

In the vanguard of change

New free trade zones are testing grounds for reforms while offering businesses financial advantages

By **ANDREW MOODY** and
ZHANG TONGTONG in Shenyang

Yang Shuo hopes to be among the entrepreneurs driving China's economic future.

The 25-year-old owner of Bo Shi Wen Chang, which supplies items for artists such as pens, recently registered his business in the Governmental Affairs Center of the Shenyang Area of the China (Liaoning) Pilot Free Trade Zone (FTZ).

It is currently a small firm employing just five people, but Yang is ambitious for the future. "We have a five-year plan to be one of the top artists-material companies in China," he said.

Yang, who studied art and design at Shenyang Urban Construction University, said he was impressed with the efficiency of the center.

"My business is now registered within the zone, although it's not physically located there. It enables me to take advantage of some of the favorable policies, which include tax advantages and less regulation."

The government is currently launching seven new FTZs across China including the one in Liaoning province in Northeast China. They bring the total of new zones to 11, with the first, in Shanghai, launched in 2013.

The new zones are designed to be at the vanguard of China's efforts to reform and upgrade its industry and manufacturing.

As of the end of July, more than 8,000 businesses, including around 50 foreign ones, had registered in the Shenyang zone.

Shenyang, capital of Liaoning, is one of the three areas of the zone, which also includes the cities of Dalian and Yingkou.

Yang Fan, a coordinator at the service center, said many young people in Liaoning are interested in setting up a business.

"The people who come here are of all age ranges, but a lot of young people leaving college now want to set up their own business. Many don't want to go into a conventional job. They want to do something that interests them," she said.

State-owned heavy industry enterprises used to dominate the province. But these companies are now shedding labor as the economy of the region is being forced to restructure.

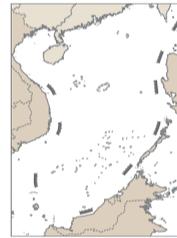
Yang Fan said the service center aims to get away from the bureaucratic culture that exists outside of the zone.

"The important thing here is to

FTZs in China

YEAR THE FREE TRADE ZONES WERE APPROVED

2013 2014 2016



have a 'can do' culture. If the staff don't know something, they will try to find out."

Such zones have been central to China's economic development since Deng Xiaoping's reform and opening-up in the late 1970s. The original special economic zones helped kick-start the country's march toward becoming the manufacturing workshop of the world.

The new generation of development zones are intended to propel China to its next phase of development.

The Shanghai zone has encountered some criticism for not being quite the laboratory for financial reform it was originally intended to be. Businesses within the zone, however, have more freedom to make foreign currency transactions than in the rest of China.

The zone has also been operating at a time when there was pressure on the Chinese currency after a reform of the exchange rate mechanism in August 2015, which has since seen an imposition of stricter capital controls.

Wu Jiangang, research fellow at the Lujiazui Institute of International Finance at the China Europe International Business School (CEIBS) in Shanghai, believes some of the criticism is unfair.

"Perhaps the steps are not so big, but steps have been taken. There has been some good practice and it has so far been a worthwhile experi-

ment," he said. "We cannot just open the capital account, particularly when there has been pressure on the yuan over the past two years."

Edward Tse, CEO of consultancy Gao Feng Advisory, believes the government is right to continue with the model and roll out new FTZs this year.

"The Chinese government has done this really well over the past few decades. They have experimented with policy by launching these pilots, and it has been a model for Chinese development. It is a smart idea, and I think it is a good philosophy."

Wu at CEIBS said that FTZs work well in China because it would be difficult to experiment with policy on a national level.

"China is a very big country and therefore it is more difficult to reform. It is also not like the United States, where every state has its own laws. China's provinces operate under national laws and regulations," he said.

"The FTZs give China the opportunity to develop innovative policies and see if they work in practice."

Back at the headquarters of the Shenyang Area of the Liaoning FTZ, Zhang Shicheng, director of laws and policy, is gearing up for an influx of companies and investment into the zone.

"It is not that the rules and regulations outside the zone are wrong or not working. We just want to adapt

them so they fit better with international regulations," he said. "Because a lot of international regulation is new to us, we need to understand it better to fit in with the existing mechanisms of our laws."

Zhang said it is still important for the zone to protect domestic industry, hence it will have the same negative list as Shanghai in banning foreign investment in certain sectors.

"The Shanghai negative list is a national level list, but we are making every effort to shorten it. This means that foreign investment in a wide variety of areas will become much easier over time."

Munuo Ecology in Shenyang city is one local business that wants to take advantage of the FTZ on its doorstep. The company was founded two years ago by 35-year-old Wang Shengjun, who has tapped into the market of middle-class consumers wanting healthy agricultural products.

Munuo Ecology plans to import seafood through the port of Yingkou, which is part of the Liaoning FTZ, and also sell its own domestic produce.

"The launch of the zone has given us a window to contact with the outside world," he said.

Wang, who graduated from Shenyang Agricultural University in 2008, believes the FTZ will create demand internationally for locally grown produce.

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The 11 new zones at a glance

Launched in September 2013

Shanghai

Pilot for opening up China's capital markets and international liberalization of the yuan. Also test bed for the negative list of sectors, in which wholly owned foreign enterprises cannot operate.

Launched in 2015

Guangdong

Focus on the services sector, specializing in shipping, trade and financial services and looking to target investment from Hong Kong and Macao.

Tianjin

Focus on advanced manufacturing as well as developing port facilities. Looking to promote free trade with South Korea and Japan.

Fujian

Aimed at developing such areas as logistics, e-commerce and financial leasing, as well as fostering trade and investment links with Taiwan.

Launched in April 2017

Liaoning

Specializing in advanced manufacturing, robotics, automobiles, spare parts, logistics and modern services.

Zhejiang

Focus on bulk commodities, including oil, as well as industrial upgrading.

Henan

Set to be a key logistics hub in China's Belt and Road Initiative linking Asia, Europe and Africa.

Hubei

Focus on service industries, such as international commerce and trade, financial services, modern logistics, as well as emerging industries, including optoelectronics information technology, advanced manufacturing and biomedicine.

Sichuan

Aims to promote the development of the west of China, improving trade and the development of financial services.

Shaanxi

The only FTZ in Northwest China, it will also be a key Belt and Road hub and will focus on areas such as technology, education, culture, tourism and healthcare.

Chongqing

Will play a role in the wider Yangtze River Economic Belt development program and is set to be an international logistics hub and a gateway to the west of China.