

## Hainan Province As The New Free Trade Port

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**Article History:** Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 20 April 2021

**Abstract:**The goal of this article is to clarify China's response to economic slowdown and intensified protectionism from Western countries, in particular that China must implement deeper and more durable economic reforms. In responding to this global threat, the Chinese Government, through President Xi Jinping, proposed a new trend of trade liberalization in China by constructing a free trade port in Hainan. The free trade port is a long-term approach in the hope of deeper integration with the global economy, particularly as the free trade port of Hainan can be a connection between South East Asia and East Asia. The research approach used in this research is a qualitative method that is assisted by data collection by literature analyses, and data reduction is often carried out by data analysis. The results of this study show that, together, policies designed to promote the growth of the Hainan Free Trade Port will create an atmosphere for investment, industry, transport and systems that is reliable, competitive, stable and comfortable for all parties so that the movement of goods, labor and flow funds can be freely sustained.

**Keyword:** China, Free Trade Port, Free Trade Zone, Goods, Investment

### 1. Introduction

In June 2020, the Chinese Government issued a master plan for the development of free trade ports in the province of Hainan. The Hainan Province is an island in the South China Sea that is immediately adjacent to the South East Asian region and plays a role as a special economic zone (SEZ) linking the Chinese region to South East Asia. The Hainan Province has a geographical role as it can become a trade region that connects South East Asia with East Asia. This provides a new possibility, with Hainan becoming a key node in China's Maritime Silk Road Programme (Wong, 2020; An et al., 2019).

In this age of globalization, China has been the world's largest exporter, currently facing domestic and external challenges. The global threat that China needs to confront is the downturn in demand from China's major trading partners, compounded in particular by intensified protectionism from the US and other Western countries. Meanwhile, China's domestic supply problems are rising, with China's demographic dividend dwindling with an ageing population contributing to a worsening of China's export competitiveness. These internal and external considerations allow China to begin opening up its domestic market in order to expand its trade value. Moreover, in order to sustain competition in the global economic sphere, China must also foster industrial transformation. In responding to all these obstacles, the Chinese Government has released an idea on the establishment of a free trade port with the goal of facilitating the creation of a new direction of liberalization (Tian, Xu, Yu, & Zhu, 2018:63).

The master plan issued by the Chinese Government is a large-scale plan that will turn the entire island into a free trade port that will make Hainan the largest special economic zone in China. In support of the programme, the Chinese Government has released a strategy aimed at making Hainan a strategic destination for trade and investment in China. The series of policies includes cutting import tariffs, reducing the income tax rate for high-level talent, restricting corporation tax to 15%, and easing the visa conditions for travelers and business people (Lu, 2020).

In the master plan that has been issued, the free trade port of Hainan will concentrate on three main areas, namely, first, the implementation of a zero tariff policy on some manufactured products, such as raw materials, vehicles, other consumer goods and manufacturing equipment. Second, emphasis on the development of the tourism, utility and high-tech sectors. In favor of industrial growth, the Chinese Government has adopted a tax policy for companies engaged in this market. Third, the Free Trade Port project is projected to recruit skilled workers to work in Hainan (Chaisse, 2020).

Market liberalization will take place in this free-trade port of Hainan by opening up a service trading mechanism that implements investment with minimal approval. The scheme would make it easier for foreign investment to reach the free trade port of Hainan directly on the market. The purpose of the Hainan Free Trade Port is very simple in order to be able to become a high-level free trade port with a large international presence that can compete with Hong Kong and Singapore while retaining Chinese characteristics. In this respect, Hainan has an advantage that is 40 times that of Hong Kong, 30 times that of Singapore, and 14 times that of the other 20 free trade zones in China (Weiwei, 2020).

In recent years, there has been a lot of study into open markets and free trade ports, as has been conducted in the past by, Toviás & Bacaria, 1999, Bieler, Hilary, & Lindberg, 2014, Walter, 2016, Wang, 2017, He, Lin, & Liu, 2020 contributed to the interpretation of foreign trade policy by open trade where the government of a country does not levy tariffs, taxes or import duties on imported goods and export quotas. However, in order to preserve the stability of domestic enterprises, countries also have open trade policies that are also protectionist. The study carried out by this researcher focuses on trade carried out through a free trade port as a destination for the storage of commercial goods.

