



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

A Different Hainan, Your New Partner

Emerging Opportunities at Hainan Free Trade Port

December 5, 2022



Speakers

Mr. Gianpaolo Bruno

Italian Trade Commissioner Beijing Office & Coordinator of ITA/ICE Offices in China and Mongolia



pechino@ice.it

Mrs. Huang Cui

Beijing Chief Representative & Director for Liaison Department

Hainan Provincial Bureau of International Economic Development (Hainan IEDB),



Huangcui@investhainan.cn

Giovanni Lovisetti

Senior Associate
International Business Advisory

Milan Office



Giovanni.lovisetti@dezshira.com

Guilherme Campos

Manager
International Business Advisory

South China and Hong Kong Office



Guilherme.campos@dezshira.com





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Dezan Shira's establishment

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Offices in China, Hong Kong, India, Vietnam, Singapore, Indonesia and Mongolia; Liaison offices in Italy, the United States and Germany, and Asian Alliance offices in Malaysia, the Philippines, Thailand, Bangladesh, Japan, South Korea and Taiwan.



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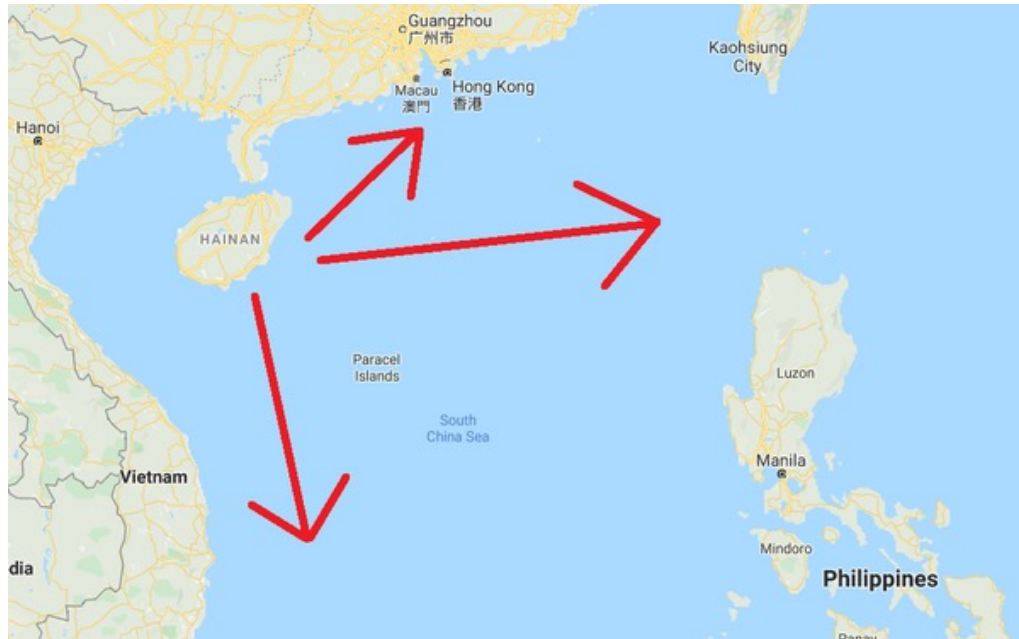
An Overview of Hainan

December 5th, 2022



HAINAN – LOCATION ADVANTAGE

海, hǎi: “Sea“ + 南, nán: “South”: "South of the Sea".



China's first spaceport for commercial launches starts construction in Wenchang, Hainan

By GT staff reporters

Published: Jul 06, 2022 11:07 PM



HAINAN – MAJOR CITIES

	Name	Population Census (C) 2020-11-01
1	Hǎikǒu	2,349,239
2	Sānyà	724,854
3	Dānzhōu	452,158
4	Wénchāng	341,862
5	Chéngmài	300,915
6	Qiónghǎi	262,524
7	Dōngfāng	257,936
8	Wànníng	225,608
9	Língāo	210,779



Hainan Province Profile



GDP

RMB 647.52 billion (US\$ 101.7 Billion)



GDP per capita

RMB 63,707 (US\$ 9,069)



Disposable income per capita

RMB 30,457 (US\$ 4,335)



GDP growth

YoY+11.2%



Population

10,2 Million



Minimum wage

Monthly RMB 1,803 (US\$256)

