



This panoramic aerial view of the bay of Hainan Island, China, shows its hotels, resorts, harbour, and beach.



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Accelerating the construction of the Hainan free trade port

with trade in services as the leading driver

ABSTRACT

This chapter explores how to accelerate the construction of a Hainan free trade port with trade in services as the main driver. With the objective of building Hainan into a free trade port, taking Hainan's practical situation as a point of departure, it analyzes the international and internal developments of the services trade and concludes that making trade in services the

major driver for Hainan free trade port construction is in line with the general trend of economic globalization and the opening up of China. It then proposes a policy that Hainan should opt for making 'early arrangements' to a further opening up of its service markets and institutional innovations.

INTRODUCTION

What is the industrial position of the Hainan free trade port (hereinafter referred to as Hainan FTP)? As it stands, it is positioned to concentrate its efforts on developing tourism industries, modern services, and high and new technology industries. From the perspective of the future trends and characteristics of Hainan's development, the key point in accelerating the construction of Hainan FTP lies in expanding and speeding up the process of services trade liberalization. The process of services trade liberalization refers to the realization of freedom of investment, trade, cross-border movement of people, and currency exchange in specific service industries.

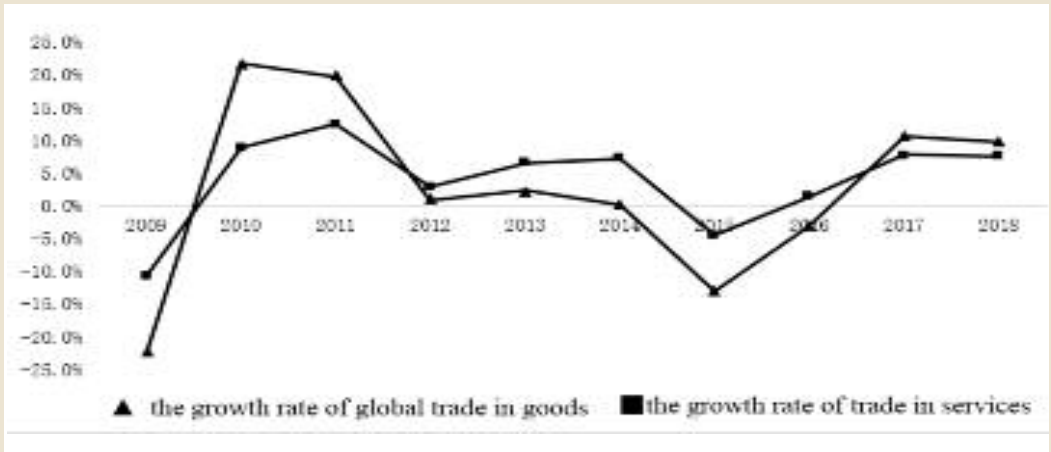
WHY TRADE IN SERVICES?

Constructing the Hainan FTP with trade in services as the leading driver is in line not only with the general trend of economic globalization and the transformation of China's opening up, but also with Hainan's development orientation. In the last ten years or so, the world witnessed rapid development of trade in services, and the global growth of services trade has been much faster than that of trade in goods (Chi, 2019b).

According to the World Trade Organization (WTO, 2019) statistics, from 2008 to 2018, the global trade in goods grew at an average annual rate of 1.9%, nearly two percentage points lower than the average growth rate of trade in services. Figure 9.1 shows that from 2012 to 2016, global trade in services grew faster than that in goods for four consecutive years, although, in 2017 and 2018, the growth rate of global trade in goods was higher than that of trade in services, which was mainly because of the rise of prices of oil, minerals, and other commodities. With this taken into account, the volume of trade in goods did not grow significantly. From 2005 to 2018, the total volume of global service exports increased from 2.66 trillion USD to 5.85 trillion USD, an increase of 120%. In 2018, global export of services accounted for 23.1% of the total exports, an increase of nearly 3 percentage points higher than that in 2005 and 3.7% higher than the lowest proportion in history in 2011.

The role of trade in services has become larger than that of trade in goods. Traditional trade statistics cannot fully reflect the scale of trade in services and its role in

FIGURE 9.1: The Growth Rates of Global Trade in Services and in Goods from 2009 to 2018 (%)

