



CBBC POLICY UPDATE

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Hainan's Free-Trade Port: A Q&A Refresher

Prepared by the China-Britain Business Council

On 18 December, China's southern island-province of Hainan will become a fully-fledged, island-wide duty-free customs zone, formally separate from the rest of China.

This Q&A provides a refresher on this globally unprecedented policy and its associated policy incentives, which may be attractive to certain businesses.

Q. Will Hainan become a massive duty-free zone in the airport-shopping, emergency-souvenir kind of sense?

A. Broadly, yes - but it's an expansion, not a sudden conversion.

Hainan's duty-free regime has been widened, rather than created from scratch, on top of a system that already covered many goods and allowed domestic visitors to take home up to 100,000-yuan (£10,600) worth of discounted purchases each year.

The more meaningful shift is *structural* and *institutional*. From December 18 onwards, Hainan will count as an island in more than one sense, with its own customs authority operating under a different tax regime from the rest of China.

What this will mean in practice is a new customs boundary between Hainan and the rest of China:

- **Overseas into Hainan:** Most goods entering Hainan from overseas will be exempt from import duties and taxes under the new customs zone arrangements.
- **Hainan into mainland China:** Goods moving from Hainan to the mainland will be treated as imports and are subject to the relevant import duties and taxes.
- **Mainland China into Hainan:** Goods moving from the mainland to Hainan will be treated as ordinary domestic trade, with no special or preferential tax treatment.

Q. What benefits will goods entering Hainan from overseas receive?

A. The main benefit of Hainan's separation as a customs zone will be the introduction of a new zero-tariff regime for goods entering from overseas.

This zero-tariff regime will exempt most goods from China's three principal import taxes: import duty, import VAT, and consumption tax. Together, these can often increase the price of goods by up to 60%, and by as much as 80% in the case of luxury products.

Rather than setting out which products will receive preferential treatment, Hainan is adopting an approach that defines *only* goods categories that remain subject to import taxation (such as frozen reptile meat).

In effect, this operates like a negative list, with all other products benefiting from zero-tariff treatment by default (subject to compliance with relevant conditions).

As it stands, the catalogue of taxable goods ([link](#)) implemented on 18 December excludes a minority of products, leaving around 6,600 product categories – roughly 74% of all categories – eligible for duty-free treatment.



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Hainan is therefore not a wholly 'free' trade port, but the scope of its zero-tariff regime is far broader than that of any other region in China.

This tariff elimination has a secondary benefit: reducing paperwork for importers and customs officials, as much of the administrative burden comes from determining which taxes apply and at what rate.

Helping this further is a one-stop shop for customs formalities and a move towards digitalised customs procedures, which together streamline clearance.

Q. Given the relatively small size of Hainan's economy, is this zero-tariff customs policy primarily aimed at boosting luxury and travel retail?

A. No. Alongside a new policy rule, the zero-tariff regime is *also* designed to support manufacturing and processing activity in Hainan.

Under the Hainan Free Trade Port framework, goods that achieve at least 30% value added in Hainan can enter the Chinese mainland exempt from import duties, provided the enterprise operates within the government's catalogue of encouraged industries ([link](#)). Import value-added tax and consumption tax still apply.

Sectors likely to benefit include electronics, food processing, and biotechnology, which rely heavily on imported equipment and intermediate inputs, and fall within the encouraged-industry framework.

The digitisation of customs procedures complements this change, allowing the 30% value-added requirement to be calculated electronically using declared import data and production information.

Q. How significant are these policies for business?

A. For companies operating in the right sectors, the impact could be meaningful.

The new customs arrangements and related policies have the potential to lower production costs – and therefore sale prices – improve margins, and boost sales to tourists and other visitors. For some firms, particularly those reliant on imported inputs, that combination is genuinely attractive.