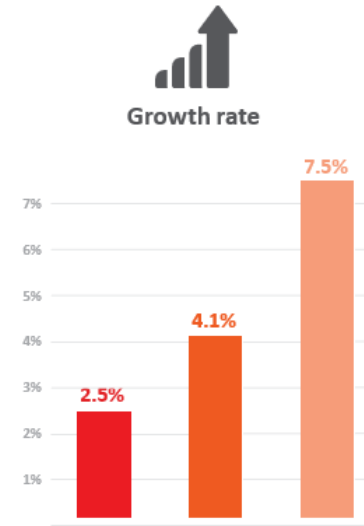
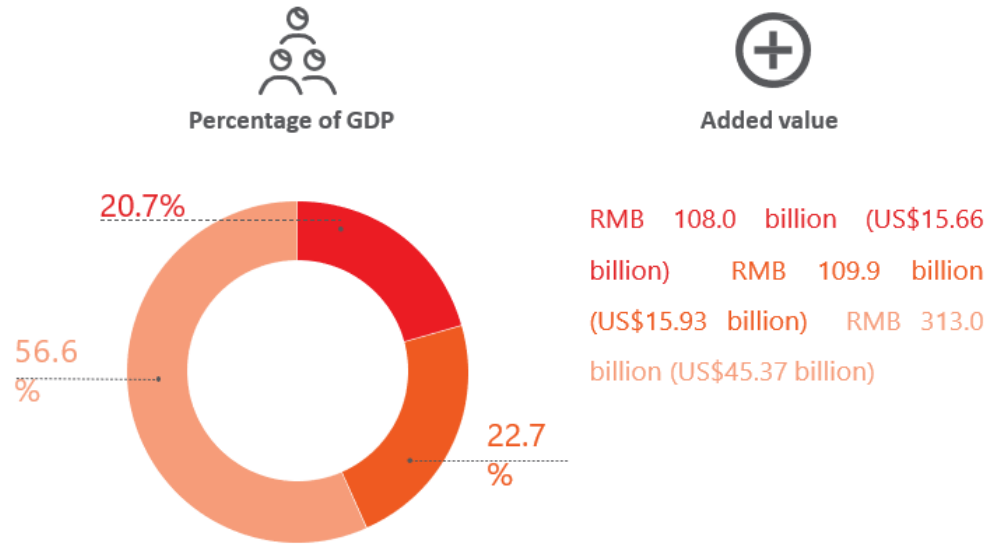
Hourly RMB 14.9-16.3 (US\$ 2.12-2.32)



Sanya
Haikou

Composition of Hainan's Economy

■ Primary ■ Secondary ■ Tertiary



Source: Hainan Provincial Bureau of Statistics



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Hainan FTP: Opening a new chapter

December 5th ,2022



Opening a New Chapter - A key national strategy

Announced the establishment

Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up



2018.4

Released the overall Plan

Overall Plan for the Construction of Hainan Free Trade Port



2020.6

Promulgated the Law

Hainan Free Trade Port Law

中华人民共和国海南自由贸易港法
(2021年6月10日第十三届全国人民代表大会常务委员会第二十九次会议通过)



2021.6



Legal Endorsement

- Jun 10, 2021 *Hainan Free Trade Port Law is promulgated*
- **The Only national-level Law** formulated for a Particular Region besides Hongkong and Macau SARs
- Provide Long-term, Stable and Sustainable Legal Protection

