

# Chapter 9

## A New Goal of Hainan: From Pilot Free Trade Zone to Free Trade Port with Chinese Characteristics



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**Abstract** With a review to the thirty years of development of Hainan from the establishment of the provincial special economic zone to the construction of an international tourism island and a pilot free trade zone, the theoretical analysis and practical validation of relevant problems are explained to summarize experience and lessons and make suggestions for future development.

**Keywords** Hainan · Pilot free trade zone · Free trade port

On April 13, 2018, at the historical node of the “thirty years” of Hainan Province, General Secretary Xi Jinping attended the 30th anniversary in celebrating the establishment of the provincial special economic zone of Hainan, and announced that the CPC Central Committee supported the important decision of Hainan on comprehensively deepening the reform and opening-up. This meant supporting the construction of the pilot free trade zone in Hainan Island, and gradually exploring and steadily boosting the construction of a free port with Chinese characteristics and building Hainan up to becoming a pilot zone for comprehensively deepening the reform and opening-up, a national ecological civilization pilot zone, an international tourism consumption center and a service guarantee area for important national strategies (Xi, 2018a). This is the third time the significant mission and development goal has been allocated by the central government and the third important opportunity for development during the 30 years of the establishment of the provincial special economic zone of Hainan.

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# 1 Major Phases of the Reform and Opening-Up in Hainan

## (I) Phase 1: Construction of a Provincial Special Economic Zone

On April 13, 1988, the First Session of the Seventh National People's Congress passed the *Decision on the Establishment of Hainan Province* and the *Resolution on the Establishment of the Hainan Special Economic Zone*, which put Hainan, a poverty-stricken backward border region, at the forefront of China's reform and opening-up. The construction goals established that year mainly included: establishing the institutional framework of "small government, big society", setting the reform goal of "complete market economy", constructing the ownership structure "without public ownership playing a dominant role", building up the industrial structure "dominated by industry, with the parallel development of industry, agriculture, trade and tourism" and implementing the second tariff mechanism of "first-tier liberalized and second-tier controlled" (Liang, 2018a, 2018b). These developed goals were creative, pioneering and forward-looking in time and space and the background of political policies 30 years ago. Just for this reason, it triggered a sensational social event of "100,000 talents going to Hainan".

The implementation of this goal was divided into three steps in twenty years. First of all, in three to five years, the economic development of Hainan might catch up with the domestic average level; and then after another five or seven years, it might reach the level of the developed regions of China; and a further ten years or a longer period of time might be spent in overtaking the advanced level of Southeast Asia. However, due to various reasons, Hainan failed to take this opportunity, the preferential support policies given by the central government were not fully implemented and the developmental goals of Hainan were not realized.

## (II) Phase 2: Construction of an International Tourism Island

At the end of 2009, the State Council promulgated the *Several Opinions on Promoting the Construction and Development of the Hainan International Tourism Island*, which officially upgraded the Hainan International Tourism Island to a national strategy. The *Several Opinions* established six strategic positions of Hainan Province in the construction of an international tourism island: the tourism reform and innovation pilot zone of China, a world-class island destination for leisure and holiday tourism, a demonstration zone for the construction of an ecological civilization in China, an important platform for international economic cooperation and cultural exchange, a base for resource development and service in the South China Sea, and a national base for tropical modern agriculture, which constituted the so-called "two zones, three bases and one platform". The construction cycle was planned for 10 years, that is, from 2010 to 2020, and divided into two phases, the first five years and the last five years.

Now a review may be given on the achievement rate of these goals. The planning goals in the first phase were that by 2015, the value added of the tourism in Hainan could account for more than 8% of the regional GDP, the value added of the tertiary industry could account for more than 47% of the regional GDP, the proportion of

employed people in the tertiary industry could reach more than 45%, the provincial per capita GDP and the urban and rural residents' income could reach the medium and high level in China and the quality of the comprehensive ecological environment could take the lead in the country. As a matter of fact, according to the data of the *Hainan Statistical Yearbook 2016*, in 2015, the value added of tourism in Hainan accounted for 7.58% of the GDP, the value added of the tertiary industry accounted for 53.25% of the GDP, the proportion of employed people in the tertiary industry was 46.09%, the per capita GDP was 40,818 yuan, the per capita disposable income of urban and rural residents was 18,979 yuan and the quality of the comprehensive ecological environment was leading the country. The per capita GDP ranked 18th and the per capita disposable income of urban and rural residents ranked 19th in the country. Both of them failed to reach the medium and high level in China.