That said, the opportunity comes with clear caveats:

- **Uniqueness risk:** Part of Hainan's appeal lies in its novelty. If similar zero-tariff or processing policies are rolled out elsewhere in China, the island's competitive edge could erode.
- **Policy durability:** Preferential regimes are, by definition, political choices. In other special zones, benefits have sometimes been diluted rather than formally scrapped when fiscal pressures mounted, creating uncertainty for firms making long-term investment decisions.

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- **Tourism exposure:** Much of the near-term upside for luxury and premium sectors is tied to tourist spending, which is inherently volatile and sensitive to factors beyond local control, including economic cycles, travel policy, and shifting preferences.
- **Local limits:** Hainan remains a relatively small and less developed economy, with a limited local market and a thinner pool of specialised talent than China's major industrial hubs, which may constrain the scale of operations firms can realistically build.

Taken together, the policies are significant, but not transformational by default. For the right businesses, Hainan offers a cost and regulatory advantage – just not a risk-free one.

Q. I've heard Hainan is offering corporate tax breaks and other incentives – are those part of the December 18 changes?

A. No. The December 18 changes are about the launch of Hainan's independent customs operations and revised zero-tariff regime.

The corporate tax breaks and other incentives sit separately within the broader Free Trade Port policy framework, and have been in place for some time.

Together with the customs and zero-tariff reforms, they enhance the overall appeal of the Free Trade Port by lowering taxes and improving conditions for businesses and talent.

Existing incentives include:

- **Corporate Tax:** Companies operating substantively in encouraged industries benefit from a 15% corporate income tax rate, well below China's standard 25% rate.
- **Individual Income Tax:** Eligible high-end and urgently needed talent working in encouraged industries can access a 15% effective individual income tax rate, with income above that level rebated. Hainan is currently the only place in China offering this "double-15" combination for both companies and individuals, though eligibility is tightly defined.
- **Education:** Under the Free Trade Port framework, foreign universities are allowed to establish independent campuses in Hainan without a Chinese partner, with looser rules on governance, staffing, and curricula than traditional joint ventures.
- **Tourism:** Beyond duty-free shopping, Hainan has benefited from broader tourism-supporting policies, including expanded visa-free access.
- **Cross-Border Services Liberalisation:** Since 2021, Hainan has applied a dedicated negative-list regime for cross-border trade in services ([link](#)), allowing overseas service providers to supply most services into Hainan without establishing a local entity, subject only to listed restrictions.
- **Foreign Investment Access in Services:** Hainan also applies a more permissive foreign investment access negative list for commercial presence, allowing foreign investors to establish and operate service businesses in a wider range of sectors than is permitted nationally. This governs market entry and ownership, rather than cross-border supply, and has likewise been in place for several years.
- **Investment Access:** Hainan has China's shortest negative list for foreign investment access ([link](#)).

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- **Medical Tourism and Elder-Care Economy:** Hainan has been positioned as a hub for medical tourism, most notably through pilot zones that allow earlier access to advanced drugs, devices, and treatments.

Taken together, these measures don't coincide with the 18 December customs launch, but they significantly sweeten the deal, reinforcing Hainan's pitch as a place to trade, operate, and live.

Q. What's the background to Hainan FTP?

A. Hainan was designated a special economic zone in 1988, but it was not until 2018 that Chinese President Xi Jinping formally announced the decision to develop the island into a pilot free trade zone by 2020 and a free trade port by 2025.

This milestone will be reached tomorrow.

Since the 2018 announcement, the policy framework has expanded through more than 180 central and provincial documents, including a landmark master plan in 2020 and a national law in 2021.

Q. How significant is the development of Hainan FTP?

A. Some analysts have questioned whether the initiative will deliver its intended economic impact and have pointed to Hainan's uneven performance in recent years.

Nevertheless, the free trade port project incorporates some of China's most forward-looking policies to date, and its status as a signature programme associated with President Xi gives it significant political resilience. This combination provides a measure of stability for investors and policymakers, even as implementation challenges remain.

Whatever its eventual impact, the shift marks a notable instance of China's opening up and willingness to experiment, and could be replicated elsewhere if the model succeeds.

About the author



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