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What's So Special About Being Zoned? The Evolution of China's Pilot Zones and the Hainan Free Trade Port

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What's So Special About Being Zoned? The Evolution of China's Pilot Zones and the Hainan Free Trade Port

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Abstract

The Hainan Free Trade Port (FTP) forms a key component of China's trade liberalisation strategy, with particular emphasis on enhancing economic ties with the Association of Southeast Asian Nations (ASEAN). This study examines the FTP's policy framework and compares its performance with existing Pilot Free Trade Zones (PFTZs). Hainan FTP's competitiveness stems from its "zero-tariff" policy, expanded market access for foreign enterprises, and preferential tax rates. Since its launch in 2020, trade and foreign direct investment (FDI) have grown faster than the national average, with ASEAN emerging as its main trade partner following Regional Comprehensive Economic Partnership (RCEP) implementation in 2022. However, Hainan's economic scale remains limited, contributing only 2% of China's total utilised FDI and ranking low in GDP among pilot zones in 2023. Growth is hindered by weak economic fundamentals and competition from established PFTZs. Whilst the complete implementation of FTP policies post-2025 may present new opportunities, success will be contingent upon clear strategic positioning and robust policy execution.

1. Introduction

Known for leveraging special economic zones (SEZs) to drive economic growth, China hosts over 2,500 special zones serving various functions — accounting for more than half of the global total (United Nations Conference on Trade and Development 2019). Hainan FTP — China’s first-ever FTP and the latest variant of SEZ — was introduced in 2020 as the country seeks to attain “higher levels of openness and stronger economic radiation for China’s reform and opening-up” (United Nations Conference on Trade and Development 2023). According to the central government, Hainan is intended to become China’s “most open” region and develop into a “free trade port with international influence”.¹ Amid uncertainties about China’s reform trajectory, with the country’s overall policy exhibiting an inward-looking tendency (Lowy Institute, n.d.; Atlantic Council 2024), the establishment of the Hainan FTP invites further observation and analysis of how China navigates its reform journey and interacts with international markets moving forward.

China’s special zone development strategy has traditionally adhered to clear site selection patterns, with recent trends favouring more developed regions due to China’s evolving economic realities (M. Zhang 2020; Wei 2023). In this context, the Hainan FTP represents a notable deviation deserving closer scrutiny. The establishment of Shenzhen as the first SEZ in the 1980s set a precedent for subsequent SEZs, which were primarily concentrated in peripheral coastal regions to leverage investment and expertise from nearby developed economies such as Hong Kong and Taiwan (Harrison et al. 2019). Following the initiation of the PFTZs² in 2013, policymakers shifted their focus toward key economic hubs with stronger trade foundations and mature institutions to trial and introduce emerging international trade practices (Interesse 2023). The selection of Shanghai as the first PFTZ exemplifies such a transition.³ Although the FTP embodies China’s most ambitious reform agenda to date, its core objectives and functions parallel those of existing PFTZs. Theoretically, the establishment of a precedent-setting FTP should follow the observed PFTZ development pattern. The Hainan FTP, however, breaks this developmental pattern. When FTP was launched in 2020, Hainan remained an underdeveloped region (BBC 2020), holding the 28th position out of 31 Chinese regions by GDP since 2018 (National Bureau of Statistics of China, n.d.). This marks an unprecedented choice of an economically underdeveloped region for one of China’s highest-level pilot zones.

Further, the government’s emphasis on Hainan in advancing China’s reform policies, especially amid sluggish domestic growth and geoeconomic uncertainties, warrants an examination of Hainan’s policy effectiveness and development trajectory since its establishment as an FTP. Aimed to cultivate an internationally competitive FTP and a “game-changer” for China’s economy (Choi and Sun 2023), Hainan FTP’s policy formulation reflects a “whole-of-nation” approach that integrates international trade practices with local development demands (Li 2023). Given that effective SEZ policies provide critical references for national policy design, understanding Hainan’s policy evolution helps inform policymakers and businesses of the evolving reform and opening up realities in China.

¹ State Council of the People’s Republic of China, *Overall Plan for the Construction of the Hainan Free Trade Port*, June 1, 2020.

² The latest strand of SEZs.

³ Hainan was established as a PFTZ in 2018, as part of the fourth batch of PFTZs. For more details, see United Nations Conference on Trade and Development, *The Role of China’s Pilot Free Trade Zones in Promoting Institutional Innovation, Industrial Transformation and South-South Cooperation*, 2023.

Grounded on the extant Hainan FTP literature, which primarily focuses on the overarching design and industrial policies, this paper concentrates on Hainan FTP's pillar policies and early-stage development, with a particular focus on liberalisation and market access measures while analysing potential challenges. This research contributes to the current Hainan FTP study by factoring in Hainan's development record since the inception of its provincehood and adopting a comparative analysis between Hainan and domestic and international counterparts when assessing obstacles to the development of Hainan FTP. These two elements complement the comprehension of the FTP policy design and policy implementation.

The remainder of the paper is structured as follows. Section 2 provides an overview of national policy initiatives that have shaped Hainan's development trajectory. Section 3 analyses FTP's policy structure and core preferential policies. Section 4 presents a comparative analysis of the FTP against selected PFTZs and established free ports to identify potential implementation challenges. Section 5 concludes with a discussion that synthesises the findings and reflects on the implications for Hainan's future as a free trade port.

2. Background: Hainan FTP's Policy-Driven Development

Hainan, a tropical island off China's southern coast, is often referred to as "China's Hawaii" due to its beaches and warm climate, which attract significant domestic tourism (China Briefing 2019). Established as one of China's first SEZs in 1988, Hainan was an early participant in the reform and opening-up policies initiated by Deng Xiaoping. As an isolated island, Hainan offers an ideal setting for piloting innovative policies while containing limited systemic risk. The peculiarities contribute to its positioning as a key site in China's reform strategy (State Council 2020; China Briefing 2019). However, the province remains relatively underdeveloped compared to other regions, with a per capita GDP ranking in the lower half of mainland China's provinces as of 2023. In addition, Hainan's economy is heavily reliant on resource extraction and tourism-related services. Its primary industry contributes the highest GDP proportion among Chinese provinces (HKTDC Research 2022).

Historically, two major top-down initiatives have shaped Hainan's development trajectory prior to the initiation of FTP (Figure 1). The first instance occurred in 1988 when Hainan was designated as an SEZ. The second was the central government's strategic vision of transforming Hainan into a tourism-driven economy. The Hainan FTP represents the third and most comprehensive of these top-down initiatives, drawing on "whole-of-nation" support mandated by the central government.

Figure 1 Three major policy-driven development opportunities for Hainan



Source: Compiled by the authors based on Peng et al (2018).

2.1 Special Economic Zone

Hainan’s initial phase of policy-driven development began in the 1980s. China set up four SEZs in 1980: Shantou, Shenzhen, Xiamen, and Zhuhai. While the experiences of these SEZs have been instrumental in advancing China's reform and opening-up policies, their context—characterised by limited physical size, relatively homogenous economic foundation, and population—limits the applicability of their experiences to broader China. Hainan’s diverse geography and economic conditions, from developed cities to impoverished rural areas, make it a microcosm of China. Recognising the distinct landscape of Hainan, the central government designated Hainan as the fifth SEZ in 1988 (China Communist Party News 2011). The main objectives of Hainan SEZ include exploring scalable development models, prototyping a state-regulated market economy⁴, and fostering conditions for productivity growth (China Communist Party News 2011).

In alignment with the priorities of Hainan, the leadership pledged to implement “more preferential and open policies” in Hainan than those of previous SEZs (State Council 1988; Hainan Daily 2013). Specifically, Hainan stands out due to its “three freedoms” policy concept—meaning greater freedom in capital flow, movement of people, and trade in goods (Hainan Daily 2013). The masterplan of Hainan SEZ⁵ fleshed out “three freedoms” and attracted substantial talents and capital to the province (Hainan Provincial Committee of the Communist Party of China, n.d.).

However, the province fell short of fully leveraging this opportunity. Foremost, the weak infrastructure and limited market size constrained Hainan’s capabilities to effectively accommodate the sudden surge in job-seekers and resources (Hainan Provincial Committee of the Communist Party of China, n.d.). Moreover, the majority of incoming funds flowed into the real estate sector, fuelling a speculative bubble that eventually collapsed in 1993 following the central government’s tightening of monetary policies (An 2019). Besides experiencing capital outflows following the real estate market crash, Hainan saw its unique policy

⁴ The term refers to the “socialist market economy” in a Chinese policy context.

⁵ The 'masterplan' refers to the 'Regulations to Accelerate the Development and Construction of the Hainan Special Economic Zone' (加快海南经济特区开发建设的若干规定), issued by the Hainan Provincial Government on August 1, 1988. This document outlines key policies and measures aimed at promoting Hainan's economic development and special zone construction.

advantages were diluted in 1992 when the 14th Party Congress announced the national shift toward a socialist market economy (China Communist Party News 2011). The province then entered a long period of recovery (An 2019). The government recalibrated its development focus to high-value agricultural products and tourism in 1996, but its “underdevelopment” remained a consensus entering the early 2000s (Hainan Provincial Government 2004).

2.2 International Tourism Destination

Hainan’s second chance came in 2009 when the central government launched the national strategic plan to develop the island into an international tourism destination (State Council Information Office 2010). A Hainan-exclusive preferential policy package was introduced to support the province’s tourism sector, including tax refunds for departing foreign visitors and visa-free entry for citizens of 26 countries (Deng et al 2016).

While tourism was then the primary focus of the province, it was overshadowed by speculative real estate investments. From 2010 to 2017, the tourism sector revenue of Hainan grew by 16.1% year-on-year on average (Peng et al. 2018). However, the island’s development was plagued by speculative property development and investment. Subsequently, the housing bubble resurfaced, with the economy showing heightened concentration in real estate. In 2017, real estate investment represented nearly half of the total fixed-asset investment in Hainan, amounting to 412.5 billion CNY (approximately 61.1 billion USD), the highest proportion of all regions in China (Ma 2019; Peng et al. 2018).

Although overreliance on the real estate market poses a risk to Hainan’s financial stability, the province has nonetheless achieved rapid growth. In 2017, Hainan’s GDP per capita reached USD 7,179, meeting the World Bank’s threshold for upper-middle-income countries (An 2019). Even so, Hainan still pales in comparison to other coastal SEZs.

Overall, Hainan's economic history has been marked by persistent underperformance and reliance on real estate. The province's developmental trajectory demonstrates the concept of path dependence, wherein historical economic choices constrain future transformative potential (David 2007). Historically anchored in low-value sectors such as real estate and tourism, Hainan’s weak economic foundation now represents a significant structural limitation. These traditional industries are inadequate for achieving Hainan's ambitious goal of establishing a globally competitive FTP. The province must address these deeply entrenched constraints for the FTP to truly take off.

2.3 Free Trade Port

The national strategic decision to construct a “free trade port with international influence” represents the third “once in a lifetime” top-down policy support for Hainan (Peng et al. 2018). The concept of FTP arose in tandem with the recalibration of China’s reform and opening-up policy to “institutional opening up” in 2018.⁶ Put differently, the country’s growth strategy evolved from basic trade liberalisation practices to deeper regulatory alignment and

⁶ In 2018, China altered its reform trajectory from "commodity and factor mobility opening up (商品和要素流动型开放)" focused on trade and factor mobility to an approach that prioritised “institutional opening up (制度型开放),” which sought to align domestic systems with international trade norms and promote deeper regulatory changes (China Daily 2024).

institutional cooperation with global trading partners.⁷ At the vanguard of this transformation, the FTP project not only serves as a cornerstone of China's evolving reform agenda but also claims to establish itself as one of the world's "most economically liberalised regions" (Wei 2023; State Council Information Office 2023).

The Hainan FTP initiative represents an ambitious agenda that transcends conventional trade and investment liberalisation, encompassing broad-ranging policy reforms. Released on June 1, 2020, the Overall Plan for the Construction of the Hainan FTP (hereinafter, "the Masterplan") lays out a set of reform measures, including modernisation of government functions, upgrading in manufacturing, services sector liberalisation, financial openness, talent acquisition, sustainable urban development, and enhanced regional cooperation.

