced by more than 40%, and the declaration time reduced by at least 5-10 minutes (previously, it was 4 hours). The China (Liaoning) Pilot Free Trade Zone has reformed the customs clearance process for key projects such as blended iron ore and large-scale export of refined oil, and adopted such practice as “inspection while unloading” and “pre-inspection”. The China (Zhejiang) Pilot Free Trade Zone has realized “paperless” customs clearance in all procedures, with 150 pages of paper materials involving more than 70 items in 44 categories cancelled. The China (Guangxi) Pilot Free Trade Zone has implemented automatic one-stop clearance for port, bonded area, and cross-border e-commerce businesses at the same checkpoint, shortening customs clearance time by more than 80% and saving 200 million yuan in costs for companies each year.

**Developing new bonded businesses.** China has explored new types of bonded business, such as bonded processing, bonded remanufacturing, bonded logistics, and bonded services, to form a *bonded* + diversified bonded business mode. The China (Chongqing) Pilot Free Trade Zone develops bonded repair services for aviation materials; the China (Shaanxi) Pilot Free Trade Zone carries out bonded exhibitions and auctions of cultural and art works. The China (Sichuan) Pilot Free Trade Zone develops aircraft engine bonded maintenance services. The China (Hainan) Pilot Free Trade Zone develops business of direct supply of bonded oil for international ships. The China (Henan) Pilot Free Trade Zone has led the country to launch the *1210 model* of cross-border e-commerce bonded imports.

### **3. Steadily promoting financial openness innovation, taking the free trade account as a model**

Deepening financial reform and innovation. China has successively launched

opening-up measures, such as free trade account, international board for gold transaction, and cross-border two-way RMB cash pooling. The China (Shanghai) Pilot Free Trade Zone has taken the lead in creating a free trade account system integrating domestic and foreign currencies, explored the establishment of financial reform institutional arrangements, such as capital account convertibility, interest rate marketization, financial market opening-up, and RMB internationalization. Those moves have facilitated cross-border fund settlement and opened up a channel for overseas financing. At present, pilot free trade zones in Hainan, Tianjin, and Guangdong have also been approved to operate their online free trade account.

**Innovative and special financial services.** China has formulated free trade financial service plans with local characteristics to serve the development of the real economy. The China (Tianjin) Pilot Free Trade Zone has made arrangements to allow financial leasing SPV companies to share their parent company's foreign debt quota, financial leasing rent payment using foreign currency, and comprehensive financial supervision. Some pilot free trade zones, such as those in Chongqing, Sichuan, and Henan, have, based on the business needs of China-Europe freight business, innovated the financialization of railway consignment notes, and its proposal to resolve the issue of the nature of railway consignment notes has been incorporated into the working document of the United Nations Commission on International Trade Law.

**Effectively preventing financial risks.** China has improved the cross-industry and cross-market financial risk monitoring and evaluation mechanism, and there have been no major abnormal cross-border capital flows. It has promoted the integration of dynamic financial opening-up and risk prevention. Shanghai has established a financial court. By the end of 2020, a total of 16,000 cases had been accepted, with a total amount of 368.3 billion yuan involved. Zhejiang has established an information cross-checking platform in the Pilot Free Trade Zone. As a result, it has thwarted a total of 46 cases of account opening cheating, sent warnings about 142 telecommunication fraud, underground banking and other suspicious transactions, and greatly improved the effectiveness of anti-money laundering identification.

#### **Box 9-4 China's First Risk Prevention List**

The China (Fujian) Pilot Free Trade Zone has taken the lead in formulating the country's first risk prevention and control list, including 55 regulatory risk points and 88



prevention and control measures, as it responded to the possible risks that may arise from the promotion of institutional innovation and easing of industry access. The list covers multiple departmental functions and is systematic and holistic. It ensures that each pilot project has specific supportive policy documents, and each policy has its corresponding regulatory measures. It has constructed an interim and ex-post market supervision system that is compatible with high-standard international investment and trade rules.

