With the decision to establish seven new FTZs, China's government is sending a clear signal to the market: the country's reform process will continue and FDI will play a critical role in achieving its objectives.

On 31 August 2016, ahead of the G20 Summit in Hangzhou, authorities announced that they will set up seven new free-trade zones (FTZs). These will be located in the provinces of Liaoning, Zhejiang, Henan, Hubei, Sichuan and Shaanxi as well as Chongqing municipality, bringing the total number of FTZs to 11.

China launched its first FTZ in Shanghai in 2013. It added another three in Tianjin, Fujian and Guangdong, and expanded the FTZ in Shanghai in 2014.

The Sichuan, Chongqing, Hubei and Zhejiang FTZs form part of the Yangtze River Economic Belt, while Shaanxi and Henan are located along the ‘Belt and Road’. Liaoning is in Northeastern China and is adjacent to the ‘Jing-Jin-Ji’ area. The government has prioritised development in all these areas during the 13th Five-Year Plan period (see Figure 1).

We believe this development shows the government’s determination to accelerate the process of opening up China’s market to investors, which is one of the five development tenets outlined in the 13th Five-Year Plan. It also demonstrates the government’s recognition of the important role that foreign investment will continue to play in China’s economic transformation. Once the new FTZs are launched, the government will have a wider area in which to pilot policies that can subsequently be expanded nationally if successful. This is expected to lower restrictions on foreign investment, trade and capital flows.

This is also the first time that FTZs will be established in inland areas. In doing so, we believe the government intends to channel foreign direct investment to contribute towards advancing China’s coordinated regional growth, which is another of the five development tenets of the 13th Five-Year Plan.

It is still too early to say what specific opportunities will arise out of the new FTZs, as the timeframe for their implementation and policy details are still being drafted. However, each of the new FTZs is expected to leverage its own particular geographic and economic strengths, as the Ministry of Commerce recently noted (see here). Below we provide a brief summary of the expected focus of each FTZ, based on the details revealed so far and experience with previous FTZs (see Table 1).
Table 1. Focus of new FTZs and opportunities

<table>
<thead>
<tr>
<th>Location</th>
<th>Focus</th>
<th>Sectors</th>
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<tbody>
<tr>
<td>Liaoning</td>
<td>Implement structural and market-oriented reforms to increase the productivity and competitiveness of Northeastern China’s industrial base</td>
<td>Advanced manufacturing, financial services</td>
</tr>
<tr>
<td>Henan</td>
<td>Build a modern transportation and logistics hub, and support the ‘Belt and Road’ initiative</td>
<td>Logistics, transportation, financial services</td>
</tr>
<tr>
<td>Shaanxi</td>
<td>Leverage the ‘Belt and Road’ initiative to develop the western region; implement a reform model for inland areas</td>
<td>Infrastructure, financial services</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>Advance the construction of ports and accelerate the free trade of bulk commodities</td>
<td>Logistics, warehouse, transportation, ports, financial services</td>
</tr>
<tr>
<td>Hubei</td>
<td>Contribute towards the development of strategic and emerging sectors, and establish high-tech bases; facilitate the development of the Yangtze River Economic Belt</td>
<td>Hi-tech, research &amp; development, financial services</td>
</tr>
<tr>
<td>Chongqing</td>
<td>Strengthen strategic connections among developing and developed areas in China’s western regions; contribute towards coordinated development</td>
<td>Infrastructure, financial services</td>
</tr>
<tr>
<td>Sichuan</td>
<td>Increase investment opportunities in western areas and spearhead coordinated development</td>
<td>Infrastructure, financial services</td>
</tr>
</tbody>
</table>

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