Previous research was subsequently carried out by, Deng, Wang, & Yeo, 2017, Lavissière & Rodrigue, 2017, Tian et al., 2018, Choi & Lim, 2018, Hu, Wang, & He, 2020, this offers an understanding of the free trade terminal, which focuses on attracting investment that will support the domestic economy. The aim is to be able to remove the incoming foreign products and to return them to the receiver. Later, testing, packing, processing, marking and distribution will take place at this free trade terminal. Our study aimed to understand the free trade port of Hainan, which was designed with the intention of promoting China's domestic economy.

With the development of the Hainan Free Trade Port, the Chinese government aims to respond aggressively to the problems both locally and globally. With the presence of the Free Trade Zone and the Special Trade Zone in China, of course, there is a gap with the construction of the Hainan Free Trade Port, which has a strategic location between South East Asia and East Asia, being a strategic initiative for China to be able to achieve deeper alignment with the global economy. On this basis, this thesis aims to address a research question, namely: "How does a free-trade port help China's economy?"

The remainder of the document will be structured as follows. Section 2 examines the creation of free trade ports, which are part of the free trade zone but with a broader scale. Section 3 would identify the methodology of analysis used in the collection of data. Section 4 is a discussion and discussion of the Hainan Free Trade Port by splitting it into a number of areas, such as the liberalization of trade in goods and services, investment facilitation, mobility of people, capital and data. Section 4 is the end of this free trade port in Hainan.

## 2. Theoretical Framework

Free trade zones are typically incorporated into ports or industrial estates with the goal of promoting large foreign trade volumes. Free trade zones also have a surface area of between 2 and 6 million m<sup>2</sup>. With this vast area, it can be used for wholesale storage and an appropriate place for production businesses, open warehouses, transit warehouses and containers to deliver goods to domestic and foreign markets (Branch, 1986:81).

By having imported products and producing products in the free trade region, the surplus would be sold to both domestic and foreign markets. Such a free trade zone will help to develop a country's foreign trade balance because, with small exports, it is advantageous if it can quickly import goods or services that are then manufactured to fulfill domestic and global demand demands that have an effect on the growth of domestic industries (Farole, 2011:57).

Foreign Investment Advisory Service (2008) has described a free trade port that is commonly included in the term special economic zone has been defined. This free trade port has a wide area to carry out the commercial activities carried out there by integrating all current infrastructure, such as all ports and airports. Free trade can also include, or overlap with, government units and administrative regions. As was proposed by Tian et al.(2018), Free exchange port is a port area within the jurisdiction of a nation or zone which is not subject to ordinary customs regulation and has free access to international imports and funds. The key feature of a free trade port is that it is outside the customs authority of the government from an institutional supervisory point of view.

The free trade port includes a port and a free trade zone, with several business-related operations, including goods processing, transportation and warehousing. This free trade port is a forum more flexible than the free trade zone. With this, the construction of the Free Trade Port would stimulate the development of a free trade zone and

promote more transparent trade liberalization, such as Singapore and Hong Kong. In this situation, a strategy is required to support the free trade port, in particular in the areas of trade facilitation, customs control, financial support, ship fuel rates, inspection and quarantine at free trade ports. This is intended so that the free trade port can provide a better response to changes that occur in the global environment.

The achievement of a good international free trade port has five key characteristics, namely, first, the establishment of an effective legal structure and the best trade facilities in a free trade port, with a view to achieving high capital investment and labor mobility, in order to draw trade players to transit and build transport. Multimodal. Multimodal. Second, the improvement of business and commerce, which has strong financial, legal and logistical structures, would promote the development of different forms of trade in the International Free Trade Port. Third, a free-trade port must be one of the centres of the economy. Fourth, the economic structure is one of the benchmarks for the growth of free-trade ports. Finally, the central government has been an executor in the management of free trade ports. (Yu, 2020:25).

