China Establishes Shanghai Free Trade Pilot Zone

Shortly after the approval for the Plans for the Shanghai Free Trade Pilot Zone (the "**Shanghai FTZ**"), the Standing Committee of China's National People's Congress published the first legislation on the Shanghai FTZ – the *Decision to Authorize the State Council to Tentatively Modify Certain Statutory Administrative Approval Requirements in China (Shanghai) Free Trade Pilot Zone* (the "**Decision**") on August 30, 2013. The Shanghai FTZ is expected to be officially launched by the end of 2013.

The Shanghai FTZ, a breakthrough initiative under China's economic reform, will have a total area of 28.78 square kilometers, covering the Shanghai Waigaoqiao Free Trade Zone, the Waigaoqiao Free Trade Logistics Park, the Yangshan Free Port, and the Shanghai Pudong Airport Free Trade Zone.

China's goal is to transform the Shanghai FTZ to a major trade hub, offering world-class transportation and communication facilities as well as a tax-free environment. The Chinese government is formulating policies based on the following guiding principles to achieve this goal, some of which have not been formally promulgated.[1]

- **Foreign investors may be able to invest in industries that are otherwise restricted or prohibited.**

Foreign investors may be able to invest in industries that had been categorized as "Restricted" or "Prohibited" by China's Industry Catalogue for Foreign Investments. For example, foreign investors may be permitted to form wholly owned healthcare service providers in the Shanghai FTZ, which is considered a type of restricted industry sector for foreign investment outside the Shanghai FTZ.

- **The government approval process for foreign-invested companies will be simplified.**

According to the Decision, foreign-invested companies in the Shanghai FTZ will no longer require regulatory approvals for the following matters:

(i) the establishment, spin-off, merger, or change in other major matters and the term (including extension) of wholly foreign-owned enterprises;

(ii) the establishment, extension of the term, and dissolution of Sino-foreign equity joint ventures; and

(iii) the establishment, amendments to joint venture agreements and articles of associations, assignment of rights or obligations under joint venture agreements, contracting with third parties for management, and extension of the term of Sino-foreign cooperative joint ventures.

In the next three years, foreign-invested companies will only need to make filings with the relevant government authorities instead of applying for approvals for the aforementioned matters. It will save those companies substantial time and effort, and will reduce the uncertainty inherent in the interaction with Chinese government authorities.

[1] Some of the policies discussed below are summarized based on news reports and other publicly available information.

- **China will loosen the control over foreign exchange to encourage innovation in the financial sector.**

The Chinese government may further deregulate foreign exchange in the Shanghai FTZ to promote international use of renminbi ("**RMB**"), the official currency of China. Foreign-invested companies may have more flexibility for foreign exchange when they remit dividends or other forms of return on investments to investors outside China. In addition, the interest rates for RMB loans may be liberalized and foreign banks may be permitted to operate in the Shanghai FTZ.

If you would like to discuss the foregoing or any other related matter, please contact Katherine Wang, Fan Yang or your usual Ropes & Gray advisor.