



A traditional Chinese water village in Sanya, Hainan Province

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Hainan Island:

## From a pilot free trade zone to a free trade port with Chinese characteristics\*

### ABSTRACT

*Building Hainan into a pilot free trade zone (FTZ) and free trade port (FTP) with Chinese characteristics is an important step in showcasing China's resolve to open up to the outside world and to promote economic globalization. The initiative has attracted close attention from around the world. To evolve from a pilot FTZ to an FTP with Chinese features, Hainan, with the goal of serving major national strategies, is making concerted*

\* THIS CHAPTER IS NOT PEER-REVIEWED.

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*efforts to build the China (Hainan) Pilot Free Trade Zone to a high standard. It is doing so by prioritizing trade in services as the dominant driving force, with institutional innovation as the core, and by obtaining dynamism and vitality through reform. In this way, Hainan will reach new heights in China's opening up and become a favoured destination for global investment.*

## **INTRODUCTION**

After full consideration of domestic and international situations, in-depth research, and comprehensive scientific planning, supporting Hainan Island to become a pilot free trade zone (FTZ)—while at the same time gradually exploring and steadily pushing forward the building of a free trade port (FTP) with Chinese characteristics—is a major decision by China's Central Government. It is also an important step in demonstrating China's resolve to open up to the world and proactively promote economic globalization (Xi, 2018a).

The development of a pilot FTZ and FTP is a major national strategy personally orchestrated, advocated, and announced by Chinese President Xi Jinping. On 5 November 2018, he reiterated in his keynote speech at the first China International Import Expo (2018b): “China will be quick to put forward policies and institutions for building a free trade port in Hainan in a step-by-step and phased manner, so as to speed up exploration of the development of free trade ports with distinct Chinese features.” To accelerate the evolution of a pilot FTZ to an FTP is part of the historic responsibility and mission of comprehensively deepening reform and opening up for the Hainan Special Economic Zone.

## **SERVING MAJOR NATIONAL STRATEGIES**

Building the entire Hainan Island into a pilot FTZ and steadily promoting the construction of an FTP with Chinese characteristics serves major national strategies, as the goal is to be fully aware of Hainan's strategic positioning and tasks.

Over the past forty years, China has achieved great changes, including its epic journey from infancy to the late stage of industrialization, its great transition from a closed and semi-closed society to one of an all-round opening up, and its historic upgrade from an age of shortage economy to a new era of consumption. At the same time, it is faced with new problems and challenges in its endeavour to comprehensively deepen reform and opening up in the new era. Against this backdrop, the Chinese Central Government's support for Hainan Island to build a pilot FTZ and FTP is designed as an aggressive move to make Hainan “a new role model of comprehensively deepening reform and opening-up in the new era” (Xi, 2018a).

China's decision to turn Hainan into the world's largest pilot FTZ and then FTP is a major strategic measure as a proactive response to the challenges of economic globalization in a new international landscape. It demonstrates China's firm resolve to advance economic globalization.

Through the development of the pilot FTZ and FTP, Hainan will become an important gateway to the Pacific and Indian Oceans. This is a new historic mission for the island, which presents unprecedented opportunities to make Hainan a prominent maritime province.

To meet the need of building the pilot FTZ and FTP, Hainan is redoubling its efforts to build a law-based, internationalized, and facilitated business environment, and fair, unified, and efficient market conditions. It will continue to streamline administration and institute decentralization, combining power delegation with regulatory improvement and optimizing government services to comprehensively improve its governing capacity. It is also implementing policies for high-level trade and investment liberalization and facilitation, and accelerating reform and innovation of the talent system, financial and taxation system, income distribution system, state-owned enterprises, and integrated urban and rural development.

Hainan's air quality has always been the purest in China. In 2018, the excellent and good rate of atmospheric environment quality reached 98.4%, with the average annual concentration of PM<sub>2.5</sub> at/below 17 µg/m<sup>3</sup> (Shen, 2019). "By 2035," says President Xi Jinping (2018a), "Hainan will be a world leader in the quality of ecological environment and efficiency of resource utilization." To achieve this goal, Hainan needs to maintain this status, take full advantage of it, and take the lead in the country and the world in marching toward green modes of production and a green lifestyle by pursuing institutional innovation for ecological conservation.