Most notably, Hainan is tasked to align its liberalisation practices with international trade rules. This designation could inform China's future trade pact negotiations. Hainan is already pioneering in implementing RCEP provisions. Following China's bid to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Digital Economy Partnership Agreement (DEPA) in 2021, the FTP is also tasked to trial respective provisions. The two trade agreements have in-depth commitments to critical trade topics such as trade liberalisation, investment, and cross-border data flow (Xinhua News 2023). Hainan FTP's policy framework may gradually evolve to integrate similar measures. The central government's granted autonomous policymaking power should ideally enable Hainan to explore more extensive reforms compared to other PFTZs.

Nevertheless, Hainan's ambitious FTP vision is set against a modest economic base, making significant achievements within a short timeframe challenging. Now in its sixth year, the FTP's performance has remained somewhat subdued. For example, Hainan remains 28th out of 31 regions in GDP and ranks 11th in actual foreign investment use (National Bureau of Statistics of China, n.d.; Ministry of Commerce of China 2024b). The phased and broad policy structure, with a timeline stretching to 2050, emphasises the need for a critical analysis of current policies to track advancement toward Hainan's ambitious long-term objectives. We turn to this analysis next.

3. Policy Analysis

3.1 Overview of FTP policy structure

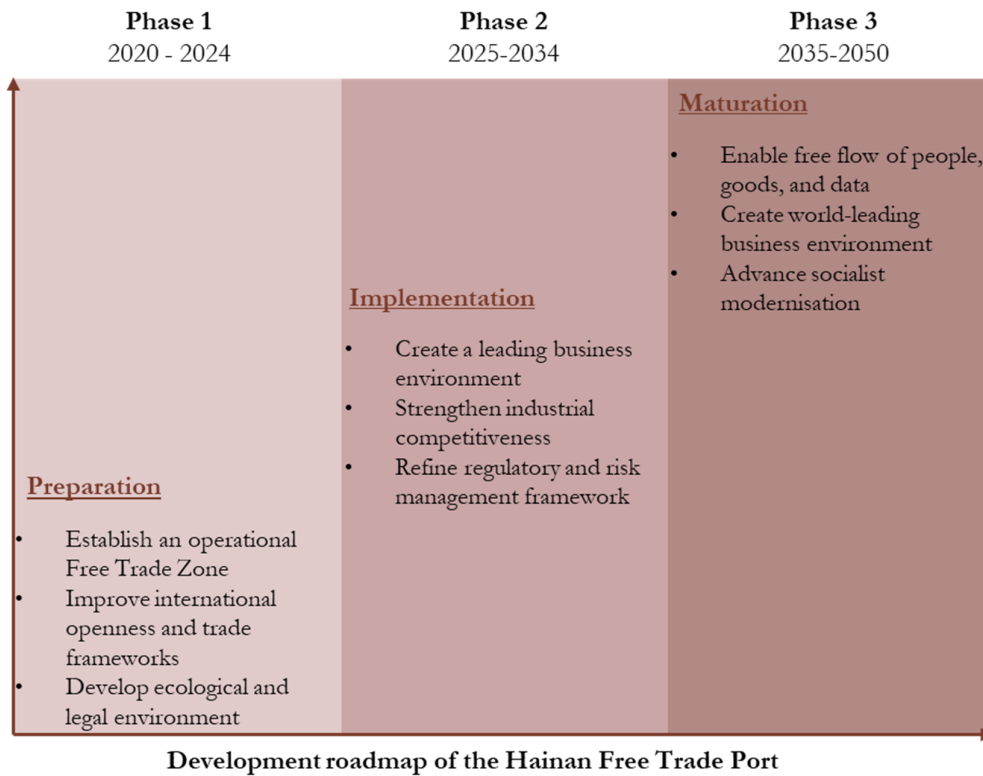
Three Phases

The policy architecture of Hainan FTP reflects a nuanced approach to advancing the local economy while pursuing strategic international economic integration. The Hainan FTP initiative draws inspiration from established global hubs like Singapore and Hong Kong, but it operates in a distinct socioeconomic context. Unlike mature global free ports, Hainan's development pathway faces the challenge of liberalising and strengthening its economic development while toeing the line of socialist mandates. Factoring in these unique circumstances of Hainan, China designed a phased development plan that emphasises both

⁷ The major regional partners refer to the Association of Southeast Asian Nations (ASEAN) member countries. ASEAN has been China's largest trading partner since 2020.

local development and international engagement (Figure 2). Spanning three decades, these reform and development objectives are expected to be fully realised by 2050.

Figure 2 Development Roadmap and Milestones of the Hainan Free Trade Port (2020-2050)



Source: Compiled by the authors based on the Masterplan of Hainan FTP.

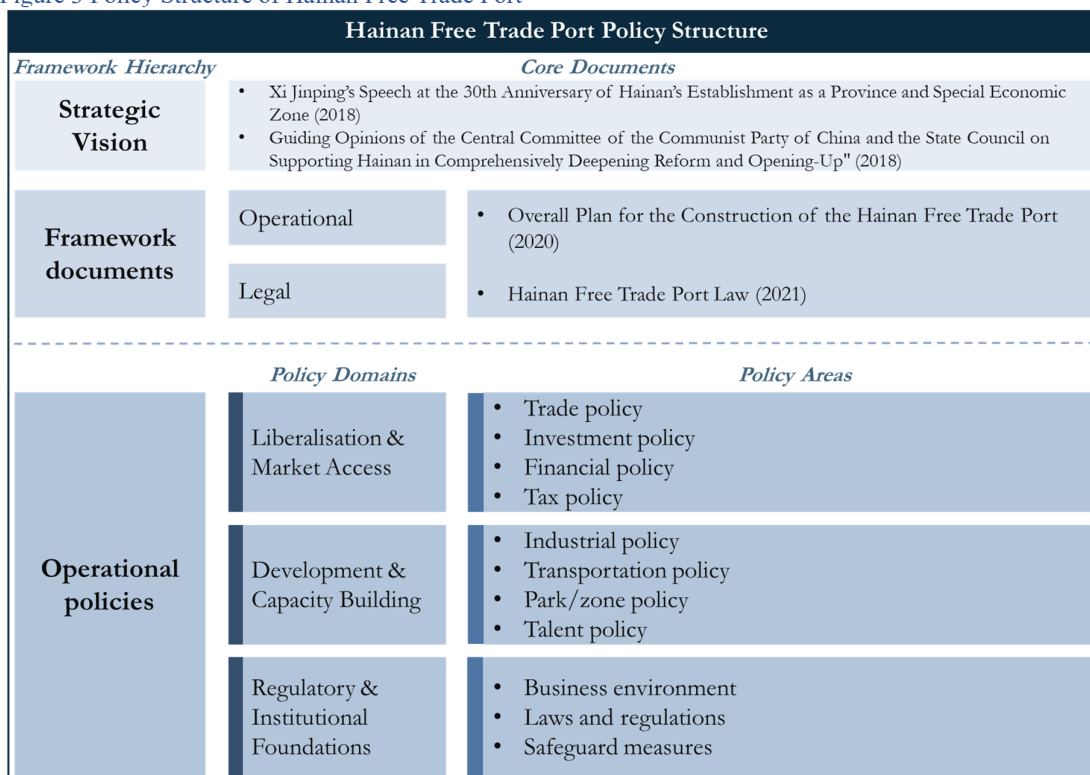
The Masterplan demonstrates a gradualist approach of building a free trade port. It sections the FTP development into three stages—preparation (for establishing a free trade port), implementation (of the free trade port system), and maturation (of Hainan as a free trade port). Each stage reflects the progression of FTP’s maturity. For instance, the standards of Hainan’s business environment are set to advance from a “leading” position within the country in Phase 2 to a “world-leading” position in Phase 3.

To accommodate the phased development of the Hainan FTP, the policy framework must be clear in both its objectives and operational principles, while still leaving room for future adaptations.

Three Levels

Hainan FTP policy architecture uses multiple tiers of documents to address both overarching objectives and transitional benchmarks. Specifically, the FTP policy structure has three levels of documents: 1) strategic vision guidelines, 2) framework documents, and 3) operational policies (Figure 3). The strategic vision guidelines delineate the port's development trajectory, mandating its operation within the socialist framework while maintaining consonance with national development strategies. The framework documents, notably the Masterplan and the Hainan Free Trade Port Law (2021), establish the structural and legal foundations of the port. Supporting these are operational policies fleshed out to operationalise the FTP framework.

Figure 3 Policy Structure of Hainan Free Trade Port



Source: Developed by the authors based on the Hainan Windows to Global Trade (2024).

The development of Hainan FTP is underpinned by a comprehensive set of operational policies. Drawing from Hainan's dual objectives of fostering local development and enhancing international competitiveness, this paper proposes an analytical framework for further analysis of the policy implementation progress and effectiveness. This framework consists of ten distinct policy areas, which are systematically organised into three fundamental policy domains. The first domain, “Liberalisation and Market Access” addresses the international-oriented “free trade” policy areas of the Hainan FTP. The second domain, “Development and Capacity Building,” comprises policy areas that are tailored to local development priorities in the context of national development strategy. The third domain—“Regulatory and Institutional Foundations”—consists of institutional-related policy areas of Hainan FTP.

The three policy domains represent distinct strategic priorities of the FTP. The policy areas under these domains flesh out the specific policy instruments which form the basis for the FTP initiative. While all these policies are critical to the FTP, they have varying implications for different stakeholders' interests and engagement. Given Hainan FTP’s mission of establishing itself as one of the world's “most economically liberalised regions,” the subsequent analysis places its emphasis on the “Liberalisation & Market Access” domain.

3.2 Key policies

Policy Domain Selection

Our analysis concentrates on the “Liberalisation and Market Access” domain, given this study's primary focus on key policies that could deepen the understanding of China's special economic zone development trajectory. This choice is justified through several key considerations. First, the selected policy domain holds significant strategic importance in China's broader reform agenda. Since Hainan FTP is meant to serve as a pioneering zone for an “unprecedented” trial on liberalisation measures, its policies within this domain offer unique insights into China's reform trajectory. Any effective measures are likely to inform China’s future reforms. Second, many measures under the “Liberalisation and Market Access” domain use quantifiable metrics, such as tariff rates and market access thresholds, making it possible to quantitatively gauge any advantage of these measures compared to the ones implemented in other PFTZs. Moreover, these policies demonstrate greater temporal stability in centrally mandated local development initiatives, which are often subject to contextual variations and resource constraints. This stability strengthens the longitudinal validity of our analysis.

The Liberalisation and Market Access domain contains various policy areas pertaining to liberalisation and facilitation of trade and investment. The policy areas include trade policy, investment policy, financial policy, and tax policy (Figure 4). Underpinning these broad policy areas are substantive policy instruments.

Figure 4 Liberalisation and Market Access Policy of the Hainan Free Trade Port

<i>Policy Domain</i>	<i>Policy Areas</i>
Liberalisation & Market Access	<ul style="list-style-type: none">• Trade policy• Investment policy• Financial policy• Tax policy

Source: Compiled by the authors.

This study will focus on trade, investment, and tax policies, excluding an extensive discussion of financial policy, since the FTP's financial framework serves primarily as a facilitating mechanism rather than a core developmental priority.

