

Chapter 2

International Yardsticks of SFTZ

According to *Framework Plan for the China (Shanghai) Pilot Free Trade Zone*, there will be a pilot-run of reform for 2 or 3 years, during which efforts will be made to make SFTZ a place featuring facilitation in investment and trade, liberalization in currency exchange, convenience and efficiency in supervision and standardization in legal environment, in order to provide new thoughts and experience for China's further and deeper implementation of Reform and Opening up Policy and to better serve China. Established international free trade zones (FTZ) can be characterized as *Three Liberalizations and One Guarantee*: first, there is system design of liberalization in cargo exit and entry. In established international FTZs, there is no tariff barrier or non-tariff barrier, by which commodities complying to international rules could move freely and be free from customs supervision. Secondly, there is system design of liberalization in investment. In these FTZs, there exists no limit to industry and mode of operation due to different applicable national rules, and the scope of such liberalization includes but is not limited to investment, employment, operation, and entry/exit of operating personnel. Thirdly, there is system design of financial liberalization. Liberalization in foreign exchange, in capital flow/transfer, and in capital business adopts no discriminatory practice caused by the difference between national treatment and the absence of it. Fourthly, there is system design of legal guarantee. Liberalization in trade, investment and finance is a fundamental part of developed market economy, and has a solid system basis. Practicing extraordinary system designs and legal guarantees based on non-ordinary system designs of the FTZ is not applicable to China. Establishing pilot FTZs in China calls for stronger reform, innovation and better system designs. According to established FTZs in the world, this chapter shall propose international yardsticks for SFTZ, which cover 6 aspects and 12 fields.

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2.1 Openness in the Scope of Investment

In established international FTZs, there is great openness in the scope of investment. Benchmarked against international yardsticks, SFTZ needs to create a highly open and flexible business and investment environment in market access, national treatment of foreign capital, business operation, and investment service in different industries where investment is allowed.

2.1.1 *Openness in the Service Industry*

Developed market economies are characterized by openness in the service sector and liberalization in investment, plus some limits necessitated by national economic safety and domestic industry protection. Firstly, developed market economies have a broad scope in opening the service sector. Established FTZs have fewer limits to FDI and entitle foreign investment to national treatment. In Bonded Port of Rotterdam, for instance, apart from state-owned and non-governmental monopolistic industries where private investment is prohibited, as well as finance, investment service, and other fields restrained by EU Reciprocity Clauses, foreign companies can invest in any sector or field. In Singapore, commerce, foreign trade, leasing, direct-response commercials and telecommunication are fully open to any investor. Also in Singapore, there is no limit to the ratio of foreign investment in any field except journalism, broadcasting and public utility, and no requirements to local brand ratio or export ratio. Moreover, some established FTZs in the world are more open than others. For instance, Dubai's Jebel Ali Free Port allows exclusive foreign investment, which is not subject to the maximum ratio of 49 % for foreign capital and the minimum ratio of 51 % for domestic capital stipulated by UAE's *Corporate Law*. Secondly, there are incentives to encourage investment. Established FTZs generally incentivize investment by reducing pre- and post-investment cost, including credit aid, subsidy aid, accelerated depreciation and providing tax credit. Thirdly, there is limited openness in some industries. From international practices, such limit is usually found in sensitive and strategically important industries that affect a country's economic safety, or those plagued by overcapacity, including finance service, air service, media and publication, real estate and strategic energy resource. The limit lies mainly on equity ratio, business operation and employees (Tables 2.1, 2.2 and 2.3).

2.1.2 *Negative List Management Model*

Negative list is a way of opening-up in international trade and investment, not a way of opening-up in FTZs. Negative list is increasingly used as a way of

Table 2.1 An overview of openness in international free ports/FTZs and China's major trade partners

	Category	Content
Hong Kong, China	Open fields	<ul style="list-style-type: none"> • Apart from industries under governmental supervision, foreign capital can have its investment in every industry and have up to 100 % of the stock share
	Restrictions	<ul style="list-style-type: none"> • Foreign investment cannot exceed 49 % of the stock share in government-supervised industries like finance, telecommunication, public transport, public utility and part of the mass media
Singapore	Open fields	<ul style="list-style-type: none"> • Commerce, foreign trade, leasing, direct-response commercials and telecommunication are fully open • Apart from industries related to national defense, there is no limit to the operation of foreign investment
	Restrictions	<ul style="list-style-type: none"> • Foreign banks are prohibited from entering local retail markets, and there is limit to foreign banks' stock share in local banks • The ratio of foreign investment in journalism should not exceed 30 % and that in broadcasting should not exceed 49 %
Bonded Port of Rotterdam	Open fields	<ul style="list-style-type: none"> • Apart from the few restricted or prohibited industries, foreign companies are free to invest in any local sector or industry • Apart from reports of foreign exchange, there is no limit to foreign companies' local investment • Foreign companies enjoy the same legal rights as local ones, and there is no limit to business operation, company address and property ownership
	Restrictions	<ul style="list-style-type: none"> • Foreign investment is prohibited in some state-owned or non-governmental monopolized industries where domestic private investment is also prohibited (military production, public utility, railway and public broadcasting) • Finance, investment service and other few industries are restricted by the EU Reciprocity Clause
Australia	Open fields	<ul style="list-style-type: none"> • Limit will only exist in sensitive industries that may cause social unrest or go against national interests
	Restrictions	<ul style="list-style-type: none"> • Banking industry: Foreign banks must comply with bank-related regulations, like <i>Banking Law of Year 1995</i> and <i>Financial Sector Law of Year 1998</i>. Moreover, headquarters of foreign banks should have a sound financial record and agree to APRA's clauses on prudential regulations before obtaining a license • Aviation industry: Foreign investors should not account for over 49 % of the stock share in Australia's international aviation operators • Shipping industry: According to <i>Maritime Management Law of Year 1981</i>, ships registered in Australia must have their majority share in the hand of Australian companies or citizens

(continued)

Table 2.1 (continued)

	Category	Content
		<ul style="list-style-type: none"> • Media: Any foreign investment in Australia's media sector that has a stock share over 5 % needs pre-examination and approval, plus some limit to programs run by the media company • Telecommunication: The cumulative amount of foreign investment in Australia's telecommunication companies should not exceed 35 % of the stock share
Russia	Open fields	<ul style="list-style-type: none"> • Telecommunication, audio-video industry, finance, transportation, construction and distribution services
	Restrictions	<ul style="list-style-type: none"> • Telecommunication: Foreign investment should not exceed 49 % of the stock share • Audio-video industry: Companies where foreign investment accounts for over 50 % of the stock share are not allowed to engage in television program production or open TV channels covering 50 % of Russia's territory or population • Finance: Foreign investment should not exceed 50 % of the total banking system in Russia • Transportation: Railway transportation for passengers and commodities is not fully open to foreign investment, like loading/unloading, container yard, ship service and customs clearance
Korea	Open fields	<ul style="list-style-type: none"> • Most fields are open to foreign investment
	Restrictions	<ul style="list-style-type: none"> • Insurance and banking: There is limit to cross-border financial service • Culture and entertainment: There should be at least 73 days for domestic films in each hall every year; national TV channels in Korea must play a certain number of domestic films; there is a limit to the number of hours for foreign TV shows in radio and television • Satellite: Foreign satellite providers are not allowed to directly access end users by cross-border transmission of signals • Basic telecommunications: Foreign investment should not exceed 49 % of the stock share; foreign investment regarding system operators, network operators and program providers of cable television should not exceed 49 % of the stock share; territorial broadcasting and television services are not open to foreign investment; foreign investment should not exceed 33 % of the stock share of any satellite broadcasting company; channels transmitted by foreign satellites should not account for over 20 % of the total TV channel number in Korea; foreign investment should not exceed 20 % of the stock share in online multi-media, the broadcasting and rebroadcasting of cable TV networks • Publishing industry: Foreign investment should not exceed 30 % of the stock share in news and newspaper; for other magazine companies, the percentage should be no bigger than 50 %

(continued)

Table 2.1 (continued)

	Category	Content
Canada	Open fields	<ul style="list-style-type: none"> • Most fields are open to foreign investment • In 2012, telecommunication began to be open to foreign investment
	Restrictions	<ul style="list-style-type: none"> • Telecommunication: Foreign investment should not exceed 10 % of the market share. Apart from fixed satellite service and submarine cables, foreign providers should not possess over 46.7 % of the stock share of basic telecommunication services. Moreover, at least 80 % of the board members of basic telecommunication service providers should be Canadian citizens • Insurance: Foreign companies should not have over 25 % of the stock share in Canada's life insurance companies • Broadcasting television industry: In radio television, Canadian programs should account for 60 % of all TV programs. For cable television and direct broadcasting service, Canadian programs have the priority of airing, which means that over 50 % of TV programs in Canada should be Canadian programs; foreign investment is prohibited by law from purchasing Canadian film distribution companies
USA	Open fields	<ul style="list-style-type: none"> • Apart from sectors on the negative list, all fields are open to foreign investment
	Restrictions	<ul style="list-style-type: none"> • Some industries or sectors chosen based on the negative list are not open to foreign investment. The United States has four restrictive measures on foreign investment: firstly, specified areas of prohibition, such as domestic air transportation, inland river shipping, and coastal shipping; secondly, strictly limited areas, such as media and telecommunication. According to <i>Communication Act</i>, foreign investment is prohibited in telephone, telegram, radio stations and televisions; thirdly, there are partially limited areas. For instance, foreign investors are allowed to build or repair railways, and exploit mines in The United States, on condition that equal rights and access are provided in these foreign countries for The United States's investors; fourthly, there are specially limited areas, such as water and electricity. Foreign subsidiaries established and registered in The United States can engage in R&D, but cannot make investments • Financial service: In The United States, national treatment is generally applied to foreign banks, but with some limit. For instance, such banks must have a guaranteed subsidiary bank before they can engage in retail deposit below 10 USD; branches of foreign banks are not allowed to profit or benefit from federal deposit insurance; companies and institutions established according to foreign laws cannot engage in business of credit unions, savings agencies and housing loans