Objectives

Aligned with the World's Highest Level Economic and Trade Rules

By 2025

**Free and Convenient
Trade & Investment**

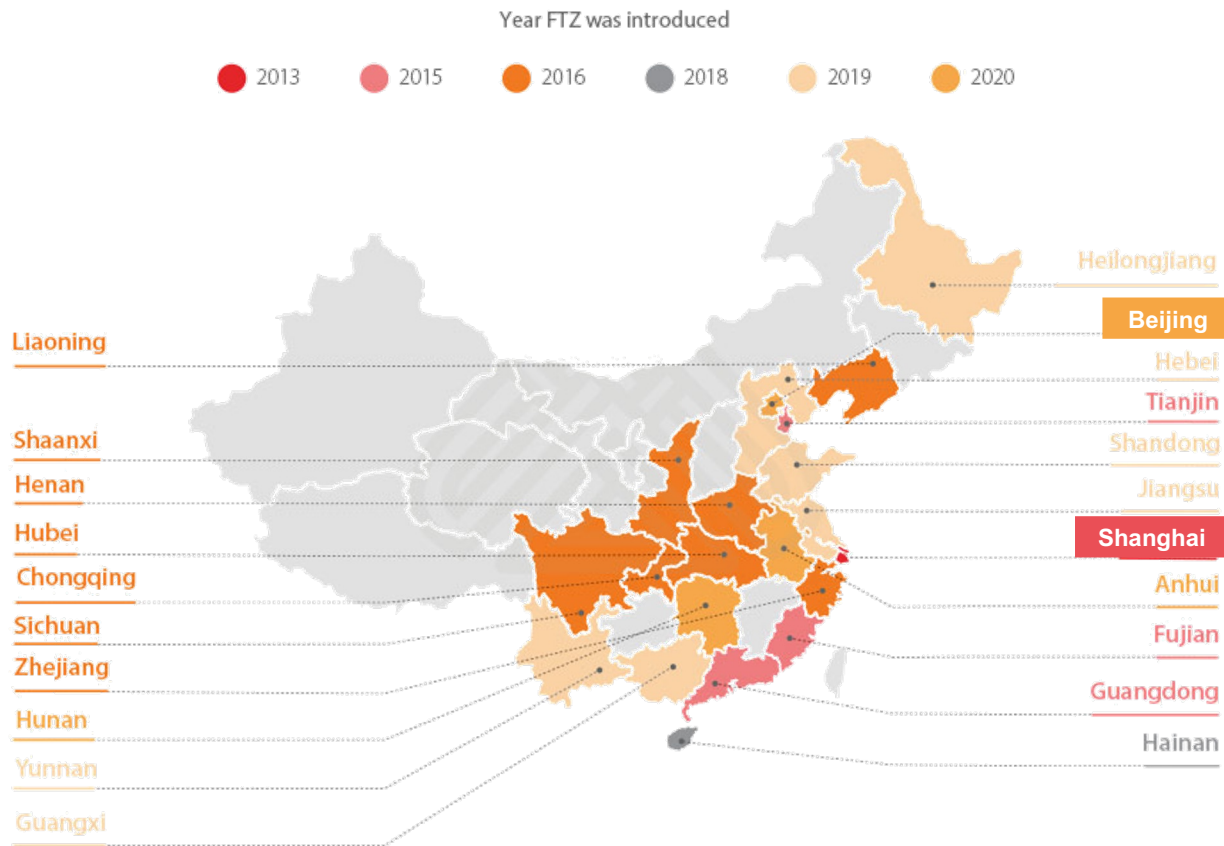
By 2035

**New Height of China's
Opening-up to the World**

By 2050

**A High Level FTP in All Aspects
with Global Influence**

FTZs in China as Updated in 2020: New Zones and Expansion



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Beijing is positioned to lead technical and digital innovation in China and will focus more heavily on financial services.

Industries:

Service industry hub (business, financial, cultural and film, biotech and health, and civil aviation), technological innovation hub (new generation IT, biology and health, science and technology), logistics and digital trade

Shanghai is the first FTZ in mainland China and laid the foundation for FTZs nationwide. It has the goals of:

- Maintaining and increasing competitive edge;
- Transitioning to a more market-friendly regulatory environment;
- Internationalizing the RMB; and,
- Testing new strategies for reform with intent to duplicate.

Industries:

- Financial services
- Advanced services
- Pharmaceuticals

Unique strengths and characteristics of Hainan:

- The largest special economic zone in China.
- Acting as a frontline to China's integration with Southeast Asian countries

Industries:

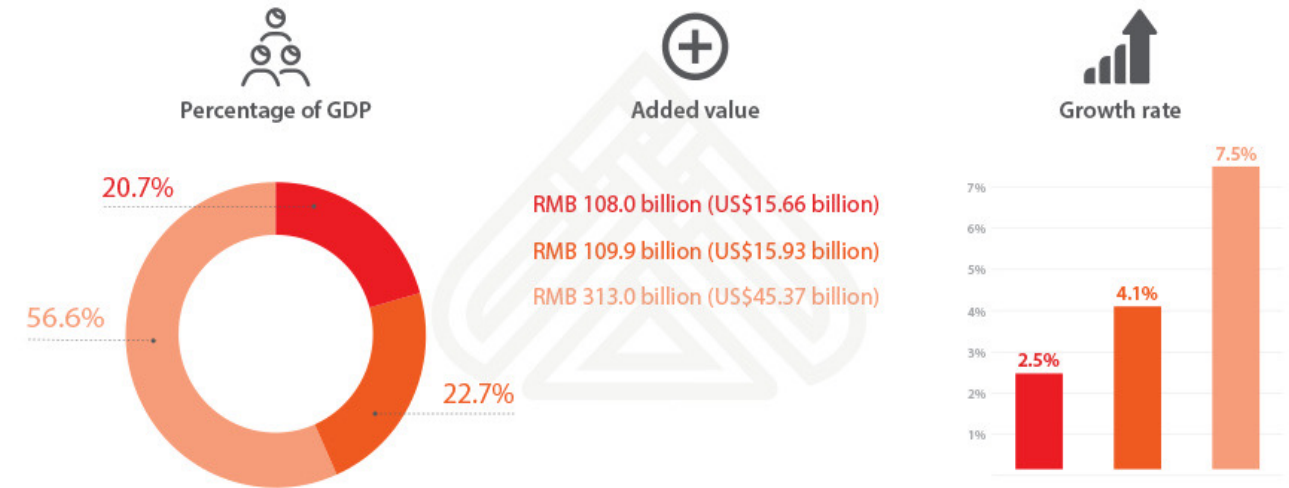
- Telecommunications
- Financial + insurance industry
- Medical insurance
- Education
- Tourism

GBA and Hainan: Both the future, But different



Composition of Hainan's Economy

■ Primary ■ Secondary ■ Tertiary



Source: Hainan Provincial Bureau of Statistics

Graphic©Asia Briefing Ltd.

Key Industries to watch:

Foreign investment

Tourism (inc. Yachting and cruising)

- Unique tourism resources
- Duty free upon exit
- High density of luxury hotels
- Visa free policy for 59 countries
- island has 15 yacht marinas

Healthcare

- Health-oriented tourism
- International Hospitals

Finance

- In 2021, the added value of the Hainan financial sector increased by 3.6 percent year-on-year to **US\$5.8 billion**
- Efforts have been undertaken to build new forms of offshore international trade businesses

Digital Economy

- 2021 internet-based enterprises generated more than US\$20.67 billion
- Taxes paid US\$799.38 million

Petrochemicals

- Government has set up headquarters in Haikou
- In 2025 value of petrochemicals sector will be US 27,56 billion

Aerospace

- Hainan is home to the Wenchang Satellite Launch Center
- Government signed several agreements with Aerospace corporations.



Hainan expo: why it is important

- 2,800 brands
- 60 countries
- 600 new product launches
- Focus on luxury goods





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RCEP: Opportunities for Hainan and the GBA

December 5th ,2022



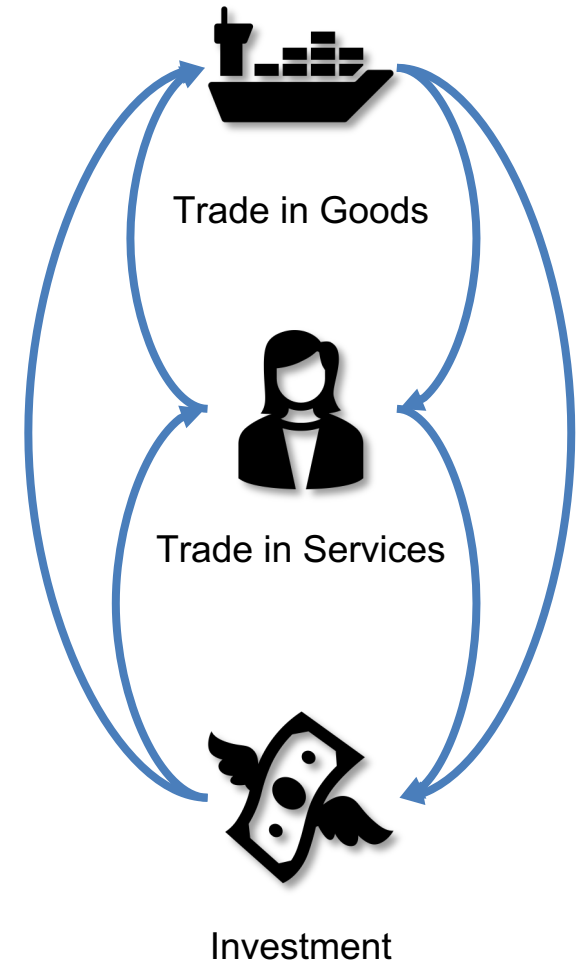
What is RCEP?