Trade policy

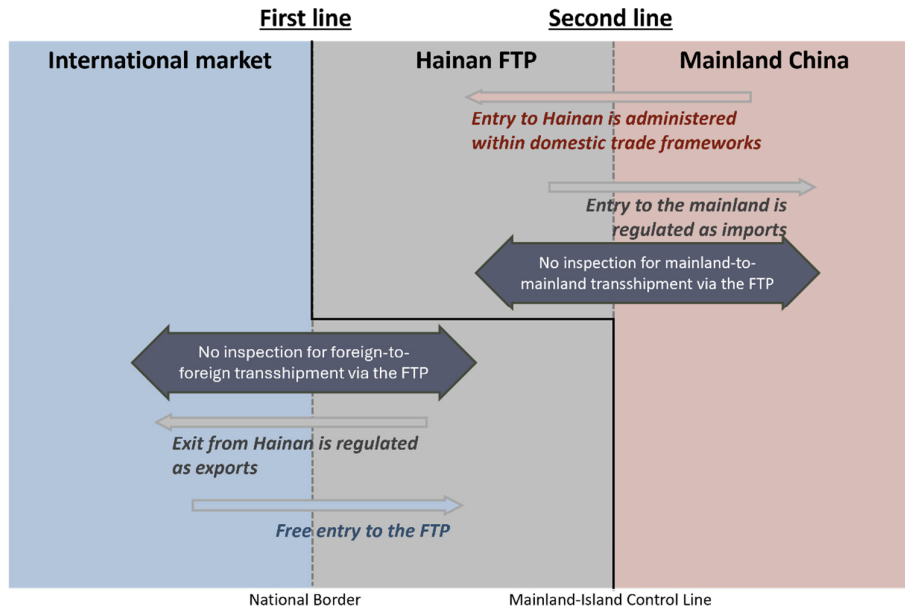
Trade in goods

The overarching theme of Hainan’s cross-border trade in goods is removing barriers. One of the core policies is the “zero-tariff” policy, which eliminates import duties on most goods entering Hainan. Goods subject to taxation, restriction, or prohibition are managed under a series of controlled lists or catalogues developed by the FTP government. In contrast, goods entering other regions of mainland China are still subject to taxation depending on the tariff

regimes that may apply.⁸ Thus, the policy effectively distinguishes Hainan from the rest of the country by providing a more preferential tariff regime.

Facilitating Hainan’s implementation of the “zero-tariff” policy is the independent customs operation from the rest of China. According to the Masterplan, the separate operation will be achieved through the establishment of a “first-line” and “second-line” special customs supervision system (Figure 5). Geographically, the “first line” is set up between Hainan Island and external economies, and a “second line” is established between Hainan and the rest of China.

Figure 5 "First-line" and "Second-line" of Hainan Free Trade Port's Customs Operation



Source: Compiled by the authors.

The “first line” refers to the customs control when goods enter Hainan from overseas. In principle, all goods, except those specified on the prohibitive or restrictive lists, will be exempted from tariffs and be able to move freely between the overseas regions and Hainan FTP. Prior to the implementation of island-wide independent customs operation in 2025, the FTP employs a temporary list management approach named “one negative, three positives⁹.” The lists define the categories of goods that are subject to or exempt from import duties, import Value-Added Tax (VAT), and consumption tax. The lists include production equipment for enterprises' own use (negative list), operational vehicles and yachts (positive list), raw and auxiliary materials imported for production (positive list), and imported goods for consumption by residents of Hainan (positive list)(China Briefing 2020). As of February 2025, the first three lists have been disclosed and updated, leaving the final one yet to be unveiled.

The ‘second line’ controls goods entering mainland China from Hainan FTP. Goods coming from Hainan to mainland China are subject to mainland customs procedures and duties.

⁸ Countries that have engaged in preferential trade agreements with China might also see various preferential treatments in taxation.

⁹ The series of lists are collectively termed “one negative, three positives,” referring to the composition of one negative list and three positive lists which underpin Hainan’s zero-tariff governance approach to trade in goods. See the full list of documents in Appendix 2.

However, industrial enterprises in Hainan are incentivised through a targeted tax exemption policy. These enterprises are relieved of import tariffs when selling goods to the rest of the country, contingent upon two conditions: either the goods are entirely sourced from Hainan, or the imported materials undergo domestic processing that increases their value by more than 30 per cent. Notably, goods transported from the mainland to Hainan for transit and subsequently returned to the mainland are exempt from customs processing. However, they must be handled at a customs-supervised operations site within the FTP and stored separately from other goods under customs supervision.

This demarcation establishes Hainan as a “customs territory outside the customs border.” Within this specific area, residents and businesses can enjoy preferential policies of Hainan, such as zero tariffs. The dual-track customs operation is planned to be in full implementation in 2025. This policy will help Hainan utilise the mainland market and better integrate into the global market.

Moreover, FTP’s trade policy strategically aligns with the RCEP to amplify trade benefits and enhance market access. Following RCEP’s implementation in 2022, Hainan released three comprehensive product lists to guide enterprises in maximising tariff reductions and leveraging the synergies between RCEP and FTP policies (Figure 6). These lists include export and import advantageous products under RCEP and products where the FTP’s zero-tariff framework offers superior advantages. This coordinated approach identifies 695 export and 241 import product categories benefiting from RCEP tariff concessions, along with 1,674 product categories covered under the FTP’s zero-tariff policy. It is designed to facilitate cost optimisation, enhance industrial linkages, and enable businesses to fully capitalise on the combined advantages of these trade policies (Ministry of Commerce of China 2022).

Figure 6 Overview of Hainan’s Export, Import, and Zero-Tariff Product Listings under RCEP

	List of Hainan's Competitive Export Products under RCEP	List of Hainan's Competitive Import Products under RCEP	List of Competitive "Zero-Tariff" Products of Hainan FTP
Focus	Exports	Imports	Comparison of Hainan's "zero tariff" policy with RCEP
Number of Categories	695	241	1,674
Selection Criteria	Selected from 12,600 categories of China's competitive export products under RCEP; focuses on tax reduction commitments under RCEP.	Selected from 29,000 categories of China's competitive import products under RCEP; focuses on lower import tariffs.	Highlights products with lower import tariffs under Hainan's "zero tariff" policy compared to RCEP; emphasises Hainan's competitive advantages.
Industry concentration	Largely concentrated in electromechanical, textile, pharmaceutical, and chemical industries.	Predominantly in textiles, mechanical and electrical products, base metals and their products, watches, medical devices, and chemical products.	Spans a broad range including transportation, raw materials, and equipment used in production processes.



Source: Compiled by the authors based on information from the Foreign Affairs Office of Hainan Province (2022).

Trade in services

The Hainan FTP is one of the earliest pilot zones to introduce a negative list approach for services trade. The “negative list” delineates the services sectors exempt from liberalisation and pledges non-discriminatory market access for domestic and foreign service providers across unrestricted sectors (Department of Commerce of Hainan Province 2023). Employing a

negative list approach is widely seen as a market access expansion, as it permits businesses to operate in all services apart from the ones placed on the lists (Economic Research for ASEAN and East Asia 2021). In 2018, Shanghai emerged as the first mover in China by unveiling the country’s first negative list for services trade¹⁰. In July 2021, the Ministry of Commerce of China (hereinafter, “MOFCOM”) published the “Special Administrative Measures for Cross-border Trade in Services in the Hainan Free Trade Port (Negative List).” Its listing contains 70 items, accounting for only half of its Shanghai counterpart, which substantially expands the market access for private sectors. The key service sectors liberalised in the Hainan FTP include tourism, medical services, finance, and education.

Figure 7: Difference between Positive List and Negative List Governance Framework

Positive List	Negative List
<div style="border: 1px dashed black; padding: 2px; display: inline-block; color: green;">Sectors Allowed</div>  Listed items	<div style="border: 1px dashed black; padding: 2px; display: inline-block; color: red;">Sectors Regulated</div>  Listed items
Items not included in the list are <u>regulated</u>	Items not included in the list are <u>liberalised</u>

Note: White-shaded areas represent sectors open to market participation, whilst grey-shaded areas indicate sectors subject to legal restrictions or prohibitions.

Source: Compiled by the authors.

Through its pioneering negative list in services trade, Hainan FTP exhibits its function as a national policy testing ground. In 2024, the MOFCOM promulgated two distinct negative lists for services trade: a national version with 71 items and a more liberalised PFTZ variant with 68 items.¹¹ The relaxations introduced in the two lists substantially drew upon Hainan FTP’s list (Ministry of Commerce of China 2024a). These three documents constitute the foundation of a “tiered opening system” governing China’s cross-border services trade (People’s Daily 2024).

In addition, the FTP demonstrates its unique role in trialling emerging trade norms for China. When China signed the RCEP in 2020, it was one of the signatories that employed a positive list approach to cross-border trade in services. The RCEP members have pledged to fully transition to the negative list approach within six years after the RCEP’s effectuation in 2022. The central government indicated in a press conference that the formulation of the FTP negative list factored in the preparation for a national reform in the governance approach (Department of Commerce of Hainan Province 2023). The release of the national-level negative list in 2024 signals the initiation of China’s transition to the negative list governance

¹⁰ Shanghai PFTZ released the first Negative List for services trade in 2018. China (Shanghai) Pilot Free Trade Zone Cross-Border Service Trade Special Administrative Measures (Negative List) (2018) contains 159 items covering 31 industries.

¹¹ See details of the national and PFTZ versions in *Special Administrative Measures for Cross-Border Trade in Services (Negative List) (2024)* and *Special Administrative Measures for Cross-Border Trade in Services in Pilot Free Trade Zones (Negative List) (2024)*.

approach in services trade. The FTP list's significance as a reference for the national reform in governance approach exemplifies Hainan's positioning as a pioneer for reform and opening up.

Investment policy

Emulating the regulatory framework of services trade, the Masterplan prescribes a negative list approach to liberalise and facilitate investment. The regulatory priorities for foreign investment are systematically expanding market entry opportunities and streamlining approval procedures. Two types of negative lists regulate market entry to Hainan: first, a market access negative list that opens sectors of China's economy to private investment; second, a foreign investment negative list that governs investment entry for foreign entities. Besides, a new 'market access commitment and entry system' is put in place to simplify and minimise the entry procedures.

Under the first kind of list, Hainan alone is permitted market access provisions that extend beyond those of other regions, particularly other PFTZs. Specifically, the "Negative List for Market Access 2022" (hereinafter, "MA Negative List") delineates 117 industries that are prohibited or restricted to private investment by companies in mainland China, including special zones like Hainan FTP. The list is applicable to market entities nationwide for both domestic and foreign companies. Nevertheless, according to the "Opinions on Special Measures to Ease Market Access for the Support of Hainan FTP Construction," Hainan enjoys distinctive market access provisions that diverge from the national norms. While other regions may impose conditional market entry restrictions, Hainan is entitled to provide unconditional access. In sectors categorically prohibited in other parts of China, Hainan is allowed to introduce either conditional or entirely unrestricted market entry access. While Hainan lacks an exclusive market access list, its preferential policy remains uniquely applicable to Hainan.

The second type of list demonstrates Hainan FTP's unique regulatory flexibility in expanding foreign investment access. Foreign investors must comply with a negative list regulating foreign investment in addition to the abovementioned market access list. Since 2020, China has had three types of legally operative foreign investment negative lists. These separate lists serve investment management at different administrative levels—the country, the PFTZs, and the Hainan FTP (Figure 8). Unveiled in 2020, the "Special Administrative Measures for the Access of Foreign Investment in Hainan Free Trade Port" outlines restricted and prohibited sectors for foreign investment in Hainan FTP. The FTP-exclusive list extends Hainan's foreign investment access beyond national and PFTZ restrictions as of 2020. This is reflected by a shorter list of regulated sectors than that of national and PFTZs. The sectors liberalised under the FTP-exclusive list include telecommunications, education, business services, manufacturing, and mining.

Figure 8 Classification of Foreign Investment Negative Lists by Administrative Level

National Market Access Negative List

applicable to domestic and foreign entities in China

National Foreign Investment Negative List

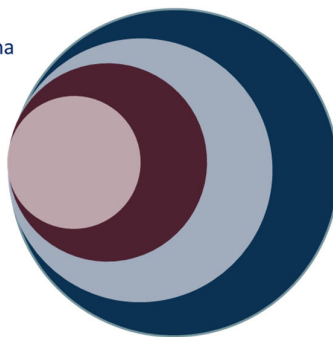
applicable to foreign entities in China

PFTZ Foreign Investment Negative List

applicable to foreign entities in PFTZs

FTP Foreign Investment Negative List

applicable to foreign entities in the FTP



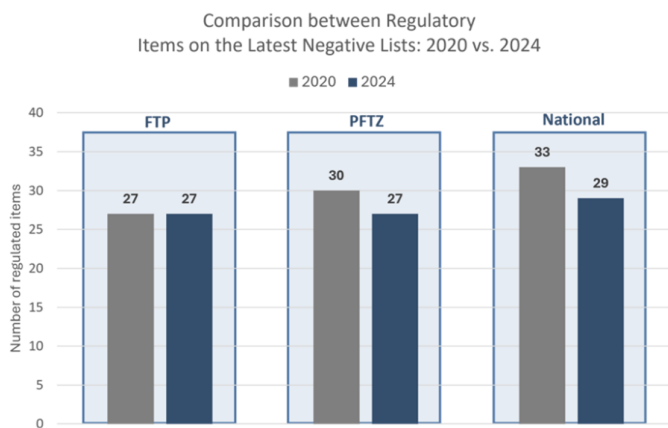
Source: Compiled by the authors.