Said President Xi Jinping (2018a): "To build an international and tourism consumption centre with global influence in Hainan best translates high-quality development into local realities." Between 2009 and 2017, the total number of tourist visits to Hainan grew from 22.5 million to 67.45 million, with an average annual growth rate of 14.7%. In 2017, the number of overseas tourist visits to Hainan exceeded one million, and the annual tourism revenue increased from 21.172 billion yuan to 81.199 billion yuan, with an average annual growth rate of 18.3% (Gan & Guo, 2018). Tourism has become a striking identifier for the province. However, the key to building an international and tourism consumption centre with global influence in Hainan lies in expanding the space for tourism consumption development, improving the quality of tourism services,

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and making important breakthroughs in the internationalization of tourism consumption so as to make the identity of Hainan as an international tourism island more novel.

Hainan will be deeply integrated into the national maritime power strategy by playing a leading role in establishing the “Pan-South-China-Sea Tourism Economic Cooperation Circle”, by initiating and building networks of free trade areas in the Pan-South-China-Sea region, and by making breakthrough contributions to the joint building of the 21st Century Maritime Silk Road, the purpose of which is to help turn the South China Sea into an ocean of peace, friendship, and cooperation. Hainan will also be deeply involved in national foreign exchange and cooperation, will make full use of the international influence of the Boao Forum for Asia, will strengthen economic and cultural exchanges with countries and regions along the routes of the Belt and Road, and attract international organizations and multinationals to the island to set up their regional headquarters in a bid to develop a Headquarters Economy.

First, Hainan will make flow of services, goods, capital, people, and information highly free with “zero tariffs, zero barriers, and zero subsidies” so as to improve its capacity of globally allocating resources and delivering services. It will also forge an opening-up platform to connect China with the rest of the world and to connect developing countries with the developed ones. Secondly, Hainan will create the world’s most convenient and efficient trade and investment environment and provide the

highest-level convenience to global investors. Thirdly, Hainan will set up a governance model of “greatest freedom plus most rigorous rule of law” to guarantee that “all are equal before the law and there is maximum freedom within the law” so as to create a free, stable, equitable, and transparent law-based business environment for global investors and entrepreneurs.

The first is to build a platform for Pan-South-China-Sea regional economic cooperation. Hainan strives to serve the national marine strategy and the implementation of the Belt and Road initiative with closer economic cooperation and a wider opening up. The second is to build a key hub for interconnectivity in the Pan-South-China-Sea area and to drive development of a transportation corridor and hub economy with leading trade and investment liberalization and facilitation. The third is to build a platform for cultural and educational exchanges in the Pan-

South-China-Sea region, promote all-round people-to-people exchange with surrounding countries and regions, and to establish cultural and educational exchange mechanisms through both official and non-official channels involving multi-participation.

**BEHIND THE HUGE CHINESE market of nearly 1.4 billion consumers and facing the emerging consumer markets of 600 million people in Southeast Asia, Hainan will redouble its efforts to become a key destination for domestic medium and high-end tourism consumption as a global high ground of consumption economy.**



Tourists enjoy this beautiful beach near Sanya, Hainan Province



Behind the huge Chinese market of nearly 1.4 billion consumers and facing the emerging consumer markets of 600 million people in Southeast Asia, Hainan will redouble its efforts to become a key destination for domestic medium and high-end tourism consumption as a global high ground of consumption economy. It will become a centre for all-round opening up and agglomerated development of modern services, build up a centre for high-tech R&D, and become a magnet for innovative talent in trade in services, a centre for trade in digital services, and an international transit trading and promotion centre for trade in services.

### **BUILDING THE CHINA (HAINAN) PILOT FREE TRADE ZONE TO A HIGH STANDARD**

To become a pilot FTZ in the next two to three years is a major task mandated to Hainan by the Chinese central government. According to its basic definition and main features, building a pilot FTZ places emphasis more on institutional innovations in areas including transformation of government functions, regulation of foreign investment, opening up of the service sector, trade facilitation, and opening up of the financial sector.