#### **4. Establishment of a modern governance system based on decentralization, regulation and service reforms**

**Making more efforts to streamline administration and delegating more power to lower-level governments.** China has comprehensively decentralized the administrative power, reduced approval procedures, and improved approval efficiency. A total of nearly 4,000 provincial-level administrative powers have been delegated to the pilot free trade zones, making it unnecessary for enterprises and individuals to go beyond the free trade zones to have their problems solved and receive public services. Since its establishment, the China (Guangdong) Pilot Free Trade Zone has undertaken 134 provincial-level administrative authorities in three batches, and good results have been achieved. The Caofeidian area of the China (Hebei) Pilot Free Trade Zone approved a company's application for a *port operation permit* in the form of "notification and commitment approval", so that the company was put into operation three months earlier than originally planned.

**Strengthen interim and ex-post supervision.** China has explored ways to make a shift from ex-ante to interim and ex-post supervision, and build a supervisory system centered on credit management, so as those law-abiding enterprises will be encouraged while those violating laws are put under strict supervision. The China (Henan) Pilot Free Trade Zone has adopted the country's first real-name verification system for corporate registration and identity management, which fully covers online and offline real-name verification to ward off illegal activities, such as false registration and fraudulent use of identity information. The Yantai area of the China (Shandong) Pilot Free Trade Zone has put information of dishonest enterprises and individuals into the administrative approval system, covering 21 sectors, which constitutes a credit punishment mechanism featuring automatic comparison, interception, and supervision.

**Improve efficiency of government services.** In terms of legal services, China has established intellectual property protection centers and intellectual property courts. It has also established international arbitration centers in pilot free trade zones, regional international commercial arbitration courts or circuit courts, and public legal service platforms. In terms of entry and exit services, the 12 facilitation policies has been extended to the whole country in 2019, covering visa, long-term residence permit and permanent residence application for foreign professionals. The Heihe area of the China (Heilongjiang) Pilot Free Trade Zone has formulated 21 customs clearance facilitation measures, including one-stop check for outbound self-driving tours.

### **5. Continually improving level of openness cooperation centered on serving major strategies**

**Serving major regional development strategies.** Based on its own development conditions, China's free trade zones and ports dovetail with its major national strategies and inject impetus into high-quality economic development. The Lingang New Area of the China (Shanghai) Pilot Free Trade Zone docks with the Yangtze River Delta integrated development strategy, supporting industries with competitive edge expanding in Yangtze River Delta to form industrial clusters. The China (Guangdong) Pilot Free Trade Zone has been bold and become the vanguard in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, actively exploring ways to innovate port customs clearance cooperation model, promote youth employment, and encourage legal service cooperation.

**Serving the construction of the BRI.** The free trade zones and ports have given full play to their location advantages and actively served the construction of the BRI and international exchanges. The China (Chongqing) Pilot Free Trade Zone has strived to promote the development of the rail freight between China (Chongqing) and Europe and the new western land-sea (rail-sea) transport. The main sources of goods have been extended to coastal provinces and cities, such as Shanghai and Jiangsu province. The China (Shaanxi) Pilot Free Trade Zone has built a platform to connect enterprises with the Silk Road Economic Belt and created a model of *internet plus cross-border RMB plus targeted poverty alleviation*.

### Box 9-5 Building the Hainan Free Trade Port

Free trade port is the highest-level openness in the world today. There are more than 129 recognized free trade ports in the world, and more than 2,000 free trade zones with similar nature and functions.

In April 2018, in his important speech at the celebration of the 30th anniversary of the establishment of Hainan special economic zone, President Xi Jinping clearly proposed to support Hainan's gradual exploration and steady advancement of the construction of a free trade port with Chinese characteristics. In June 2020, the CPC Central Committee and the State Council issued the *Overall Plan for the Construction of Hainan Free Trade Port*. The Hainan Free Trade Port covers the entire island of Hainan. By 2025, China will establish a free trade port policy system centered on free and convenient trade and investment. By 2035, it will become a new commanding height for the country's open economy. In the middle of the century, a high-level free trade port with strong international influence will be established.