### 3. Method

In this study, a qualitative method is used which is a technique or strategy for data collection and analysis that relies on the collection and analysis of non-numerical data. Lamont (2015) have a perspective about qualitative methods are used to understand how we make sense of the world around us and thus require us to focus on the meanings and processes that shape international politics. Data collection that supports this research is obtained by using literature studies in scientific journals, data publications, internet-based searches related to the concept of the free trade port and the data about Hainan Province as the new free trade port in China.

### 4. Result and Discussion

#### 5. Hainan free trade port

In order to improve China's economy, the policies that have been implemented include the establishment of special economic zones, industrial zones and export processing zones. (Brødsgaard, 2008:24). The creation of special economic zones opened the Chinese economic system to the outside community through free trade zones, which initially became the first province of Shanghai in 2012, followed by the establishment of free trade zones in Guangdong, Tianjin and Fujian provinces in 2015 (Yuan, 2020:5). Four Free Trade Areas It has a different emphasis in each field, but its goals are the same, namely to free up investment, trade and finance, to promote entrepreneurship and innovation, and to implement temporary post-establishment administration

On 13 April 2018, President Xi Jinping declared that Hainan would be a free trade zone that was eventually being established and explored to facilitate the development of a free trade port with Chinese characteristics. By making Hainan a free trade zone, Hainan will be granted unique autonomy in cultivating a legal and international business climate and building an open, equitable and productive trading environment. (Tao, 2019:163). The extension of the free trade zone to the free trade port would add to China's picture of developing an efficient economy that will affect China's rapid economic development. With the existence of this free trade port, for China, it is a strategic tool in achieving expansion of trade volume which requires freer movement of trade in goods, free flow of capital, and highly mobile labor (Sicong, 2020).

Yu (2020) It is shown below that the construction of this free trade port would help the growth of the area where the port is situated. By extension, this free trade port is a port area which does not impose customs controls on merchandise and cash flows from abroad. This duty-free entry is the key feature of the free trade port. This provides a benefit for commodities trading, as it will reduce the different forms of entry costs. Adequate utilities must also help this free trade terminal. Infrastructure is critical in this free-trade port because it decides shipping costs, which display port productivity in order to reduce shipping costs.

Free trade port acts as a freight hub to promote foreign trade and the gathering and exchange of logistics knowledge with reliable and accessible tools. The aim of this free trade port is to be able to incorporate ports by enhancing the transport infrastructure, functional interactions between cities and ports, and service coverage (Limao & Venables, 2001). Through the presence of an integrated infrastructure, it can form an effective and open free-trade port which, in turn, can push economic development. Since this will lower prices effectively, it can open up opportunities for the increased circulation of trade in goods and create competition with the international market.

To foster economic development, Tao (2019) offers an analysis of human capital, which is one of the key factors in fostering trade with specialized, highly skilled and highly respected foreign talent. However, the shortage of skilled personnel and foreign expertise is also an obstacle to the growth of China's free trade region. According

to the Shanghai Free Trade Zone Human Resources Bureau, the scarcity of skilled and technical staff in the Shanghai Free Trade Area hit 48% in 2014 (Wang, 2017:265). Free trade port will be a means and an incentive to grow expertise and talent for job guarantees. The inflow of capital is another significant factor boosting economic growth (Birmingham, 2020). The free trade zone has had a positive effect on the capital flows of Shanghai. The arrival of international multinational corporations has given a boost to foreign direct investment. And fewer controls on capital markets, free trade ports will be at the forefront of the next chapter on financial market liberalization. (Hu et al., 2020:3).

The influence of this free trade port is larger than that of a free trade zone. This free trade port would further liberalize the Chinese economic system by facilitating the country's economic transformation from a generational dividend to a system dividend that will adapt well to the challenges of the global climate. In the view of Tian et al., (2018), the need for assistance for commerce, financial services, ship fuel costs, customs control, inspection and quarantine must be carried out at the free trade port. China's free trade port will become a hub for the trading of foreign products, money and human resources that will generate a steady stream of new impetus for economic growth.