The goal of building the China (Hainan) Pilot FTZ is as follows. By 2020, important progress shall be made with the level of its openness to the outside world markedly

elevated in order to make it a pilot FTZ with high standards and quality, featuring investment and trade facilitation, normalization of the legal environment, a sound financial service system, efficient and stable regulation, first-class quality of ecological environment, and marked radiation effect (State Council of the P.R.China, 2018).

The basic ideas for building the China (Hainan) Pilot FTZ include the following. First, the building of the pilot FTZ must be well aligned with China's major strategic blueprint. Second, planning and action must be aimed at a free trade port, and measures indispensable for transforming the pilot FTZ into an FTP must be proactively explored. Third, 2020 must be regarded as the time frame for making a good start toward laying a solid foundation for building up the policy and institutional systems of an FTP with Chinese characteristics. Fourth, opening up must be the forerunner, institutional innovation must be regarded as the core, and building the country's new reform and opening up to a higher level must be the priority objective in the new era.

Judging from the current situation, improving the business environment is the first priority issue in building the China (Hainan) Pilot FTZ with high standards and quality. On the one hand, Hainan's poor business environment is the biggest complaint of investors from home and abroad; on the other, a good business environment is the key to the transition from a pilot FTZ to an FTP.

At present, stimulating the market's vitality and shaping a larger pattern for the market to play a decisive role in allocating resources is the priority task for improving Hainan's business environment. Take the real estate market as an example. The key to establishing a long-term mechanism for its steady and sound development is to enable the market to play a decisive role in allocating real estate resources under the premise that the government guarantees basic housing needs. In other words, "the responsibility for basic housing needs belongs to the government while the role in meeting other housing needs must be played by the market."

To fully boost market vitality, the key lies in making substantial breakthroughs in opening up the service sector. It should be mentioned that Hainan has the basic conditions and possibility to take the lead in the whole country in opening up the modern service sector. For example, Hainan can be the first to implement free trade policies in tourism, shopping, health care and medical treatment, culture and entertainment, education, and shipping. In these areas, Hainan should find ways to make breakthroughs. This not only aligns with Hainan's reality but it will produce many effects. First, it will substantially promote organic integration of building of the pilot FTZ with the building of the FTP. Secondly, it will produce faster and more obvious pulling effects. Thirdly, it will play a demonstrative role in the development of the modern service sector in the whole country. As a result, Hainan should promulgate, as soon as possible, substantial action plans for opening up the service sector and for innovating the development of trade in service. This will boost market vitality and gain unique advantages in terms of the market environment.

To build the China (Hainan) Pilot FTZ with high standards and quality, further improvement of government efficiency has become the priority among priorities in improving its business environment. For this, effective measures need to be taken and truly ‘strong medicine’ needs to be prescribed as soon as possible. For example, comprehensively implementing an enterprise independent registration system can be a breakthrough point in deepening the reform of the commercial system. Under the condition of enterprises strictly abiding by laws and regulations, and of effective market regulation, enterprises should be given the basic rights of autonomous registration, deregistration, and operation.

For example, the widely anticipated *Regulations on Promoting the Development of Private Economy in the Hainan Special Economic Zone* should be promulgated as soon as possible to find an institutionalized and rule-of-law-based approach to innovate the development of a private economy. For another example, efforts should be made to set up a ‘digital court’ in the China (Hainan) Pilot FTZ to provide legal guarantees for the development of high-tech industries with the digital economy as the focus.

With its unique advantages in terms of location, resources, and ecological environment, Hainan has many favourable conditions for ‘better development’. From a realistic perspective, turning its superiority of rich resources into concrete competitive advantage is a top priority in building the China (Hainan) Pilot FTZ.

