

China's first free trade port in sight

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In brief

- » On 1 June 2020, China announced a masterplan to transform the whole Hainan province into a free trade port.
- » A two-phase blueprint has been drafted - phase one will be implemented until 2025 and phase two until 2035.

Feedback

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In detail

On 1 June 2020, China announced a strategic move in her reform and opening-up policy: Hainan, a tropical island in the very south of China, will be constructed as a free trade port (FTP). With an area of 35,000 km² and a population of 9 million, Hainan will become the world's biggest FTP.

The plan, released by the State Council, depicts a multi-facet blueprint for trade and investment promotion in two phases, as summarized below.

» Special customs rules

Hainan FTP will implement customs policies different from the other part of the mainland of China.

- › Most goods entering Hainan from overseas will be duty free; a list of dutiable goods will be drafted.

Until 2025, the following import goods are duty free:

- Self-use production equipment outside the equipment negative list;
 - Listed vessels, airplanes, yachts for transportation or tourism in Hainan;
 - Raw materials for self-production and contract manufactured goods for overseas transactions;
 - Goods for local residents' personal use;
 - Goods purchased under the offshore duty-free quota of CNY 100,000.
- › Goods produced by companies in the encouraged sector without containing any imported parts will be exempted from import duty when entering the other parts of the mainland of China, and including those containing imported parts but 30% or more of their value is added in Hainan (yet import VAT and consumption tax is not exempted).
 - › Transshipments from and to overseas can be stored in Hainan indefinitely under a duty-free condition.

» Lower tax rates

Hainan FTP will practise a special taxation system.

- › Corporate income tax (CIT) rate will be lowered in phases.

Until 2025:

- Companies in encouraged sectors can enjoy a 15% CIT rate (standard CIT rate is 25%);
- Income from overseas investment of Hainan companies in tourism, servicing and high-tech sectors is exempted from CIT.

Until 2035:

- All companies registered and operating in Hainan (except those sectors in the negative list) will adopt the same CIT rate at 15%.
- › Individual income tax (IIT) rates will also be lowered for qualified personnel.

Until 2025:

- IIT rate will be capped at 15% for shortlisted talents.

Before 2035:

- Three-tier progressive IIT rates at 3%, 10%, and 15% will be applied to persons staying in Hainan for longer than 183 days in a year.
- › Indirect taxes (VAT, consumption tax, local levies, and vehicle purchase tax, etc.) will be simplified or merged and levied only at the retail stage.

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» Facilitation measures

A series of business facilitation measures are included in the masterplan.

- › All industries are open to investments, except those explicitly prohibited;
- › Approval will be abolished even for those industries that are governed by mandatory standards. A simple recordal procedure will be put in place instead;
- › Added-value telecommunication business will be open to foreign investments and the shareholding requirement will be gradually abolished;
- › Tourism, servicing, and high-tech sectors (especially advanced technology such as internet of things, artificial intelligence, blockchain, e-commerce, manufacturing in biomedical, alternative fuel vehicles, and smart cars, etc.) are highly encouraged;
- › Foreign securities, funds and futures dealers are encouraged to set up joint-venture or fully-owned subsidiaries in Hainan;
- › Foreign universities or vocational schools in science, engineering, agriculture and medical specialty are allowed to establish wholly-owned subsidiaries in Hainan;
- › Limits on foreign investors' share percentage in ship owning companies will be abolished;
- › Limits on overseas financing for vessels or airplanes will be abolished;
- › Anti-trust laws and intellectual property protection laws will be further enhanced; penalties on breaching will be higher;
- › A Hainan FTP Law will be drafted; international arbitration organs are welcomed to establish a presence in Hainan.

» Relaxed visa requirements

Visa requirements on visitors will be relaxed to support business and tourism.

- › Work permit granting will be based on a negative list. Those outside the list are all allowed to work in Hainan (the current system is based on an appraisal approach);
- › Qualified foreign individuals can be a legal representative of statutory bodies, state-owned enterprises and public institutions in Hainan;
- › *Until 2025*
 - Visa-free entry is allowed to be applied for by visitors themselves or by the receiving enterprises, covering all purposes like visiting, family reunion, medical treatments, exhibitions, sports, etc.
- › *Until 2035*
 - Requirements for a temporary stay and a work visa will be further relaxed for business personnel.

In addition to the above-mentioned offerings, the plan has also included guidelines for development and improvement of FTP's legal system, social governance, financial system and risk controlling.

WTS Observation

To construct Hainan as an FTP marks a strategic milestone to China's reform to its trading and investment environment. The sheer size of Hainan FTP's geographical area, economy volume and population have distinguished it from any FTP in the world. Many of the offerings are extensively beneficial to investors, consumers, traders and visitors.

For implementation, detailed policies will be released based on the masterplan. Companies should keep an eye on the policy development, so as to adjust or enhance their strategies in investing and operating in Hainan FTP.

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