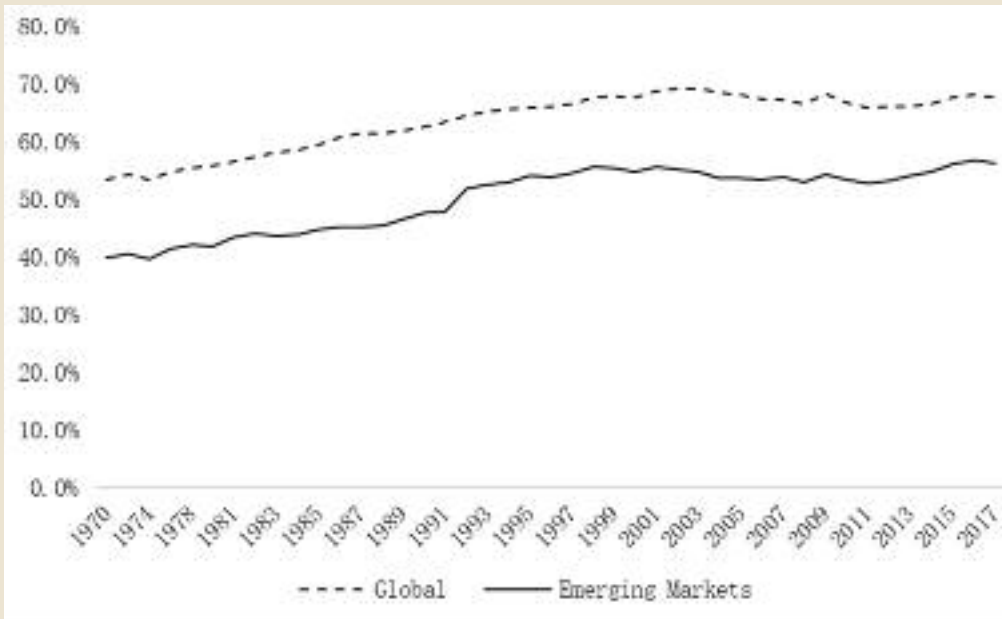


Source: WTO (2019).

the process of global free trade (Chi, 2019b; WTO, 2019). First, one-third of the value of trade in goods should be attributed to service industries. Second, services such as software, brands, design, operation, and intellectual property rights delivered by multinationals to their overseas subsidiaries are not counted in statistics of the services trade. Third, the cross-border flow of free digital services such as email, real-time navigation, and video conferencing has been rapidly growing. If the above three kinds of services were taken into account, the total volume of global trade in services would be about 13.4 trillion USD in 2017, 2.6 times the current figure; and the proportion of trade in services in the total global trade would become 50.8% instead of the current 23.4% (WTO, 2019), surpassing that of trade in goods.

In the short term, along with the growth of importance of services trade in global economic development, trade in services has gradually become the focus in bilateral and regional trade negotiations. For example, only 60 of all the bilateral and regional free trade agreements signed before 2009 included trade in services, accounting for only 37.3% of all agreements. Among all the regional and bilateral free trade agreements signed between 2009 and 2019, the number of agreements involving trade in services increased to 98, accounting for 65% (author calculations based on WTO FTA, 2019). In addition, both the Trans-Pacific Partnership Agreement (TPP) and Comprehensive Progressive Trans-Pacific Partnership (CPTPP) contain articles about introducing a negative list (list of investment prohibited areas in an economy) approach both in services trade and in investment, and pre-establishment national treatment in the service sector. It can be expected that, in the future, trade in services will have more weight in bilateral and regional trade and investment negotiations.

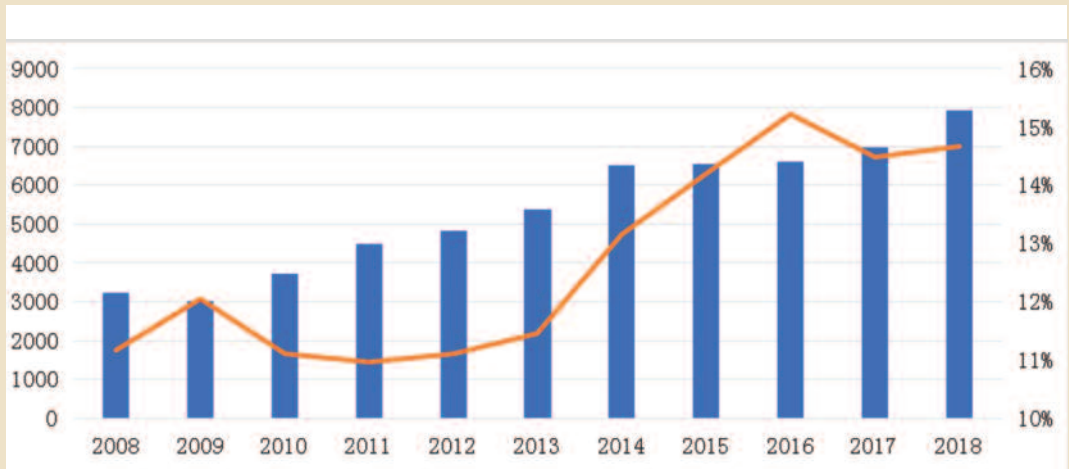
FIGURE 9.2: Share of Services in GDP in Global and Emerging Market Economies from 1970 to 2017



Source: UNCTAD (2019).