### *Improving resource utilization efficiency*

Land, favourable conditions for tropical agriculture, a large sea area, and an excellent ecological environment are all unique and valuable resources. But, generally speaking, resource utilization in Hainan is far from efficient. Though Hainan Island has almost the same land area as Taiwan Island, the former has much better geological conditions than the latter, because 2/3 of Hainan’s land is plains while 2/3 of Taiwan’s land is hills and mountains. In 2017, Hainan’s GDP per km<sup>2</sup> was only 11.7% of that of Taiwan.<sup>1</sup> The sea area under Hainan’s jurisdiction accounts for 2/3 of the country’s total. However, its marine economic output is only 16.6% of that of Zhejiang and 7% of that of Guangdong.<sup>2</sup> Tropical agricultural resources constitute another unique advantage of Hainan, but the added value of its tropical agricultural produce is very low because the level of processing is very low. At present, the processing conversion of Hainan’s agricultural products is only 32%, far below the 90% in developed countries and the national average of 40–50% (Li, 2018a).

Currently, due to institutional barriers across regions and between urban and rural areas, the potential of Hainan’s land resources is far from being unleashed. In 2017, Hainan’s GDP per km<sup>2</sup> was 13 million yuan, only 26% of that of Guangdong, 0.6% of

**CURRENTLY, DUE TO institutional barriers across regions and between urban and rural areas, the potential of Hainan’s land resources is far from being unleashed.**



The marble platform in front of the cruise terminal, Sanya

that of Hong Kong, and 0.43% of that of Singapore.<sup>3</sup> If, by 2020, the benefit of Hainan's land resource utilization reaches 50% of that of Guangdong as of 2017, there will be an estimated capital demand of 700 to 800 billion yuan; if, by 2025, the benefit of Hainan's land use reaches 5% of that of Hong Kong as of 2017, the capital demand will be more than 3 trillion yuan.<sup>4</sup> And if, by 2025, the benefit of Hainan's land use reaches 5% of that of Singapore as of 2017, the capital demand will be more than 5 trillion yuan.<sup>5</sup> Therefore, it is advised that Hainan should unify the whole province's utilization of land resources as soon as possible. The provincial government should strengthen coordination of land use in the whole province, strictly implement a unified land purchase and reserve system, unified land development management, unified and open land supply, and unified planning of coastline resources by tightening land examination and approval, setting a floor price for land sales, and raising the average land price.

Hainan should accelerate the development of marine tourism with cruise tourism as the priority, strive for breakthroughs in building the "Pan-South-China-Sea Tourism Economic Cooperation Circle", redouble its efforts to build an international shipping hub with a strong service function and radiating capacity, continuously improve its capacity in allocating global shipping resources, and energetically develop a strongly competitive marine science and technology sector.



### *Improving tourism*

To push forward the building of an international and tourism consumption centre with global influence is another major task in the next few years for building the China (Hainan) Pilot FTZ.

At present, the outstanding problem with building the international and tourism consumption centre is the mismatch between the continuously growing domestic demand for service consumption and the severe shortage of internationalized products and services. For instance, Hainan has not yet established a tourism and service standards system. Some of its tourist hotels have few or no service staff with English communication skills. Thus, the focus of building the international tourism and consumption centre should be put on expanding the supply of internationalized tourism products and related services.

The first is to accelerate major adjustment of Hainan's duty-free shopping policies. For example, the Central Government should delegate the right to approve a tax-free commodities franchise to Hainan and allow all eligible enterprises to operate tax-free businesses, to make duty-free all types of daily consumer goods consumed in Hainan, to implement a negative list management of duty-free goods purchased by visitors leaving Hainan, and to lift the restrictions on duty-free goods purchased by local residents for their own use. The second is to foster new areas of tourism consumption with a focus on opening up the healthcare and medical treatment market, to rally support to make important breakthroughs in opening up the drug and medical equipment importing market by exempting VAT on imported drugs, to introduce US and EU's drug quality and safety standards, to import medical apparatus and instruments for treatment of cancers with zero tariff, and to encourage the development of all kinds of commercial medical and health insurance and explore ways to establishing a long-term nursing insurance system.

For example, Hainan could work with Hong Kong to build industrial and consumption chains for tax-free shopping in Hainan and promote the overall alignment of service management, market regulation, and law enforcement standards in Hainan with those in Hong Kong.