(continued)

Table 2.1 (continued)

	Category	Content
		<ul style="list-style-type: none"> • Securities services: When a foreign broker or dealer registers in The United States, inspection will focus on whether the foreign country has adopted or will soon adopt a reasonable financial regulatory system to reduce the risk it brings to The United States' financial sector • Insurance services: In the case of reinsurance services, foreign investors must provide a 100 % guarantee; foreign insurance companies, dealers, and brokers must be licensed • Satellite services: The operator of a ground receiving station must obtain a license to connect to a foreign satellite. Only when conforming to Arms Export Control Act and International Traffic in Arms Regulations can a foreign country provide America with commercial satellite transmission services • Legal services: Foreign law firms are allowed to set up branches in American, which can hire American and foreign lawyers. But these lawyers are only allowed to provide legal counseling as legal consultants
EU	Open fields	<ul style="list-style-type: none"> • Some fields are restricted by the EU Reciprocity Clause and are highly and mutually open between EU member states
	Restrictions	<p>Television broadcasting and audio-video services: For instance, in France, 60 % of all TV programs must come from EU member states, of which 40 % should be in French; each member state has a respective minimum number of hours for airing domestic TV programs or films</p> <p>Legal, auditing and accounting service: In Austria, Cyprus, Greece, Hungary, Lithuania, Malta and Slovenia, only citizens of EU member states are qualified to take lawyers' qualification tests; accounting and auditing are all restricted industries</p> <p>Financial service: There is limit to banks' cross-border transaction; according to regulations on the third-country insurance companies in <i>Directive 2001/17/EC on the Reorganization and Winding up of Insurance Undertakings</i>, foreign companies are allowed to set up subsidiary organizations or agencies in EU, not to provide service freely in a host country</p>
Japan	Open fields	<ul style="list-style-type: none"> • Liberalization is generally applied to foreign investment, apart from agriculture, forestry, fishery, mining, petroleum, leather and leather manufacturing
	Restrictions	<ul style="list-style-type: none"> • Legal service: there are multiple forms of restriction on foreign lawyers providing international legal service in Japan. There is some restriction on the establishment of professional law firms by foreign lawyers, foreign lawyers without professional law firms in Japan cannot set up branches, and the registration process of

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Table 2.1 (continued)

	Category	Content
		<p>application for foreign legal consultants shouldn't be too lengthy (since 2012, Japan has been considering loosening legal restriction on foreign lawyers practicing in Japan)</p> <ul style="list-style-type: none"> • Medical service: There is limit to foreign investment's access to medical service sector, and to foreign medical service providers' offering full service to profit-making hospitals • Harbor-handling service: There is limit to foreign shipping companies' providing harbor-handling services at ports • Shipping service: According to <i>Japan Shipping Law</i> and other relevant regulations, the domestic shipping market is open to only Japanese ships. Foreign companies must establish local subsidiaries to invest in Japan's shipping industry • Telecommunication: Main telecommunication services, like fixed-line telephone, fiber internet access and mobile communication service, are monopolized by NTT
Turkey	Open fields	<ul style="list-style-type: none"> • All fields open to domestic private sectors are open to foreign investment
	Restrictions	<ul style="list-style-type: none"> • Airline service: Foreign investment should not have over 49 % of the stock share of airline companies • Shipping service: Foreign investment should not have over 49 % of the stock share • Broadcasting: Foreign investment should not have over 25 % of the stock share • Insurance: Only foreign business or natural persons related to insurance are allowed in consultancy and risk management services
India	Open fields	<ul style="list-style-type: none"> • An increasing number of fields are becoming open to foreign investment. For instance, in insurance, the India government approved the entry of foreign investment in 1999; in 2008, the maximum percentage of foreign investment in the stock share was raised from 26 to 49 %, and foreign investment was allowed in India's reinsurance market
	Restrictions	<ul style="list-style-type: none"> • Banking: Foreign banks are still under strict restrictions to enter the Indian market. Foreign investment should not have altogether over 74 % of the stock share of one same Indian private bank. Foreign investment should not have over 20 % of the stock share of an Indian public bank, including FDI and investment portfolio with governmental approval • Accounting: To qualify a foreign accounting company for engaging in accounting services in Indian, the foreign country must grant equal treatment to Indian accounting companies in it. Accountants holding foreign accounting licenses should not be share-holding partners of an Indian accounting company

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Table 2.1 (continued)

	Category	Content
		<ul style="list-style-type: none"> • Legal service: Foreign law firms should not have offices or agencies in India. Foreign legal professionals can act as employees or consultants in India's local law firms, but they cannot sign papers, represent clients or become partners of law firms • Telecommunication: Foreign investment should not have over 74 % of the stock share of fixed-line communication, domestic and international long-distance phone calls; foreign investment should not have over 49 % of the stock share of wired network service and satellite transmission service; foreign investment should not have over 49 % of the stock share of Direct To Home (DTH) broadcasting service; foreign investment should not have over 26 % of the stock share of satellite transmission for news and TV programs • Distribution service: Foreign investment should not have over 51 % of the stock share of multi-brand retail industry • Education: There is barrier to market access to foreign higher education, and each of India's 28 states is required to have an exclusive representative chosen out of India's College Management Committee; there is also limit to foreign students admitted to India and education fees

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pre-establishment national treatment (not being on negative list means opening up to foreign investment) in international bilateral and multilateral trade agreements. Firstly, negative list is widely used in trade agreements between developed countries and other countries. For instance, the FTA between The United States and Australia (between developed countries), NAFTA, The United States' 42 BITs with other countries are still in effect, so are Japan's FTAs with Malaysia, Mexico and Singapore (between developed countries and developing ones). Negative list is less used in developing countries (Table 2.4). Secondly, negative list has multiple forms, mainly four forms: the first form is a list of prohibited fields in the clause, which is rarely seen; the second form is a list of non-conforming measures, plus a list of prohibited fields in the clause, and the negative list may appear in the appendix, with the exclusion of some industries and matters. The second form is the most commonly used. For instance, the 14th clause of the 2005 U.S.-Uruguay BIT elaborates on non-conforming measures, and its appendix offers a list of sectors and matters where national treatment isn't applied for the contracting party. In the 2012 version of the BIT, non-conforming measure is a separate chapter, like national security, financial service and tax exemption clauses. The third form is different negative lists for different industries or fields. For instance, in the Korea-Singapore FTA, most industries or fields use a negative list, while the financial sector uses a positive list. The fourth form is a positive list and a negative list, the latter of which provides chances for future foreign investment. This form is mainly used in

Table 2.2 An overview of policies for promoting investment in established FTZs in the world

Policy name	Policy content
Credit aid	<ul style="list-style-type: none"> • According to laws of Mauritius Freeport, commercial banks may give companies inside the port a preferential interest rate for their loans • Bonded Zone of Rotterdam offers tech-development credit support for investment in highly risky projects. If the project fails, the loan will be given to the investor
Subsidy, rewards and financial aid	<ul style="list-style-type: none"> • Port of Hamburg offers subsidies to investment, which cover 25 % of the expense for procuring new devices and 12.5 % of the expense for constructing new buildings • In Holland's FTZ(s), the Holland government offers a subsidy of 10 % of the total expense according to the amount of foreign investment in companies inside the FTZ • Singapore offers financial aid to equipment costs within the period of validity
Accelerated capital depreciation	<ul style="list-style-type: none"> • According to laws of FTZ(s) in Chile, accelerated capital depreciation, which is as high as 33 %, is applied to the investment cost arising from the use of new or fixed assets to increase labor productivity
Ensuring capital safety	<ul style="list-style-type: none"> • The Ghana government guarantees that foreign-funded companies inside its FTZ(s) will not be nationalized or expropriated
Tax credit	<ul style="list-style-type: none"> • The FTZ in New York uses tax credit and other incentive measures, including the following: For lawful investment in assets like device, building and assets of film and television making, if the initial investment is no more than 350 million USD, there will be a 5 % coverage of investment tax credit; if the amount is above 350 million USD, there will be a 4 % coverage of investment tax credit. There will be a 9 % coverage of investment tax credit for investments with R&D. Employment incentive loans will be granted to employers that enjoy the tax credit

Source Relevant general resources

developing countries and emerging economies. It's noteworthy that a negative list usually has a transition period, and there is a buffer time for contracting parties (for instance, most of the agricultural products in the Korea-U.S. FTA has a transition period of 10–15 years).