Global trade in services promises to continue to grow rapidly. On one hand, there has been a clear trend of the global economy moving towards services (Yuan, Zhang, Liu, & Nan, 2016). Figure 9.2 shows that from 1970 to 2017, the share of the value-added of the service sector in global GDP grew from 53.4% to 67.5%, an increase of 14.1 percentage points. As seen in Figure 9.2, this trend is even more obvious in emerging market economies, with the share of the added value of their service sectors rising from 39.8% of GDP to 56.3% in the same period, an increase of 16.5 percentage points. On the other hand, wide application of information technology and Internet of Things (IoT) technologies in service industries has eliminated the barrier between the production and consumption of service products, and has provided technical conditions for the globalization of service industries and for the development of services trade. Traditionally non-tradable ‘services’ such as education, healthcare, medical treatment, culture, and others have gradually become tradable, enabling the number of services for trade to continuously enlarge and the scope of trade in services to continuously expand (Ma, 2019). In the future, rapid growth of the service sector will remain a major trend, and there is still considerable room for growth of global trade in services.

FIGURE 9.3: China's Trade in Services and its Share in Total Trade in 2018 (US\$100 million, %)



Source: National Bureau of Statistics of the P.R.C. (2019).

Figure 9.3 shows that from 2008 to 2018, China's trade in services increased from 323.3 billion USD to 791.9 billion USD, with an average annual growth rate of 9.4%, 3.4 percentage points higher than that of trade in goods (National Bureau of Statistics of the P.R.C, 2019).

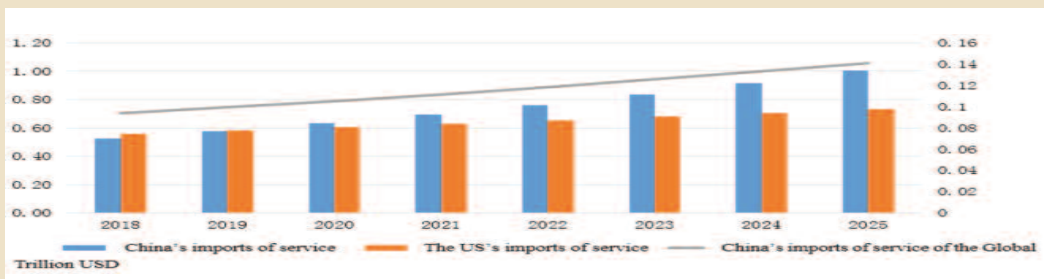
During the past five years from 2013 to 2018, China's import of services has been growing at an average annual rate of 9.7%, while services import of the United States has been growing at an average annual rate of 3.9%. It is estimated that by 2025, China's import of services will reach about 1 trillion USD, 1.4 times that of the US, accounting for 14.1% of the total global imports of services, up from 9.4% in 2018, making China the world's largest service importer.

In 2018, China's trade in services accounted for only 14.7% of its total trade (National Bureau of Statistics of the P.R.C., 2019), about 9 percentage points lower than the global average. Trade in services accounted for 5.8% of its GDP, 7.3 percentage points lower than the global average (WTO, 2018). To evolve from a large trade country to become a strong trade power, trade in services has been lagging behind and should be a priority of China's economic development.

Constructing the Hainan FTP with trade in services is evidenced by development experiences of internationally known free trade ports. The Hong Kong free trade port has experienced four development stages: transit trade, processing trade, comprehensive trade, and trans-regional comprehensive trade (Chen et al., 2015; Cui, 2019). Singapore's free trade port has evolved from an emphasis on transit trade to more comprehensive functions. From 2005 to 2017, Singapore's trade in services increased from 19.2% to 32.4% of its total trade; and the share of its services trade as part of its