The goal of the Hainan Free Trade Port is to liberalize the flow of trade, finance, resources, manpower, transport and cross-country data. Wong (2020) gives an outline of the master plan for the construction of the Hainan Free Trade Port, which is being carried out in four phases with a timetable to achieve different stages of growth, namely:

1. In 2020: • Free trade zone operation; • Significantly raise international transparency; • Build investment and trade facilitation; boost financial services in the regulatory environment; first tier ecological environment; • Become the first pillar in the establishment of the free trade port of Haina.
2. By 2025: • to operate a simple free-trade port system; • to build a favorable market climate in China; • to create and greatly increase industrial competition as a means of solid and efficient risk management and control; • to refine regulations and laws that are increasingly tailored to the creation of a free-trade port.
3. By 2035 • Mature free-trade port operation; • Convenient and free person mobilization, transport and data; • Building a world-leading market environment; • At the forefront of socialist modernisation.
4. 2050: • Has a free trade port with a high level of foreign presence.

## 6. Liberalization of trade of goods and services

Economic liberalization in the establishment of customs barriers is a crucial factor in the success of the open trade port. Zhiyuan & Rui (2020) sets out the policy for the determination of customs regulation in the free trade port of Hainan, which is split into two: "First-line" and "Second-line" entering China. This first line is goods arriving from abroad to the free-trade port of Hainan that will comply with the laws of the first-line control scheme. In this situation, it is the duty of the free trade port of Hainan to create laws and lists or articles which are forbidden or barred from import or export. Then the free-trade port of Hainan issued a list of items which were listed as subject to import duties when entering Hainan free trade port.

In the meanwhile, products which are not included in the catalog classification will be free of tariffs and may enter and leave the Hainan Free Trade Port free of charge without being subject to import duty, import VAT and consumption tax.

- Manufacturing facilities for the company's own use;
- Operational cars and yachts;
- Imported raw and auxiliary materials for production; and
- Imported products are bought by islanders; (Xiaoming, 2021).

Imported goods entering the free trade port of Hainan, which are then distributed to mainland China, would be subject to import regulations, customs duty and taxes. This mechanism allows factories in Hainan to manufacture commodities that do not include imported materials or that include imported materials with a value cap of more than 30% from the production phase of domestic intermediate items that are excluded from import tariffs when sold in China. (Yangxiaoxiao, 2020). In the meantime, goods arriving from the territory of China and passing through Hainan, which are then delivered to the territory of China, do not need customs processing. However, the goods must be loaded and unloaded at the place of service under the supervision of customs at the free trade port of Hainan, which is then processed separately from the goods subject to customs duty (Zuvich, 2020).

In the future, the Hainan Free Trade Port will set up more customs control areas to better handle exports and imports more efficiently and flexibly. As a free-trade port connecting Southeast Asia with East Asia, the free-trade port of Hainan needs to develop a single window structure in order to obtain clear regulations and to unify investment requirements for quality and convenience in the conduct of import and export operations from other

countries. This free trade port in Hainan therefore needs a clear but efficient management mechanism and legal structure to address the global uncertainties that arise and keep the domestic market under pressure.

### 7. Investment facilitation

By simplifying investment requirements, liberalizing trade in services by the introduction of a minimum approval investment scheme. The investment scheme, comprising of a registry of access to a special market that relaxes business access for the free trade port of Haina, as well as a registry of access to foreign investment (Yang, Zhou, & Zhang, 2020). Hainan Free Trade Port is implementing a scheme that makes it easier for international firms to enter a broader market. The Chinese Government has released a new market access and entry mechanism contribution strategy by implementing the following:

- Establishes a comprehensive filing system;
- Relaxes licensing and approval requirements for some investment areas;
- Implements pre-entry national treatment and negative foreign investment management – significantly reducing prohibition and restriction clauses; and
- Encourages the creation of an innovative investment management system focused on streamlining supervision; (deloitte.com, 2020).

With the growth of incoming foreign investment, it would have a positive effect on China's conventional industries as well as opportunities to open up new industries. This free-trade port in Haina offers an incentive to advance an industry that plays a key role in growing high-value ties in foreign trade (Zhi, 2018). In 2025, for example, the Hainan Free Trade Port will collect revenue from new foreign direct investment in modern utilities, high-tech commercial businesses and tourism, which will be excluded from income tax.

