

WORLD: G20 EYES SLOW PROGRESS **P.20** | **NATION:** THE BO XILAI AFFAIR **P.28**

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EDITOR

Preparing Shanghai, Preparing China

China's new leadership made a crucial step in further reform and opening up, with the State Council approving the establishment of a pilot free trade zone in Shanghai.

Covering less than 30 square km and built on four existing bonded areas, the zone will be a breakthrough in the deepening of China's opening-up strategy, which began more than 30 years ago.

Globalization has passed the phase of traditional commodity trade and is now heavily bent toward service trade and cross-border investment. To adapt to the new trend, the Shanghai free trade zone is designed to expand the opening of the service sector in China, especially in finance. It is considered to be another significant move after China's entry to the World Trade Organization 12 years ago when the country opened its manufacturing sector and part of the service sector to foreign investment.

Meanwhile, the government will simplify procedures for foreign investors to start businesses and focus on providing highly efficient services. After the Standing Committee of the National People's Congress, China's top legislature, approves the suspension of some laws governing foreign investment in the zone, plenty of red tape will be cut for investors who wish to set up a company there.

The Shanghai free trade zone is also a testing ground, shouldering the task of exploring a new path of reform and opening up for China. Experiences gained from the zone are expected to spread to other coastal cities, and then the whole country. The zone is sure to help the country foster its global competitiveness and contribute to building an upgraded version of China's economy.

It could also pave the way for Shanghai to become a global center of finance. Not too long ago, the city was the region's undisputed financial capital, something hardly forgotten among the country's leaders. With the Shanghai World Financial Center standing tall and proud on the cover of this issue, the question remains: Is this a new beginning for Shanghai? ■

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ART EXCHANGE

A visitor walks past a stainless steel, wood and copper sculpture by an artist from Taiwan on August 26 at the National Art Museum of China in Beijing, where Interactive Perspectives—Contemporary Art Exhibition Across the Taiwan Straits 2013 kicked off.

Moscow Debut

China's J-10 aerobatic planes prepare for an airshow at the MAKS-2013 International Aviation and Space Show in the city of Zhukovsky near Moscow, Russia, on August 27.

It marked the first overseas airshow for the Bayi Aerobatic Team of the Chinese People's Liberation Army Air Force, which was established 51 years ago.

Based on China's independently developed J-10 all-weather supersonic multi-role fighter, the J-10 aerobatic plane is refitted in part and re-coated to undertake airshow performances during foreign exchange activities.



Party Meeting

The Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) will be held in Beijing in November, the committee's Political Bureau announced in a statement following a meeting on August 27.

During the forthcoming session, the Political Bureau will present reports of its work to the CPC Central Committee, with the session also involving discussions of major issues concerning comprehensive and deepened reforms, said the statement.

The August 27 meeting stressed that the Party must strengthen its confidence in regards to reform and head in the right direction, consolidate consensus, and make sure all efforts at reform are coordinated effectively.

The meeting also approved a 2013-17 plan for establishing and improving the system for the punishment and prevention of corruption.

Monitoring Network

China has built the world's largest network for reporting instances of infectious diseases and public health

emergencies so as to ensure timely and accurate monitoring and treatment, a senior health official said on August 28.

All disease control and prevention centers, as well as 98 percent of medical institutions above county level as well as 94 percent of local health agencies have set up systems for real-time reporting on infectious diseases, said Li Bin, Minister of the National Health and Family Planning Commission. Their reports are passed to the Chinese Center for Disease Control and Prevention.

It now takes only four hours for local agencies to detect epidemics and report them to the center, compared with the five days it took before the network was established, Li said.

To strengthen monitoring and early warning systems, 3,486 state-level stations have been set up to monitor 28 infectious diseases, including cholera and flu as well as four disease carriers including mosquitoes, mice, flies and black beetles, she said.

Reporting on student absence due to sickness in middle and primary schools has also been enhanced in order to assist in the prevention of epidemic outbreaks.

Stations for the surveillance of infectious diseases for people entering and exiting the country have been built at 285 ports open to foreign countries and 168 healthcare centers for international travelers.

Ready for Launch

China's *Chang'e-3* lunar probe is scheduled to be launched at the end of this year for a moon landing mission, the State Administration of Science, Technology and Industry for National Defense said on August 28.

"The *Chang'e-3* has officially entered the launching stage, following the successful completion of its research and manufacture," said a statement released by the administration.