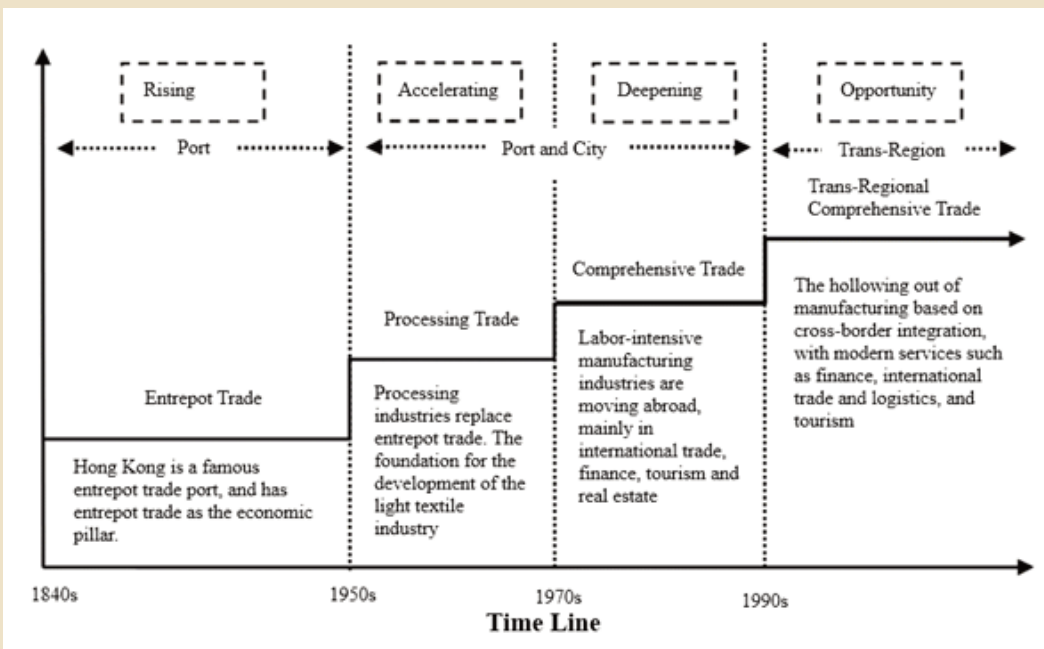
GDP rose from 80% to 104% (calculated from UNCTAD, 2018). This shows that, at the initial stage, the overwhelming majority of free trade ports start mainly with transit trade or processing trade. As these ports develop, most of them are transformed and upgraded to assume more comprehensive functions with trade in services as their main trade content.

FIGURE 9.4: The Author’s Estimation of Services Imports of China and the United States during China’s ‘14th Five-Year Plan’ Period, based on the past five years (2013-2018)



Source: National Bureau of Statistics of the P.R.C. (2019).

FIGURE 9.5: The Evolution of Hong Kong’s Free Trade Port



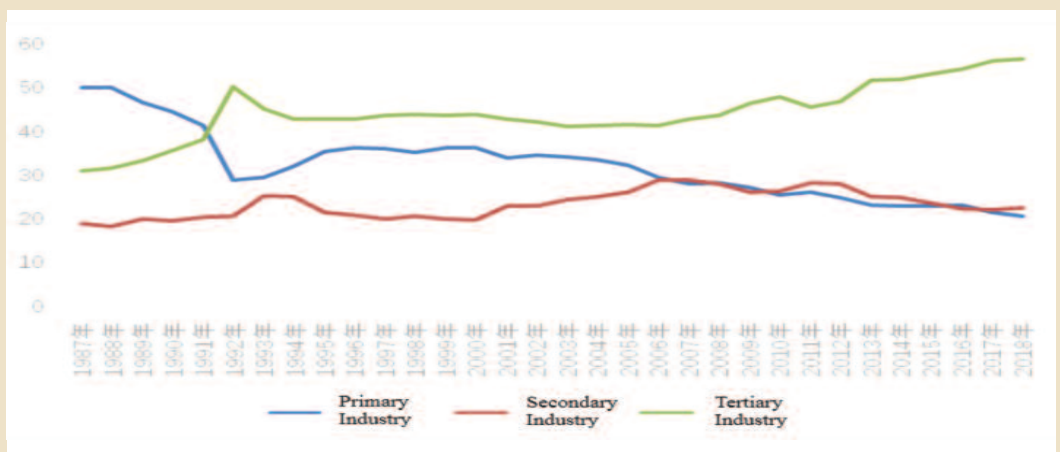
Source: Chen et al. (2015).

Constructing the Hainan FTP with trade in services as the leading driver is in line with Hainan FTP's industrial development orientation. Construction of the Hainan FTP should uphold Chinese characteristics and conform to Hainan's development orientation while learning from the experience of internationally known free trade ports (Fan, 2019; Zhu, 2019). It will not assume transit trade and processing trade as the priorities, but should develop tourism, modern service industries, and high and new technology industries as its leading sectors. Hainan has well known tourism features and resources (Dan, 2019). Taking trade in services as the main development driver not only conforms to the national strategic need, but also is a logical choice for Hainan as an island economy. Judging from the current situation, Hainan has established the conditions to launch major initiatives in opening up its service market and implementing innovations in the development of its trade in services so as to cultivate its unique advantages (Chi, 2019a, 2019b).