In addition, in order to encourage the entrance of foreign direct investment into the free trade port of Hainan, Wong (2020) explains the policy of the Chinese Government to promote the liberalization of trade in Hainan for enterprises engaged in the following fields:

- Telecommunications-opening basic telecommunications services, building submerged optical cables and international landing points, removing restrictions on foreign equity ratios for value-added telecommunications services, licensing online data processing services independently from an internationally accessible free-trade port and then gradually throughout the country, launched international Int, and set up international communication gateways;
- The finance and insurance industry in favor of financial institutions to operate a company, such as intellectual property pawning funding, warehouse receipt of pawn loans, pawning loans, policy financing, etc. This is focused on regulatory enforcement as an important prevention measure;
- Health insurance as a means of funding for financial companies and international institutions in order to create a variety of cross-border health insurance products;
- Education is expected to allow overseas universities and vocational colleges specializing in science, engineering, agriculture and medicine to open branches in Hainanese schools and to promote cooperation between domestic and foreign universities to establish Sino-foreign education cooperatives with an independent legal entity;
- Tourism is intended to establish a cruise ship industry;

The key goal of the Hainan Free Trade Port is to advance the Chinese economy, which needs strong economic policy support to establish economic liberalization that offers relief to industry in general, including the creation of an investment climate that is more available, equal and predictable for all business people, and to improve the security of intellectual property rights. The tax system must be effective internationally. In this situation, the Hainan Free Trade Port tax regime must be strong on the ideals of a basic tax system, zero taxes and low tax rates.

The development of a complete international service support system required by the free trade port of Hainan, including intermediaries, such as financial and legal companies for all aspects of production and life, can promote a more complete production chain coordinated with the surrounding area and help the regional economy to develop and improve. With these mutual practices, most foreign trade centres have increasingly moved from conventional goods trading ports to centers for the movement of international capital and knowledge.

### 8. Mobility of People, Capital And Data

With vast trading facilities and productive processes in terms of finance, investment and law provided by the Hainan Free Trade Port, greater versatility has been generated in attracting large volumes of investment, transit, manufacture, or loading and unloading of export containers and transport. Multi-modal (Dandan, 2020). This provides a cross-border influx of funds that must be carefully handled and assured protection. The Chinese Government, through the Hainan Free Trade Port Financial Market, lays down regulations to promote the

organization of trading venues for financial goods related to land rights, equities, mining centers, electricity and transport (EY Greater China, 2020).

The high mobility of the free trade port, according to Wong (2020), is a crucial aspect of the logistics flow and must be easy and clear with regard to the flow of transport in the following ways:

- The policy for goods departing from Yangpu Port will be granted a tax discount with the final destination to China;
- The granting of permits for refueling flights and bound ships at the time of entry and departure;
- Export tax rebates are granted to domestically made vessels engaged in transportation and also those registered at Yangpu Port, China.

More accommodating immigration rules, such as visa-free and visa-free extensions, have been released to encourage high-end talent and business specialists to live and work in the free trade port of Hainan. By applying the high level of individual wages to talents and experts from abroad as an example of attracting these talents and experts to work and live in the Hainan Free Trade Port (Global Times, 2020). The plan to draw expertise and specialists from those international benchmarks would help to create a more viable environment to offer decent service to business owners, skills and internationals. These programs will help develop infrastructure and the community, improve public services and create international labor standards to address the challenge of recruiting and retaining talent and experts in China's local economy (Yu, 2020:114).

## 9. Conclusion

In the face of global threats and protectionism applied by Western countries, China is aggressively pursuing solutions to these challenges and protectionism by prioritizing long-term policies. Until now, China's economic reforms have created a free trade zone and opened up opportunities to enhance the port's role as a free trade port to bring economic liberalization reform to a new level.

Preferential policies for trade in goods should be developed by the Chinese Government. China must develop an interconnected international standard transport network that integrates river ports, seaports, highways, railroads and airlines. It must develop a large-scale, intelligent and multi-functional information network and a secure and reliable electronic customs system to speed up and simplify customs integration. Ports in underdeveloped areas must ensure the enforcement of policies inside temporary territories outside customs and free entry into Chinese territory while performing tight controls before entering the domestic market; Equal entrance and departure to the Free Trade Zone thus dividing the administration of persons and goods. A more sustainable offshore tax regime should be explored for ports in emerging areas.

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