2.1.3 Overseas Investment Management

Countries with a developed market economy show a major trend of liberalization and facilitation in overseas investment. Either promotion or restriction is applied according to different industries. First, there is liberalization and facilitation in overseas investment. Globally, policies encouraging liberalization are prevalent to encourage local or regional companies to expand the global market. Almost all

Table 2.3 A ranking of trade/investment facilitation in the world's main countries or regions (2012)

	Singapore	Hong Kong, China	China	USA	Japan	UK
Index of trade facilitation	RANK	RANK	RANK	RANK	RANK	RANK
Overall ranking	1	2	56	23	18	11
Market access	1	10	108	60	98	67
Domestic market access	2	1	97	29	30	50
Global market access	11	130	92	125	132	94
Cross-border management	1	4	45	20	8	9
Customs efficiency	1	10	45	14	13	4
Import-export clearance efficiency	1	2	37	17	16	14
Cross-border management transparency	3	12	59	25	13	17
Communication and telecommunication device	1	3	48	15	14	4
Transport facility accessibility and quality	2	8	53	14	18	9
Transportation service accessibility and quality	1	2	21	13	6	7
ICT accessibility	11	9	72	18	20	3
Business environment	5	7	45	42	26	28
Business Environment Management	1	5	38	32	23	15
Operation safety	20	9	62	69	31	40

Source World Economic Forum, The Global Enabling Trade Report 2012

developed countries have canceled the control on foreign exchange limit and overseas investment. For instance, Britain and France lifted the control on foreign exchange in 1979 and 1989 respectively, and overseas investment was fully liberalized. In Hong Kong, China, local capital could invest in overseas markets, without governmental approval. Second, there is strict subsequent supervision. Previous examination and approval shall be canceled in overseas investment, registration shall be in place, and subsequent supervision shall be enhanced. Common channels of subsequent supervision include the following: (1) determining who the supervisory body is: According to the Japanese government, Ministry of Finance, the governmental organ in charge of FDI, is obligated to publicize Japan's

Table 2.4 An incomplete list of regional trade and investment agreements using negative list

Name of the agreement	Effective date
Japan-Mexico EPA	April 1st, 2005
Japan-Chile FTA	September 3rd, 2007
Japan-Thailand FTA	/
Japan-Indonesia FTA	/
Japan-Brunei FTA	/
Japan-Vietnam FTA	/
Korea-Singapore FTA	March 2nd, 2006
Korea-Chile FTA	April 1st, 2004
Singapore-Panama FTA	July 24th, 2006
Singapore-Australia FTA	July 28th, 2003
The U.S.-Australia FTA	January 1st, 2005
The U.S.-Singapore FTA	January 1st, 2004
The U.S.-Central America-Dominica FTA	March 1st, 2006
The U.S.-Bahrain FTA	August 1st, 2006
The U.S.-Morocco FTA	January 1st, 2006
The U.S.-Chile FTA	January 1st, 2004
The U.S.-Oman FTA	/
The U.S.-Peru TPA	/
Mexico-Nicaragua FTA	July 1st, 1998
Mexico-Salvador FTA	March 15th, 2001
Mexico-Honduras FTA	June 1st, 2001
Mexico-Guatemala FTA	March 15th, 2001
Mexico-Costa Rica FTA	January 1st, 1995
Mexico-Chile FTA	August 1st, 1999
Chile-Salvador FTA	June 1st, 2002
Chile-Costa Rica FTA	February 15th, 2002
Panama-Salvador FTA	April 11th, 2003

Note EPA refers to economic partnership agreement; FTA refers to free trade agreement; TPA refers to trade promotion agreement

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international balance sheets, assets and liabilities. The Korean government has specified the respective supervisory responsibility of each domestic competent department to direct overseas investors. (2) determining corporate responsibilities: According to the Japanese government, every direct overseas investor is obligated to provide balance of payment statistics and overseas assets/liability statistics for Ministry of Finance. The Korean government once ordered before the 1990s that a Korean parent company was obligated to collect dividends from and provide quarterly performance reports of its overseas subsidiaries to the Korean Banks; (3) specifying the focus of supervision. The Korean government specifies four types

of projects where subsequent supervision is required, including: projects with investment over USD 10 million, investments in real estate or relevant industries, projects prohibited by foreign exchange law but allowed as an exception, and investment projects in special regions or industries. (4) Tracking information dynamically. The U.S.' Bureau of Economic Analysis, for instance, makes a regular inspection of the country's overseas investment and releases data. Via the overseas investment research institute of Export-Import Bank of Japan, Japan follows up on the promotion of its overseas investment. Third, there is a sound system to facilitate service in trade. Generally, developed countries resort to financial credit, financial aid and tax reduction/exemption to guide and promote local companies in overseas investment (Table 2.5). For instance, via Export-import Bank of the United States and OPIC, The United States offers credit and insurance services to companies investing in foreign countries, and offers preferential tax treatments to them, such as tax exemption, tax deferral and carry-over of losses. To encourage local companies to go global, Singapore offers incentives in areas like market development, major franchise rights, IPR DTD and overseas investment DTD. Fourth, there is a complete legal system. Developed countries adopt legal frameworks in overseas investment management (few involve administrative examination and approval) to guarantee the orderliness and safety of local companies' overseas investment. The Marshall Plan, which was launched by The United States to help Europe in 1948, involved laws that protected the rights of The United States's private overseas investment.

Table 2.5 Key points of policies for the promotion and subsequent supervision of overseas investment in some countries and regions

System design	Policy focus
Liberalization Facilitation	<ul style="list-style-type: none"> • France: in 1989, the French government canceled the examination and approval of overseas investment and control on foreign exchange, and control is applied only in sensitive fields and sensitive sovereign investors • Britain: in 1979, Britain canceled the control on foreign exchange and basically realized liberalization in overseas investment • Hong Kong, China: local capitals could be used to invest in overseas markets via multiple channels, without governmental approval
Subsequent supervision	<ul style="list-style-type: none"> • Japan: as the governmental organ directly in charge of FDI, Ministry of Finance is obligated to collect and regularly publicize Japan's international balance of payment and foreign assets/liabilities, and every foreign direct investor is obligated to provide relevant statistics to Ministry of Finance; Japan's institutions that provide investment information and promote investment activities are founded according to the law, such as Economic Survey Department of Institute of Developing Economies, and Institute of Overseas Investment of Export-import Bank of Japan

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Table 2.5 (continued)

System design	Policy focus
	<ul style="list-style-type: none"> • Korea: every component department has the following supervisory responsibility for overseas investors: Ministry of Finance could use all necessary means, including field investigation, to know the condition of companies engaged in FDI and formulate policies. Korea's embassies and consulates in other countries should conduct survey and supervision on the validity of Korean companies' investment reports, the transfer of domestic assets, and the occurrence of unauthorized investments. Korea's Central Bank should analyze and investigate the overall condition of Korean companies engaged in overseas investment, requiring the submission of monthly, quarterly and yearly reports. There is a comprehensive list of requirements on the subsequent management of companies engaged in overseas investment, which includes a subsequent report and an elaboration of change and liquidation of investment services and capital recycling. Those disobeying such rules will be warned, included in a negative list, fined or penalized. The Korean government has specified the following focus of subsequent supervision: projects with an investment value over USD 10 million, investments in real estate or relevant industries, projects prohibited by foreign exchange law but are approved as an exception, and investment projects in specific districts (industries) • The United States: Bureau of Economic Analysis has a powerful system of basic information and management consultation, which conducts a regular census on the United States' overseas investment and foreign investment in the United States and releases data • France: Overseas investments in private companies exceeding 5 million francs should be subject to archiving and registration in the Ministry of Economy and Finance, which will be the foundation and reference of governments for economic statistics and analysis
Service promotion	<ul style="list-style-type: none"> • The United States <p>Credit support: there are two exclusive sectors providing companies making overseas investments with capital support. First, there is the non-profit Export-Import Bank of the United States, which mainly provides loans for resource development and overseas private direct investment. Second, there are for-profit overseas private investment corporations, which mainly provide loans for investment insurance and FDI of small and medium-sized companies</p> <p>Preferential tax: preferential treatments in income tax include tax reduction, tax credit and deferred tax payment. In customs, preferential treatments mainly refer to VAT. Apart from bilateral agreements signed with many countries to avoid dual taxation, the tax rate of The United States companies making overseas investment is 15 to 20 % lower than that of domestic investment</p> <p>Investment insurance: it mainly covers transfer risk, expropriation risk, and war risk</p> <p>Information service: it provides overseas investment with information service and help with investment analysis via economic, commercial info centers in embassies in a foreign country, special governmental departments, and overseas private investment companies</p>

(continued)

Table 2.5 (continued)

System design	Policy focus
	<ul style="list-style-type: none"> • Japan Tax policy: interest subsidies and other subsidies Preferential tax: reserve against loss in overseas investment, tax credit for overseas income and so on Financial policy: for joint programs where the Japanese government pays special attention, policy-based financial institutions will provide long-term low-interest loans
	<ul style="list-style-type: none"> • Singapore Financial support: OEI, market development, DTD of franchise rights and IPR license, DD of overseas investment, Asian Business Fellowship, International Route Plan, and so forth Investment and financing service: internationalized financing, enterprise fund, TCI, and so forth
	<ul style="list-style-type: none"> • Korea Financial service: Korea Export-Import Bank provides concessional loans for FDI, and the amount of loan may be as high as 90 % of the total investment volume. A fund for economic development is established exclusively to provide credit support for foreign economic projects Tax preferences: loss withholding, credit and loan for overseas income tax, reduction, and exemption of host country dividend tax for resource development projects, and so forth
Risk prevention	<ul style="list-style-type: none"> • The United States: Overseas investment risk control is funded by the United States government and underwritten by the state investment insurance company. Every project can have access to an insurance expense about 75 % of the overseas investment amount. There is limit to overseas investment concerning technological transfer, and there should be no support for the excess of products arising from the United States companies' overseas investment • Japan: Japan has an insurance system for overseas investment, including overseas companies, stocks and real estate owned by Japanese companies
Legal framework	<ul style="list-style-type: none"> • Japan: Foreign Exchange Law, Foreign Investment Law, Enforcement Regulations on Foreign Investment Law • Korea: Foreign Exchange Trade Law, Regulations on Foreign Exchange Trade, Improvement Plan for FDI, Amendments to Regulations on Foreign Exchange Management • The United States: Economic Cooperation Act, Mutual Security Act, Foreign Assistance Act

Resource Relevant general resources

In the 1950s, Japan devised *Enforcement Regulations on Foreign Investment Law* based on *Foreign Exchange Law* and *Foreign Investment Law*. The fifth is an efficient risk control system. Apart from a sound legal system, developed countries also establish specialized insurance agencies to combat the risk of foreign investment. In 1948, America established a specialized insurance agency for overseas investment; Japan, Germany, France, UK and Canada followed suit. Japan sets up

many types of reserves against loss, like reserve against loss in overseas investment, reserve against loss in resource exploitation investment, and reserve against loss in specific types of overseas construct contracts.