HAINAN'S ROLE IN INNOVATING THE DEVELOPMENT SERVICES TRADE

Figure 9.6 shows that from 1988 to 2018, the share of value-added of Hainan's service sector in its GDP had increased from 31.6% to 56.6%, with the share rising at an average annual rate of 0.83 percentage points. In 2018, Hainan's service sector accounted for 56.6% of its GDP and contributed 66.9% to economic growth, respectively 4.4 percentage points and 7.2 percentage points higher than the national averages (Chi, 2019c). In the same year, Hainan's trade in services accounted for 18.1% of its total trade, 3.4 percentage points higher than the national average. However, compared with other

FIGURE 9.6: Changes in Hainan's Industrial Structure, 1987-2018 (%)



Source: National Bureau of Statistics of the P.R.C. (2018, 2019).

free trade ports such as Hong Kong and Singapore, there is still a large gap. According to preliminary estimates, if the service market opening policy is implemented effectively, the annual volume of Hainan's trade in services will reach about 200 billion Yuan by 2025, accounting for about 15% of its GDP, up from the current 3%.

The potential for development of the service sectors in the Pan-South China Sea region is large. As a relatively independent geographical unit, Hainan is well-positioned to take the first step in opening up service sectors such as tourism, medical and health care, finance and insurance, culture and entertainment, shipping and logistics, and

duty-free shopping, for example. In addition, its geographic location at the centre of the Pan-South China Sea region and on the edge of the Chinese mainland provides it with a strategic advantage. It can rapidly develop its trade in services while promoting economic cooperation in the Pan-South China Sea region. Take tourism, for example. In 2017, countries and regions in the Pan-South China Sea region received 250 million international tourists, accounting for 18.6% of the global total of 1.341 billion; the Pan-South China Sea region generated 338.274 billion USD in international tourism revenue, accounting for 22.2% of the world's international tourism revenue (1.526 trillion USD; calculated from World Bank, 2019). From

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2012 to 2017, the number of international tourists and the revenue from international tourism in the Pan-South China Sea region had grown at an average annual rate of 6% and 5.4%, respectively. If the growth rate is maintained in the next five years, the number of international tourists in the Pan-South China Sea region will reach 334 million by 2022 and international tourism revenue will reach 440 billion USD.

At present, Hainan has started implementing the special management measures for foreign investment access practiced in China's pilot free trade zones (Chi, 2018). The total number of restrictive measures (including those pertaining to the service sector) in the latest version of the list is only 37, but 28 of them are related to the service sector (calculated from National Development and Reform Commission & Ministry of Commerce of the P.R.C., 2019). Despite this, Hainan has been leading the country in the opening up of service sectors such as medical and health care, tourism, and others. For example, Hainan's Boao Lecheng International Medical Tourism Pilot Zone is implementing the most open medical and health policies in China, lifting restrictions on foreign equity in health insurance and life insurance companies. Based on patient commitment filing, patients of the medical institutions in the pilot zone are conditionally allowed to leave with reasonable amounts of imported medicines for their own use. The pilot zone is also conditionally permitted to import and use special medical food

products that are being used in foreign markets but have not yet been permitted to enter China's market. In terms of opening up the tourism market, Hainan has implemented an offshore duty-free shopping policy for national passengers and a visa-free policy for tourists from 59 countries.

TABLE 9.1: 2017 'Pan-South China Sea Tourism Economic Cooperation Circle' Tourism Status

Country/ Region	Number of Inbound Tourists (10,000)	International Tourism Revenue (100M USD)	Country/ Region	Number of Inbound Tourists (10,000)	International Tourism Revenue (100M USD)
Hainan	119.4	6.81	Myanmar	344.3	22.8
Guangxi	562.3	27.8	Malaysia	2594.8	183.5
Guangdong	3645.5	195.6	Singapore	1390.3	197
Fujian	292.9	75.9	Indonesia	1404	141.1
Hong Kong	2788.4	380.4	Brunei	25.9	1.8
Macao	1725.5	357.2	Philippines	662.1	83.5
Taiwan	1074.0	123.2	East Timor	7.4	0.73
Vietnam	1292.2	88.9	Australia	881.5	493.8
Laos	325.7	7.9	India	1554.3	278.8
Cambodia	560.2	40.2	Bangladesh	12.5	3.4
Thailand	3559.2	621.6	Sri Lanka	211.6	50.8

Data Sources: Data of China's mainland provinces are from their statistical yearbooks; data of Taiwan are from China Statistical Yearbook 2017 (National Bureau of Statistics the P.R.C., 2017); other countries' and regions' data on international arrivals and international tourism income are from the World Bank (2019).

EARLY-HARVEST PROJECTS FOR OPENING UP HAINAN'S SERVICE SECTORS

To solve the problem of short supply of international products and services in Hainan, a practical solution is to comprehensively introduce Hong Kong's industry and supply chains for its tourism consumption and to harmonize the standards of tourist shopping services and market regulation between Hainan and Hong Kong, thus transforming and upgrading Hainan's relevant service industries such as culture and entertainment, finance and insurance, and logistics.

