

China: Three New FTZs To Join Shanghai

China's State Council announced last Fri (12 Dec) the establishment of three new Free Trade Zones (FTZs) – the provinces of Guangdong and Fujian, and Tianjin city – just a little over a year after the inauguration of the Shanghai FTZ in Sep 2013, to continue with the country's economic reform process.

In the statement released on gov.cn website, the State Council said that the new FTZs would be modeled on Shanghai FTZ and would combine local characteristics to enhance these FTZs. One thing these new FTZs could contribute is to create competition among the different zones, thereby accelerating the process of opening up of the economy.

Comments/Implications

The latest decision is yet another illustration of the current government's determination to push through its economic reform/rebalancing/restructuring agenda of the Chinese economy, which is shifting into a "new normal" development phase that requires new growth drivers (for more details, please refer to our recent report "China: Moving Into A New Normal Growth Phase" date 12 Dec 2014).

Another parallel is the flurry of announcements of offshore RMB centers in just the past 6 months, including London, Frankfurt, Paris, Luxembourg, Seoul, and Sydney as China expands the footprint of offshore RMB across Asia and into Europe.

The latest announcement is no surprise, as the Third Plenum of the 18th session in 2013 (which was held in 9-12 Nov 2013) had stated the need to expand the pilot program of Shanghai FTZ into other parts of China. In addition, earlier this year, China state media had reported in January 2014 that as many as 12 FTZs were in the pipeline, including Tianjin, Guangdong, and Fujian. Other locations also expressed interests in setting up FTZs including seven other provinces (Zhejiang, Shandong, Liaoning, Henan, Sichuan, Guangxi and Yunnan) and three cities (Suzhou, Wuxi, and Hefei).

As such we should expect more of these FTZs to flourish across the country as China accelerates its efforts in its reform/restructure/rebalance theme over the mid to long term. This will also be in conjunction with other reform measures such as expanding the role of market mechanisms in domestic economy (removal of deposit rate ceiling, deposit insurance scheme, among others) and the broadening of offshore RMB space.

Near term however, the announcement should have little impact on the current slow-growth environment, and we continue to maintain our economic and FX forecasts unchanged, as highlighted in our recent Quarterly Global Outlook report dated 5 Dec 2014, i.e. growth projections for China at 7.2% for 2015, and at 7.4% for 2014, and our USD/RMB forecasts at 6.10/USD for end-2014 and at 6.03/USD for end-2015.

On the monetary policy front, we also expect more interest rate and reserve requirement rate (RRR) cuts are likely to be in store in the first half 2015 following the surprise cuts on 21 Nov 2014, as we expect China would move towards implementation of a bank deposit insurance scheme and removal of deposit rate ceiling in 2015 after concluding its 30-day public consultation phase by end-2014.

Interest rate and RRR forecasts (%)					
Indicator	4Q14	1Q15	2Q15	3Q15	4Q15
1-year Best Lending Rate	5.60	5.35	5.10	5.10	5.10
1-year Deposit Rate	2.75	2.50	2.25	2.25	2.25
Reserve Requirement Ratio	20.00	19.50	19.00	19.00	19.00

Source: UOB Global Economics & Markets Research

Link:

李克强主持召开国务院常务会议

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http://www.gov.cn/guowuyuan/2014-12/12/content_2790192.htm

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