Once at the forefront of foreign investment liberalisation, the FTP negative list has struggled to maintain momentum in leading subsequent reforms. In theory, the negative list should be a periodically revised catalogue. For instance, both national and PFTZ negative lists have been updated annually from 2017 to 2021.¹² However, the FTP version has remained unchanged since its initial introduction. In 2021, the PFTZ negative list was revised, reducing the number of regulated items from 30 to 27, the same number of items that the FTP list holds. The major difference between the PFTZ list and the Hainan list is the restricted sectors. Furthermore, due to its stagnancy in revision since 2020, the FTP list provides less detailed deliberation of regulated items compared to the PFTZ list. The ambiguity in laws and regulations could potentially undermine the attractiveness of Hainan as a foreign investment destination. Although the Hainan government emphasised in a national press conference that Hainan will implement a “new FTP negative list” (Shanghai Securities News 2024), the document has yet to be available as of January 2025.

In addition, the lack of periodical revision in the FTP negative list could result in regulatory ambiguity for FTP. In principle, foreign investment in special zones should prioritise the application of the zone-specific negative list. For foreign investments outside special zones, the national version applies. Thus, for foreign investments that enter the Hainan FTP, the FTP-specific version shall take precedence. In 2020, when the three-list approach was first introduced, the national foreign investment negative list had 33 regulatory interventions, the PFTZ version had 30, and the FTP version had 27 (Figure 9). The progressive reduction in regulatory interventions across three administrative levels is reflective of the positioning of special zones in leading the liberalisation. Specifically, Hainan serves as the vanguard for national reform and opening-up strategies, with PFTZs following, and the rest of the country implementing subsequent iterations. Without coordinated revisions of these lists, the tiered approach to foreign investment liberalisation risks regulatory inconsistency for Hainan.

¹² See item 9 in *Special Management Measures for Foreign Investment Access (Negative List) (2021 Edition)*, National Development and Reform Commission 2021.

Figure 9: Comparison of Reduction of Regulatory Items in Negative Lists: 2020 vs 2024



Source: Compiled by the authors based on the legal text of each Negative List.

Since 2020, national and PFTZ versions have undergone iterative revisions, while the FTP version has remained unamended since its initial release. In 2024, the national version has 29 regulatory interventions, and the PFTZ and FTP versions have 27 items on the list (Figure 9). Notably, the updated PFTZ list profoundly overlaps with the FTP version in terms of scope and content. The major difference is that the PFTZ version fully eliminated the foreign investment restrictions on the manufacturing sector and provided clarifications for the provisions. Although Hainan should prioritise the FTP version in theory, Hainan FTP is also a PFTZ.¹³ Hence, prospective foreign investors might need further instructions when the contradictions arise—whether they are entitled to explore sectors liberalised under the PFTZ or national versions but remain constrained on the FTP version. The current circumstance indicates a flaw in the practical design of foreign investment regulations, which could compromise the predictability and integrity of Hainan’s investment environment.

Tax policy

Hainan’s tax policy is instrumental to China’s ambition of constructing Hainan a free trade port. The taxation framework is primarily based on the principles of “zero tariffs, low tax rates, a simplified tax system, legal soundness, and phased implementation.”¹⁴ Hainan functions as a unique low-tax jurisdiction within China's economic system. Deviated from other PFTZs that follow national tax structures, Hainan's regime establishes a distinct tax regime.

The design of tax policy closely aligns with the development roadmap of the FTP. Hainan’s tax regime encompasses four primary mechanisms: Corporate Income Tax (CIT), Individual Income Tax (IIT), tariffs, and auxiliary tax reforms. Each of these mechanisms contains a transitional arrangement operating until 2025, followed by full implementation thereafter.

The FTP’s low CIT rate is considered a central preferential policy to attract businesses. The CIT framework establishes a 15 per cent rate upon full operation of FTP in 2025. It marks a significant reduction from the national statutory rate of 25 per cent. For the period 2020-2024, this preferential rate is conditional. The first criterion is that the enterprise is registered in the Hainan FTP. Second, the eligibility is contingent upon maintaining “substantive operations”

¹³ Hainan was given the PFTZ status in 2018.

¹⁴ See *Overall Plan for the Construction of the Hainan FTP*, State Council, 2020.

within the FTP and deriving at least 60 per cent of total income from these activities. "Substantive operation" requires enterprise leadership—including boards of directors and shareholders—to be physically located in Hainan FTP. These entities must exercise direct management and control over the enterprise's production, operations, personnel, accounting, and assets from within Hainan. The third criterion is that the primary business of the enterprise must fall under the "Catalogue of Encouraged Industries for Foreign Investment" of the FTP. After implementing island-wide customs operations in 2025, all industries—except those on the negative list—will qualify for preferential tax treatment.

The IIT structure introduces a tax system favouring high-end and urgently needed talent. Eligible talents benefit from an individual income tax exemption, with a 15 per cent cap on their taxable income. This provision is substantially below the mainland's maximum marginal rate of 45 per cent. During 2020-2024, qualifying domestic and international individuals received refunds for IIT paid above the 15 per cent threshold after annual reconciliation. From 2025 to 2035, the full implementation phase of the FTP system, the system will transition to a simplified progressive scheme with rates of 3, 10, and 15 per cent for comprehensive and business income. Qualification requires either 183 days of annual residency in Hainan or RMB 300,000 (approximately 85,714 USD)¹⁵ in annual income, with modified criteria for specialised sectors including aviation and offshore industries. In contrast, the national IIT system currently adopts a seven-level progressive rate, ranging from 3 per cent to 45 per cent. The 30 per cent cap difference between Hainan and the national system demonstrates Hainan's unique policy advantages.

In addition, to streamline the tax regime of the FTP, the auxiliary tax reforms introduce a streamlined sales tax post-2025, consolidating existing levies including VAT, consumption tax, vehicle purchase tax, and local surcharges. This reform aims to simplify compliance, align with international free trade standards, and stimulate regional economic development through a retail-level tax system for goods and services.

The Hainan FTP pledges a competitive tax regime, but the cashable benefits are contingent on the post-2025 implementation. The favourable tax rates offered by Hainan, such as the 15 per cent cap for CIT and IIT, distinguish the FTP from the rest of the country. Nevertheless, it must be noted that enterprises must meet specific conditions to be eligible for the preferential rates before 2025. The majority of these benefits are exclusive to the encouraged sectors with various conditions. In other words, the preferential provisions are associated with compliance risks. With the government enhancing tax enforcement through digital monitoring tools, companies must ensure accurate application of benefits and compliance with anti-tax avoidance regulations. Enterprises must maintain caution in areas such as transfer pricing, tax treaty benefits, and foreign income exemptions. This has been a shared phenomenon across different policy areas in the preparation phase of the FTP (2020-2024). While the preferential policy is announced, whether interested entities are entitled to the pledged benefits might be contingent on the criteria in the forthcoming legal documents in post-2025.

¹⁵ The conversion of RMB 300,000 to constant 2017 USD uses the World Bank's PPP factor for China (3.5 CNY per international dollar), yielding approximately 85,714 USD.

4. Comparative Analysis

This section discusses Hainan FTP from several perspectives. Primarily, it reviews the performance of the FTP in its preparation phase (2020-2024) with a focus on “Liberalisation & Market Access.” It is followed by a discussion of Hainan’s outlook from a comparative lens. The section then concluded with an analysis of potential challenges for Hainan to emerge as an internationally competitive free trade port in the post-2025 period.

4.1 Vertical Comparison: Pre-2025 Performance

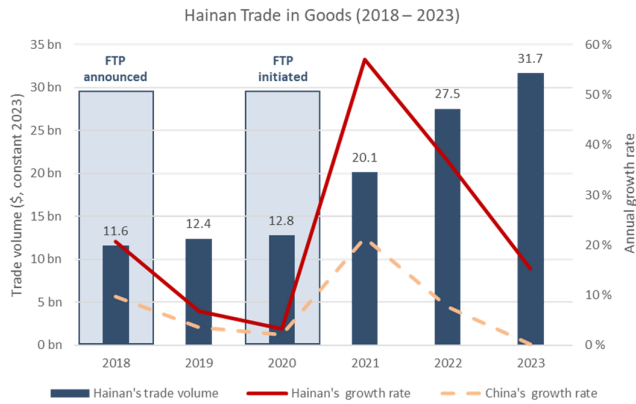
The pre-2025 policy performance will inform the post-2025 policy formulation and implementation. A notable feature of the Hainan FTP policy is its phased implementation. From 2020-2024, Hainan is in its preparatory stage for implementing additional customs border control between the island and the mainland in 2025. During this period, the central government maintained a selective approach to the preferential policies to support Hainan's transition toward FTP status. Priorities are given to key industries and encouraged sectors. For instance, the beneficial tax regime only applies to chosen sectors, such as high-tech, before 2025. To develop a firm understanding of FTP’s policy effectiveness and longitudinal insights into FTP development, this section analyses FTP’s economic performance, especially for the key industries.

This section primarily focuses on the trade and investment performance of the Hainan FTP, which is motivated by the fact that trade and investment fall under the key policy areas of liberalisation and market access policies of the FTP. These metrics partially reflect the effectiveness of policy instruments in facilitating cross-border economic activities and market openness. Furthermore, these indicators provide quantifiable evidence of policy outcomes and reflect both the implementation progress of liberalisation measures and their impact on economic integration. Despite the launch during the COVID-19 pandemic and the economic downturn, the initiation of FTP status overlaps with the post-pandemic recovery period. Thus, the performance of trade and investment of the FTP is compared against the national average to gauge the differential effect of the FTP policies.

Trade

Hainan's merchandise trade demonstrated consistent but moderate growth following the 2018 announcement of the FTP initiative. Total merchandise trade volume expanded by 155%, from US\$11.6 billion in 2018 to US\$32.38 billion in 2023 (Figure 10). While annual growth rates remained positive throughout this period, they exhibited significant volatility, peaking at 57% in 2021. Notably, the exceptional growth in 2021 likely reflects post-pandemic recovery effects rather than policy effectiveness, although the growth rate is higher than the national level. The growth pattern of Hainan suggests sustained trade expansion amid fluctuating growth momentum.

Figure 10: Hainan's Trade in Goods by Year (2018–2023)



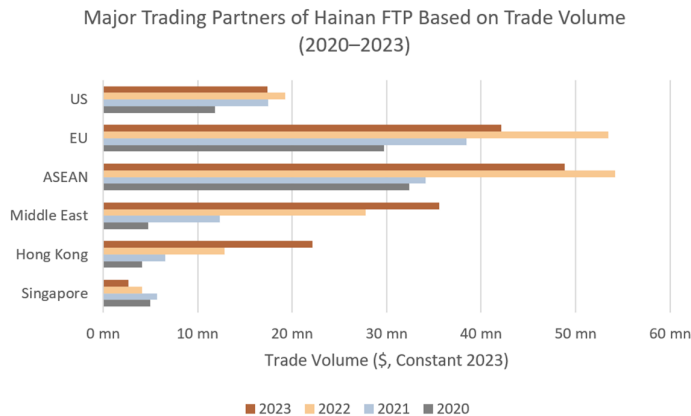
Notes:

- 1) In this figure, "bn" = "Billion", "\$" = "US dollar"
- 2) All monetary values in this figure are expressed in constant 2023 USD. Conversion to constant 2023 USD was performed using an exchange rate of 1 USD = 7.3 RMB, ensuring consistency and comparability across the period analysed.

Source: Compiled by the authors based on Chinese Academy of International Trade and Economic Cooperation (2024).

During 2020–2024, Hainan FTP's trading partnerships underwent significant realignment. ASEAN initially led trade volumes in 2020, followed by the EU's emergence as the primary partner in 2021. ASEAN regained its leading position in 2022, coinciding with the effectuation of the RCEP (Figure 11). This realignment reflects Hainan's strategic role as a China-Southeast Asia gateway, while trade with Hong Kong, Africa, and the Middle East showed sustained growth.