The goals of the second phase of the plan was that by 2020, the value added of the tourism in Hainan would account for more than 12% of the regional GDP, the value added of the tertiary industry would account for 60% of the regional GDP, the proportion of employed people in the tertiary industry would reach 60%, the provincial per capita GDP, urban and rural residents' income and quality of life could reach the advanced level in China, the quality of the comprehensive ecological environment could maintain the leading role in the country, and the capacity for sustainable development would be further enhanced. The *2017 Statistical Communiqué on the National Economic and Social Development of Hainan Province* shows that in 2017, the value added of the tourism in Hainan accounted for 7.79% of GDP, the value added of the tertiary industry accounted for 55.70% of GDP, the per capita GDP was 48,430 yuan, the per capita disposable income of urban and rural residents was 22,553 yuan, and the quality of the comprehensive ecological environment continued to lead the country. The per capita GDP ranked 16th and the per capita disposable income of urban and rural residents ranked 14th in the country. Both of them basically reached the middle level in China. In the next three years, whether it can reach the domestic advanced level is what we expect.

## **2 Phase 3: Construction of the Pilot Free Trade Zone and Steady Advancement to the Free Trade Port with Chinese Characteristics**

### **(I) A New Goal and the New Mission of Hainan**

In April 2018, the central government made an important strategic decision for Hainan's comprehensive deepening of reform and opening-up and supported Hainan Island in constructing the pilot free trade zone on Hainan Island, and gradually exploring and steadily advancing the construction of a free trade port with Chinese characteristics. The CPC Central Committee and the State Council specially formulated the *Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up* (File No. 12), which established four strategic positions as

the future development goals, that is to say, Hainan would be constructed as a pilot zone for comprehensively deepening the reform and opening-up, a national ecological civilization pilot zone, an international tourism consumption center and an area to guarantee services for important national strategies in 30 years.

The construction plan will be implemented in four steps. First, by 2020, the goal of building a moderately prosperous society in all respects will be accomplished together with the rest of the country, and it is procured that the rural poverty-stricken population will be lifted out of poverty according to the existing standards and all poverty-stricken counties will cease being poverty-stricken counties; important progress will be made in the development of the pilot free trade zone, rendering the level of international openness significantly higher; the public service system will become more robust, and the fulfillment of the people will be conspicuously heightened; moreover, the system of ecological civilization will be basically established, and the ecological and environmental quality will continue to maintain its first-class status across the country.

Second, by 2025, the quality and efficiency of economic growth will be dramatically improved; the free trade port system will be initially established, and the business environment will be first-class domestically; democracy and the legal system will be sounder, and the governance system and governance capacity will be noticeably modernized; the level and quality of public services will be advanced domestically, and the equalization of basic public services will be fundamentally realized; and the ecological and environmental quality will continue to lead the way in the country.

Third, by 2035, it will be at the forefront of the country in socialist modernization; the institutional system and operating mode of the free trade port will be more mature, and the business environment will rank among the best in the world; the people will be more affluent, the entire population will take a solid pace towards common prosperity, the high-quality public services and the innovation and environment for entrepreneurship will be internationally advanced; the quality of the ecological environment and the efficiency of the utilization of resources will be world-leading; and the modern pattern of social governance will have basically taken shape, and the society will be full of vitality, harmonious and orderly.

Fourth, by the middle of this century, it will take the lead in realizing socialist modernization, shape an institutional system with a high degree of marketization, internationalization, rule of law and modernization, and become a region leading in comprehensive competitiveness and cultural influence. The common prosperity of the people will be basically achieved, and a beautiful new Hainan featuring economic prosperity, social civilization, ecological habitability, and people's well-being will be built.

## **(II) Great Significance for the New Mission of Hainan**

The new deployment of the central government to the reform and opening-up of Hainan is not only an important developmental opportunity for Hainan, but also a new mission given to Hainan by the central government. It is of great practical and historical significance.