2.2 Transformation and Upgrading of International Trade

Compared with international yardsticks, SFTZ is established to achieve innovation in business modes and offshore business, while promoting the innovation and upgrading of international shipping service.

2.2.1 Upgrading the International Trade

The most salient feature of upgrading international trade is the quickened development of trade in service and offshore trade, mainly in high density of headquarters. First, trade in service is developed. In the global pattern of fast growth in trade in service (the average annual growth rate of the trade volume of trade in service worldwide for 1990s was 6.5 %, hit 8 % between 2005 and 2011; in 2011, the trade volume of trade in service accounted for 18.6 % of international trade volume), FTZ plays a major role and is a main component of growing international trade in service. For instance, Hong Kong, China relies highly on developed professional service industry and outsourcing market to expand and grow its trade in service. Growth has picked in trade information service, exhibition service, R&D and proofing related to international trade, agency service, financing, settlement and insurance service, international logistics, procurement, wholesale, international e-commerce, and international maintenance service. For recent years, the average growth rate of trade in service has exceeded 10 % (well above that of trade in goods), and the import-export volume of trade in service hit USD 185 billion (accounting for 70.3 % of GDP). Second, offshore trade is developed. The convenience and liberalization of trade in FTZs and free ports makes it possible to conduct offshore trade, such as Hong Kong, China, which grew to be the hub of international trade intermediaries. In the 1990s, Hong Kong's volume of offshore trade in 2000 exceeded that of intermediary trade (from 1988 to 2011, the annual growth rate of offshore trade in Hong Kong was 16.3 %, remarkably higher than 11.4 %—the growth rate of intermediary trade). In 2011, the value of goods involved in offshore trade has risen to be 1.4 times of intermediary trade, and Hong Kong's shift from the center of intermediary trade to the center of offshore trade has enhanced its control of global trade and consolidated its position as one of the centers of important global trade. In Singapore, the AOT (approved oil trader) and AIT (approved international trader) came into effect in 1989 and 1990 respectively,

encouraging companies to base their offshore trade in Singapore. These two stimulating plans attract many world-leading multinational trading companies to carry out offshore trade activities in local markets. In the past two decades, offshore trade in Singapore has registered an annual growth rate of 15 %. Third, headquarters economy is developed. Free ports in Hong Kong and Singapore have remarkable headquarters economy due to their openness, liberalization and convenience. By June, 2012, there were altogether 1367 headquarters of multinational companies (MNC) in Hong Kong, China (1.6 times that of 2000) and 2412 offices of MNC in Hong Kong. According to statistics, over 4000 MNCs have set up regional headquarters in Singapore. Fourth, support of trade-facilitation policies is developed, Trade facilitation policies in Singapore are worthy models to learn from. The Singaporean government has stuck to the principle of strengthening the nation by trade and established a series of policies to encourage trade companies and regional headquarters development, including approved international trade plan, commercial headquarters plan, operation headquarters plan, regional operation headquarters for MNCs, international headquarters plan, and regional headquarters plan, all of which fuel the growth of trade and headquarters economy in Singapore (Table 2.6).

Table 2.6 Key policy points of trade facilitation and headquarters economy in Singapore

Plan name	Key policy points
Tax preference for regional headquarters	<ul style="list-style-type: none"> • Regional headquarters with qualification only need to pay a 10 % corporate income tax • Headquarters of MNCs can apply for financing in financial institutions in Singapore, transferrable to regional headquarters or relevant companies as the interests. These headquarters can apply for a preferential tax rate of 10 %
Approved international trader plan	<p>A 10 % corporate income tax will be levied on companies with the following qualifications</p> <ul style="list-style-type: none"> • An international trade institution dedicated to one of the top 5 merchandise trades, with a trade volume of over SGD 200 million • Having a global trade network and a sound track record • With a business spending no less than SGD 2 million in Singapore • Having at least 3 staff members with many years' experience in trading activities • Fully utilizing Singapore's state banking, financial, insurance and shipping services
Commercial headquarters plan	<p>Companies with the title of "Commercial Headquarters" granted by EDB shall have the following treatment</p> <ul style="list-style-type: none"> • 10 years of tax exemption for practice in certain industries or fields • 5 years of 15 % tax reduction for practice in industries occupying a previous cutting edge

(continued)

Table 2.6 (continued)

Plan name	Key policy points
	<ul style="list-style-type: none"> • 10 years of tax exemption for 50 % of the export sales revenue • 10 years of tax exemption for 90 % of the export sales revenue • For investment in newly increased fixed assets, there is a 50 % reduction of favorable income tax based on the original rate of depreciation • Interest tax deducted from offshore loans used for buying production equipment • Complete or partial tax exemption for approved patent royalty, miscellaneous expenses, development expenditures, and qualified payments • Exemption from income tax for dividend income of offshore companies
Operational headquarters	<p>MNCs setting up regional operational headquarters in Singapore can have the following preferential treatments</p> <ul style="list-style-type: none"> • For foreign or domestic companies granted Headquarters by EDB, there is a 10 % corporate income tax rate for earnings of provided service within the next 5–10 years • For interests and royalties transferred from offshore companies, revenues arising from the trade of foreign exchange by the parent company or incomes of offshore investment, there is a 10 % corporate income tax rate • Ten years of tax exemption for dividends transferred from offshore subsidiaries
Bonus for operational headquarters of MNCs	<p>Awards for setting up headquarters in Singapore</p> <ul style="list-style-type: none"> • Dividend: headquarters of MNCs obtaining the dividend of shareholding overseas subsidiaries or relevant companies can be exempt from corporate income tax; if the headquarters transfer the dividend to a regional subsidiary or to its Singaporean headquarters, there won't be any extra tax • Administrative fee: headquarters of MNCs in Singapore only need to pay a 10 % corporate income tax for all sorts of administrative fees • Interests: if headquarters of MNCs in Singapore apply for financing from financial institutions in Singapore and transfer it to be the interests of regional headquarters or relevant companies, they can apply for a 10 % preferential tax rate

Resource Relevant general resources

2.2.2 International Shipping Service

Established international free ports (or FTZs developing interactively with free ports), with their distinct system of convenience and liberalization, have promoted the development of shipping services and enhanced the interaction and fusion

Table 2.7 An overview of international shipping services in the world's major shipping centers

	Shipping service system
London	<ul style="list-style-type: none"> • Shipping service companies: over 1750 shipping service companies have offices in London, and 80 % of them are registered in London • Ship brokerage firms: there are about 200 such firms in London, whose service covers 50 % of the world's passenger liners and 30–40 % of the world's bulk cargo ships • Shipping insurance brokerage firms: there are about 20 such firms in London (Lloyd's Insurance, with a history of 300 years, is the world's largest insurance company) • Shipping legal institutions: there are over 40 such firms in London • Shipping financing and other financial institutions: 6 specialized banks, 7 universal banks, many small-scale financial institutions • Headquarters of international maritime institutions: headquarters of 15 official or non-official international maritime institutions, including IMO, ISF, ICHCA, BE and BIMCO • Shipping education service: International Shipping Trade and Finance Center of Cass Business School, Marine Institute of Greenwich University, Maritime Law Research Center of Middlesex University and Southampton University • Shipping information consultation service: Clarkson, Lloyd's Insurance and Drewry • London's share of the world's major markets: in 2011, London's shipping financing had a 15 % market share in the world, 20 % for its insurance underwriting, 62 % for its Protection and Indemnity insurance, 16 % for its Lloyd's Register of Shipping, 50 % for passenger liner brokerage, 30–40 % for bulk cargo ships, 50 % for second-hand ship brokerage and 14 % for ship financing
Singapore	<ul style="list-style-type: none"> • International equipment control and leasing center: the sound system of container transit has attracted many ship companies to base their container management and dispatching in Singapore, which makes it an international market of container management and leasing • International ship replacement and maintenance center: Singapore has a 400,000-ton-level giant dry dock, where the world's largest supertanker can be repaired. The center is the largest ship maintenance center in Asia and provides ship replacement and maintenance services • Maritime training and R&D: maritime and offshore technological innovation center, Maritime innovation center of Singapore Polytechnics and Maritime Research Center of Nanyang Technological University • Singapore is home to over 250 ship companies, including reputed international shipping service providers like Baltic Exchange, Braemar Seascope, Howe Robinson

