

Official Launch of Tianjin Pilot Free Trade Zone

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In brief

Premier Li Keqiang has pointed out in the latest government report, that the Chinese government will actively promote development of Pilot Free Trade Zones in Shanghai, Tianjin, Guangdong and Fujian and replicate the successful experience nationally, in order to form distinctive reform areas amongst China. After the close of Congress meetings, the State Council officially released the General plans for the three new Pilot Free Trade Zones of Tianjin, Guangdong and Fujian and the Deepening Reform Plan of Shanghai on 20 April 2015, as well as the unified Negative List.

China (Tianjin) Pilot Free Trade Zone (“Tianjin PFTZ”) has been officially launched on 21 April 2015. Meanwhile, the State Council released the General Plan of China (Tianjin) Pilot Free Trade Zone (“the General Plan”). In this issue of News Flash, we will analyse how Tianjin PFTZ, being the unique Free Trade Zone in northern China, can distinguish from China (Shanghai) Pilot Free Trade Zone (“Shanghai PFTZ”) while leveraging on its successful experience.

In detail

Driving Factors

As the main pivot of “China, Mongolia and Russia Economic Corridor” and the starting point of “Silk Route”, Tianjin has obvious regional advantage due to its unique geographical and strategic position. With the establishment of Tianjin PFTZ, it is beneficial for Tianjin to exert its regional advantage and leverage on the joint development of Beijing, Tianjin and Hebei. Echoing with the “One Belt And One Road” strategy, Tianjin PFTZ will also drive the regional economic development.

Highlights of Tianjin PFTZ

Generally, Tianjin PFTZ has inherited the innovation policies from Shanghai PFTZ, while also has its own breakthroughs.

- Financial innovation

Based on the General Plan, Tianjin PFTZ will introduce a series of financial innovation

policies, which mainly focus on the following aspects: trial run of free conversion with quota under capital items, voluntary settlement of foreign currency capital, innovation on usage of cross-border RMB and finance leasing, etc. Meanwhile, Tianjin PFTZ will develop the trial run of the cross-border investment and financing facilitation through Free Trade Account and other risk-controllable methods.

It is worth mentioning that Tianjin PFTZ will facilitate the innovation in the aspect of finance leasing policy, e.g. Tianjin PFTZ may allow finance leasing companies to concurrently conduct commercial factoring business in connection with their primary business. Being the leading city in development of finance leasing sector, Tianjin PFTZ should distinguish from other PFTZs in the aspect of the financial innovation.

- Further opening-up of industry sectors

The Tianjin PFTZ General Plan further relaxes investment policies in several areas covering international shipping management, international

shipping agency service, financial services, shipment financing, shipping, operating leasing, finance leasing, e-commerce, professional services, culture services, advanced manufacturing and high-end equipment repairing, etc. It also lowers the barriers on the qualification of foreign investor, minimum capital, equity holding percentage and business scope restrictions.

- Simplified administration and supervision procedures

Following Shanghai’s policy, Tianjin will also apply “one window” procedure and foreign investment special entry administration (“negative list management”¹⁾ to all enterprises incorporated in Tianjin PFTZ. In other words, for sectors beyond the negative list, all foreign investment enterprises and projects shall be subject to record-filing administration as the domestic counterparts (except for the domestic investment projects, for which the State Council reserves the approval right).

Establishment and alternation of foreign investment enterprises shall be subject to record-filing administration.

In addition, except for some special industry sectors, generally, there shall be no rule to restrict the enterprises incorporated in Tianjin PFTZ to re-invest and conduct business outside the Tianjin PFTZ.

- **Customs**

The Custom Supervision Regulation of Tianjin PFTZ will reflect the feature of integration of Beijing-Tianjin-Hebei customs zones. In the Customs Bonded Zone, it will mainly explore the policy innovation on trade facilitation. Tianjin PFTZ will explore the pilot program of tax refund at departure city. It will enhance Tianjin port as a hub for the logistics network.

- **Preferential tax treatment**

As we expected, like Shanghai PFTZ, there is no clear rules stipulating the preferential tax treatment of Tianjin PTFZ. However, the General Plan has mentioned that Tianjin PFTZ will explore the best tax policies regarding overseas equity investment and offshore business while complying with tax reform direction and international practices as well as anti-BEPS.

The advantages of Tianjin PFTZ

- **Significant regional advantage**

Located in the central area of Bohai Economic Rim, Tianjin has regional advantage in the entire North China. There are three parts of Tianjin PFTZ, namely Tianjin Port district, Tianjin Airport district and Binhai New Area Central Business District (Binhai New

Area CBD). The total area is about 119.9 square km. The three districts have their own distinctive functions. For example, Binhai New Area CBD will mainly serve as financial district. The financial policies will be tested and trial run here. Furthermore, there should be breakthrough in the aspect of finance leasing, commercial factoring and capital account settlement. Tianjin Port district will be mainly responsible for modern services like shipping logistics, international trading as well as finance lease functions. Tianjin Airport district is mainly responsible for advanced manufacturing and productive services. The current division of functions amongst three districts are supplementary and could be in line with their existing development.

- **Competitive industry sectors**

Advanced manufacturing is one of the competitive industry sectors of Tianjin. Together with shipping and trading, Tianjin plays a unique role in the Beijing-Tianjin-Hebei region. The relevant financial services would also be promoted associated with the above sectors. Currently, in Tianjin Port district and Tianjin Airport district, favourable pilot programs in the aspects of international shipping registration, international shipping, shipment financing and aircraft, ships and large equipment leasing are already in place. Regarding business innovation, international shipping management and international shipping agency services are strengthened, bonded leasing, offshore leasing, export leasing, cross-border RMB leasing, etc. are in pipeline.

Out look

Although Tianjin PFTZ follows the foot print of Shanghai PFTZ, it still has a long way to explore and grow. We believe that in the near future, the related authorities will gradually release new polices in relation to customs, foreign exchange, taxation and investment associated with the General Plan, to ensure the steady operation of Tianjin PFTZ.

The takeaway

Without a doubt, the launch of the Tianjin PFTZ will create a fairer, freer and more flexible investment environment to benefit both domestic and foreign investors. Companies can take advantage of the establishment of Tianjin PFTZ, and re-consider its operating influence in order to seize the business opportunity and enhance their own competitive advantages. The investors should keep an eye on the policy change of Tianjin PFTZ to maximize its benefits.

Endnote

1. *For Administrative Measures of Special Treatment on Foreign Investments in the PFTZs, please refer to the http://www.gov.cn/zhengce/content/2015-04/20/content_9627.htm*

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 in the North Region**:

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