### *Attracting talent*

President Xi Jinping (2018a) pointed out that “the best environment for attracting, retaining, and making good use of talents is sound system and mechanism.” Soon after Hainan became a province, more than 100,000 skilled workers flooded in from the mainland, mainly because the system hindering attraction and good use of talent was broken and Hainan became a hot spot for young people to start their businesses in spite of the backward economic and social conditions. Today, Hainan still needs a more

rigorous system and mechanism innovations in order to gain new unique advantages for attracting talent.

The Central Government's support for Hainan to build a pilot FTA and FTP has created high expectations for all kinds of talent. With this unique advantage, a practical and operable strategy is to establish platforms of various forms to provide opportunities for skilled individuals to create, innovate, and start businesses.

To attract international talent through the main platform of statutory authority, Hainan should give enough statutory autonomy to the suggested statutory authority, which can be an officially established immigration office as a platform to continuously attract high-calibre talent from all over the globe, and meanwhile encourage third-party international talent assessment organizations to operate in Hainan.

For instance, Hainan can establish an innovation studio system, give greater autonomy to scientists and researchers, remove upper limits on their income from scientific and technological innovation as well as those on their income from transfer of their scientific and technological achievements; and encourage universities, research institutes, and enterprises to stimulate scientific and technical innovation by giving researchers shared ownership, stock options, and stock appreciation rights so as to create a favourable environment for innovation and entrepreneurship.

Hainan should build special communities in designated areas for foreign entrepreneurs, senior executives, experts, and scholars living in Hainan for innovation and entrepreneurial purposes; support the establishment of various agencies to provide permanent residence services for foreigners; and open the job market to Filipino domestic workers and other foreign workers so that they can provide high-quality household management services for international talent and middle and high-income families in Hainan.

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### **PUTTING OPENING UP TO THE OUTSIDE FIRST AND FOCUSING ON SERVICE TRADE**

President Xi Jinping (2018a) clearly stated that “Hainan should focus on tourism, modern services, and high-tech sectors instead of entrepot trade and manufacturing.” Development of tourism, modern services, and high-tech sectors almost all depend on trade in services. Consequently, Hainan should focus on trade in services, which is in line not only with the global trend of free trade development, but also with China's strategic plan for forging new heights in opening up to the outside world and the positioning of Hainan's own development.

Focusing on trade in services is in line with the general trend of economic globalization. The rapid growth of global service trade has become not only an important driver for global trade development, but also a focus of bilateral and multilateral trade and investment agreements.

Focusing on trade in services meets the requirements of transforming China's opening up. Along with the upgrading of the consumption structure in China, demand for services such as culture, entertainment, medical care, healthcare, education, tourism, and information products is growing ever larger. However, the development of China's service trade still lags behind and is far from meeting this need.

Focusing on trade in services in Hainan is not only in line with the general trend of economic globalization but also can serve as an important lever for China to lead economic globalization.

Focusing on innovative development of trade in services will help form distinctive features and unique advantages of the FTP. Innovative development of trade in services can become a distinctive feature of Hainan. This not only meets the national strategic needs, but also represents a realistic choice for Hainan as an island economy to achieve leap-forward development.

Hainan is well positioned to take bold steps in opening up its service sector and in innovating its trade in services to gain unique advantages. In 2017, Hainan's service sector accounted for 55.7% of its GDP (Statistical Bureau of Hainan Province & Survey Office of National Bureau of Statistics in Hainan, 2018a), which was 4.1 percentage points higher than the national average. The contribution of its service sector to economic growth was 79.5% (Li, 2018b), which was 20.7 percentage points higher than the national average. Thus, Hainan has great potential for the development of trade in services.

Hainan should make bold breakthroughs in the development of trade in services by learning from successful international free trade ports. Provided they fall in line with the trend of Hainan's development, all aggressive steps should be boldly explored and taken.