ON THE RED CARPET

Chinese actor Jiang Wen (center) poses with other jury members of Venezia 70 at the Venice International Film Festival's opening ceremony on Lido Island in Italy on August 28



GROWING WILD

A wild golden monkey is seen with its baby at the Qinling Mountains in Yangxian County, Shaanxi Province, on August 26. The number of such monkeys, counted among China's "national treasures," has increased by 30 in the region since the beginning of 2013

The mission will see a Chinese space probe land on a celestial body for the first time.

The *Chang'e-3* mission is part of the second phase of China's lunar exploration program, which will include orbiting and then landing on the moon and then successfully returning to Earth. The mission follows the successful completion of the *Chang'e-1* and *Chang'e-2* missions, which included plotting a high-resolution, full-coverage lunar map.

The *Chang'e-3*'s carrier rocket has successfully gone through its first tests. The launch pad, control and ground application systems are ready for the mission.

Lawyer Service

There are 1.6 lawyers on average for every 10,000 Chinese citizens, with Beijing having the most per capita and Tibet the least, according to an industry report released on August 27.

The ratio of lawyers per 10,000 people is an important indicator of development in the legal industry,



CHEN HANING

said the report released by the All China Lawyers Association.

As of 2012, China had had a total of 232,384 lawyers, with an average annual growth of 9.1 percent, while 26.6 percent of lawyers were women, it said.

According to the report, six provincial-level regions have less than one lawyer per 10,000 people, including Anhui, Qinghai, Gansu, Guizhou, Jiangxi and Tibet.

China has 19,361 law firms, increasing 6 percent annually on average.

Red Tape Cut

The CPC's first campaign to cut regulatory red tape has seen the abolition of nearly 40 percent of intra-Party rules introduced by the central authority since 1978.

In the cleaning-up move initi-

ated in June 2012, 300 of the 767 regulations or normative documents introduced by the central authority have been abolished or nullified, according to a CPC Central Committee circular made public on August 28.

Forty-two of the remaining 467 regulations still in effect will undergo revisions, it said.

Those abolished or nullified were deemed either inconsistent with the CPC Constitution and policies or the country's Constitution and laws due to changes in the Party or national conditions, or were judged to overlap with others, according to the circular.

Under the plan, the Party's disciplinary watchdog, the Central Commission for Discipline Inspection, various departments of the central authority and local Party committees have also been checking through more than 20,000 regulations and normative documents within their jurisdiction.

Border Control

A foreign ministry official said on August 27 that China is studying human biological identification technology that could be used to strengthen security and improve entry/exit management.

Cui Aimin, Deputy Director General of the Department of Consular Affairs (Center for Consular Assistance and Protection), made the remarks while taking questions from reporters at a press briefing.

China's top legislature reformed exit and entry law in July 2012, introducing a common international practice by which immigration authorities may collect fingerprints and other biometric data from those who exit or enter Chinese territory.

The number of foreign nationals entering China has been increasing by 10 percent annually since 2000, according to the Ministry of Public Security.

China's police authorities have collected fingerprints upon entry since 2005 to improve efficiency of immigration procedures and protect national security.

Island Monitoring

China's sea island monitoring and surveillance system, which aims to provide information for islet protection, management, law enforcement and scientific research, has begun a trial run.

Accordingly, various marine surveillance agencies will be interconnected, with information available to them updated promptly. In addition, law enforcement archives will be computerized, the State Oceanic Administration said on August 23.

The system will help boost islet management and law enforcement efficiency by sharing information across 124 marine surveillance agencies, and will be used to issue early warnings in the event of emergencies.

Language Standard

An official list standardizing the appearance of commonly used Chinese characters was published, the Ministry of Education revealed on August 27.

The 8,105 characters included in the list were chosen based on their frequency of use from hundreds of thousands of characters that have emerged

since the beginnings of the Chinese writing system in ancient times, according to compilers.

It also includes a table for conversion between the simplified and traditional forms of these characters to facilitate Chinese language communications.



XINHUA

Renewable Storage Battery

Staff members work on the automatic assembly line for storage batteries at an industrial park in Changxing, east China's Zhejiang Province, on August 28.

This particular line produces 5,000 batteries every day, with 56-percent less energy consumption and 80-percent less staff than traditional equivalents.

Tianneng Circular Economy Industrial Park collects discarded storage batteries and uses them to produce new versions.