Over the past eight years, China's free trade zones have become a *cornucopia* of new industries, new business modes, and new models, which has promoted high-quality economic development. In 2020, a total of 393,000 enterprises were established in the leading 18 pilot free trade zones, and the actual use of foreign capital was 176.38 billion yuan, and the total import and export volume was 4.7 trillion yuan. Covering about 0.4 percent of China's land area, those free trade zones account for 17.6% of the nation's total foreign investment and 14.7% of its imports and exports. All pilot free trade zones have made more efforts to explore ways of development, and replicated and promoted a total of 278 institutional innovations across the country, leading to a positive scenario in which reform dividends and opening-up benefits are shared among different regions.

### III. Prospects of Development of Free Trade Zones and Ports

*A time will come to ride the wind and cleave the waves; I'll set my cloud-like sail to cross the sea which raves.*

In the future, the free trade zones and ports will fully implement the important

instructions of General Secretary Xi Jinping that we should be bold to test, experiment and reform, and continue to adhere to the principle of having global vision, catering to international standards, and maintaining Chinese characteristics. They will continue to enrich the contents of development, expand development space, and make greater efforts to plan and promote the high-quality development of the pilot free trade zones to create new commanding heights of reform and opening-up with a higher level of openness, a better business-doing environment, and a stronger ability to influence other regions, strive to become free trade zones with international influence and competitiveness, and make good use of their leading role as a pacesetter of reform and opening-up.

### **1. Expanding breadth and depth of opening-up**

With regard to the openness based on the movement of commodities and factors, China will further shorten the negative list in pilot free trade zones, and the commitment-based market access system will be adopted in free trade ports, which will also make institutional arrangements for liberalization and facilitation of trade in goods featuring zero tariff and service trade liberalization and facilitation featuring qualification of both access and operation, so as to promote the orderly and free flow of people, logistics, capital, and information. Regarding institutional openness, the free trade zones and ports will make full use of the international and domestic markets and resources, design their economic and trade rules based on relevant benchmark international high-standard rules, accelerate the integration of reform and innovation systems, coordinate openness and security, promote institutional openness, such as openness in rules, regulations, management, and standards, and build an institutional system and regulatory model that is in line with international high-standard economic and trade rules, laying a solid groundwork for participating in and guiding the revision of international rules.

### **2. Improving openness guarantee mechanism**

Establishing a reform empowerment mechanism. The free trade zones and ports will be given greater reform autonomy, and promote the appropriate combination of top-down reform authorization and bottom-up system innovation. The incentive and fault-tolerant mechanism will be explored to stimulate pilot free trade zones'

self-motivation and enthusiasm in system innovation, and promote the formation of more groundbreaking and special innovations. An openness security mechanism will be established to strengthen ex-ante, interim and ex-post supervision, improve the foreign investment security review mechanism that is compatible with the negative list management model, properly manage the strength, pace and resilience of openness, and prevent major regional and systemic risks.

### **3. Unleashing openness development dividends**

Adhering to the principle of carrying out openness practice in all aspects and multiple areas. The free trade zones and ports will take the lead in promoting the equal and orderly opening-up of the service industry to various market players, strengthen stress testing, and make more efforts to explore a path of opening-up in a wider field and at a higher level that is more compatible with the country's actual conditions.

The outcomes of opening-up should be replicable so that they can be spread to other regions. Institutional innovation will be carried out using high standards, like *plant nursery* standards, and multi-level, wide-ranging, and high-quality institutional innovation outcomes will be obtained through differentiated exploration, so as to serve the national strategy and lead to a scenario of benign interaction between experiments within the zones and replication and promotion outside of the zones.

The momentum of openness will be sustainable. Cross-regional and cross-departmental major institutional innovations at different levels will be pushed forward, and efforts will be made to ensure the government and the market be in their right place. An open, transparent, and predictable world-class business-doing environment will be fostered to inject stronger impetus into global trade and investment cooperation and inclusive growth.