- The [Regional Comprehensive Economic Partnership \(RCEP\)](#) is an agreement between the member states of the Association of Southeast Asian Nations (ASEAN) and its free trade agreement (FTA) partners.
- The pact aims to cover trade in goods and services, intellectual property, etc.
- Member states of ASEAN and their FTA partners are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, China, Japan, India, South Korea, Australia and New Zealand.
- The RCEP includes a mix of high-, middle-, and low-income countries.



What is the objective of RCEP?

- Expected to eliminate about **90%** of the tariffs on imports between its signatories
- Would offer significant economic gains for signatory nations:
 - boost post-pandemic economic recovery
 - "pull the economic center of gravity back towards Asia"
- Other reactions were neutral or negative
- RCEP is intended to **reduce tariffs and red tape**
- RCEP includes unified rules of origin throughout the bloc, which may facilitate international supply chains and trade within the region
- RCEP prohibits certain tariffs. It does not focus on labor unions, environmental protection, or government subsidies
- RCEP does not establish unified standards on labor and the environment
- RCEP does not commit countries to open services and other vulnerable areas of their economies



China's Role in RCEP



RCEP was pushed by China in 2012 to counter TPP



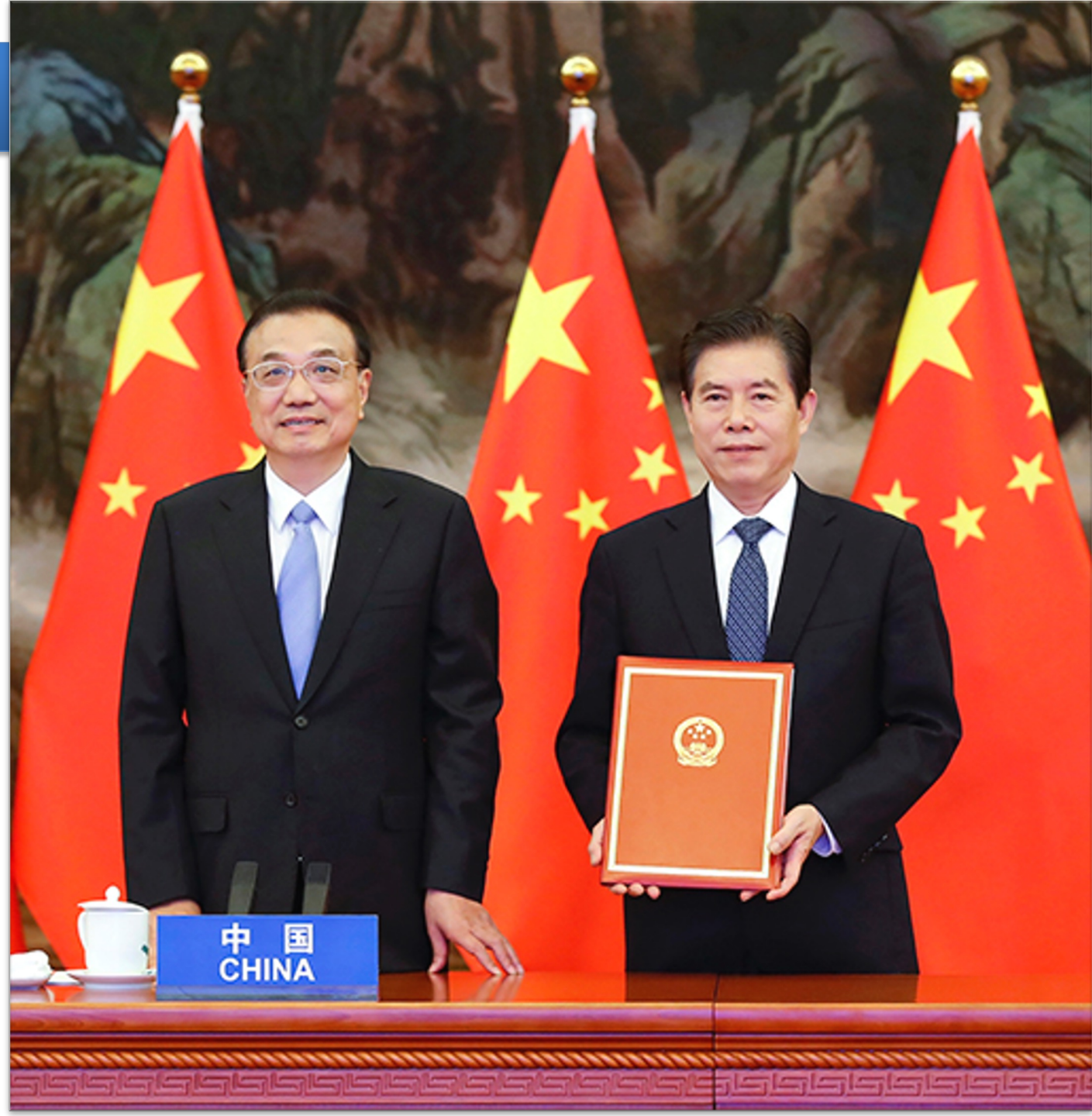
The US-led TPP excluded China



However, in 2016 US President Donald Trump withdrew US from TPP



RCEP now has become a major tool for China to counter the US efforts to prevent trade with Beijing



The RCEP in China - Main Facts