Tax Convention

China on August 27 signed a multilateral convention by the G20 to combat tax evasion.

Wang Jun, Administrator of the State Administration of Taxation of China, signed the convention on behalf of the Chinese Government at the Organization for Economic Co-operation and Development (OECD) headquarters in Paris.

By signing the convention,

China became the 56th signatory to the multilateral agreement designed to facilitate international cooperation among tax authorities and improve their ability to fight tax evasion.

This is the first multilateral tax instrument that has ever been signed by China.

Developed by the OECD and the Council of Europe in 1988, the convention on mutual administrative assistance in tax matters is the most comprehensive multilateral instru-

ment available for tax cooperation and exchange of information.

Nuclear Generator

Dongfang Electrical Machinery Co. Ltd. (DFEM), a major Chinese power-generating equipment manufacturer, has completed construction of a 1,750-megawatt (mw) nuclear generator and started transporting it to a nuclear power plant in south China on August 24.

The 1,750-mw generator currently has the biggest per-unit installed capacity among nuclear generators in the world, according to the DFEM, which is based in southwest China's Sichuan Province.

The generator is being sent to the Taishan Nuclear Power Plant in south China's Guangdong Province from the company's production base in Deyang, Sichuan.

DFEM will provide two such generators for the plant. It has produced 14 nuclear generators so far with a total installed capacity of 15,790 mw.

Auto Investment

German vehicle manufacturer Daimler AG is investing 2 billion euros (\$2.67 billion) in its local joint venture with Beijing-based BAIC Motor Group, a fund infusion that will finance construction of the world's largest Daimler production facility by 2015.

The German premium vehicle producer plans to more than double its annual capacity to 200,000 units by 2015, said Hubertus Troska, President and CEO of Daimler Greater China.

"China, which has already become the top global automotive market, will for sure become the biggest premium car market from a long-term perspective," said Troska.



GREEN BUS

The first batch of LNG (liquefied natural gas) buses are put into use in Beihai, south China's Guangxi Zhuang Autonomous Region, on September 1



LOTUS ROOT

A staff member from Matou Lotus Root Cooperative in Linyi, east China's Shandong Province, showcases a new type of lotus root, which is as juicy as fruits



RANGDUIA

"If we want to be a successful leader in this important market, we need more locally produced vehicles."

The company is opening 75 new dealerships this year in 36 new cities, 45 percent of which will be third- or fourth-tier cities. By the end of 2013, there will be 337 dealer outlets in 151 Chinese cities.

Alipay Backs Off

Alipay, China's largest third-party e-payment provider, announced on August 27 it will discontinue its still-nascent offline-payment service, a move widely perceived as a capitulation to its state-backed rival, China UnionPay.

While the company declined to elaborate on its reasons, industry observers believe Alipay's encroachment into the business of offline payments was eating away market share once firmly held by UnionPay, the country's largest bankcard association.

"Due to certain widely known reasons, Alipay will stop all offline point-of-sale services," the company said on its official micro-blog to announce the move.

In March, Alipay introduced its proprietary POS machine, which allowed couriers to track parcels and accept payments for online-ordered goods at the same time.

A small processing fee paid by consumers upon delivery was split with UnionPay, a banking consortium that runs the country's interbank network, as well as the bank providing the card.

But Alipay failed to address concerns from UnionPay, which has tightened third-party payment policies since July.

In a recent board meeting,

UnionPay had urged banks to complete all online transactions and clearing through its own channels, indicating that third-party payment enterprises cannot skirt UnionPay to complete bank transactions.

JV Shopping Mall

A Chinese-Finnish invested shopping and leisure center opened for business in St. Petersburg, Russia, on August 23, marking a new milestone for Chinese investment in Russia's Baltic region.

The \$187-million Pearl Plaza Shopping and Leisure Center is a joint venture between Chinese firm Shanghai Industrial Investment (Holding) Co. Ltd. and Finnish SRV Group. The 96,000-square-meter shopping center, which houses a supermarket, cinema and a range of other services and leisure activities, can accommodate 25,000 guests a day.

A group of Shanghai-based companies have also embarked on the Baltic Pearl project, a large-scale residential and business district in Russia's second largest city.

The planned project includes more than 1 million square meters of residential housing, as well as a comprehensive range of commercial and community facilities. Once completed, the complex is expected to house over 30,000 St. Petersburg residents and provide a plethora of shopping opportunities.