Figure 11 Major Trading Partners of Hainan FTP by Year (2020–2023)



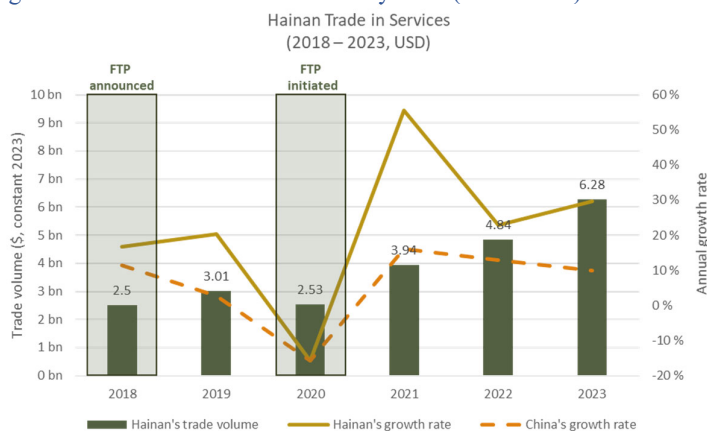
Note: In this figure, "mn" = "Million", "\$" = "US dollar".

Source: Compiled by the authors based on data from Hainan Provincial Bureau of Statistics and Chinese Academy of International Trade and Economic Cooperation (2024).

Hainan's services trade has experienced notable growth, albeit at a pace less remarkable than its merchandise trade. The volume contracted sharply in 2020, recording a negative annual growth rate, likely due to the pandemic's impact. However, a strong recovery followed in 2021, with services trade rising from US\$2.53 billion in 2020 to a record high of US\$6.28 billion in 2023 (Figure 12). This represents an average annual growth rate of 36% during the period, surpassing both the pre-COVID average and the national growth rate. Despite this momentum, the scale of Hainan's services trade remains modest. In 2023, Hainan's services trade accounted

for just 0.7% of China’s total. The performance highlights significant room for further expansion and integration into national and global services trade networks.

Figure 12 Hainan's Trade in Services by Year (2018–2023)



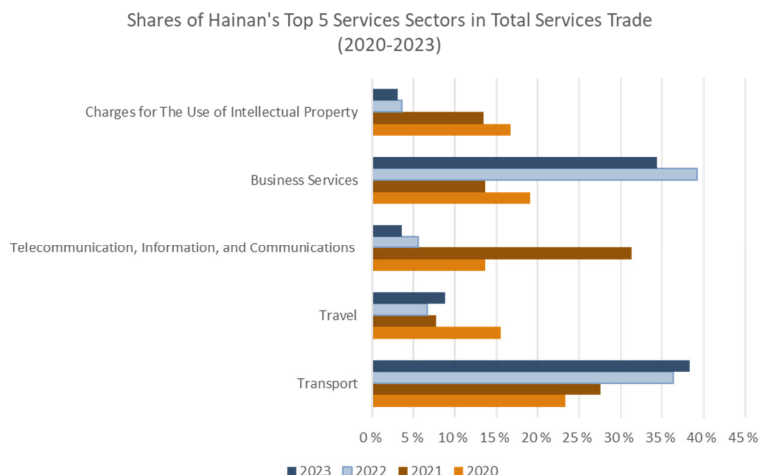
Notes:

- 1) In this figure, "bn" = "Billion", "\$" = "US dollar".
- 2) All monetary values in this figure are expressed in constant 2023 USD. Conversion to constant 2023 USD was performed using an exchange rate of 1 USD = 7.3 RMB, ensuring consistency and comparability across the period analysed.

Source: Compiled by the authors based on Chinese Academy of International Trade and Economic Cooperation (2024).

The sectoral composition of Hainan's services trade has remained largely reliant on conventional services, with limited upgrading to high-value-added sectors observed during this period. In 2022, conventional service industries, such as Transport and Business Services, have continued to take large shares since the launch of the FTP initiative (Figure 13). Business Services increased starkly in 2022, accounting for 39% of total services trade. It maintained the momentum in 2023 by making up 34% of the total trade. The prioritised sectors, such as tourism, high-tech industry, and modern services sectors, initially did not respond well to the FTP policy. Relevant indicators such as Charges for The Use of Intellectual Property and Telecommunication, Information, and Communications have been dropping from 2021 through 2024. In addition, trade in the Intellectual Property services sector dropped from 17% in 2021 to 3% in 2024 of total services trade. Similarly, Financial Services remained peripheral, declining from 0.06% in 2020 to 0.04% in 2023 despite targeted policy support (Appendix 3).

Figure 13 Shares of the Top 5 Services Sectors in Hainan's Services Trade (2020–2023)

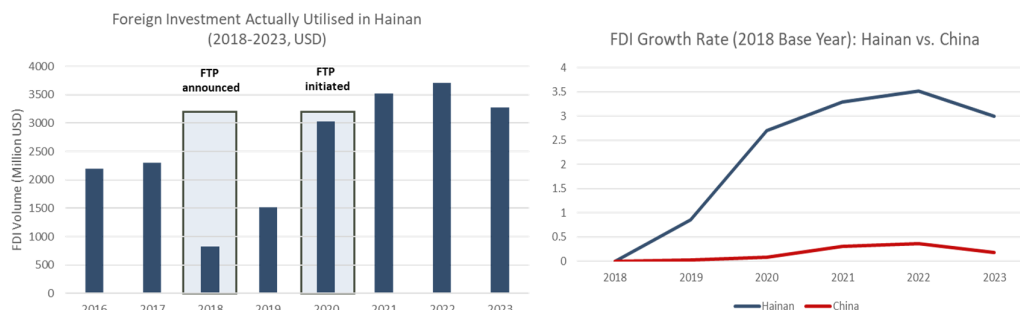


Note: The classification of sectors follows the International Monetary Fund's Trade in Services Classifications. Source: Compiled by the authors based on data from the Hainan Provincial Bureau of Statistics and the Chinese Academy of International Trade and Economic Cooperation (2024).

Foreign Direct Investment

The implementation of the Free Trade Port initiative has markedly accelerated Hainan's FDI inflows, though recent data suggests emerging challenges. The province's utilised FDI demonstrated sustained growth from 2018 to 2022, before experiencing a downturn in 2023 (Figure 14). Notably, the post-2018 period witnessed exceptional growth dynamics. Hainan achieved an average growth rate of 267% relative to 2018. This significantly outpaced the national average of 19%. This robust performance trajectory reflects the positive effect of the FTP initiative's investment-facilitating policies. However, the 2023 decline indicates potential vulnerabilities in Hainan's investment environment that warrant policy attention.

Figure 14 Hainan's Utilised FDI, 2018 – 2023



Note: "mn" = "Million", "\$" = "US dollar".

Source: Compiled by the authors based on data from the Hainan Provincial Bureau of Statistics, the National Bureau of Statistics of China, and the Chinese Academy of International Trade and Economic Cooperation (2024).

Despite the rapid growth of FDI and trade of Hainan FTP, their absolute values remain small. For FDI, it only represented 2 per cent of the national total, 12 per cent smaller than the neighbouring province of Guangdong in 2023. These suggest that a misalignment exists between Hainan's economic performance and its substantial policy endowments. Moreover,

priority industries have not achieved their anticipated dominance in the trade and investment portfolio.

This performance pattern warrants contextual consideration. Hainan's status as a historically underdeveloped region, coupled with limited success in previous economic transformation initiatives—notably the Special Economic Zone (1980s) and International Tourism Destination (2010s)—suggests institutional capacity constraints. Although comprehensive national policies support Hainan's FTP construction, their effectiveness fundamentally depends on local implementation capacity and leadership efficacy.

Given these structural limitations and the prevailing economic headwinds, expectations of rapid transformation may be premature. Significantly, the complete implementation of preferential policies is scheduled post-2025, suggesting potential for accelerated development in subsequent phases.

4.2 Horizontal comparison: Hainan's relative positioning

Hainan's ambition to become one of China's most liberalised regions and globally influential free ports entails a horizontal comparison for a more comprehensive evaluation. The central government has high expectations for Hainan FTP. According to the State Council, Hainan's primary positioning is a pilot zone for deepening reform and opening-up in the new era".¹⁶ Specifically, Hainan is positioned to become a "benchmark" in economic systems and social governance reforms while establishing a frontier for China's in-depth integration into the global economic system (State Council 2018). However, Hainan remains one of the many special zones that serve the national strategy of reform and opening up. To realise its ambition of becoming a pioneer, the province will need to distinguish itself among domestic peers, particularly established forerunners in liberalisation, such as Guangdong and Shanghai. Building upon the preceding vertical analysis, this section examines Hainan's competitive position through comparative analysis. As Hainan aspires to become an influential free port like Singapore and Hong Kong, understanding its current standing among domestic PFTZs will contextualise its readiness for international engagement.

Internal comparison

Aside from the FTP, five among twenty-two PFTZs share similar functions and positioning with the Hainan FTP. These pilot regions include Shanghai PFTZ, Guangdong PFTZ, Tianjin PFTZ, Fujian PFTZ, and Beijing PFTZ. According to an official document released in 2023,¹⁷ these PFTZs, as well as the FTP, are a few "qualified" zones to serve as primary testing grounds for institutional reforms—aligning institutional systems and liberalisation measures with

¹⁶ Hainan has four positionings, respectively: a pilot zone for comprehensively deepening reform and opening-up, a national pilot zone for ecological civilisation, an international centre for tourism and consumption, and a key service and support area for major national strategies. The sequence implies priority of these positionings.

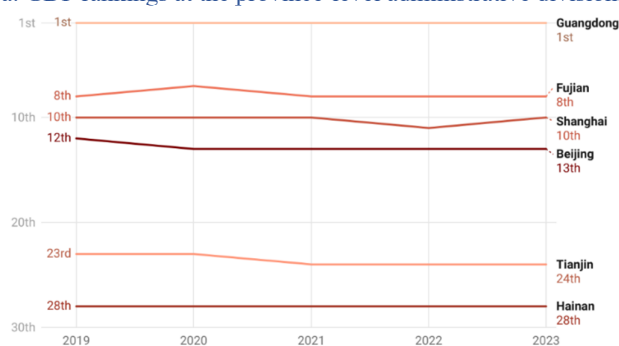
¹⁷ See Notice Regarding the Implementation of Several Measures to Promote Institutionalised Opening-Up of Qualified Free Trade Pilot Zones and Free Trade Port in Accordance with International High Standards, issued by the State Council of the People's Republic of China on June 29, 2023.

international best practices and trade norms¹⁸ to further integrate China into the global economy (United Nations Conference on Trade and Development 2023). This closely aligns with the policy priorities outlined in the Masterplan for FTP. The subsequent analysis, therefore, examines key indicators in trade and investment and institutional reforms to assess Hainan's readiness to become a pioneering pilot zone.

Notably, the “qualified” PFTZs exhibit diverse stages of readiness to lead the national reform and opening-up strategy. Guangdong and Fujian are the earliest provinces to have extensive foreign trade links in Chinese history and the most experienced administrations in constructing special zones (Dyke 2017; USDA Foreign Agricultural Service 2010a; 2010b). Beijing, Shanghai, and Tianjin are three direct-administered municipalities under the central government with crucial political and economic significance.

Hainan FTP has an unfavourable economic and trade foundation compared to its contending peers. Its policy support and geographical endowments are notable but hardly parallel to the established advantages of others in the group. Figure 15a demonstrates such divergence. In terms of regional GDP, Hainan ranked 28th out of 31 provincial-level administrations, while Guangdong, Fujian, and Shanghai were positioned within the top ten. Tianjin performed marginally better than Hainan, although the gap between them persists.

Figure 15 Economic Foundation of “Qualified” Pilot Zones
a. GDP rankings at the province-level administrative divisions (2019–2023)



b. Foreign trade degree of dependence (FTD), 2023

Foreign Trade Degree of Dependence (2023, %)	
Guangdong	61.21
Shanghai	89.21
Fujian	36.32
Beijing	83.33
Tianjin	47.83
Hainan	30.63

Note: The analysis encompasses all 31 provincial-level administrative regions in mainland China.
Source: Compiled and calculated by the authors based on data from the National Bureau of Statistics of China.