Resource Relevant general resources

between international trade centers and international shipping centers. First, shipping service system is developed. Established free ports in the world exhibit high density of services derived from the high-value-added modern shipping industry (Table 2.7). London is considered the center of the world's shipping service, the source of authoritative statistics and market reports of the world shipping industry, the world's largest shipping insurance center, the center for legal and arbitration service of international shipping services, and the center of international maritime

standard setting. London boasts a sound system of shipping brokerage, finance, consultation, and insurance. Singapore, for another instance, is the emerging center of international shipping services and home to multiple chains of shipping services, like shipping trade, brokerage, consultation, training, and R&D. Hong Kong, China is home to world-class infrastructure, a developed shipping market, relevant industries, an efficient and sound information system, all-in-one logistic services and an air-land-sea combined transportation system, which makes it the logistic hub of Asia and the international shipping center of the world. Second, policies related to international shipping services are supportive. Practices in the international shipping industry show that governmental attention and support play a key role in building an international shipping center. Singapore, Hong Kong and London have all taken effective and proactive measures to ensure the sound concentrated development of shipping companies, ship-owners and shipping industry (Table 2.8). For instance, Singapore implemented Approved International Trader and Maritime Finance Incentive to greatly reduce the taxes and dues of shipping companies and shipping financial companies. To encourage ship-owners to register

Table 2.8 Key policy points for promoting and developing international shipping services in the world's main shipping centers

	Supportive policies for shipping
Singapore	<ul style="list-style-type: none"> • Free port policies: free navigation, free trade, free flow of overseas goods and capital, tax exemption for most goods • Standardized International Shipping Company plan and Standardized Shipping Logistics Company plan: to attract international shipping companies, shipping management companies, freight forwarding companies, and shipping brokerage firms to set up operations in Singapore • Preferential tax rate for shipping companies: starting from April, 2010, shipping brokerage firms and FFA traders can have a 5-year corporate preferential tax rate down to 10 % if they apply for qualification to Singapore's MPA • Approved international shipping companies plan: there are exemption from income tax of foreign ships, exemption from withholding tax of ship rental, and tax exemption from stock dividend of approved subsidiaries. Income arising from selling ships will be considered capital gain, and tax exemption will apply (term of validity lasts for 5 years) • Preferential policies for maritime finance: there will be incentive measures for ship leasing companies, ship funds, and ship business trusts. Within the 10-year period of preferential treatment, ship leasing companies, ship funds, and ship trusts can be free from tax in its incomes arising from ship purchase. Management-related incomes of ship funds or corporate investors can have a 10 % preferential tax rate for 10 years. Maritime trust leasing should be free from tax and trust management income shall have a 10 % preferential tax rate
Hong Kong, China	<ul style="list-style-type: none"> • Free port policies: liberalization in trade, operation, capital flow and currency exchange • An open system of ship registration: ship-owners should be encouraged to register their ships in Hong Kong, and international ships registered

(continued)

Table 2.8 (continued)

	Supportive policies for shipping
	according to <i>Regulations on the Registration of Merchant Ships</i> can be free from profits tax <ul style="list-style-type: none">• Efficient shipping services: an e-commerce shipping platform is open to shipping industry and other sectors, to ensure the smooth progress of all-in-one cargo logistics
London	<ul style="list-style-type: none">• Shipping headquarters incentive: to provide financial support for high-end foreign-owned shipping companies headquartered in London• Building an institutional platform: to establish extension agencies like Maritime London and provide exchange platforms for every profit-making shipping organization or group in London

Resource Relevant general resources

the ships in Hong Kong, international ships registered in Hong Kong according to *Regulations on the Registration of Merchant Ships* can be free from profits tax.

2.3 Opening-up and Innovation in the Financial Sector

Established FTZs in the world have a flexible, free and open system of foreign exchange management and finance. SFTZ is established to test-run financial marketization and internationalization like interest rate liberalization, exchange rate marketization, free exchange under capital accounts, and financial market opening.

2.3.1 Financial Liberalization

Financial liberalization in the world’s established FTZs is manifested in the following ways: first, there is a lax control of foreign exchange. Foreign exchange in FTZs is based on the following principles: free capital flow, free foreign currency exchange, convenient foreign exchange settlement, convenience in capital account opening, foreign exchange account opening, receipt and payment of foreign exchange, MNC funds management, offshore payment and settlement, and cross-border investment and financing. Policies of financial liberalizations in Hong Kong, Singapore, Hamburg, and New York impose no regulation on foreign exchange, and legal incomes like foreign exchange can be freely accessed and traded. In Hong Kong, China, revenues and other forms of income arising from dividend, royalty fee, and interests can be freely transferred overseas. FTZs in developing countries are promoting the free flow of capital, for instance, Dubai Free Zone lifts the limit on currency (Table 2.9).

Table 2.9 System design of financial liberalization in the world's established FTZs

	System design of financial liberalization
Hong Kong, China	<ul style="list-style-type: none"> • Free foreign currency exchange, deregulations on foreign exchange • No limit on capital flow, profits, and other revenues arising from dividend, royalty, and interests freely transferrable to overseas markets
Singapore	<ul style="list-style-type: none"> • A lax, free, and open system of currency exchange and foreign exchange control • Total deregulation of foreign exchange
Colon free zone in Panama	<ul style="list-style-type: none"> • Preferential treatment for foreign banks, foreign currency freely accessible and tradable
Port of Hamburg	<ul style="list-style-type: none"> • Free currency exchange, no regulation on foreign exchange, companies or individuals entitled to hold, buy and sell foreign exchange • No limit to remittance of foreign exchange
Dubai free zone	<ul style="list-style-type: none"> • No limit to foreign exchange, and free capital flow
Bonded Port of Rotterdam	<ul style="list-style-type: none"> • No limit to foreign company financing and remittance of profits, capital, interest on loan, and other legal incomes • No license needed for foreign exchange trading • Foreign investors are allowed to choose any currency as a means of payment, and there is no limit to foreign investors' establishment of foreign exchange account

Resource Relevant general resources

2.3.2 Financial Service Functions (Offshore Finance)

Lax regulation on foreign exchange in FTZs and free ports encourages the fast development of offshore financial services and leads to a new batch of world-class offshore financial centers. First, offshore finance is developed. In Singapore, offshore financial market took shape in 1970s, and benefited from the lax regulation on foreign exchange proposed by the government and opening up to foreign banks. A sound legal system and an efficient supervisory system have also prevented excess offshore capital from entering the real estate market and non-productive sectors, thus ensuring the sound development of offshore financial markets. Hong Kong started to become a center of offshore finance in the 1970s. As the Hong Kong government gradually loosened its control of foreign exchange and access limit of foreign banks, offshore business of Hong Kong's financial market has been on the rise. With the increasing globalization of its financial market in the 1980s, Hong Kong gradually rose to become a world-level financial center and an offshore financial market combining onshore and offshore services. Second, financial services are innovative. The offshore financial function of Singapore and Hong Kong, China has undergone constant innovation, and the integration of offshore finance and trade services and shipping services has fueled the persistent innovation and growth of offshore financial services like offshore outward documentary bills, funds trustee-ship of offshore accounts, offshore leverage financing, offshore guarantee, and offshore reinsurance.

2.4 Legal and Efficient Government Administration

A sound FTZ calls for efficient government administration and a sound legal framework. Based on international yardsticks, SFTZ should be constructed with government administration system and method following international practice and a sound legal framework.

2.4.1 Government Administration System

The government administration system of FTZs in the world has two aspects: first, there is the macroscopic concept of government administration system, which refers to the organization arising from the control by the central government or the local government of FTZ. It has two types: exclusive administration (the government sets up a specialized organization to manage, coordinate and supervise the FTZ, like Brazil and USA) and administration by proxy (the government doesn't set up a specialized organization to manage the FTZ, and the top administrator is put in direct charge or one functional department of the government is assigned the administrative authority, like Dubai and Singapore). Second, there is FTZ-specific government administration system, which refers to all-around administration and coordination of FTZ affairs. It has three types: government predominance (governmental departments will manage, like Hamburg Port Authority), company predominance (professional management companies are authorized by the government to run the FTZ, like some FTZs in USA) and government-company predominance (management by governmental departments and management companies). Government administration system in FTZs is characterized by full authorization of the central government, administration by special laws, convenient and efficient governmental supervision. (Table 2.10).