Numbers

60%

Market share of China's domestically made smartphones at the end of June

437.13 bln yuan

China's online shopping transactions in the second quarter of 2013, up 45.3 percent year on year

17.29 mln tons

China's crude oil output in July, up 0.3 percent from a year earlier

24%

Proportion of billionaires in the Pearl River region—including Shenzhen, Guangzhou, Dongguan, Foshan, Zhongshan, Zhuhai and Huizhou of Guangdong Province—that come from the property sector

A Pipe Breakthrough

A staff member of JM Eagle measures the diameter of a pipe in Langfang, north China's Hebei Province. The pipe will be used in China's south-to-north water diversion project.

JM Eagle, the world's largest plastic and PVC pipe manufacturer, set up a production base in Langfang to produce super-large-diameter pipes, the first of its kind in China.



WANG SHEN

THIS WEEK WORLD



JAPAN

Children and volunteers make a 120-meter-long *sushi* roll to serve locals at an event in Tokyo on August 27



THE UNITED STATES

A man displays a placard at the Martin Luther King Jr. Memorial on August 24 in Washington D.C., commemorating the 50th anniversary of the civil rights fighter's *I Have a Dream* address



GERMANY

A dog owner at the Dog & Cat pet fair in Leipzig on August 24 prepares her poodle for competing





INDIA

A student at a school in Amritsar dressed as the Hindu god Krishna poses on the eve of the Janmashtami festival, which fell on August 28 this year and marks the god's birthday



PALESTINE

A Palestinian militant fires into the air in the city of Ramallah during a funeral procession for three young Palestinians who were killed in clashes with Israeli security forces in the West Bank's Qalandia refugee camp on August 26



THE PHILIPPINES

Protesters make a thumbs-down sign during a rally against corruption at a park in Manila on August 26

“It’s still a fledgling sector and not a well-respected career. The starting salary is not very attractive, and it’s frustrating that a social worker with 10 years’ experience earns little more than a rookie.”

Wang Tianzi, a social worker at Peking University Sixth Hospital, commenting on the country’s lack of social workers on August 25



“It is natural to see more people pursuing multiple options in education to meet the needs of their children since each is unique.”

Yuan Fangyan, a researcher from the 21st Century Education Research Institute, in response to its survey issued on August 24 showing that about 18,000 children on the Chinese mainland now receive their education at home



“More social and economic policies favoring girls will be introduced to gradually adjust the social norm, where males are preferred as they carry the family name and later support their parents.”

Chen Zhu, Vice Chairman of the 12th National People’s Congress Standing Committee, commenting on a long-term skewed sex ratio of births on the mainland, which now stands at about 117.7 boys for every 100 girls



“Reporting on acts of extreme violence is a double-edged sword because cases may spark copycat attacks by people with psychological problems, but at the same time, the public needs to be informed of such events.”

Ma Ai, a professor of criminal psychology at China University of Political Science and Law, on August 26



NEW WTO OFFICIAL



Yi Xiaozhun, China’s permanent representative to the WTO, was appointed as its deputy director general on August 17, the first Chinese to assume the role. Yi has worked on international trade issues since the 1980s. He was China’s vice minister of commerce before taking office in Geneva as the country’s permanent representative to the organization in 2011. Yi, along with three other deputies, will begin his term on October 1.



CHINESE NIGHTINGALE



Zou Defeng, a nurse from Nanchang, Jiangxi Province, was awarded the Florence Nightingale Medal for her outstanding contribution to healthcare together with five other nurses from across the country on August 24. Zou, 57, has been a nurse for 41 years. In 1993, to make up for a weak point in domestic community healthcare, she created a series of models in her province that provide medical care to the elderly and dying at their homes and solve disputes between doctors and patients. In 2002, she established a medical volunteer team under the guidance of the provincial Red Cross Society, absorbing over 1,600 people to take part in voluntary community service.

Introduced in 1912, the Florence Nightingale Medal is the highest international honor for nurses. Altogether 68 Chinese nurses have won it since 1983.



Are Social Organizations Ready?

Outlook Weekly
August 19

Around 500,000 social organizations in China are facing unprecedented development opportunities as government and institutional reforms lend them more functions. However, how these groups deal with such added responsibility remains to be seen.

On the one hand, those attached to the state mostly operate with low efficiency and little vitality. On the other hand, some are developing at a slow speed for lack of social support and a fair, competitive environment. A shortage of funds and talent is another common dilemma.