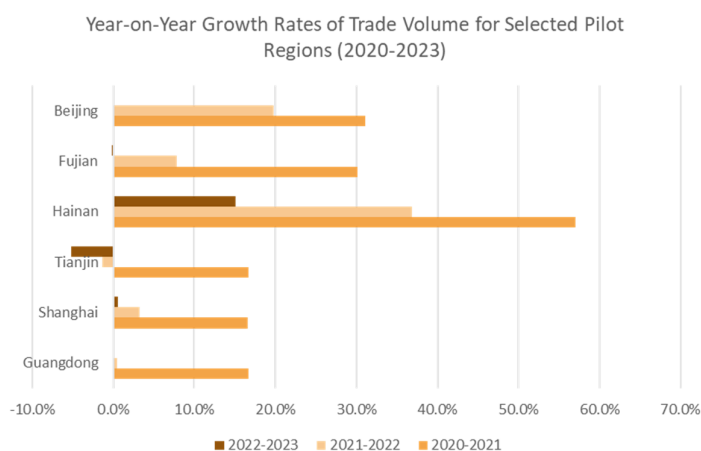
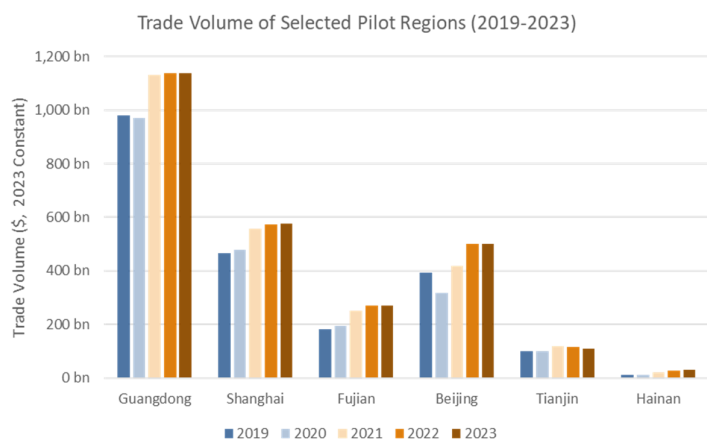
¹⁸ The “emerging trade norms” is known as “high-level international trade rules” in China’s policy context. The term often refers to trade rules represented by advanced trade agreements such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA).

Furthermore, Hainan is outpaced by others in terms of integration in international trade, despite having the FTP-exclusive “zero-tariff” policy and the negative list approach partially implemented. Figure 15b reflects a region’s level of trade integration and reliance on foreign markets. Among the selected regions, notable variation in foreign trade dependence is observed. In 2023, Shanghai and Beijing exhibit high levels of trade integration, with foreign trade dependence (FTD) values of 89.21% and 83.33%, respectively, underscoring their prominent connections with international trade. Hainan's current FTD of 30.63% reflects its early developmental stage. This disparity suggests that increased international market participation is essential as Hainan's FTP initiatives progress.

Since the 2018 announcement and the subsequent implementation of the plan in 2020, Hainan's trade volume has consistently underperformed, with data from 2019 onwards showing a clear gap compared to Guangdong, Shanghai, and Beijing (Figure 16 a). Fujian and Tianjin, though both are less engaged in foreign trade, still outperform Hainan in trade volume. Despite the modest absolute volume, Hainan demonstrated the highest growth dynamics in trade and investment. Hainan’s trade volume has maintained positive yearly growth since 2020. In conclusion, the variation is salient across the “qualified” PFTZs, with Hainan exhibiting the opportunity for further development compared to its counterparts.

Figure 16 Key Economic Metrics of Selected Pilot Regions in China: Trade and Investment (2019–2023)

a. Volume and growth rates of Trade in goods (2019-2023)



b. Selected regions' shares in realised FDI in China (2020-2023, %)

	2020	2021	2022	2023
Shanghai	12.7	12.9	12.7	14.8
Guangdong	15.7	15.3	14.7	14.0
Beijing	9.0	8.0	9.2	8.4
Tianjin	3.2	3.0	3.1	3.5
Fujian	3.0	2.7	2.6	2.6
Hainan	1.2	1.9	2.0	2.0

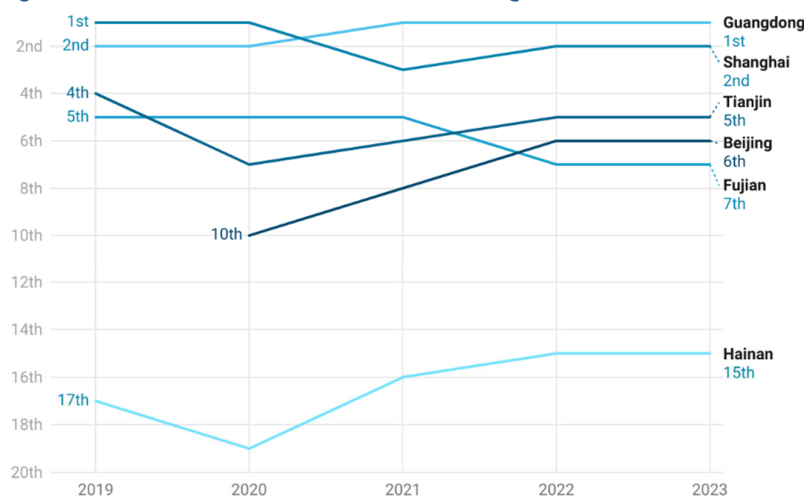
Note: For PFTZs established within the same administrative jurisdiction, aggregate provincial-level data, rather than disaggregated municipal data, was utilised for economic indicators. E.g. Guangdong province data was used to account for PFTZs in Shenzhen, Guangzhou, and Zhuhai.

Source: Compiled by the authors based on data from the Ministry of Commerce and regional Bureaus of Statistics.

While there are persistent disparities, Hainan exhibits continued growth of FDI and trade, which potentially benefitted from the trade and investment liberalisation policies. As illustrated in Figure 16b, Hainan is also the only pilot zone in the group that sees a consistent increment in proportional contribution to China's realised FDI. However, Hainan still holds a small share relative to the more mature PFTZs in the group. This observation underscores the need for continuous monitoring of the full implementation of Hainan FTP policy post-2025.

Beyond trade-related indicators, Hainan’s institutional reforms have made progress but remain modest compared to its counterparts. The National Institutional Innovation Index,¹⁹ published annually by the Institute of Free Trade Zones, provides a systematic assessment of PFTZs across five dimensions of institutional reforms and regulatory innovation: trade facilitation, investment liberalisation, financial innovation, government functions, and legal environment.²⁰ According to the Index, Guangdong and Shanghai PFTZs demonstrate sustained leadership (Figure 17), with three “qualified” pilot zones—Tianjin, Beijing, and Fujian—consistently maintaining top-decile rankings since 2019. Despite a temporary decline in 2020, Hainan's ranking exhibited an upward trajectory, advancing from 17th to 15th position in the Index. Notably, it excelled in government functions and the legal environment indicators but lagged in trade facilitation and financial innovation after the effectuation of FTP (Appendix 4). Among the 57 pilot zones evaluated in 2023, Hainan's performance, while positive, lagged its peer cohort's benchmarks.

Figure 17 National Institutional Innovation Rankings of Pilot Free Trade Zones (2019 - 2023)



Note:

- 1) The National Institutional Innovation Index evaluates individual PFTZ areas within each administrative region independently. For PFTZs encompassing multiple areas within the same administrative jurisdiction (e.g., Guangdong PFTZ's Nansha New Area, Qianhai Shekou Area, and Hengqin New District), this analysis adopts the highest-performing area's score as representative of the respective PFTZ.
- 2) The index began including Beijing in 2020, following its establishment that same year.

Source: Compiled by the authors based on data from the Institute of Free Trade Zones.

¹⁹ Each PFTZ may encompass one or multiple designated areas. This index evaluates institutional innovation outcomes using each area as the basic unit of measurement. Between 2019 and 2023, the number of evaluated areas increased from 43 to 57, reflecting the national expansion of PFTZs.

²⁰ The evaluation system comprises five key indicators to assess institutional innovation across various domains. The trade facilitation indicator evaluates progress in border management, trade regulation, trade environment, and high-quality trade development. The investment liberalisation indicator focuses on measures related to market access liberalisation, investment services, and investment management. The financial innovation indicator assesses advancements in financial service capabilities, high-level financial openness, and financial regulatory capacity within PFTZs. The government functions indicator examines the effectiveness of administrative reforms, regulatory capacity, and government service delivery. Lastly, the legal environment indicator measures institutional innovation outcomes in scientific legislation, law implementation, and legal services.

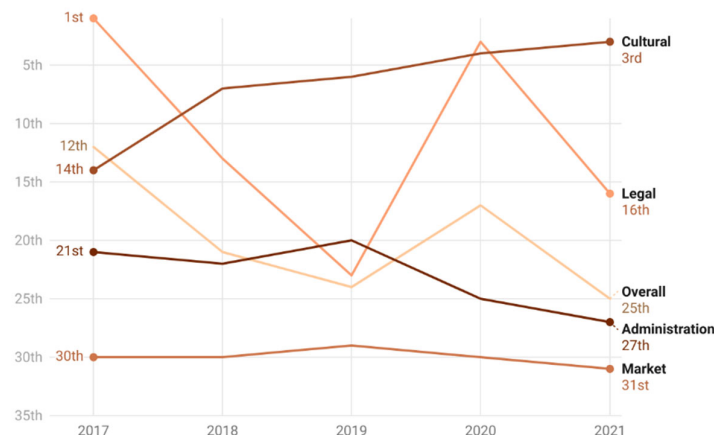
Furthermore, Hainan demonstrates suboptimal performance in the Doing Business ranking published collaboratively by Peking University and Wuhan University. Despite variations in performance rankings among “qualified” PFTZs from 2017 to 2021, Hainan consistently ranked among the lower-performing regions (Figure 18a). Notably, Hainan shows strengths in cultural (6th) and legal environments (7th) although its overall business environment has shown notable weaknesses, particularly in its market (31st) and administration (26th) indicators (Figure 18b). Between 2017 and 2021, Hainan’s business environment score remained slightly below the national average, with a marked decline in ranking from 12th in 2017 to 25th in 2021 among the 31 provinces. This downward trend highlights a growing disparity between Hainan's progress and national standards.

Figure 18 Performance Metrics of Hainan's Business Environment (2017-2021)

a. Ease of doing business environment rankings of “qualified” PFTZs (2017-2021 average)

Average National Rankings of Selected PFTZs	
Shanghai	1
Beijing	2
Guangdong	4
Tianjin	15
Fujian	17
Hainan	20

b. Sectoral rankings of Hainan’s business environment, 2017-2021



Average Sectoral Ranking of Hainan (2017 – 2021)	
Cultural	6
Legal	7
Administration	26
Market	31

Note: The ranking includes 31 provincial-level regions in mainland China.

Source: Compiled by the authors based on data from the Research Report on the Business Environment of Chinese Provinces 2023.

The internal comparison highlights that Hainan FTP sees a positive momentum among pilot regions but has yet to become a forerunner. Guangdong and Shanghai are the top performers, with considerable variation in competitiveness among the “qualified” group. Comparisons in trade and investment liberalisation, institutional reforms, and business environment—the

primary policy focuses of PFTZs and FTP- underscore the need for Hainan to develop its capacity further and utilise preferential policies.

Nevertheless, the comparative analysis illuminates potential benchmarking opportunities against established zones as the FTP advances towards enhanced reform autonomy during its Implementation Phase (2025-2034). In comparison to its peers in the “qualified” group, the FTP enjoys unprecedented policy support from the central government, such as the zero tariff policy and a Hainan Free Trade Port Law to provide a legal basis for the implementation of the FTP initiative (State Council 2018). These peculiar advantages are not well reflected in its current performance as of 2024. As the FTP prepares to fully leverage its preferential policies post-2025, local authorities can strategically refine implementation by benchmarking lessons from established pioneer zones.

International comparison

The mild performance in the domestic setting subsequently reflects a lack of competitiveness in the international context. The formidable success of Singapore and Hong Kong presents a challenging benchmark for Hainan's developmental aspirations. Driven by exports and rapid industrialisation, these two “Asian Tigers”²¹ have steadily retained a high rate of economic growth in the second half of the twentieth century.