Hainan should form the framework of its own negative lists with innovative development of trade in services as the priority objective. Design of Hainan's negative lists should not only aim at cutting the number of restrictions, but should also take into account the need for innovative development of trade in services when mapping out the overall framework of negative lists and deciding on their specific items. Only in this way can Hainan find a new path to building up new heights for opening up to the outside world. To this end, the basic requirement is to substantially relax market access to the service sector and improve the operability, transparency, and predictability of negative lists, thus forming Hainan's distinctive features and outstanding advantages.

## FOCUSING ON INSTITUTIONAL INNOVATION AND GENERATING IMPETUS AND VITALITY THROUGH REFORM

As President Xi Jinping (2018a) pointed out, “We must take institutional innovation as the core, give Hainan greater autonomy in its reform, support Hainan's bold experiment and independent reform, and redouble efforts to build a law-based and internationalized business environment with a high level of facilitation as well as a fair, open, unified, and efficient market environment.” This requires Hainan to do a good job of reform, make earnest efforts to eliminate the drawbacks of the system and mechanisms, and constantly emancipate and develop social productivity.

From the perspective of regarding ‘the whole island as one single city’, Hainan should readjust its administrative divisions, innovate institutions and mechanisms for integrated urban and rural development, and break up systemic and institutional barriers across different regions and between urban and rural areas.

**TABLE 8.1: GDP per unit of land area in Hainan, Beijing, Shanghai, and Guangdong in 2017**

(Unit: 100 million yuan per km<sup>2</sup>)

Region	Hainan	Beijing	Shanghai	Guangdong
<b>GDP per unit of land area</b>	0.13	1.71	4.75	0.5
<b>Hainan/other provinces</b>	—	7.6%	2.7%	26%

Data source: Calculated by research group of China Institute for Research and Development (CIRD).

**Speeding up readjustment of administrative divisions to unify planning in 6 areas.** With the planning in different fields integrated, Hainan could rapidly enjoy unified land use, infrastructure, industrial layout, urban and rural development, environmental protection, and social policies. This will significantly improve the efficiency of resource utilization and help develop a regional central city in each of its five regional centres, namely in the east, west, north, south, and the middle. This will enhance the overall land and tourism resources allocation and utilization efficiency.

**Innovating systems and mechanisms for integrated development of urban and rural areas.** One of the prominent features for Hainan to build into a free trade port is that it has vast rural areas, where Hainan’s greatest development potential exists. Hainan is well positioned to be a national leader in integrated development of urban and rural areas and in rural revitalization. For example, Hainan has the conditions to be the first to abolish the dual urban and rural household registry system,



implement a provincially unified residence permit management system, establish an urban and rural unified construction land market, give farmers more property rights, and to find a new path to integrated urban-rural development and construction of a beautiful countryside.

**Deepening the reform of the administrative system with the orientation of shaping ‘small government and big market’.** Hainan can take the lead in establishing a unified market supervision system and explore deepening the judicial system reform as required by the building of the designed free trade port.

### **ACCELERATING THE EXPLORATION AND CONSTRUCTION OF A FREE TRADE PORT**

The biggest difference between Hainan and the other eleven pilot free trade zones is that Hainan is aiming to become a free trade port with Chinese characteristics. In order to reach the goal that “a free trade port system is initially established and a nationally first-class business environment is created by 2025, and that the institutional system and the operating model of the free trade port become more mature, and its business environment ranks among the top in the world by 2035” (Central Committee of the CPC & the State Council, P.R.China, 2018), Hainan must, on one hand, learn from the successful experiences of the other eleven pilot FTZs, while at the same time boldly exploring and making breakthroughs so as to lay a solid foundation for building a free trade port.

First of all, Hainan must aim at creating the FTP while building the pilot FTZ. This requires that major breakthroughs in building the pilot FTZ must be made, its business environment must be markedly improved, and its opening-up level must be substantially raised in the next two to three years. Secondly, while learning from the successful experiences of the other eleven pilot FTZs, Hainan must make important breakthroughs in areas in which the other eleven pilot FTZs have found it difficult. Thirdly, there must be a strong link between building the pilot FTZ and the building of the designed FTP. Hainan must pinpoint functional zoning of the whole island, clearly specify priority industries in each functional zone in accordance with regional characteristics, and enable Haikou, Sanya, and Qionghai to take the lead in making important breakthroughs to lay an important foundation for comprehensively promoting the construction of the designed FTP.