2.4.2 Government Administration Method

The supervision of companies in developed market-economy countries or regions relies on a sound legal system and a detailed annual registration system, and the focus of foreign investment is merger and acquisition and national economic safety (Table 2.11). First, company registration is fast-tracked. Registration procedure in Singapore and Hong Kong is fairly simplified, and the time cost of setting up a company is low (according to World Bank's statistics, it takes 3 days to set up a company in Hong Kong and Singapore). In Hong Kong, China, it only takes three

Table 2.10 Government administration system of major FTZs in the world

	Administrative organization and function
Pork of New York in USA	<ul style="list-style-type: none"> • Committee of Foreign Trade: headquartered in the Department of Commerce of the federal government of USA, the Committee is a specialized administrative organ. Secretary of the Department of Commerce serves as the President and Executive Officer of the Committee, and Secretary of Treasury serves as a member of the Committee. The Committee is the supreme organization of the American government in managing the affairs of the FTZ. It has two main sides of responsibility: first, to set up administrative rules of the FTZ; second, to supervise and approve the establishment of FTZs in each state; third, to supervise and investigate the operation of FTZs and pass decisions on the suspense or termination of FTZs. Administrative staff of the Committee is comprised of the executive secretary, who is Secretary of the Department of Commerce sidelined as the President of the Committee. The Committee must submit an executive report to the Congress in every fiscal year, offering a systemic narration of the administration and development of the FTZ • The Customs: The Customs is in an impartial institution of law enforcement, which neither encourages nor frustrates the establishment of FTZs, and its main responsibility is to control goods flow, impose taxes, and make sure that all procedures in FTZs are lawful • The Port Authority of New York and New Jersey: it is the administrative organization of Port of New York that covers two states. Headquartered in New York, it is responsible for all airports, ports, bridges and tunnels connecting New York and New Jersey, and subways and other means of public transportation in both states. 6 people from New York and New Jersey, respectively, constitute its Board of Directors. Legally, the Port Authority is independent from either state and has its own police and law-enforcement forces
Manaus free zone in Brazil	<ul style="list-style-type: none"> • Administration Committee: it is a specialized administrative organization established according to the decree of Brazil's federal government and directly subordinate to Brazil's Federal Planning Ministry and Budget Ministry. As a cross-regional organization, the Committee is responsible for devising the development and other policies in the FTZ, analyzing and supervising development programs and import and export plans, distributing import quotas, and coordinating the development of the west Amazonian region. Its director is on a par with the governor, appointed directly by the President and performing the power of Minister of Federal Planning. There are altogether four deputy directors, appointed also by the President, and each put in charge of one of all the four bureaus. Here is the detail of each bureau: (1). Bureau of Planning, responsible for project approval and coordination, and examining and approving every indicator of import quotas (like the quota for the tax-free import of mechanical devices and spare parts), which is in essence exercising state power in the FTZ on behalf of Federal Planning Ministry, thus having the supreme authority; (2). Bureau of Operation, responsible for the registration, supervision, operation,

(continued)

Table 2.10 (continued)

	Administrative organization and function
	<p>and administration of companies; (3). Bureau of Administration, responsible for internal administration, staff education and training; (4). Other Affairs bureau, which is in charge of affairs not mentioned above</p> <ul style="list-style-type: none"> • Manaus Free Zone Administration Bureau. It is a specialized administrative organization of the FTZ, which is responsible for approval procedures of customs clearance, import and export trade, foreign businesspeople entry. No approval from the federal government is required, which simplifies and facilitates investing in companies. The Bureau has a Board of Directors for the FTZ, made up of experts and leaders of the Bureau, State Administration of Industry and Commerce, Finance Bureau and SUDAM, which holds regular meetings to supervise projects submitted by different companies
Port of Hamburg in Germany	<p>The administrative system of Port of Hamburg has shifted from direct control by the state government to proxy control by Hamburg Port Authority. Before the establishment of the Port Authority on October 1st, 2005, the Port was under direct control of the state government, and here is a list of departmental responsibility</p> <ul style="list-style-type: none"> • The State Government of Hamburg. Its main responsibility includes: first, there is port planning and land management. The port's land and water are owned and generally designed by the state government. Land is only for letting, not sales, and the duration of letting is 30 years. Second, there is setting rules of business activities in the port. The state government can devise strict rules to define goods prohibited or allowed in the port and the legal framework of economic activities in the port. Third, there is maintaining and building up public infrastructure. The state government is responsible for the construction and maintenance of infrastructure including means of public transportation. The construction and maintenance fee of all infrastructures in the port is covered by the state government, and the budget for the port must be subjected to the Congress for approval. Fourth, there is setting up the criterion of fee. The state government devices standards like land rental, quay wall rental, port charge and pilotage dues. Port revenues include all sorts of port charges, rental and tax, which are all included in the finance of the state government • Economy and Labor Affairs Department in Hamburg State. As a department of the state government, the Department is responsible for daily administration of the Port, including: first, to devise the legal framework of the Port and define the orientation of the port; second, to manage the Port's land, plan and build the infrastructure and lease it to operators; third, to build up and maintain port infrastructure in the Port, dredge harbor basin, and harbor fairways; fourth, to devise transportation rules in the Port, and to ensure the safety of ships entering, leaving, docking, anchoring, loading/unloading in the Port (including fire-fighting); fifth, to guide and navigate ships entering or leaving the Port; sixth, to monitor the ships in the Port or leaving, entering the Port; seventh, to collect port charge

(continued)

Table 2.10 (continued)

	Administrative organization and function
	<ul style="list-style-type: none"> • Private companies. All operations in the Port are performed by private companies, who take land on lease from the state government and take charge of investment in all the superstructures (crane, bridge crane, straddle carrier, surface course, warehouse, office building, railway branch lines, and roadways). These companies must pay two kinds of rental to the government, land rental and quay wall rental <p>Since October 1st, 2005, Hamburg Port Authority was put in charge of all Port affairs:</p> <ul style="list-style-type: none"> • Hamburg Port Authority: it is a specialized administrative organization with full authorization of the Hamburg state government, responsible for managing and coordinating the overall affairs of the port, including the updating and maintenance of the Port's facilities. Hamburg Port and Warehouse Co., Ltd. has been set up to perform most of the actions on behalf of the state government
Jebel Ali free zone in Dubai	<ul style="list-style-type: none"> • Jebel Ali Free Zone Administrative Bureau: it is an administrative organization in the Zone and headed by President of Emirate of Dubai, who will appoint the chief executive officer and executive staff. The Bureau is responsible for attracting investment, service and administration, directly issuing business licenses to investors, and providing many services, such as administration, engineering, energy supply, and investment consulting • Relevant departments in Dubai. They are responsible for the investment in and construction of infrastructure in the Zone (including transportation and information infrastructure, like communication and high-speed data transmission), leasing open space in the Zone, and letting offices, factories and warehouses to investors
FTZs in Singapore	<ul style="list-style-type: none"> • Ministry of Finance. It is responsible for the overall administration of FTZs in Singapore, setting up FTZs according to regional development needs and determining the name of FTZs, the applicant, the region, purposes, main functions, designated subjects, object of taxation and non-taxation, and award conditions. Minister of Finance can designate a certain unit or company as the supervisor and operator of each FTZ according to Free Trade Zone Act devised in 1969 • Supervisory and operational organizations of the FTZ. Such organizations are set up with the authorization of Minister of Finance, who is responsible for everything from developing to operation management involving legal entities, government departments or companies. Supervisory organizations in Singapore's 7 FTZs are PSA International, CAAS and JTC Corporation. Except for Changi Airport Free Trade Zone run by CAAS and Jurong Port run by JTC, the rest 5 FTZs are run by PSA International • Port Authority. It is in charge of infrastructure construction

(continued)

Table 2.10 (continued)

	Administrative organization and function
	<ul style="list-style-type: none"> • Singapore Trade Development Bureau that Ministry of Finance is subordinate to: it is responsible for FTZ import and export trade, bonded warehouse and economic activities
FTZ(s) in Chile	<ul style="list-style-type: none"> • Supervision and Administration Committee. The Committee is set up in every FTZ according to the order of Chile's president via Ministry of Finance. As the decision-making and leading organization, the Committee is headed by the highest leader of the locale of the FTZ, relevant departments and civil organizations will choose representatives to be the Committee members to jointly determine major issues of each FTZ
FTZ in Taiwan, China	<ul style="list-style-type: none"> • Coordination Committee. The Committee is an administrative organization, responsible for formulating major policies of FTZs, selecting the location of FTZs and coordinating cross-regional businesses • Administrative Organization. It is an administrative organization of the Zone, responsible for running general affairs, providing all kinds of services and determining rights and liabilities in the Zone

Resource Relevant general resources

Table 2.11 An overview of the supervisory system of foreign investment and company operation in developed market economies

	A summary of the supervisory system
Singapore	<ul style="list-style-type: none"> • Annual registration: a Singaporean company needs to submit an annual report and an audited financial statement within one month following the annual general meeting of stockholders (or within one month following the date of special resolution in place of AGM)
USA	<ul style="list-style-type: none"> • M&A Supervisory System: antitrust body's M&A control and securities regulatory organ's M&A inspection; those making tender offers and M&A, and joint ventures should declare and apply for inspection at America's antitrust authorities: FTC and Antitrust Division of the Ministry of Justice • National Safety Inspection System: America's DHS, Ministry of National Defense and US Committee on Foreign Investment can conduct a safety check on foreign-capital projects involving national safety according to Relevant Industries clauses, national industrial safety items and relevant regulations of Exon-Florio Amendment. Safety check will be headed by CFIUS
EU	<ul style="list-style-type: none"> • A Supervisory System of Fair Play in M&A: a fair-play supervisory procedure will be started if the resulting company's annual revenue in the world and EU surpasses a certain threshold value after a M&A
Australia	<ul style="list-style-type: none"> • A Supervisory System of Investment: foreign investment is subject to FATA 1975 and FATR 1989. Some projects of foreign investment require prior procedures of examination and approval based on investment amount, investment source and investment industry. The information should also be submitted to FIRB and approved by Minister of Finance of Australia • Annual registration: according to Company Act, a foreign-owned company must mail relevant documents to Australian Securities and Investment Committee on a regular basis, so that the Committee can update the company's business record