Both economies’ economic achievements stem from their effective blend of free-market principles and strategic government interventions. Primarily, the initial conditions played a crucial role in their developmental trajectory. Both cities benefited from advantageous starting points, including high literacy rates and relatively equitable income distribution, which enabled broad-based participation in economic growth. These foundations proved essential for their subsequent development.

In addition, the institutional foundations of these economies have been particularly robust. Both established frameworks are characterised by strong property rights, efficient bureaucracies, and low corruption levels, creating an environment highly conducive to business growth. Their governments implemented targeted policies to address market failures whilst maintaining economic openness, particularly in developing sophisticated financial sectors and facilitating international trade (Sarel 1997). Their strategic approach to economic development has been equally significant. Both cities pursued export-oriented industrialisation strategies, coupled with substantial investments in human capital and infrastructure, which fostered rapid technological advancement and productivity gains. Furthermore, their governments' pragmatic approach to policymaking—maintaining macroeconomic stability whilst selectively intervening to enhance competitiveness—demonstrated how well-calibrated public policy can effectively support market-driven growth.

Apart from the above strengths, their positions as global trade hubs are further cemented by their institutional autonomy—Singapore as a sovereign state and Hong Kong as a separate customs territory. This autonomy enables direct negotiation of preferential trade and investment agreements and prompt adjustment of policies. Their strategic locations in Asia-Pacific region and advanced infrastructure in finance, technology and logistics further strengthened their competitiveness.

²¹ “Asian Tigers” refers to the economies of four economies— Singapore, Hong Kong, South Korea, and Taiwan.

Hainan's development as an FTP faces structural constraints that differentiate it from these established models. It lacks parallel initial conditions, solid industrialisation, and political and economic autonomy. These fundamental differences present significant challenges for Hainan's convergence with Singapore and Hong Kong's standards, particularly in the short to medium term. However, public policy is an integral part of Singapore and Hainan's success. Whilst Hainan may not replicate the exceptional achievements of Singapore and Hong Kong, their development trajectories—particularly their institutional frameworks—offer instructive insights for accelerating Hainan's economic advancement.

To live up to its ambitions, Hainan's development framework must draw inspiration from Singapore and Hong Kong. This is reflected in Hainan FTP's tax regime, which mirrors the low-rate systems of the two economies. The complexity, however, is that the implementation of these ambitious policies in Hainan will have to abide by the socialist rules and national development mandates.

As Hainan FTP enters its "Implementation Phase (2025-2034)", its capacity to achieve its ambitious objectives will depend critically on effective policy execution. This transition period will prove decisive in determining whether Hainan can successfully adapt elements of Singapore and Hong Kong's development models within its distinct institutional context.

4.3 Looking Ahead: Challenges and Opportunities

The year 2025 initiates Hainan Free Trade Port's critical "Implementation Phase" (2025-2034), marking a transition to more comprehensive policy deployment. The initiative encompasses intricate institutional mechanisms, such as the dual-track customs system of "first line" and "second line" border control. These architectural elements were anticipated to catalyse both local economic transformation and international integration. Grounded on the preceding comparative analysis, the following section discusses emerging challenges that may influence Hainan's developmental trajectory.

Challenges

Policy and regulatory challenges

Critical uncertainty surrounds the implementation of Hainan FTP's core preferential policies scheduled for 2025. According to the Masterplan, this milestone year marks Hainan's transition to a special customs region, characterised by the free movement of goods, investment, capital, personnel, transportation, and data. The transformation envisions expanding existing preferential policies—including "zero-tariff" arrangements and low tax regimes—from priority sectors to encompass most economic activities. While the dual-track customs system theoretically exempts all goods from tariffs (except those in restricted catalogues), the supporting policy documents and action plan necessary for this comprehensive liberalisation, such as the Catalogue of Import Taxable Commodities, have yet to be released. The same issue is also observed in the liberalisation of investment and services sectors. This gap between strategic vision and operational guidelines creates policy uncertainty that could deter long-term business planning and investment commitment, potentially undermining the FTP initiative's effectiveness.

In addition, the current operational realities of Hainan FTP reveal significant disparities between policy design and business sector requirements across multiple industries. While the FTP framework aims to facilitate international trade and innovation, the current regulatory architecture imposes substantial compliance costs and operational constraints on foreign enterprises. For instance, the European Chamber has raised several obstacles in their 2024 Position Paper—Hainan’s offshore duty-free cosmetics trade faces heightened complexity and costs compared to conventional trade models as Chinese labelling is required on both inner and outer packaging (European Union Chamber of Commerce in China 2024). Further, the regulatory requirement for sample retention poses operational challenges as responsible persons, who must maintain samples for imported batches, are located outside the FTP while the products are directly managed by local duty-free distributors (European Union Chamber of Commerce in China 2024). This geographic disconnect between regulatory accountability and operational control creates inefficiencies in compliance monitoring and quality assurance. Pharmaceutical enterprises also advocate for clear and consistent guidelines from relevant authorities to define the scope of 'prohibited investment' and establish channels for consultation and dialogue. This misalignment between policy objectives and implementation mechanisms suggests a need for more targeted regulatory reforms that address industry-specific operational challenges while maintaining necessary oversight.

Another concern is that the Hainan government might face administrative challenges. Hainan’s development history has a track record of being interrupted by speculative behaviours, which ultimately led to mediocre performance as an SEZ in the 1980s and National Strategic Hub for Tourism and Economic Transformation in the 2010s. Although the local government has some experience in hosting special zones, FTP is the latest design, which aims for a more mature economic model through limited government interventions in the distribution and allocation of global production factors (An 2019). The recognised benchmarks—Singapore and Hong Kong—indicate that above-average administration and governance capacity is requisite. Even with unprecedented support from the central government, Hainan remains a relatively underdeveloped region. It also has yet to fully utilise some of the preferential policies given by the central government, such as the reform autonomy. For Hainan, the current performance implies a capacity constraint.

Dilution of policy advantages

The dilution of policy advantages is another major challenge for Hainan. Primarily, the outcomes of Hainan’s FTP policy experiments will likely affect Hainan’s relative importance within PFTZs. While the central government is invested in Hainan’s unique geographical advantages, the FTP has yet to develop robust trade or industrial competitiveness under full-spectrum policy support. In addition, the new PFTZs targeting similar industry focus and similar positioning are proliferating and competing for opportunities. If Hainan is not able to deliver comparable results, it might risk losing such a level of support and resources.

Further, the unique policy advantages of FTP may be diluted as preferential policies are being extended to other parts of China. This institutional paradox characterises the systemic challenge inherent in China’s special zones, whose fundamental mandate is to pioneer policy innovations for potential broader replication. Notably, some pilot zones, such as Shanghai and Shenzhen, successfully consolidated local capacities before policy standardisation eroded their initial comparative advantages. Hainan encountered this dilution issue as an SEZ in 1992 when the socialist market economy became a national practice. Despite its recent FTP designation, Hainan is already experiencing policy dilution challenges. For instance, PFTZ’s Foreign

Investment Negative List has evolved to match the standards of the FTP version. This change erodes Hainan's previously distinctive market access liberalisation strategy. Likewise, tariff exemptions for imported goods processed with at least 30% value-added, previously limited to Hainan's Special Customs Zones, were extended to the Guangdong-Macao In-Depth Cooperation Zone in Hengqin within the Guangdong-Hong Kong-Macao Greater Bay Area (GBA).

Adding to the difficulty is the issue of the siphoning effect by adjacent developed regions like GBA(Liu 2024). As discussed in the previous analysis, Hong Kong and Guangdong are more mature economic models with advanced infrastructure and established markets. As Hainan's distinctive policy advantages diminish, the GBA's established competitive strengths may redirect resources, potentially impeding Hainan FTP's near-term developmental trajectory.

Unclear strategic positionings

A fundamental challenge affecting the FTP initiative stems from its ambiguous strategic positioning within China's network of PFTZs. Despite explicit central government support, its operational-level positioning remains insufficiently defined.

Foremost, similar positioning to other PFTZs creates ambiguity regarding Hainan's role and policy application. As the theme of China's reform and opening up becomes "institutional opening-up," the centre of gravity of liberalisation has also shifted from merchandise trade to services trade in tandem. While PFTZs collectively pursue economic development through high-value-adding service sector advancement and international trade integration (Pei and Ni 2024), this transformation demands robust economic foundations and local administrative capabilities. Thus, Hainan faces a unique dual mandate that distinguishes it from other PFTZs: it must simultaneously drive provincial economic development and serve as a national pioneer for economic reform and liberalisation.

However, current FTP policy directives predominantly emphasise its pilot function, with insufficient attention to local developmental imperatives. This imbalance has led Hainan to prioritise testing and developing advanced institutional architectures to stand out in the pilot regions without adequately addressing its fundamental economic constraints. Thus, even though Hainan performs well in the institutional innovation matrix among all PFTZs, it remains an underdeveloped region in the national context. While Hainan pledged to benchmark Singapore and Hong Kong in its institutions, its phased implementation of the FTP lacks provisional benchmarks and priorities of equivalent clarity. Even in its provincial positioning, Hainan adopted a very vague term, "playing a key role in reforms and opening up," without identifying any peculiar advantages or strategic significance (The Paper 2024). This lack of clarity regarding Hainan FTP's immediate objectives creates ambiguity in FTP policy enforcement. Coupled with the potential dilution of policy advantages, this ambiguity risks undermining Hainan FTP's developmental trajectory. It also jeopardises Hainan's effectiveness as a reform pilot in the long run.

Opportunities

Collaboration with major trade partner

Hainan FTP might help deepen cooperation between ASEAN and China. ASEAN is a crucial trade partner of China. ASEAN's central role in regional frameworks like RCEP and ambition to become a "growth centre" align with China's strategy for deeper regional integration. Other than RCEP, China and ASEAN also have a bilateral trade pact, the ASEAN – China Free Trade Area (ACFTA), which has been through two rounds of updates. This partnership enhances China's influence in the Asia-Pacific and facilitates economic collaboration in a stable geopolitical context. ASEAN is a rapidly growing economy, projected to become the world's fourth-largest economy by 2030. Strengthened supply chain integration further enhances resilience and efficiency in industries like high-tech manufacturing. Its youthful workforce, resource richness, and expansive development space provide significant opportunities for trade, investment, and value chain collaboration.

Hainan's proximity to ASEAN, rich marine resources, and capacity for developing blue economy projects, such as port alliances and marine ranching, make it a suitable gateway for deepening China-ASEAN economic and maritime ties. The diaspora of Hainan in Southeast Asia also gives Hainan unique cultural and linguistic advantages in bilateral communication.

Inter-PFTZ coordination

Hainan FTP's establishment presented an opportunity for the central government to improve the working mechanisms between pilot regions. The construction of special zones has been the pillar strategy of China's national development. PFTZs proliferate with notable achievements, but the coordination and collaboration between pilot regions are rarely observed. Although the central government demands such cooperation to generate further impact, the collaboration and harmonisation effort remains at the dialogue or nominal level.

Hainan FTP could leverage autonomous power in policy innovation to explore this unique collaboration and nurture its unique advantages within the pilot regions. For instance, its proximity to GBA might allow it to anchor financial initiatives with Hong Kong and high-tech projects with Shenzhen. This will help Hainan establish peculiar strengths and facilitate local development and international trade integration.

5. Conclusion

China's reform and opening-up policy is at a crossroads as the global geoeconomic reality evolves. Hainan FTP provides a litmus test of the country's willingness and actual commitment to explore liberalisation and regional economic integration.

This research examines the Hainan FTP's policy structure and core liberalisation strategies. The central government has granted Hainan a higher level of policy flexibility compared to the other PFTZs in trade, investment, and taxation. Key measures include a zero-tariff policy and a distinctive low-tax regime, likely to remain Hainan-specific in the near to medium term. This reflects Hainan's strategic significance in China's reform and opening up.

The paper further evaluates the FTP initiative from a comparative perspective. Vertically, there is some early indication of policy effectiveness, with both trade and foreign direct investment in Hainan exhibiting a higher growth rate than the national average post-FTP implementation. Other metrics such as the institutional innovation also show modest improvement. However, Hainan remains in a nascent developmental stage with relatively weak economic fundamentals compared to established regions like Shanghai and Guangdong Province. External comparisons with international models such as Singapore and Hong Kong reveal Hainan's structural limitations. The Hainan FTP might face significant challenges in replicating these jurisdictions' sophisticated institutional frameworks and operational autonomy.