A meeting of the State Council on July 31 issued guidelines for the government to purchase public services from social organizations. It specified that local authorities should go through a strict budget and audit procedure in doing so, publish relative information and establish a mechanism to supervise and assess progress.

The State Council has also vowed to detach social organizations from administrative departments, in a bid to create a fairer environment and room for development among social organizations. Before these measures are put in place, trials and experiments might throw light on how social organization reform should be carried out in general.

Designated Hotels

The Beijing News
August 27

When China's Ministry of Finance carried out the designated hotel system in 2006, it was regarded as a measure for combating corruption. It was also meant to cut administrative costs through government purchases, while strengthening management and supervision of business trips. However, with time, some designated facilities have become seedbeds of misconduct.

Some hotels have even stimulated consumption derived from handling public affairs. Four- and five-star facilities are not rare on the designated hotel list, with contract prices surpassing reimbursement standards as regulated by the government. In addition, some designated facilities are located in resorts and scenic spots, providing various luxurious entertainment services, which directly push up the cost of business trips and meetings. What's worse, some designated hotels directly assist corruption by providing fake invoices to cover their tracks.

One reason for the problem is the lack of proper supervision. As a result, hotels benefit wildly. Therefore, authorities should regularly check up on and sever connections with facilities that serve corruption. Also, management of business trip costs and public affair reimbursement should be strengthened, with bills regularly made public to ensure transparency.

Ticket Refund and Fee

Changjiang Daily
August 27

China Railway Corp. announced that it will adjust the policy on ticket refunds and rescheduling from September 1. The new regulation will allow passengers to conveniently return train fares at

any railway station across the country.

However, passengers will also be charged 5 percent of the ticket value if they return their tickets 48 hours before departure; 10 percent between 48 and 24 hours; and 20 percent within 24 hours. This would actually increase the overall ticket fee.

Under the previous policy, implemented on September 25, 2011, passengers were charged 5 percent of the ticket price. In this regard, the new regulation is a setback.

When a passenger buys a ticket, he establishes a contractual relationship with the railway corporation. Returning a ticket thus means annulling such a contract, which indicates the

railway corporation has the right to demand compensation. Accordingly, a ticket refund and rescheduling fee should provide such compensation.

But the railway corporation has designated this fee to labor and material costs incurred during rail transport. It is a compulsory fee that passengers will have to accept. Therefore, whether it is rational requires legal discussion.

In China, rail transportation involves a monopoly industry. Thus, its fee standards are to some extent compulsory, with passengers having no choice. The government will have to eventually ensure the fairness ticket prices based on public feedback.

Online Financing Services Challenge Banks

China Newsweek
August 26

Alibaba Group Holding Ltd., China's largest online shopping platform, launched a financial service this spring called Yu'e Bao, which has struck fear into the traditional finance sector. Accordingly, customers are able to access financial services and make online purchases.

With the popularity of social websites, interpersonal exchange has become more frequent and equal, forming a solid basis for online finance, which has flourished.

However, development of online financial services in the United States has proved tough going. Dong Wenbiao, Board Chairman of China Minsheng Banking Corp. Ltd., pointed out that such services might hit a glass ceiling, as some financial products still need to be transacted offline.

Still, online financial services will deal a blow to the traditional finance sector. Low-profit and unprofessional services will be outsourced while core financial products are grasped in the hands of top banks, among which large-scale merging and restructuring will occur.



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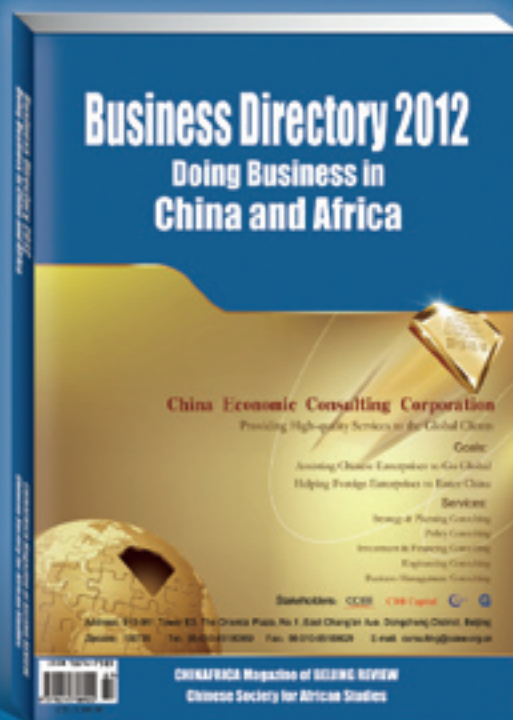
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An aerial night view of the Shanghai skyline, featuring the Huangpu River, the Oriental Pearl Tower, and numerous illuminated skyscrapers. The city lights reflect on the water, and the sky is a mix of blue and orange from the sunset.