**... Hainan must, on one hand, learn from the successful experiences of the other eleven pilot FTZs, while at the same time boldly exploring and making breakthroughs so as to lay a solid foundation for building a free trade port.**

### *Establishing policy and institutional systems*

Hainan must study and draw upon all systems and institutions indispensable for an FTP, including fiscal and taxation systems, institutions for supervision, and laws and regulations at all stages of planning, building, and afterwards.

It is important that a fiscal and taxation system for the designed free trade port be established. The first step is to transform the tax system to build a simple tax system dominated by direct taxes. The second is to institute a statutory low tax rate and significantly reduce corporate income tax and personal income tax. The third is to pursue zero tariffs, whereby “the majority of imported goods are exempted from custom duties.”

It is necessary to build up a financial system for the designed FTP to ensure free flow of capital. Free flow of capital is an important guarantee for investment and trade liberalization and facilitation. Building the designed FTP in Hainan requires major breakthroughs in financial institutional arrangements for financial market opening, cross-border investment and financing, currency exchange, international settlement, foreign exchange transactions, and financial regulation.

Establishing a special customs regulatory system for the designed FTP with “two-way freedom and two-way facilitation” is the objective. In order to optimize customs supervision, a national customs special surveillance zone should be established to innovate the customs supervision system. This special surveillance zone should, on the premise of effective risk prevention and control, guarantee freedom and convenience for flow of various factors not only between Hainan and the overseas markets, but also between Hainan and the mainland.

Legislative work should be accelerated to define the legal status of the designed FTP in the form of a special law, and then supporting laws and regulations should also be promulgated as soon as possible.

No time should be lost in studying and formulating the widely anticipated *Overall Plan for the Hainan Free Trade Port* and specific supportive action plans so that they can be launched as soon as possible.

### **CONCLUDING REMARKS**

As President Xi Jinping (2018a) said, “Investors from all over the world are welcome to invest in Hainan and be part of the development of the free trade port to share opportunities and results of China’s reform and development.” I believe that under the strong support of the Chinese central government and other relevant parties, Hainan, with its enterprising and persevering spirit, will rise to the historical task of building a high-standard and high-quality pilot FTP and steadily pushing forward construction of an FTP with Chinese characteristics. As a result, China will reach new heights in its efforts to open up and become a favoured destination for investment and development of investors from all over the world.

## NOTES

- 1 Hainan, with a land area of 35,354 km<sup>2</sup>, had a GDP of 4462.54 million yuan in 2017, resulting in a GDP/area ratio (100 million/ km<sup>2</sup>) of 0.126 (Statistical Bureau of Hainan Province & Survey Office of National Bureau of Statistics in Hainan, 2018b). Taiwan, with a land area of 36,192 km<sup>2</sup>, had a GDP of 39,072 million yuan in 2017, resulting in a GDP/area ratio of 1.08 (National Bureau of Statistics of China, 2018).
- 2 In 2017, the gross output value of the marine economy in Hainan, Zhejiang, and Guangdong was 125 billion yuan (Yang & Deng, 2018), 754 billion yuan (Huang, 2018), and 1.82 trillion yuan (Xu, 2018), respectively.
- 3 Guangdong, a land area of 179,725.07 km<sup>2</sup>, had a GDP of 89,705.23 million yuan in 2017, resulting in a GDP/area ratio (100 million/ km<sup>2</sup>) of 0.5 (Statistical Bureau of Guangdong Province & Survey Office of National Bureau of Statistics in Guangdong, 2018). GDP/area of Hong Kong and Singapore in 2017 is 20.88 and 30 respectively. GDP figures of Hong Kong and Singapore available from: <https://data.worldbank.org/?locations=HK-SG>.
- 4 Calculation by research group at the China Institute for Research and Development (CIRD).
- 5 Calculation by research group at the China Institute for Reform and Development (CIRD).

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