By 2024, Hainan's Free Trade Port has not yet fully realised the transformative potential of its preferential policies. The implementation phase commencing in 2025 will progressively extend liberalisation measures across sectors. Given the systemic complexity and extended implementation timeline, the FTP initiative will likely encounter further challenges.

Immediate challenges include implementing complex policy design, such as dual-track customs control, and ensuring policy coherence. Foreign stakeholders have already expressed concerns about implementation and policy clarity. Medium-term risks involve potential policy advantage dilution, reminiscent of its 1990s experiences. A fundamental challenge is Hainan's unclear strategic positioning within PFTZs and China's broader economic landscape. The FTP's success hinges on whether it can effectively navigate these challenges while leveraging its unique geographical and policy advantages.

In conclusion, Hainan FTP is a long-term program with a constantly unfolding policy landscape. Post-2025 is a defining period for the implementation of the Hainan FTP initiative. The findings suggest both risks and opportunities. Thus, continuous observation and periodic assessment is essential for the policymakers and stakeholders.

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Appendix

Appendix 1. History of Hainan's Development Opportunities

Special Economic Zone

As one of China's earliest SEZs, Hainan has contributed to the country's reform strategy since the 1980s. Historically, the province has seen three major instances of top-down policy initiatives (see Figure 1). The first instance occurred in 1988 when Hainan was designated as an SEZ. The second was the central government's strategic vision of transforming Hainan into a tourism-driven economy. The establishment of the Hainan FTP represents the third “whole-of-nation” support.

Hainan's initial phase of policy-driven development began in the 1980s. China set up four SEZs in 1980: Shantou, Shenzhen, Xiamen, and Zhuhai. While the experiences of these SEZs have been instrumental in advancing China's reform and opening-up policies, their context—characterised by its limited physical size, coastal location, and relatively homogenous population—limits the applicability of their experiences to broader China. Hainan's diverse geography and economic conditions, from developed cities to impoverished rural areas, make it a microcosm of China. Recognising the distinct landscape of Hainan, the central government designated Hainan as the fifth SEZ in 1988²² (China Communist Party News 2011). The main objectives of Hainan SEZ include exploring scalable development models, prototyping a state-regulated market economy, and fostering conditions for productivity growth (China Communist Party News 2011).

In alignment with the priorities of Hainan, the leadership pledged to implement “more preferential and open policies” in Hainan than those of previous SEZs (State Council 1988; Hainan Daily 2013). Specifically, Hainan stands out due to its 'three freedoms' policy concept, which allows greater freedom in capital flow, movement of people, and trade in goods (Hainan Daily 2013). The masterplan of Hainan SEZ²³ fleshed out 'three freedoms' and attracted substantial talents and capital to the province (Hainan Provincial Committee of the Communist Party of China, n.d.).

However, the province fell short of fully leveraging this opportunity. Foremost, the weak infrastructure and limited market size constrained Hainan's capabilities to effectively accommodate the sudden surge in job-seekers and resources (Hainan Provincial Committee of the Communist Party of China, n.d.). Moreover, the majority of incoming funds flowed into the real estate sector, fuelling a speculative bubble that eventually collapsed in 1993 following the central government's tightening of monetary policies (An 2019). Besides capital outflows, Hainan's unique policy advantages diluted in 1992 when the 14th Party Congress announced the national shift toward a socialist market economy (China Communist Party News 2011). The province then entered a long period of recovery (An 2019). The government recalibrated its development focus to high-value agricultural products and tourism in 1996, but its “underdevelopment” remained a consensus entering the early 2000s (Hainan Provincial Government 2004).

²² The term refers to the “socialist market economy” in a Chinese policy context.

²³ The 'masterplan' refers to the 'Regulations to Accelerate the Development and Construction of the Hainan Special Economic Zone' (加快海南经济特区开发建设的若干规定), issued by the Hainan Provincial Government on August 1, 1988. This document outlines key policies and measures aimed at promoting Hainan's economic development and special zone construction.

International Tourism Destination

Hainan's second chance came in 2009 when the central government unveiled the national strategic plan to develop the island into an international tourism destination (State Council Information Office 2010). A Hainan-exclusive preferential policy package was introduced to support the province's tourism sector, including tax refunds for departing foreign visitors and visa-free entry for citizens of 26 countries (Deng et al 2016).

While tourism was the primary focus of the province, it was overshadowed by speculative real estate investments. From 2010 to 2017, the tourism sector revenue of Hainan grew by 16.1% year-on-year on average (Peng et al. 2018). However, the speculation-driven property developers and buyers became active again. Subsequently, the housing bubble resurfaced, with the economy showing heightened concentration in real estate. In 2017, real estate investment represented nearly half of the total fixed-asset investment in Hainan, amounting to 412.5 billion yuan (61.1 billion USD), the highest proportion of all regions in China (Ma 2019; Peng et al. 2018).

Despite the unintended diversion from the original planning, the province managed to achieve high-speed growth. In 2017, Hainan's GDP per capita stood at 7,179 USD, which reached the World Bank's standard for upper-middle-income countries (An 2019). Nevertheless, in comparison to other coastal SEZs that have capitalised on China's long-term rapid economic growth, Hainan pales in performance.

While China, as an entirety, has experienced phenomenal development, Hainan's economic history has been marked by persistent underperformance and reliance on real estate. Notably, Hainan's development history in the first two phases empirically substantiated the theoretical mechanisms of path dependence. The theory suggests that historical choices and established structures can limit an economy's capability to chart new trajectories (David 2007). More importantly, Hainan's past success is heavily dependent on low-value-adding real estate and tourism. These sectors are no longer sufficient to match the goal of developing Hainan into an FTP with global influence. The historical and theoretical lens suggests that the province should be aware of these entrenched constraints, given its pursuit of emerging as a globally influential free trade port.

2.3 Free Trade Port

The national strategic decision to construct a "free trade port with international influence" represents the third "once in a lifetime" top-down policy support for Hainan (Peng et al. 2018). The concept of FTP arose in tandem with the recalibration of China's reform and opening-up policy to "institutional opening up" in 2018.²⁴ In other words, the country's growth strategy evolved from basic trade liberalisation practices to deeper regulatory alignment and institutional cooperation with global trading partners.²⁵ At the vanguard of this transformation, the FTP project not only serves as a cornerstone of China's advanced reform agenda but also claims to establish itself as one of the world's "most economically liberalised regions" (Wei 2023; State Council Information Office 2023).

²⁴ In 2018, China altered its reform trajectory from "commodity and factor mobility opening up (商品和要素流动型开放)" focused on trade and factor mobility to an approach that prioritised "institutional opening up (制度型开放)," which sought to align domestic systems with international trade norms and promote deeper regulatory changes (China Daily 2024).

²⁵ The major regional partners refer to the Association of Southeast Asian Nations (ASEAN) member countries. ASEAN has been China's largest trading partner since 2020.

The Hainan FTP initiative represents an ambitious agenda that transcends conventional trade and investment liberalisation, encompassing broad-ranging policy reforms. Unveiled on June 1, 2020, the Overall Plan for the Construction of the Hainan FTP (“the Masterplan”) lays out a set of liberalisation measures, including modernisation of government functions, upgrading in manufacturing, services sector liberalisation, financial openness, talent acquisition, sustainable urban development, and enhanced regional cooperation.

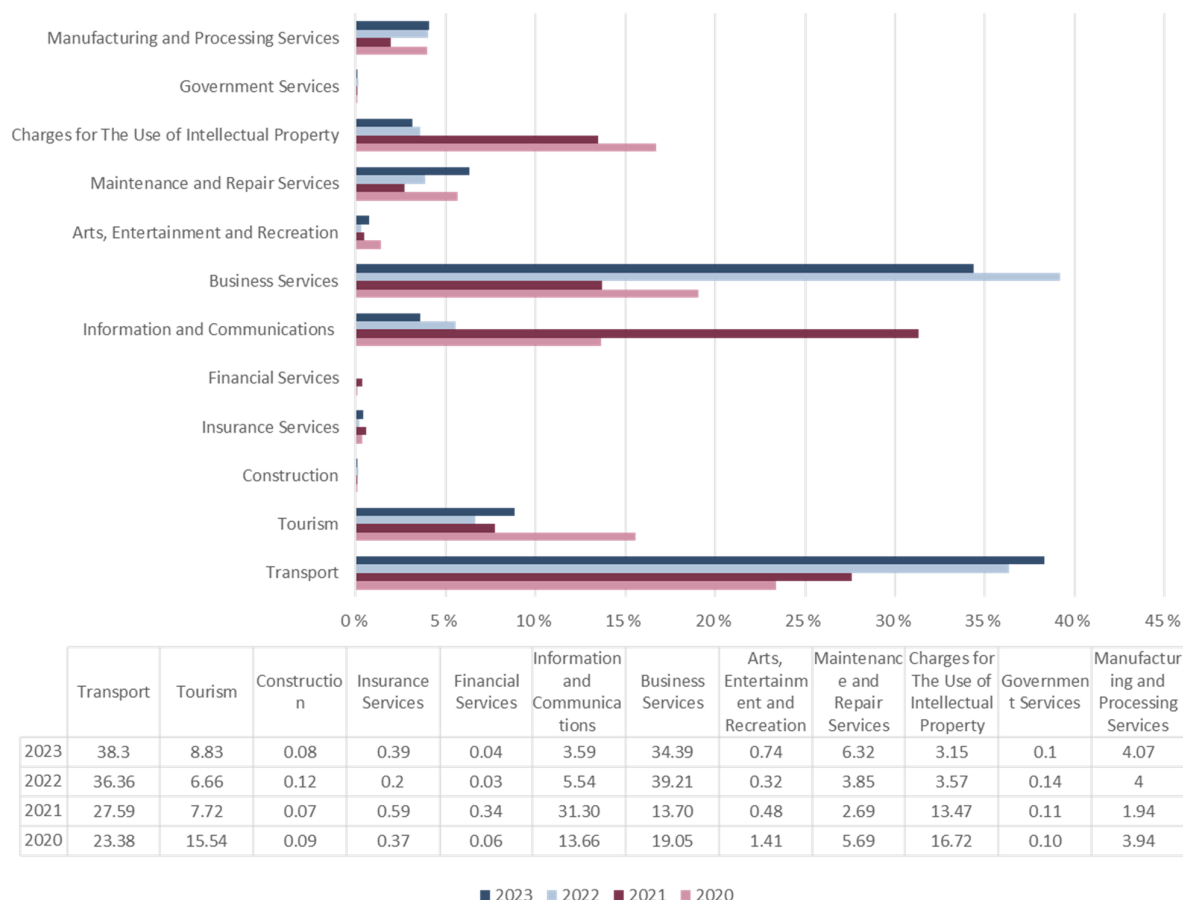
Appendix 2 Hainan FTP’s “Three Positive One Negative” Management under “Zero-Tariff” Policy

Lists of Documents		
List Management Approach	Regulatory Range	Released (by Feb 2025)
Negative	Self-use production equipment imported by enterprises	Yes
Positive	Raw and auxiliary materials imported for manufacturing for own use, in import-process-export manufacturing and processing, or import-service-export service trade	Yes
Positive	Ships, aircraft, yachts, and other means of transport imported to Hainan for transportation and tourism	Yes
Positive	Imported goods for consumption by residents of Hainan	No

Source: Compiled by the authors based on information from Hainan FTP government site and China Briefing (2020).

Appendix 3 Shares of Hainan's Services Sectors in Total Services Trade. 2020-2023

Shares of Hainan's Services Sectors in Total Services Trade (2020-2023)



Source: Compiled by the authors based on data from Hainan Bureau of Statistics.

Appendix 4 Hainan's Institutional Innovation Rankings and Performance by Indicators, 2019-2023

Rankings	2019	2020	2021	2022	2023
Overall	17	19	16	15	15
Trade Facilitation	18	18	20	20	18
Investment Liberalisation	13	15	15	15	16
Financial Innovation	34	35	31	30	25
Government Functions	9	10	9	10	11
Legal Environment	8	10	8	9	8
Total assessed areas	43	54	54	54	57

Source: Compiled by the authors based on data from Institute of Free Trade Zones.