Resource Relevant general resources

procedures to set up a company according to *Company Law*. Moreover, company registration is knitted with business registration, the latter of which is meant for taxation, not specifically carved out for supervising a company's business activities, unlike the application for business license in Mainland China. Daily supervision following company registration is based on a complete set of laws, free from administration. Second, companies operate based on a complete set of laws and regulations. Hong Kong and Singapore combine efficient supervision with a legal framework of property protection and investor rights, and supervision is equal on both domestic companies and registered foreign companies. By formulating and constantly improving *Company Law* and regulations on IPR, labor and employment, environmental supervision, foreign exchange management, bank supervision, accounting and auditing, and tax management, an effective legal framework can be established to ensure business operation. Developed market economies, like USA and Germany, have no specialized agencies to form a uniform administrative guidance of limit or prohibition on FDI, but resort to legislations on M&A by foreign capital, anti-monopoly, trade, and industry. Third, the focus of governmental supervision is anti-monopoly and state safety supervision. For developed market economies like USA, there is a system of supervising FDI concerning national safety and monopoly-related M&A (CFIUS may supervise foreign investment trade involving national safety and foreign-controlled companies trying to merge or acquire American companies whose products or services concern national safety or important infrastructure), in which a specific legal framework will serve as the yardstick, and specialized agencies will be the supervisors (like CFIUS, The Directorate General for Competition of EU and Australia's Foreign Investment Review Board), plus an established system of examination and approval. Fourth, the government relies on companies' annual information report to stay informed. Developed market economies resort to auditing-based annual review, while some countries also resort to a company's status report to gain a better knowledge. For instance, a company registered in America should submit an annual report to the state where it's registered and the state where it operates, and pay an annual renewal fee to a specific state. In Singapore, a company is supposed to submit an annual declaration form within one month following the annual general meeting of stockholders (or within one month following the date of special resolution in place of AGM). Unless the company is an exempt private company, it should submit both the audited financial statement and the annual report.

2.4.3 Legal System

Established FTZs in the world boast a sound legal system. Most developed countries set up laws before setting up FTZs; developing countries may vary in whether to set up laws or FTZs first, each of them has devised specialized laws for FTZs, which specify the attribute and legal status of FTZs (Table 2.12). The legislative

Table 2.12 The legal system of established FTZs in the world

	Laws and regulations	Content
USA	Foreign trade zone act	The Act defines the function of FTZs, procedures for establishing and expanding FTZs, matters involving entry, processing, transportation to Customs and into FTZs; the Act is also applicable to the verification of goods or items not subject to Customs Law, defines the applicability of state laws and matters concerning Customs officers, guards, ships entering or exiting FTZs and offshore trade
	General rules of america foreign trade zone committee	The Rules define the general administrative principles and procedures for America's foreign trade zones
EU	EEC customs code	EU implemented a unified Customs Code in 1994, requiring its member states to devise relevant Customs law that abide by EEC Customs Code
Singapore	Free trade zone act	The Act offers a comprehensive definition of the administrative and operational system of FTZs
Taiwan, China	Regulations on establishing free trade port zone	Four seaports (Keelung, Taipei, Gaoxiong and Taichung) and one airport (Taoyuan Airport) have been chosen as the FTZs in Taiwan based on the Regulations and 5 respective laws have been devised to run each FTZ, like Regulations on Entry, Exit and Residence of Port of Keelung Free Trade Zone

Resource Relevant general resources

method falls into two types: first, the country's legislative body devises fundamental laws and supporting by-laws; second, local legislative bodies are authorized to devise standardized and applicable laws and regulations of FTZs. The legislative content includes positioning, function, management system, preferential system and supervisory system. The preferential system involves tax exemption, reduction of income tax and other taxes, investment, customs, labor and land. As for management of legislation, laws in FTZs are devised by a country's supreme legislative body to ensure the stability of every policy in FTZs and the legitimate rights of investors.

2.5 “Outside the Customs and Within the Boundary” in Customs Supervision

“Front-line openness, second-line supervision and freedom inside the FTZ” is the common system design of Customs regulations in the world's established FTZs. In comparison, SFTZ should follow the “Outside the Customs and Within the

Boundary” practice to achieve comprehensive innovation in the mode of Customs supervision and service.

2.5.1 Customs Supervision Mode

The world’s established FTZs have an efficient, safe and convenient mode of Customs supervision (Table 2.13). First, there is registration. The Customs’ administrative mode is designed based on the conviction that companies in the Zone have full discretion and discipline, which ensures a registration system for every good, free storage/flow of goods in the Zone and cancellation of its registered status after exiting the Zone (like what American Foreign Trade Zone did). Second, there is categorized supervision. To meet the demand of borderless moving beyond

Table 2.13 An overview of customs supervisory system in the world’s established FTZs

Supervision	System design
Simplified procedures	<ul style="list-style-type: none">• American Foreign Trade Zone: based on the fact that everyone in the Zone knows and abides by laws, a registration system is put in place to record every item, ensuring free storage and flow of goods in the Zone and cancelation of such records after exiting the Zone. The focus of administration will be tight control on the market access of goods in the domestic market. Those breaking laws should be punished, and revocation of the business license may apply in case of smuggling or other illegal activities, plus a huge fine. A company importing goods in its own name inside the Zone can apply for direct clearance to the Customs Director of its location, and these goods can enter the Zone as bonded regardless of the port it arrives at, without the need to declare at the Customs of its destination; according to the system of weekly declaration established according to the modified version of Trade Development Act in 2000, clients in the Zone can apply for weekly declaration of each batch of goods to be moved outside the Zone• Port of Hamburg in Germany: a one-off Customs declaration system is in place. Goods entering or exiting the Prot have no limit to loading, unloading, and storage. Goods moving into or out of the Port don’t need instant declaration or inspection for each batch, and records are not required for goods imported within the last 45 days• Port of Rotterdam in the Netherlands: no clearance is required for moving goods from one bonded warehouse to another, and the same is true for goods moving from a bonded warehouse in the Port to another in the hinterland of the inland area of the Netherlands

(continued)

Table 2.13 (continued)

Supervision	System design
	<ul style="list-style-type: none"> • Hong Kong, China: since the implementation of Multimodal Transportation in 2010, relevant goods subject to inspection only need to have one inspection at an airport (goods moved by air and land or transshipment) or Kwai Chung Container Port (suitable for goods moved by sea and land or transshipment). Cargo space for goods to be transshipped will be locked by an electronic lock, and the Customs will track down the goods and monitor the status of the electronic lock by GPS. Hong Kong Authorized Economic Operator implemented by the Customs in 2010 stipulates the following content: local companies whose main business involves international supply chains (manufacturer, importer, exporter, common carrier, freight station operator, shipping agent, and warehouse operator) can apply for the qualification of Authorized Economic Operator. Once a company is qualified, its goods can enjoy convenience in Customs clearance, such as fewer inspections and priority in clearance
Classified supervision	<ul style="list-style-type: none"> • American Foreign Trade Zone: four cargo statuses <ul style="list-style-type: none"> - Preferential foreign status. When foreign cargo enters the Zone without any processing, the cargo-owner can apply for Preferential Foreign Status. If the application is successful, the Customs import tariff number and tax rate of the goods shall be based on the date of application - Restricted status in the Zone. Domestic goods in America transferred to the Zone for export, destruction or storage can apply for Restricted Status in the Zone. Once the application is successful, the status cannot be altered or returned to the native soil without special approval procedures. The goods cannot be processed, manufactured or reassembled - Non-preferential foreign status. If foreign goods aren't qualified as Preferential Foreign Status, the owner can define it as Non-preferential Foreign Status. When the goods go through the Customs, the tariff number and tax rate will be based on the time of entry - Domestic status: Goods manufactured in America with all taxes paid or goods imported with tax paid shall be considered in a Domestic Status. The status is applicable to maintenance and packaging material, without the need to apply or approve in order to freely enter or exit the Zone
Companies as the fundamental unit of supervision	<ul style="list-style-type: none"> • American Foreign Trade Zone: the supervisory mode has shifted from order-specific actual supervision to auditing and examination. The Customs no longer keeps an inventory record, its staff members no longer conduct regular inspections of warehouse in the Zone. Instead, operators of the Zone responsible for administration will supervise the bill, sample, tabulation, production, safety,

(continued)

Table 2.13 (continued)

Supervision	System design
	<p>and storage of goods in the Zone. The customs will conduct follow-up inspections via auditing and examination</p> <ul style="list-style-type: none"> • Port of Rotterdam in the Netherlands: A classified supervisory system of bonded warehouses is implemented. Regulation inspection is conducted on companies with a good reputation. Better reputation leads to less inspection. Moreover, the supervision of goods is replaced by the supervision of a company's account book and storage documents. The supervision of goods is conducted only when necessary
Information-based supervision	<ul style="list-style-type: none"> • Hong Kong, China: Hong Kong has a sound Customs Control System, which makes it possible to either permit or detain goods in question based on analyzing a series of factors; air transportation and land transportation have a similar system, ACCS and LBS respectively. The electronic management system is operated by private operators to save cost and improve efficiency • Port of Rotterdam in the Netherlands: It has a central computer system of Customs called SAGITTA. In clearance, the computer will show one of the four color lights (orange, red, green and white) based on risk analysis to determine the inspection level. The risk analysis system includes cargo information (quantity, quality and type) and previous records and information of the company to obtain an objective judgment free from human intervention • Singapore: Singapore is the first country to use the all-in-one electronic clearance system TradeNet, which integrates 35 governmental departments (including Customs, inspection and quarantine and tax) and processes the application, declaration, auditing, licensing and control of import, export, and transshipment trade. TradeNet enables companies to carry out business declaration, data transmission, information processing, examination and approval, and receipt acceptance with a single window and a unified platform. The clearance efficiency is remarkably enhanced (TradeNet enables companies to obtain a trade license within 10 s, and 97 % of the trade licenses can be processed within 1 min), and cost reduced (TradeNet processes 10 million declaration forms annually, which saves 1 billion SGD in file processing for Singapore)