For a long time, Hainan has been faced with a contradiction between rapidly growing demand for internationalized and personalized service consumption, and the serious shortage of international product supply and the poor quality of international services (Chi, 2018; Fu et al., 2018). One of the causes is that the cultural and entertainment industry development has been lagging far behind. In 2018, the added value of the cultural industry in Hainan accounted for only 3.3% of its GDP, 1 percentage point lower than the national average (Statistical Bureau of Hainan Province & Survey Office of National Bureau of Statistics in Hainan, 2019). To improve the internationalization level of Hainan's tourism and enhance its competitiveness, the key lies in opening up its culture, sports, entertainment, and creativity markets. It is suggested that an action plan be issued as soon as possible to clearly announce that, from 2020, restrictions over the proportion of foreign equity in culture, sports, and entertainment enterprises will be abolished, thereby creating an 'early harvest' in integrating the development of culture and entertainment with that of tourism, and to promote the rapid development of modern service industries in Hainan.

One of Hainan's challenges is its educational development. In 2017, 82.7% of the employed population of Taiwan has a high school diploma or above, while in Hainan this figure was only 22.6% in 2018. In 2018, the number of those who received their doctoral, master's, and bachelor's degrees in this period was 38, 1,488, and 24,856 respectively in Hainan, accounting for only 1.1%, 2.7%, and 10.8% of those in Taiwan respectively (Hainan Statistical Yearbook, 2019; Taiwan Statistical Yearbook, 2018). These figures for Hainan were also far lower than China's national averages. As an island aiming for a higher level of opening up in the services especially, Hainan is in a good position to make 'early arrangements' for expanding the opening up of its education market. For example, under the premise of strict supervision, qualified overseas capital can be allowed into the island to build and run independent schools in higher education, regular senior high schools, and kindergartens. This will speed up the production of mid- to high-end practical and service-oriented professionals for the construction of the free trade port.

Although there is a growing demand for Hainan's medical and health services from both Hainan residents and those outside the province, there is an obvious gap between the level of Hainan's medical and health services and that of other developed provinces

in China. For example, Hainan's medical and health industry accounted for 2.8% of its GDP in 2018, not only lower than the national average of around 7%, but also much lower than the average 10% of the developed countries and regions (Zhiyan Consultation Group, 2017; calculation based on Hainan Statistical Yearbook, 2019, and China's National Statistical Yearbook, 2019). Although there have been significant improvements in recent years, the difference is still significant. At present, opening up the medical and health care industry will have a large, existing local market. It is likely that Hainan will be able to open up the medical and health care market thanks to the accelerated construction of a free trade port. It is suggested that, while building Boao Lecheng International Medical Tourism Pilot Zone into an 'international medical valley', implementation of some of the policies designed for this zone should be gradually extended to the whole province. This includes the availability of capital, personnel, and technologies of the medical and health care industry.

Promoting integration of emerging technologies such as big data, blockchain, and cloud platforms with traditional industries by opening up new and high technological industries will not only play an important role in raising the level of Hainan's industrial development but also contribute to the opening up of other sectors. At the moment, the development of Hainan's new and high-tech industries has lagged behind that in other regions of China. In 2017, the added value of Hainan's new and high-tech industries was only 21.23 billion Yuan, less than 3% of that of Shenzhen (Tang & Zheng, 2019). To seize new opportunities out of the new round of industrial transformation and scientific and technological revolutions, Hainan can achieve early returns in building itself into a 'Smart Island' (Desogus et al., 2019; Priano et al., 2019). For example, Hainan can establish a national laboratory of blockchain technology in order to support the establishment of internationally known IT enterprises in the Hainan Eco-software Park to study and develop applications of blockchain technology.

There are two priorities in pursuing zero tariff policies. First, raw materials and equipment needed for the development of service industries such as medical and health care, culture and entertainment, tourism, education, R&D (research and development), and MICE (Meetings, Incentives, Conferences/Conventions, Exhibitions and Events) should be imported with zero tariffs and exempted from import value-added tax. Second, 'zero tariff' policies should be pursued in key industries related to people's livelihoods. For example, anti-cancer drugs and medical devices for cancer treatment which have come into foreign markets but are not yet registered in China should be imported with no tariffs. Moreover, the number of drugs applicable to 'zero tariff' policies should be increased.

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Buddhist Park on the island of Sanya is a centre of culture and religion. Hainan has implemented a visa-free policy for tourists from 59 countries.