“The RCEP holds great significance for China and for foreign investors. The pact brings huge import-export opportunities for China, encouraging enterprises to expand exports in which China has comparative advantages, and increase imports of key technologies, components, and raw materials. ”



01

Came Into force January 1st, 2022.

02

Trade with member countries expanded 6.9 percent year-on-year

03

Allows China to secure market access in the ASEAN region.

04

Main winners are mechanical and electrical industries & e-commerce

05

Chinese SMEs also.

Long Term China Perspective

IMPORTANT: *The RCEP aims to remove tariffs on at least 90 percent of the goods traded among member countries*



Covering about one third of the world's population and GDP



Represents the world's largest free trade agreement to date.



Members are 15 Asia-Pacific countries – China, Japan, South Korea, New Zealand, Australia, and the 10 ASEAN member states – entered into force at the start of 2022.



As of date, the agreement is effective for 12 of its 15 signatories

The RCEP holds great significance for China and for foreign investors. WHY?

1. Huge opportunities for Chinese SMEs and others present in China;
2. Easier to expand to the countries in the region;
3. Increase of key technologies at a cheaper price.



Long Term China Perspective

On January 26, 2022, China introduced a new guideline to promote high-quality implementation of the trade pact.

This will mean:



01 Further economic liberalization

02 Stabilization of foreign trade and investment;

03 There will be more demand from overseas

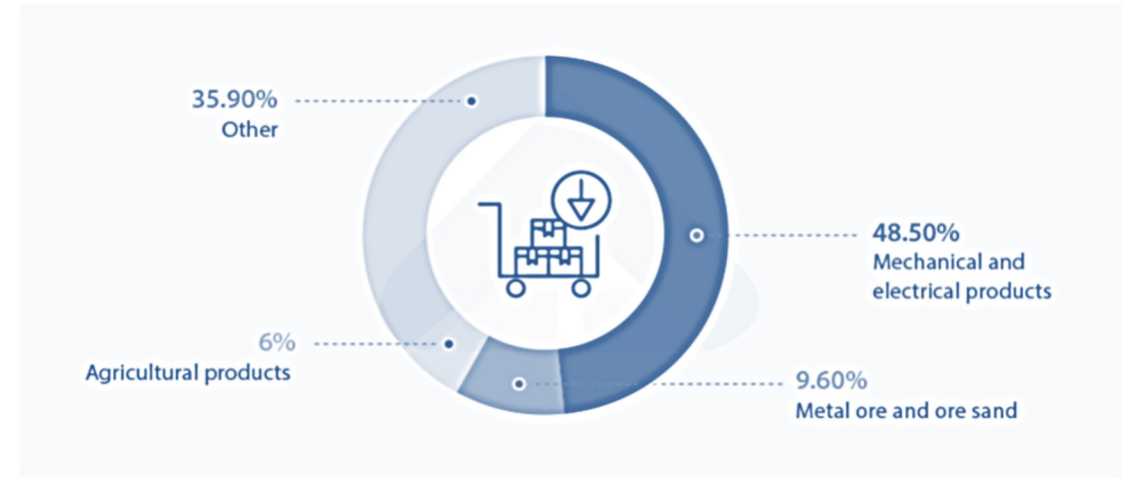
04 RMB internationalization has potential and as a replacement to US dollar;