COVER STORY

A NEW GROWTH E

Shanghai gets the go-ahead to set up a pilot free trade zone, but challenges remain By Zhou Xiaoyan

ENGINE



The Central Government has given Shanghai the green light to set up the mainland's first free trade zone, moving it closer to becoming a global financial, trade and shipping hub to rival other Asian cities such as Hong Kong. The pilot free trade zone will serve as a new growth engine amid an economic slowdown and sluggish foreign trade. The most valued function of the zone is serving as a testing ground for China to roll out major financial reforms as experience gained from the pilot zone will be copied to other regions of the country. Questions remain as to whether Shanghai might challenge Hong Kong's status as an offshore yuan trading center after the establishment of the zone. Experts also warn of possible risks the pilot zone may face in the future.

The State Council has approved the establishment of a pilot free trade zone in east China's Shanghai, according to a Ministry of Commerce (MOFCOM) statement on August 22. The project, covering an area of 28.78 square km, will be built on the basis of Shanghai's existing bonded zones—Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone—and will take more than 10 years to complete.

A free trade zone is a place where goods can be imported, manufactured and exported without the intervention of customs authorities. Upon completion, the Shanghai Free Trade Zone will provide, officials say, world-class transport and communications facilities and a tax-free environment for domestic and foreign enterprises as a major hub of their supply chains in Asia.

A general plan governing the operation of the free trade zone has yet to be released. Lawmakers need to approve amendments to existing laws to legalize certain experiments in the zone, read the MOFCOM statement.

The pilot zone is a crucial move in adapting to global economic and trade development and imposing a more proactive opening-up strategy, said the statement, adding it will help explore a new path for China's opening up and promote the country's economic restructuring as it seeks new modes of growth. The zone will



LIGHTING UP THE SKY:
An aerial view of Shanghai

help foster China's global competitiveness and serve as a new platform for its cooperation with other countries, and help build an upgraded economy.

Significance

"China's decision to set up a free trade zone in Shanghai comes at a time when the country is facing great challenges from home and abroad," said Chen Bo, an economic and trade expert with the Shanghai University of Finance and Economics.

China's foreign trade only increased 6.2 percent in 2012, the slowest since 2008, hinting what could be a long-term slow growth period. The country needs a new engine to invigorate a slowing economy amid domestic and foreign challenges, he said.

Ye Tan, a renowned financial commentator, agreed. "The policy dividend of WTO entry has been somewhat used up. China needs a new system to release more dividends and a free trade zone makes the most sense, because it

would not only facilitate exports, but also attract foreign investment," she said.

Experts say the pilot free trade zone is of particular significance to China's industrial restructuring, which calls for the modernization of its supply chain management with an emphasis on logistics.

Under the background of globalization, the Shanghai free trade zone will not only lift foreign trade, but also intensify the inflow of production factors to support China's future development in the next 30 years, say analysts.

Shen Guilong, a professor of economics at the Shanghai Academy of Social Sciences, said the zone is a breakthrough for Shanghai's rapid economic development. Shen says the zone will attract more global companies, especially from the service sector, to launch their Asia-Pacific offices or China headquarters in the city. The zone is expected to offer more complete, convenient and transparent foreign trade services, including customs clearance and su-

pervision policies, he adds.

Liu Shengjun, Deputy Director of CEIBS Lujiazui International Finance Research Center, hailed the free trade zone as an historic breakthrough since China's WTO entry in 2001. "China completed the first phase of globalization by joining the WTO and will launch the second phase by setting up the Shanghai free trade zone, which is designed to reduce trade barriers and expand opening up."

The Central Government has targeted Shanghai as a global financial, trade, shipping and logistics center, so it's no surprise the free trade zone will be situated there. Shanghai, a city of over 20 million people, is already the world's largest container port city and a major transportation hub in China and the region.

The Shanghai Municipal Government is working to take full advantage of an opportunity it cannot afford to miss. Construction of the free trade zone will be top of the city government's work agenda for the rest of this year.