Resource Relevant general resources

boundary and global distribution, American Foreign Trade Zone categorizes goods in the Zone into four types: preferential foreign status, restricted status inside the Zone, non-preferential foreign status and domestic status. Third, there is the focus on companies as a fundamental unit of supervision. Companies will be the smallest unit

of supervision, and auditing and examination system, risk management system, classified supervision system and other alternative methods are employed to supervise goods. For instance, the supervisory mode of American Foreign Trade Zone has shifted from order-specific actual supervision to auditing and examination; Hong Kong uses a risk management system to give either a complete permit or a partial inspection based on goods-owners' previous records of Customs clearance. Port of Rotterdam in Holland uses a classified supervisory system in bonded warehouse, and conducts a regular inspection of companies with a good reputation. Fourth, there are simplified procedures of Customs clearance. An all-in-one service system is provided in the Port by direct procedures, weekly declaration, one-off or centralized clearance, which simplifies clearance and reduces the time cost. Fifth, there is integration of free trade zone and port. There're many integrations of and interactions between seaports, airports, and bonded zones in FTZs. For instance, Singapore has a joint service of seaports and airports, and bonded zones in Rotterdam are integrated with FTZs; Hong Kong adopts multiple forms of through traffic and transshipment. Six, there is an all-in-one electronic clearance platform. Internet-based all-in-one electronic system (for instance, based on electronic clearance and examination, Singapore establishes an all-in-one electronic clearance system TradeNet, which connects 35 governmental departments, including Customs, inspection and quarantine, and tax. The application, declaration, examination and verification, licensing, and control related to import, export, and transit trade shall go through TradeNet) is utilized to integrate all the supervisory resources, form a uniform window and platform, simplify the procedures of Customs clearance, and improve the efficiency of goods moving into and out of the Zone.

2.6 The System Design of Taxation

Every established FTZ in the world has a competitive system design of preferential taxation. Compared to international yardsticks, SFTZ needs to develop a taxation system that meets the demand of new services and that follows international regulations.

2.6.1 Taxation Design

The world's established FTZs all have a competitive and specialized taxation system. First, tax rate in the Zone is lower than that outside the Zone. Apart from exemption from Customs duty, FTZs or free-port cities usually have tax exemption, tax reduction, lower tax rate or tax rebate in corporate income tax, individual income tax, business tax, VAT, and consumption tax, which makes the Zone's tax rate lower (Table 2.14). Second, more preferential tax rate is employed in key areas. Free-port cities like Hong Kong and those in Singapore have more preferential and

Table 2.14 A comparison of taxation system between FTZs and their respective host country

	National taxation system	Taxation system in the FTZ(s)
USA	<ul style="list-style-type: none"> Income tax: progressive rate, individual income tax rate falls between 15 and 33 %, and corporate income tax rate falls between 15 and 39 % Social security tax: the tax rate falls between 7.65 and 15.3 % Consumption tax: the key component is sales tax, which levies tax on the gross income of tangible properties and labor services in sales Property tax: tax is levied on wealth and real estate, with a tax rate of 1.44 % Other taxes: Customs duty and others 	<p>American Foreign Trade Zone</p> <ul style="list-style-type: none"> General goods are free from customs duty, but import tax is levied on production equipment entering the Zone Local tax is not imposed on goods inside the Zone No tax is imposed on the added value of products manufactured in the Zone; imported goods and goods stored inside the Zone for export, be they in the original status or changing its status, shall be free from state and local specific duties
Panama	<ul style="list-style-type: none"> Corporate income tax: two-level progressive rate, the tax rate falls between 30 and 40 %; companies or individuals engaged in business or manufacturing should be levied franchise tax, and the tax rate is 1 % of the company's registered capital Sales tax: the tax rate for individual consumer's goods is 5 %, and that for wholesale, import, tobacco and liquor is 10 % VAT: the tax rate is 15 %, and tax is levied on the production and importing of products and labor supplied. The tax base for generally taxable goods is the total revenue of business activities, and that for imported goods is CIF price plus customs duty and miscellaneous fees levied on imported goods. If the CIF price is unclear, the tax base shall be the FOB price multiplied by 115 % Real estate sales tax: the tax rate falls between 1.4 and 2.2 %, and the tax rate for transferring a real estate is 5 % (of its total value) A municipal tax is levied every month on companies or individuals entering into a contract with the government, obtaining a vehicle license and a for-profit business license 	<p>Colon Free Zone</p> <ul style="list-style-type: none"> No import or export tax will be levied if overseas goods enter the Zone or exit the boundary from the Zone; goods leaving by Panama Canal Zone are considered exported goods and free from tax Companies inside the Zone use a progressive tax, with a tax rate between 2.5 and 8.5 %. For two years, every company inside the Zone is free from income tax on profit; if the company employs local employees, a further tax reduction will apply, ranging from 0.5 to 1.5 % Tax exemption is applicable to stock dividend derived from the overseas market, the sales of goods in the Zone, investment tax, and local municipal tax
Chile	<ul style="list-style-type: none"> Selling tangible personal property, imported goods and labor services leads to the imposition of VAT based 	<p>Iquique Free Zone</p> <ul style="list-style-type: none"> Tax exemption is applicable to customs duty, income tax, and VAT

(continued)

Table 2.14 (continued)

	National taxation system	Taxation system in the FTZ(s)
	<p>on the price of the property, goods price and taxable remuneration for personal services, and the tax rate is 18 %</p> <ul style="list-style-type: none"> Corporate income tax is levied on all domestic companies at a rate of 10 %; if the profit of foreign capital is transferred overseas, another 14 % tax will be imposed on such profits 	<p>derived from the company's operation</p> <ul style="list-style-type: none"> The circulation and distribution of goods (including means of livelihood) is free from all local taxes, and imported goods will only be levied a commodity tax worth 3 % of the good's value

Source A comparison of development modes in the world's FTZs, taxation research, the 8th issue of 2005

Table 2.15 A comparison of taxation system of Hong Kong, China and Singapore

Tax	Hong Kong, China	Singapore
Corporate tax	16.5 % (body corporate's profits tax)	Highest tax rate is 17 %
Income tax	15 % (the standard tax rate of salaries tax)	Highest tax rate is 20 %
VAT/General sales tax	No	7 % (partial tax exemption)
Capital gains tax	No tax needed	No tax needed
Tax-free income	Offshore income, stock dividend, capital gains, interest on money deposited in approved organizations	Some unreduced income, income of shipping services, some Singaporean stock dividend, prescribed income and capital gain of foreign investors that come from some funds.
Withholding tax	<ul style="list-style-type: none"> No duty for stock dividend, administrative fee, interests and rent Tax rate for royalty fees of non-associated companies is 4.95 % The highest tax rate for royalty fees of non-associated companies is 16.5 % 	<ul style="list-style-type: none"> No duty for stock dividend Royal fee: 10 % Interest: 15 % Director's emolument: 20 %
Preferential tax rate in key areas	<ul style="list-style-type: none"> Incomes from securities investment, like eligible debt instrument and reinsurance of offshore risk via double insurer, shall be free from tax or levied tax with a preferential tax rate of 8.25 % 	<ul style="list-style-type: none"> Regional headquarters plan: if a company has met the specific demands in paid-in capital, skilled staff, growth in remuneration, and operating expenditure, its progressive qualified overseas income can enjoy a preferential tax rate of 15 % for 3 to 5 years. If

(continued)

Table 2.15 (continued)

Tax	Hong Kong, China	Singapore
	<ul style="list-style-type: none"> • Tax exemption is applicable to revenues of body corporate and authorized financial institutions licensed or registered according to <i>Securities and Futures Ordinance</i> in Hong Kong, which arise from securities, futures contracts and foreign exchange contracts 	<p>a company's promised investment is above the threshold of the regional headquarters plan, the qualified overseas income will be levied the lowered preferential tax</p> <ul style="list-style-type: none"> • Environmental trader plan: a 5 % tax rate and a 10 % offshore trade income tax rate will apply to members of the plan based on the trade volume • Preferential tax rate for shipping companies: beginning in April, 2010, shipping brokerage firms and FFA traders only need to apply to Singapore's Maritime and Port Authority to obtain a preferential corporate tax rate as low as 10 % for 5 years • Preferential tax rate for maritime finance: Tax exemption will apply to rental income within the 10-year preferential period for ship leasing companies, shipping funds and shipping trusts, until the ship is sold; management-related incomes of investment managers in charge of shipping funds or companies can have a preferential tax rate of 10 % for 10 years if qualified

Source China council for the promotion of international trade, *investment environment and relevant policies in Hong Kong and Macau*

supportive tax rates for key areas like high-end shipping, finance, professional service, and functional organizations such as MNC headquarters and operation centers (Table 2.15).

National Test

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