



**November 29, 2013**

**Dear clients and colleagues,**

China (Shanghai) Pilot Free Trade Zone (FTZ) was launched on September 29, 2013. We believe it is a breakthrough in China's open policies, and will have significant impact on its international trade and financial sector.

The FTZ has four main goals:

- 1) To achieve zero tariffs on all merchandise traded.
- 2) To protect intellectual property rights, and to make sure that labour, environmental and safety conditions meet international standards.
- 3) To enhance economic and regulatory fairness and transparency, and to remove subsidies and preferential support for specific industries and state-owned enterprises.
- 4) To fully liberalize the financial services industry, and to open up the capital account to facilitate the free convertibility of currency and movement of capital.

The decision to establish a FTZ in Shanghai didn't happen overnight. The zone covers an area of 29 km<sup>2</sup>, integrating four existing free trade areas with the first set up back in 1990. The stable leadership and policy continuity of the China's Communist Party have ensured the gradual preparation of the FTZ.

Why now? China is at the turning point towards a more sustainable economy. Internally slower growth forces the government to conduct further reforms and seek new growth drivers. Externally China is still excluded from the Trans-Pacific Partnership Agreement (TPP) which is having a growing impact on the world trade.

The TPP is an agreement originally initiated by Singapore, Brunei, Chile, and New Zealand in 2005, aiming to further liberalize the economies of the Asia-Pacific region. Among other things, the TPP called for reduction by 90% of all tariffs between member countries by 1 January 2006, and reduction of all trade tariffs to zero by 2015. Currently there are 12 member countries including the US, Canada, Japan, Australia, Malaysia, Vietnam, Mexico and Peru. An expanded new proposal is under negotiation. All the BRICs are excluded.

As of 2011, 124 countries count China as their largest trade partner, compared to 76 for the US. A real TPP should welcome the participation of China. In July this year China expressed its interest in joining the TPP for the first time. Shanghai FTZ will serve as the testing ground to meet the requirements of TPP. Shanghai port is the world's busiest container port. In 2012 it set a historic record by handling over 32 million TEUs.

If Shanghai FTZ is proved successful, China's reform and opening-up will advance to an unprecedented level.

Have a good weekend.

The Global Alpha team

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