Although the prevention of smuggling is still an important task of Hainan's customs supervision, along with the global pursuit of 'zero tariff' policies it has become more important for Hainan to effectively manage the relationship between Hainan and the mainland; to prevent imported risks from industrial opening up, especially from comprehensively opening up service markets such as the financial market; and to prevent economic, political, social, and other security risks as the island continues to open up. As a relatively independent geographic unit and with modern technological regulatory tools at its disposal, Hainan has the ability and conditions to minimize the risk of implementing a 'zero tariff' policy.

Based on past experience, the key to best utilizing professionals' specialized skill sets lies in talent management system innovation. For example, could Hainan explore a classified management system for administrative officers and civil servants, offering the latter market-oriented remuneration packages in accordance with international standards? With the exception of the Party and government departments, the established personnel management system for all employees of public institutions and social organizations could be abolished, and an engagement system fully implemented. This would help break the traditional pattern of administrative and closed talent management and establish one that is professional and open, making Hainan more competitive to attract and retain the most highly talented labour force.

To that end, favourable policies to attract talent are needed. For example, to change the relatively backward status of Hainan's education, medical care, and high-tech industries as quickly as possible, Hainan could lead the way in adjusting tax policies. It is suggested that, from 2020, the personal comprehensive income tax rate for professionals working in Hainan's medical, education, high-tech, and other industries be reduced to about 10%, from the highest level of 45% in the current progressive tax rates. For comprehensive income earned in Hainan by newly recruited high-level professionals in the medical, education, high-tech, and other industries, an even lower individual income tax could be implemented for a specified period of time.

Shortly after Hainan became a province, it attracted 100,000 professionals from the mainland to overcome a talent shortage. This was possible because of an encouraging environment for creativity and entrepreneurship at that time. Today, to construct the Hainan FTP, such an environment for professionals to fully display their talents is needed. In order to do so, firstly, multiple types of platforms for attracting professionals from both home and abroad need to be established. Such platforms include creating autonomous statutory bodies with the authority to establish internal mechanisms for recruitment and remuneration strategies. Secondly, a favourable environment for innovation and entrepreneurship needs to be created, giving scientific researchers full autonomy, encouraging higher learning institutions, research institutes, and enterprises to stimulate scientific and technological innovation by offering stock options and dividend incentives. Thirdly, a positive employment environment and services for international professionals should be established and continuously improved upon. These include setting up immigration offices to ensure provision of such services as housing, medical/health care, and children's education services; and opening up the employment market for foreign labour such as Filipino domestic workers to deliver housekeeping services to families in the mid- to high-income bracket from both home and abroad.

Harmonizing services standards to lower the barriers to services trade is conducive to achieving some 'early harvest' projects. For example, Hainan could introduce and adopt Japanese and other countries' medical and drug management standards. Medicines and medical devices that have been approved by authorities in Japan could make it to market in Hainan without the obligation of conducting further local clinical trials.

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such as the United States, the European Union, Japan, and Singapore. Service enterprises and professionals from these countries who meet local requirements should be allowed to start their businesses in Hainan after passing examinations and filing the necessary paperwork. A list of differentiated market behaviour liability exemptions should be created. As long as national security is ensured, overseas enterprises should be allowed to provide services at a minimal cost. This includes advancing standard certification in service sectors such as tourism, education, healthcare and medical treatment, culture and entertainment, and finance. Enterprises registered in Hainan or certified by international associations would be prioritized and offered tax reductions and exemptions.

BREAKING THE CONTRADICTION between the current system and policies, giving full authorization to Hainan, is a way forward in reaching the goal of building Hainan into an international tourism consumption centre with world influence.

Government procurement needs to be more transparent and allow international bidding. For example, relevant articles of the WTO's Agreement on Government Procurement should be implemented. The principles of transparency, predictability, and non-discrimination should be adhered to. A negative-list management model for government procurement should be adopted. Except for those related to government information system security, government procurement of all services already open to public institutions should also be open to social organiza-

tions; government procurement of all the other products already open to state-owned enterprises should also be open to other domestic and foreign enterprises and social organizations.

In the 32 years since Hainan became a province and a special economic zone, the central government has granted Hainan some special policies, which have not been truly implemented. Part of the reason is Hainan's inadequate ability to implement these policies. But a more important reason is dissonance between the system and policies, which has remained a prominent contradiction. For example, subject to the current fiscal and taxation relationship between the central and local governments, expected effects of the offshore duty-free shopping policy are far from being realized, even though it has been implemented for many years. Breaking the contradiction between the current system and policies, giving full authorization to Hainan is a way forward in reaching the goal of building Hainan into an international tourism consumption centre with world influence.

Economic autonomy granted to Hainan would include the FTP's special local legislative power, autonomy in foreign economic cooperation, autonomy in economic policymaking, and compatible administrative power. The nature of the FTP's economic autonomy would consist of special economic rights granted by the central government to Hainan, which should be broader in scope than those granted to other provinces.



