

Guangdong Pilot Free Trade Zone (1): official launch and overall plan's observations

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In brief

On 21 April 2015, China (Guangdong) Pilot Free Trade Zone ("Guangdong PFTZ"), along with China (Tianjin) Pilot Free Trade Zone ("Tianjin PFTZ") and China (Fujian) Pilot Free Trade Zone ("Fujian PFTZ") was officially launched. The day before the launch, the State Council released the overall plan of the three PFTZs¹, the deepening reform plan of Shanghai PFTZ² and the special administrative measures for foreign investments (2015 Negative list)³ which is applicable to all the four PFTZs.

The overall plan and the deepening reform plan provide the basic framework on the strategic positioning, development objectives, primary mission and measures of the four PFTZs. The four PFTZs are on par in the degree of openness, whereas their development objectives are diverse. Looking at the overall plan of the Guangdong PFTZ, by leveraging on the successful experience of the Shanghai PFTZ, it has its own unique position in promoting the deeper cooperation between Guangdong and Hong Kong as well as Macao, becoming a key hub of the 21st-Century Maritime Silk Road and the pioneer in the new round of reform and opening-up.

In this issue of News Flash, we will share with you the basic information about the Guangdong PFTZ and highlights of the overall plan, analyse the investment opportunities under the 2015 Negative List and CEPA³ and development trend of the Guangdong PFTZ.

In detail

Basic information of the Guangdong PFTZ

The Guangdong PFTZ covers 116 square kilometres, comprising of three areas: Guangzhou Nansha New Area (including Guangzhou Nansha Bonded Port Zone), Shenzhen Qianhai-Shekou Area (including Shenzhen Qianhai Bay Bonded Port Zone) and Zhuhai Hengqin New Area.

The overall plan provides a blueprint for the development directions of the three areas of Guangdong PFTZ respectively. In terms of regional function, Nansha New Area will develop all industry sectors comprehensively with special

focus on shipping and logistics, special financial services, international trade, high-end manufacturing, etc.; Shenzhen Qianhai-Shekou Area will focus on financial services, modern logistics, information services, technology services and other strategic emerging services; and Zhuhai Hengqin New Area will focus on travel, leisure & health, business financial services, culture & education, high-tech and other industries. In addition, all three areas have indicated that they will explore new models for economic cooperation between Guangdong and Hong Kong as well as Macao in the financial leasing, e-commerce, international shipping sectors, etc.

Primary mission and measures of the Guangdong PFTZ

Similar to the other three PFTZs in Mainland, the Guangdong PFTZ will also explore the reform of the innovative administration mechanism by establishing the "administrative authority and responsibility list" and further eliminating administrative approval items. In addition, the Guangdong PFTZ will also apply the "pre-establishment national treatment plus Negative list" administrative method to foreign investment. Outbound investments by investors in the Guangdong PFTZ are subject to a record-filing method. The above measures are basically consistent in the four PFTZs.

The primary tasks and measures of the Guangdong PFTZ which are distinguishable from the other three PFTZs is the further promotion of the liberalization of trade in services between Guangdong and Hong Kong as well as Macao and the push to deepen the opening-up of the financial sector in these three locations innovatively. Through the platform provided under CEPA, Guangdong PFTZ can further explore the further opening-up of trade in services between Guangdong and Hong Kong as well as Macao, by further eliminating or relaxing the entry barriers for Hong Kong or Macao investors in the following industries: financial services, transportation and shipping services, commercial services, professional services, technology services, etc. Moreover, under the framework of CEPA, the Guangdong PFTZ will also explore the use of the "Negative list" administrative regime for the financial industry, promote cooperation and innovative services of Guangdong-Hong Kong-Macao Renminbi business and explore innovation mechanisms for financial services under the liberalization of trade in services.

Investment opportunities under the 2015 Negative List and CEPA

The 2015 Negative List consists of 15 industry categories and 122 special administrative measures, which is one category and 17 measures less than the 2014 Negative List of Shanghai PFTZ (2014 Negative List). Compared with the 2014 Negative List, the 2015 one further opens up the manufacturing, mining, wholesale & retail sales and real estate industries; whereas it tightens the access to certain service industries, for example: financial services, professional services, education, medical services, culture and recreation, etc.

In view of the tightening up of the access to certain service industries in the 2015 Negative List, investments in the Mainland would be more flexible via CEPA. For example, under the 2015 Negative List, hospital is limited to investment in the form of equity or cooperative joint venture; while under CEPA, Hong Kong investors are allowed to set up wholly owned hospitals in designated cities in Mainland. Another example is that, under the 2015 Negative List, investment in the construction and operation of a cinema has to be controlled by Chinese party, while

under CEPA, Hong Kong investors are allowed to build or rebuild cinema and to operate movie projection business in multiple locations through wholly owned foreign companies in Mainland. Apart from the above examples, CEPA has the competitive advantages in relation to the degree of opening-up of the transportation, information technology, securities, professional services, culture & recreation industries.

Meanwhile, the degree of opening-up of certain other industries is better under the 2015 Negative List than CEPA. Investors from Hong Kong and Macao should familiarise themselves the CEPA policies as well as the development of the Negative List, understand their discrepancies and respective advantages so that they could enter the Mainland market by using the optimal route.

