

China unveiled its first service negative list

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In brief

- » Chinese issued its first service negative list, coming into effect on 26 August 2021.
- » It serves only Hainan Free Trade Port (FTP) but sets a model for a national list.

Feedback

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In detail**» Introduction**

On 23 July 2021, China's State Development and Reform Committee (SDRC) and Ministry of Commerce (MoC) have jointly issued China's first-ever negative list for services trade for the Hainan Free Trade Port, the second largest island to the south of China which was built into China's largest Free Trade Port (FTP) in 2019. The new list will come into effect on 26 August 2021.

Though it is a negative list only for cross-border service trade in Hainan FTP, it is the first-ever move by China for cross-border services trade, and sets a milestone initiative prior to a national negative list for service trades in expectation. Cross-border service trade covers cross-border services, consumption abroad and presence of natural persons.

The said service trade negative list covers the 11 categories with 70 special measures. For any service sectors not included in the list, overseas and domestic service providers will enjoy equal market access and level playing field in Hainan FTP. Overseas service providers can provide cross-border services to entities or individuals in Hainan FTP without setting up any entities in Hainan.

As a matter of facts, this is the second negative list issued for Hainan FTP. The latest 2021 version governs cross-border service trades whereas the 2020 version governs foreign investments in Hainan FTP (see the comparison below).

Two negative lists for Hainan FTP			
Cross-border services (2021)		Foreign investment (2020)	
	Items		Items
1. Agriculture, forestry, livestock farming, fishing	1	Agriculture, forestry, livestock farming, fishing	3
2. Construction	1	Manufacturing	2
3. Wholesaling, retailing	2	Power, heating, gas, water generation / supply	1
4. Transportation, warehousing, postal	13	Wholesaling, retailing	1
5. Information transmission, software, IT services	6	Transportation, warehousing, postal	4
6. Financial services	17	Information transmission, software, IT services	2
7. Leasing and commercial services	12	Leasing and commercial services	2
8. Scientific research, technical services	4	Scientific research, technical services	3
9. Education	2	Education	2
10. Hygiene, social work	1	Hygiene, social work	1
11. Culture, sport, entertainment	11	Culture, sport, entertainment	7
Total	70		29

The negative list approach reflects the country's effort in further improvement to the transparency and predictability of the business environment. For example, in Hainan FTP, foreign investors are greenlighted to open securities and futures accounts and can apply for qualifications in securities and futures investment consultancy. Further, foreign companies cannot sell veterinary drugs, feeds, feed additives, agricultural chemicals, except setting up a sales office in China, or selling via an agency in China.

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WTS China observation

Back in 2018, the “*Special Administrative Measures (Negative List) for Shanghai Free Trade Pilot Area, China*”, issued by the Shanghai Municipality Government, covering 31 sectors with 159 measures, could be viewed as a local government’s pioneering attempt at cross-border service trade.

This time the negative list was issued by the central government, covering 11 sectors with 70 measures, reflecting a foremost boost to China’s cross-broader service trade.

Service trade is gaining its weight in China’s economy. Taking 2020 as an example, Hainan’s service industry accounts for 60% of its GDP whereas its cross-border service trade accounts for 16.5% of its total cross-border trade; China as a whole has its service industry accounting for 55% of its GDP whereas its cross-border service trade accounting for 12% of its total cross-border trade.

The new negative list offers to investors a solid clarity what services they can provide in Hainan HTP beyond the list. Expectedly, a national negative list for cross-border trade service should be in the pipeline, which will cast a valuable insight in supply chain planning.

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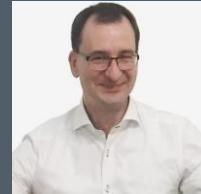
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