05 Coupled with the Belt and Road initiative to promote regional economic growth

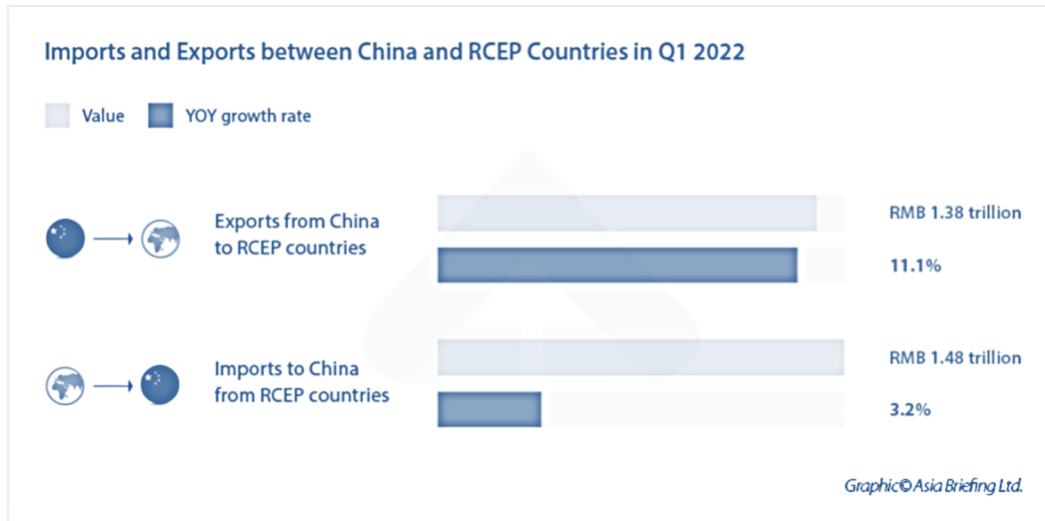
06 China has made investments in the value of RMB 20 Billion

China is winning the RCEP

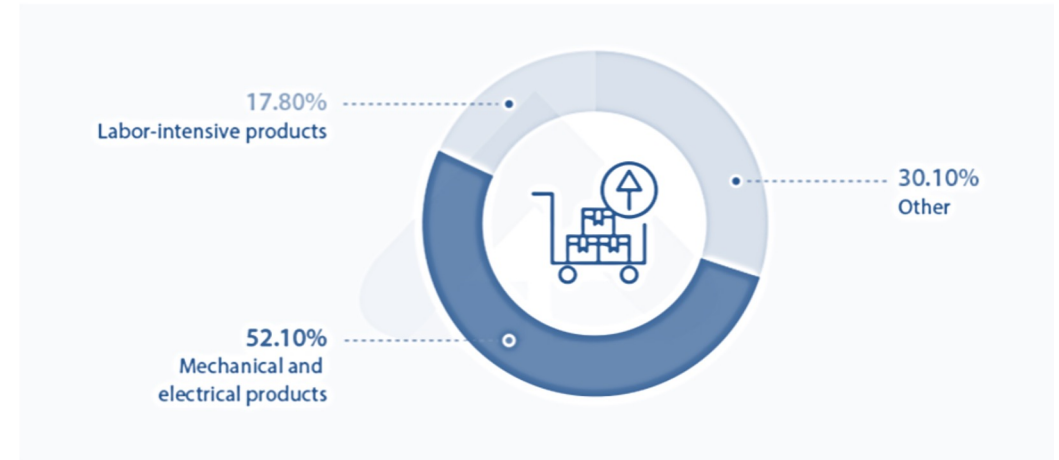
Major products imported to China from RCEP countries



Imports and Exports between China and RCEP Countries in Q1 2022



Major Products Exported from China to RCEP Countries



How will RCEP benefit the GBA and Hainan

Given the large number of processing trade enterprises in the GBA, RCEP will enhance utilization of foreign investment in the region and introduce leading-edge machinery and equipment, which will benefit the advanced processing trade sector.