Policy highlights in tax and customs

In terms of tax policy, Guangdong PFTZ, Tianjin PFTZ and Fujian PFTZ shall, in principle, follow those policies which have been implemented on a trial basis in the Shanghai PFTZ. However, the overall plan of the Guangdong PFTZ particularly points out that the tax preferential treatments⁴ that are currently applicable in Qianhai and Henqin are still valid, but will not be extended to the rest of the Guangdong PFTZ. The preferential tax policy is another highlight of the Guangdong PFTZ. Looking at the four PFTZs, only qualified enterprises in the Qianhai Area, Henqin Area of the Guangdong PFTZ and the Pingtan Area of the Fujian PFTZ can enjoy a reduced Corporate Income Tax (CIT) rate. In addition, the Individual income tax (IIT) preferential policy provided by Qianhai to qualified overseas talents or much-needed overseas professionals and Henqin to Hong Kong and Macao residents respectively is also a unique highlight in tax policy in Guangdong PFTZ.

The Guangdong PFTZ adapts different customs clearance supervision models in different areas. The Guangzhou Nansha Bonded Port Zone, Shenzhen Qianhai Bay Bonded Port Zone and Zhuhai Hengqin New Area which currently are customs special supervision area, will be subject to the "first-line decontrolled, second-line controlled" customs supervision model. Non customs special supervision areas in the Nansha New

Area and Shenzhen Qianhai & Shekou Area are to be supervised under the existing customs clearance approaches with no new supervision model to distinguish between first-line and second-line. In terms of innovative customs policies, the Guangdong PFTZ allows the set-up of bonded exhibition and trading platforms in the special customs supervision area which supports the development of pilot parallel importation of cars. It also encourages the innovation development of cross-border financial leasing business and supports bonded delivery of goods under future contracts. Enterprises shall take their business needs and these policies into consideration in choosing the location for their business and enjoy the convenience brought by the innovative customs measures.

Movement of personnel

Another highlight in the overall plan of Guangdong PFTZ is the proposal to grant special support for Hong Kong, Macao and overseas top talents to facilitate their entries, exits and stay in the Mainland and their project applications. This policy together with the IIT preferential policy provided by Qianhai and Henqin must have a very positive impact in attracting talents and promoting innovation technology in the Guangdong PFTZ.

The takeaway

Undertaking the respective roles, the four PFTZs are not only the important pivots of regional economy development and an area to showcase new policies, but also the vital gateway for Chinese enterprises and individual "going abroad".

The Guangdong PFTZ is adjacent to Hong Kong and Macao which makes it distinct from the other three PFTZs. Hong Kong and Macao are thriving international financial centres and also well developed in the service industry as well as international transportation. Linking the economic development advantages of Guangdong with Hong Kong and Macao to achieve co-prosperity is a very good thought.

With respect to financial policies, the overall plan for Guangdong, Tianjin and Fujian PFTZs does not explicitly indicate the set-up of free trade accounts and separate account management system. Instead, the overall plan mention that it will explore the carrying out of cross-border investment and financing

innovation through the way of free trade accounts and other risk-controllable approaches. Hence, it is still uncertain whether the free trade account system will be implemented in Guangdong, Tianjin and Fujian PFTZs.

After the release of the overall plan, we believe that the related authorities will gradually release implementation policies in relation to customs, foreign exchange, taxation and investment associated with the overall plan, to ensure the stable operation of the Guangdong PFTZ. Moreover, the overall plan has mentioned a few times to further explore the opening-up of more service industries to Hong Kong and Macao investors under the framework of CEPA. Further development of CEPA in Guangdong is expected.

Maximizing the investment return is an important consideration for investors. In order to achieve that, investors should consider the business advantage, regional market and development potential of a location in choosing the appropriate location of investment or re-structuring the

company's business. Although the fundamental policies for the four PFTZs are the same, there are differences in the specific policies for each PFTZ. After the release of the detailed rules and regulations by each of the PFTZ, we believe it will further reflect the differences in the respective PFTZ on specific development. Investors should monitor the development of the PFTZs and initiate dialogue with local authorities to promptly seize market opportunities and make the optimal investment decision. Our specialists for Guangdong PFTZ would track the development of the Guangdong PFTZ and CEPA and timely share our observations with you.

Endnote

1. *The overall plan of Guangdong PFTZ, please refer to Guofa [2015] No. 18, or the official link on the State Council's website:
http://www.gov.cn/zhengce/content/2015-04/20/content_9623.htm.*
2. *The administrative measures of special treatment on foreign investments (2015 Negative list), please refer to Guobanfa [2015] No. 23, or the official link on the State Council's website:
http://www.gov.cn/zhengce/content/2015-04/20/content_9627.htm*
3. *CEPA shall refer to <Mainland and Hong Kong Closer Economic Partnership Arrangement> and its supplementary agreements; and <Mainland and Macao Closer Economic Partnership Arrangement> and its supplementary agreements. CEPA is applicable to all areas of the Mainland.*
4. *The tax preferential treatments of Qianhai and Henqin mean qualified enterprises, registered in Qianhai or Henqin, could enjoy a reduced CIT rate at 15%; and qualified individuals in Qianhai or Henqin could enjoy an IIT subsidy. The CIT preferential treatments of Qianhai and Henqin would be valid until 31 December 2020. Detailed policies and analysis on the above preferential policies please refer to our previous News Flash [2014] Issue 6, [2013] Issue 3 & 5.*

Let's talk

For a deeper discussion of how this issue might affect your business, please contact a member of **PwC's China Tax and Business Service for Guangdong PFTZ**:

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