CHEN FBI

SHIP IT FROM SHANGHAI:
Containers are densely laid out at the Yangshan Free Trade Port Area in Shanghai

The government in August issued a 42-clause regulation to support the free trade zone by encouraging more innovation in the financial sector and giving small and micro-businesses better access to credit.

Measures to support the Shanghai free trade zone are to be given top priority, Shanghai Mayor Yang Xiong said on July 25 as he delivered his half-year government work report at the Expo Center.

Shanghai's GDP expanded 7.7 percent from a year earlier to 1.02 trillion yuan (\$164.5 billion) in the first half of 2013, according to the Shanghai Statistics Bureau.

Surpassing Hong Kong?

"The most valuable part of the free trade zone would be more innovation and loosening of controls in the financial sector," said Chen Wenxing, a financial commentator. "For example, foreign capital may be allowed to establish banks in the zone; Chinese banks may be allowed to conduct offshore yuan trading; full-convertibility of the yuan, the Chinese currency, may be allowed on some conditions."

Mei Xinyu, a research fellow at the Chinese Academy of International Trade and Economic Cooperation, said offshore financial businesses have the biggest potential in the zone. "It can help the globalization of the Chinese currency."

Analysts say loosening of those controls could strengthen the financial system and make it more efficient. The question then is: Will Shanghai pose a threat to Hong Kong's status as a global financial hub?

Hong Kong is a well-established loan syndication center servicing the funding needs of governments and corporations in the region and around the world. It also shares with Singapore the region's fund management and private banking businesses.

Liu Yuanchun, a professor from Beijing-based Renmin University of China, said Shanghai may change the course of the mainland's yuan internationalization by luring business from Hong Kong, currently the country's major yuan offshore trading center. "It's possible that as Shanghai's free trade zone plan proceeds, Hong Kong's status as the region's financial center might be weakened, but when that day may come is uncertain."

Billy Mak, an associate professor of finance at Hong Kong Baptist University, said the zone would definitely deal a blow to Hong Kong's off-

shore yuan business if it creates more business in yuan trade financing.

However, Feng Zhengzhou, President of the Shanghai Export Enterprise Association, is less optimistic.

"I don't think the Shanghai free trade zone will be any threat to Hong Kong, especially in the short run. The zone is like a fetus, not yet independent of the mother country, while Hong Kong has become a very mature free trade port over many years."

Wang Guowen, the Supply Chain Management Association's Chief Representative in China, agreed with Feng, adding that the Shanghai free trade zone, with only 28.78 square km, is more of an experimental spot for China to study how the country should further reform and open up to the world.

MOFCOM spokesperson Shen Danyang also said at a press conference that the free trade zone is aimed at accumulating experiences for China's further reform and opening up.

"It's totally unnecessary to worry about its negative impact on Hong Kong."

Guarding against risks

Central authorities should remain highly alert to financial risks in the free trade zone, experts warn.

"The Shanghai free trade zone may conduct some experiments on interest rate liberalization. As a matter of fact, many South Asian countries have tried market-oriented interest rates, but ended up with hefty debts and asset bubbles due to a lack of experience and weak economic power. Even developed countries face many challenges with liberalized interest rates," said Ye.

She also advised the Central Government to take a more cautious approach when it comes to yuan convertibility on the capital account.

"Hefty inflows of foreign capital will create asset bubbles and pressure for the appreciation of the yuan. Therefore, trade, service, technology and logistics companies in the zone should get more freedom in yuan convertibility."

"If China starts yuan convertibility on capital account recklessly, more-than-expected foreign capital may flow to China's housing market, further pushing up already runaway home prices in Shanghai," she said. ■



Shanghai Free Trade Zone Establishment Timeline

July 3, 2013: The State Council executive meeting approved the plan to establish a free trade zone in Shanghai.

June 28, 2013: The Shanghai Municipal Government handed in its official application for the free trade zone after soliciting opinions from major central government departments.

2010: The National Development and Reform Commission and State Council again sent an inspection group to Shanghai.

2005: Cities including Shanghai, Shenzhen and Tianjin, filed applications to the State Council to establish free trade zones on the basis of bonded areas.

2003: Cheng Siwei, former Vice Chairman of the Standing Committee of the National People's Congress, suggested it was time for China to set up a free trade zone on the basis of existing bonded zones



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