

The Final Countdown Begins! Hainan FTZ the biggest Free Trade Port of China

Hainan Free Trade Zone (FTZ) is one of the six pilot free trade zones out of eight provinces and autonomous regions. Namely, East China's Shandong, Jiangsu and Anhui provinces; North China's Hebei province; Northeast China's Heilongjiang province; Northwest China's Xinjiang Uygur autonomous region; South China's Guangxi Zhuang autonomous region; and Central China's Hunan province. (Yang Yang, 2019)¹ It is considered as the country's 12th largest free trade zone and expected to be country's biggest free trade port under the “**Maritime Silk Road**” master plan. Hainan FTZ was positioned to be a pilot zone for comprehensively deepening reform and opening up; a display of the country's ecological civilization; an international tourism and consumption center; a zone offering services and support for the country's major strategies; and a key gateway to the Pacific and Indian Oceans.²



Source: Xinhua Silk Road

Hainan Free Trade Zone (FTZ) located on 35,400 sq km land while the other 11 FTZs are 120 sq km each. The proximity between Hainan and Southeast Asian countries is close as the distance between Hainan FTZ and Bangkok is approximately 6 hours and only 2 hours from Vietnam's commercial ports. It was assigned to be a high-quality FTZ that promotes trade and investment facilitation, provides an excellent legal environment, thorough financial services, efficient regulation, a favorable ecological environment, and boosts the development of surrounding areas by 2020. The goal of Hainan FTZ is to lower the investment restrictions, to adopt the negative list approach, and to make the proximity between China, Hong Kong, Singapore and Southeast Asian countries more connectable. The initiation

¹ Yang Yang. (2019). China to unveil names of six new pilot free trade zones. China Daily.

² China Daily. (2020). A look at Hainan Free Trade Zone.

of Hainan FTZ would create new opportunities along the China Belt and Road, especially the maritime silk road.

The master plan of Hainan Free Trade Zone

Hainan Free Trade Zone covers the entire areas of the island province with the 35,000 km² in size and populated by 9.5 million citizens. The principal theme of the blueprint is to liberalize the cross border movements of trade, investment, capital, personnel, transport, and data. The master plan consists of the 4-stages development as shown in the following figures

Figure 1: Master Plan of Hainan FTZ



Source: Dorcas Wong, 2020



Source: Xinhua Silk Road

What investors will benefit?

The Asian and foreign investors will benefit various privileges provided by government. Firstly, the tax privileges- the products coming from overseas countries into Hainan will be subjected to the “first-line” control system and some specifying goods outside the restricted list into China will be exempt from the tariff and be able to enter and exit freely into the province. The list has yet established. However, various categories such as equipment for enterprise own use, operational vehicles, raw materials for production, and products imported by island residents will be exempt from import duties, import VAT, and consumption tax. Furthermore, investment of the targeted industries such as tourism, modern services, and high-tech industry will be exempt from corporate income tax (CIT).



Source: Chinadaily.com.cn

Secondly, the non-tax privileges - investment in Hainan FTZ will be benefit from government facilitations such as minimum approval system, efficient single-window system, special custom supervision service, more conventional electronic silencing, and pre-entry national treatment plus Negative List management for foreign investment.

Lastly, the free exchange of people, capital, and data - under the trade and investment liberalization masterplan, investor will benefit from the cross-border flow of funds and logistics. The support covers the setup of the trading venture for financial products related to energy, shipping, property rights, equities, and clearing centers. Also, the flow of logistics will be eased in various forms such as the trial policy of tax rebates, flight and ship refuel with bounded aviation, more accommodating traveling regulations, and exported tax rebates (Dorcas Wong, 2020). ³

Plans after the Covid-19 crisis

Xinhua's Belt and Road Weekly report revealed on July 2020 that the implementation of administrative regulations in pilot Free Trade Zone (FTZ) of the southernmost province of Hainan will be further adjusted to support all-round reform, widen up its openness to global market, and to keep the market function during and post the covid-19 crisis. It is said the countdown begins as master plan of Hainan FTZ will make the biggest Free Trade Port fully function by 2035 and to become the world-leading business environment, free and convenient exchange of people, transportation and data, and to be the forefront of "**Socialism Modernization**"



Source: Belt and Road Weekly Report, July 2 2020, Xinhua Silk road

According to a circular issued by the State Council reported in Xinhua's Belt and Road Weekly, the adjustments are effective from June 28, 2020 to December 31, 2024. It covers regulations on customs guarantees, tariffs, international maritime transport, inspection of ships and offshore facilities, as well as domestic waterway transport. Also, China pronounced plans in April 2018 to form a pilot FTZ

³ Dorcas Wong. (2020). Hainan FTZ Masterplan Released to Establish China's Biggest Free Trade Port by 2035. China Briefing. Retrieved from: <https://www.china-briefing.com/news/hainan-ftz-masterplan-released>

including the whole island and explore the establishment of a free trade port with Chinese characteristics (Zheng Jinxia and Wang Yauang, 2020).⁴



Source: Chinadaily.com.cn

Specifically, according to the regulation adjustment, the **guarantee-free policy** will be adopted in Hainan FTZ to allow the entry of self-driving of overseas yachts during the epidemic outbreaks, while the approval power regarding the procedure of international passenger ships and the international bulk shipping of hazardous liquid will be delegated to the provincial transport department. In addition, foreign ship inspection agencies will be allowed to provide classification service to Chinese ships that are registered in the Hainan FTZ and engaged in international voyages, Zheng Jinxia and Wang Yauang (2020). By the end of 2035, the regulation simplification was expected to become a fully operational Free Trade Port providing fewer foreign investment restrictions and to build the new ground in pursuing more trade and investment openness connected to Southeast Asian country and the rest of the world.

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Credit: Xinhua Silk road

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⁴ Belt and Road Weekly Report, July 2 2020, Xinhua Silk road. Pp. 7