Sanya City in Hainan Province, China. Full economic autonomy can be granted to Hainan in a step-by-step approach. The first step would be to grant Hainan a certain degree of fiscal and taxation autonomy.

These special rights constitute a significant condition for solving the contradiction between the system and FTP construction policies, providing an important guarantee for coordinating the relations between relevant departments of the central government and Hainan and a base for Hainan FTP legislation.

Certain fiscal and taxation autonomy is also important. First, it is proposed that Hainan be authorized to streamline and simplify the FTP's taxation system by suspending and merging some taxes and adjusting the scope of some tax to form a simple tax system with corporate income tax, individual income tax, environmental protection tax, sales tax, and stamp tax as the main categories. Second, it is proposed that Hainan be authorized to implement a corporate income tax rate of around 10% in order to enhance its attraction to capital and technology from home and abroad and to allow tourism, modern services, and new and high-tech industries to be exempted from corporate income tax for a certain period of time. Third, as noted above, it is suggested that Hainan be authorized, in accordance with the needs of attracting top professionals from home and abroad, to implement a personal income tax rate of around 10% for employees in some of the tourism, modern services, and new and high-tech industries.

Full economic autonomy can be granted to Hainan in a step-by-step approach. The first step would be to grant Hainan a certain degree of fiscal and taxation autonomy. The goal of the FTP's fiscal and taxation system innovation is to form a relatively

independent fiscal and taxation system, which should stipulate the FTP's autonomy in establishing and eliminating tax categories, adjusting tax rates, reducing and exempting taxes, and autonomously handling other taxation issues. To announce this goal first is crucial to building confidence in the Hainan FTP. Secondly, it is proposed to establish the Hainan FTP as a customs special surveillance zone, announce it as a separate customs zone when conditions are ripe, and then authorize the FTP to join WTO and other international economic and trade cooperation organizations under the name of 'Hainan of China', and to sign economic and trade cooperation agreements. The economic autonomy granted by the central government to the Hainan FPT extends only to the right of representation, and not at all the power to make treaties. Granting Hainan FTP status for a separate customs zone will be an important measure for "building Hainan into an important gateway for opening up toward the Pacific and the Indian oceans" (Government of China, 2020).

CONCLUSION

Hainan's development as an island economy in the past 32 years has shown that, when steps to reform and opening up are larger, development is faster. In the first few years after Hainan became a province and a special economic zone, it began to march towards

a significant opening up to the outside world. Hainan's GDP growth rate reached 41.5% for the year 1992 (calculated from Statistical Yearbook of Hainan, 2019). Within the first few years, Hainan achieved the goal of reaching the national average development level. In only seven years, from 2010 to 2017, when Hainan was announced as an international tourism destination, Hainan's annual GDP expanded from slightly over 200 billion Yuan to more than 460 billion Yuan, driven by the strategy of advancing industrial upgrading by industrial opening up. In the most recent stage of development, the overall requirement for constructing

the Hainan FTP is pursuing opening up to the highest level in the world to promote further development of the region with a wider scope and a higher level of opening up.

For an island economy, there is no way to succeed without being a 'more open' economy. By opening up to the outside world, an island economy can overcome its vulnerabilities such as limited resources, relatively inconvenient transportation, a limited range of industries, and small markets, and can enable various factors such as material, people, and capital to flow more freely and efficiently, thus generating internal impetus for reform and cultivating a driving force for pushing forward economic and social development.

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On one hand, island economies should seize opportunities of investment and consumption potential brought by the opening up of global service markets and innovative development of trade in services to promote the free and efficient flow of factors such as people, intellectual and financial capital, and information, and accelerate their industrial transformation and upgrading so as to unleash new drivers for development. On the other hand, as has been the case with other island economies such as Singapore, Hong Kong, and Taiwan, Hainan should pursue a service-sector-driven economic development model based on its own characteristics and development structure. This is important because island economies and physical environments can be fragile and often do not follow the traditional industrialization path associated with mainland economies. In short, island economies should consolidate their relatively specialized industrial structure through opening up their service markets.

From the vantage point of studying the development trajectories of successful island economies—be they independent states, subnational island jurisdictions, or separate customs zones — it is clear that they all have a higher degree of economic and social autonomy associated with governance granted by the central government, as well as special legislation that allows for different policies and institutions from other areas under the jurisdiction of the central government (Fu, 2019). Based on Hainan’s historical experience and future development direction, only through full economic autonomy and a combination of opening-up policies and systems can Hainan truly realize its tremendous potential for development. The implication for island economies is that they should fully draw on their international experience and connections, have full jurisdictional autonomy, and implement more open and flexible policies and institutions to fully transform their dependence on external resources into an institutional open network.

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