

Hainan to rival Hong Kong with zero tariffs on imports

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China's Hawaii designated nation's 'freest free port,' with no duty for the country's big spenders.

China's tropical resort island of Hainan, still an economic backwater under the radar of investors and shoppers, has been catapulted to the very fore of China's continued reform and opening-up after President Xi Jinping signed off on a package of tailor-made policy concessions last week that is the envy of other major cities and better-off provinces.

The concessions crafted by Beijing include zero tariffs on imported consumer products to pave the way for the 33,200-square-kilometer island province of **9.5 million residents** to eventually become a free port and a separate customs jurisdiction.

Also, corporate and salaries tax will be capped at 15%, even lower than Hong Kong's 17% level, to lure trade and talent.

Beijing has pledged to turn China's youngest province - Hainan was elevated to provincial status in 1988 after it split from Guangdong - into the nation's "*freest free port.*" By endowing the idyllic southern island with preferential policies that are more than just mantras, **Beijing aims to bring it close to parity with Hong Kong, Singapore and Dubai.**

Beijing has a less-than-ideal track record when it comes to fulfilling its promises or executing its best-laid reform plans, because previous endeavors to further open up Shanghai, Shenzhen and some other national new zones have failed to impress over the years.

But this time around it appears that Beijing has taken a more resolute tack to resuscitate its stalled reform, and zero tariffs and a simple tax regime for Hainan are substantive and implementation-ready policies.

Hainan will have its separate customs territory status by around 2025 when the entire island will be ring-fenced and no tariffs will be levied on imports unless otherwise prescribed by law, according to the latest action plan.

Yet the specifics of the island's duty-free policies and streamlined customs regulations are yet to be set out, and it remains to be seen how well Hainan will fare against established trading and business hubs like Hong Kong and Singapore, which are members of the World Trade Organization.

That said, with no tariffs on foreign goods and more shopping malls and resort complexes sprouting up along the island's pristine coastline, retailers in Hong Kong and other overseas destinations that traditionally cater to big-spending Chinese tourists may stand to lose their takings. Hainan could dam the outflow of China's consumption power if cosmetics, gadgets, baby formula and luxury items on sale on the island become as cheap as anywhere else.

Some observers believe Hainan may emerge as the new shopping paradise for Chinese, with zero language barrier or visa requirement, complemented by the island's tropical beaches and verdant landscape.

The plan, jointly issued by the Chinese State Council and Chinese Customs, also notes that each Hainan-bound traveler from elsewhere across the nation can purchase up to 100,000 yuan (US\$14,135) worth of items per year without any duty liability upon their return, compared with the current 5,000-yuan limit per trip to Hong Kong.

Beijing will also start hosting an annual national-level consumer goods fair on the island, which will be on a par with the Canton Fair in Guangzhou and the China Import Expo in Shanghai.

Mainland financial and realty analyst Liu Xiaobo said on his blog that Hainan **may have the potential to supersede Hong Kong as the top destination with its superior shopping and sightseeing attractions.**

He added that Chinese tourists may feel more at home in Hainan because there are no entry restrictions and, unlike in Hong Kong, their visit will not be marred by civil unrest or a frosty reception amid rising anti-China sentiment.

Due to the Covid-19 pandemic, mainland arrivals are quarantined for two weeks in Hong Kong but they can travel to Hainan without facing quarantine as long as they have a health certificate or QR code issued by their local government.

Xinhua also quoted officials with the high-powered National Development and Reform Commission as saying that Hainan was selected because of its geographic features: it is an island similar to Taiwan in landmass, and the shallow, 30-kilometer strait separating it from Guangdong will serve as a natural buffer after it becomes a separate customs zone.

The state news agency also noted that Hainan would hold the key to implementing China's broader strategies for the South China Sea and spawning more trade with the ASEAN nations.

Hainan's negligible share of the Chinese economy - its GDP stood at a little over US\$73 billion in 2019 (28th among all provinces and autonomous regions nationwide) - also means any setbacks or economic upheavals during the island's free trade zone experiment is unlikely to roil the nation.

While pressing ahead with its economic and business-friendly initiatives, Beijing has also nixed any ideas of loosening capital account control or political liberalization, like having an independent judiciary, in Hainan, but these elements are also seen as indispensable for a genuine international free trade hub.

Hainan's provincial party chief Liu Xigui has vowed to toe the party's line while steering the island's sweeping reforms and to plug any boltholes that may be exploited by troublemakers to destabilize the society, during a press conference in Beijing on Monday. Beijing has also vetoed proposals to allow horse-racing on the island.

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