01

More demand for High-tech products (the GBA's specialty)

02

The GBA has a great supply chain infrastructure.

03

Zero duty policy will benefit consumers and tourists in Hainan

*"Now we have a new boost. The Regional Comprehensive Economic Partnership (RCEP) is the **largest free trade agreement ever forged**," Leung said in a pre-recorded video speech from Beijing, noting that the RCEP will enhance Hong Kong's status as a regional hub for professional services."*



GBA vs Hainan : Tax and Incentive policies

	GBA	Hainan
Individual income tax	<p>Until end 2023:</p> <p>15 percent for eligible overseas high-end talent.The portion of IIT of the taxable income paid the previous in excess of 15 percent is returned as fiscal subsidies upon application (applicable in the nine mainland cities).</p>	<p>Until end 2024:</p> <p>15 percent for both domestic and foreign talent.The portion of IIT of the taxable income paid the previous in excess of 15 percent is refunded during the annual IIT settlement. From 2025 to 2035:<u>Progressive IIT rate of 3 percent, 10 percent, and 15 percent for individuals that reside in Hainan at least 183 days of the year.</u></p>
CIT	<p>15 percent CIT rate for companies with a main business income from a list of encouraged industries in the Nansha, Qianhai, and Hengqin areas of the Guangdong (China) Pilot Free Trade Zone; exemption of CIT on income derived from new ODI from companies established in the Hengqin Cooperation Zone in the tourism, modern services, and high-tech industries</p>	<p>Until end 2024:</p> <p>15 percent CIT rate for companies with substantial business operations in encouraged industries; exemption of CIT on income derived from new ODI from companies in the tourism, modern services, and high-tech industries; one-off pretax deduction or accelerated depreciation and amortization on eligible capital expenditures. <u>From 2025 to 2035:15 percent for all companies engaged in industries not on the negative list.</u></p>

GBA vs Hainan : Tax and Incentive policies

	GBA	Hainan
Headquarters	<p>In Shenzhen:</p> <p>Rewards of between RMB 5 million (US\$684,415) and RMB 50 million (US\$6.8 million) each year for three consecutive years from the date a company's newly established headquarters have been registered in the city, depending on the industry, investment amount, and registered capital.</p>	<p>In Haikou:</p> <p>Reward of RMB 3 million (US\$410,649) for regional headquarters of a multinational. One-off bonuses for comprehensive headquarters* that commit a certain amount to local public finances within one year, including: RMB 2 million (US\$273,766) for high-growth headquarters that contribute at least RMB 8 million (US\$1.1 million); RMB 3 million (US\$410,649) for companies engaged in tropical agriculture that contribute at least RMB 10 million (US\$1.4 million); RMB 5 million (US\$684,415) for companies in tourism that contribute at least RMB 20 million (US\$2.7 million); and RMB 10 million (US\$1.4 million) to companies in high-tech that contribute at least RMB 30 million (US\$4.1 million). One-off bonus of <u>RMB 2 million (US\$273,766) for new headquarters of international organization.</u> <u>One-off bonus of RMB 1 million (US\$136,883) for new headquarters of international organizations that set up branches in Haikou.</u></p>

*Headquarters with a registered capital of at least RMB 100 million (US\$13.7 million) which are the only global head office exercising management and service functions for all subordinate enterprises in multiple countries or regions.

In addition to the above tax incentives, Hainan also plans to simplify its tax system so that only seven types of tax will be levied, rather than the current 18 types of tax levied across China. The *Overall plan for the construction of Hainan Free Trade Port* (the "Hainan FTP plan"), which was released in 2020, states that the current VAT, consumption tax, vehicle purchase tax, urban maintenance, and construction tax, education surcharges, and other taxes will be consolidated into a single sales tax for goods and services. The plan does not state when this simplified tax system will be implemented.

Reference Materials

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