This is an important decision made, deployed and urged by General Secretary Xi Jinping. Since the 18th National Congress of the Communist Party of China, with Comrade Xi Jinping as the core, the CPC Central Committee has made two key decisions while planning for the development of China today, the rejuvenation of the Chinese nation, and the happiness of the Chinese people. The two decisions will be profoundly influential by constructing the Xiong'an New Area around Beijing and building the pilot free trade zone and the free trade port with Chinese characteristics on the coast of the South China Sea, thus shaping a strategic layout of "Xiong'an in the north and Hainan in the south".

This is an important step in the comprehensive deepening of China's reform and opening-up in the new era. When socialism with Chinese characteristics enters a new era, we will be faced with a complex and ever-changing international environment. The USA and Britain are undermining globalization, trade protectionism and the populism have sprung up, "black swan" incidents have broken out one after another, and the world's multilateral trading system is confronted with an unprecedented impact and challenge. China, as a beneficiary of economic globalization and a participant in and defender of the multilateral system, must take active actions to put in due efforts to safeguard the world's multilateral system. At the beginning of 2017, when attending the Davos Forum and delivering a keynote speech, President Xi Jinping clearly stated China's advocate for continued opening-up and called on all countries to adhere to free trade and to safeguard the WTO's global multilateral trading system (Xi, 2017a). In the report delivered at the 19th National Congress of the Communist Party of China (CPC), General Secretary Xi Jinping pointed out China's policy propositions and guidelines for deepening the reform and opening-up (Xi, 2017b). In the "two sessions" of the nation in 2018, General Secretary Xi Jinping reiterated China's firm stance on opening-up (Xinhua News Agency, 2018). In the keynote speech of the 2018 Annual Meeting of the Boao Forum for Asia, President Xi Jinping solemnly released four policy proposals and institutional arrangements for the enhancement of opening-up (Xi, 2018b). On April 13, 2018, General Secretary Xi Jinping announced the important decision on the construction of a pilot free trade zone on Hainan Island, and the gradual exploration and steady advancement of the construction of a free trade port with Chinese characteristics, thus building a new benchmark for China to have a higher level of opening-up to the outside world (Xi, 2018a). This process fully demonstrates the strategic decision and strategic determination of the CPC Central Committee with Comrade Xi Jinping as the core to firmly advance China's comprehensive deepening of reform and opening-up.

This is an important upgrading of Hainan's strategic position. Hainan is a small province among the provincial administrative divisions of China. However, due to its unique geographical location and geographical pattern, Hainan has a special strategic position in the overall reform and opening-up of the country. Therefore, Hainan's reform and opening-up should serve the key national strategy, build an important strategic fulcrum to promote the construction of the "Belt and Road", become an important base for the implementation of the strategy for the development of military-civilian integration, and grow to be a frontier region for the strategy of constructing a maritime power; Hainan's reform and opening-up should serve the comprehensive

deepening of reform and opening-up of the country, set a new benchmark, and make due contributions to China's efforts in constructing a global governance system that promotes the building of a community with a shared future for mankind.

### (III) New Characteristics of the New Goal of Hainan

If the establishment of a special economic zone and the construction of an international tourism island are two small steps in the process of the reform and opening-up of Hainan, then the construction of a pilot free trade zone and the steady advancement of the construction of a free trade port with Chinese characteristics on Hainan Island can be regarded as a big step in the process of the reform and opening-up of Hainan. It is a new goal of Hainan's development in the new era, with new features different from the past.

First, Hainan's new goal is to build a free trade port with "Chinese characteristics". Looking around the world, there are various kinds of free trade ports, and Hong Kong and Singapore, which are close to Hainan, are recognized as successful free ports in the world. The flexibility and operational efficiency of the mechanisms they create, and the resulting appeal to global business activities, are highly appreciated by the industry, academia and political circles around the world. Hainan can learn from, but never directly copy, their experience. Because, not to mention that Hainan and Singapore belong to different countries, their mechanisms of economic and social development and operation and management are different as a result of different state systems and regimes; moreover, even though Hainan and Hong Kong are within the territory of China, Hong Kong and the Chinese mainland are under the policy of "one country, two systems", so Hainan and Hong Kong play different roles in the national strategy. Therefore, while building a free trade port with Chinese characteristics in Hainan and focusing on the common standards and characteristics of the construction and development of an international free trade port, Hainan must also highlight the different connotations and objectives of the mission of the Hainan Free Trade Port.

Second, Hainan's new goal must fully reflect the strategic significance of the decision made by the central government. As mentioned above, the central government has given Hainan a new mission due to Hainan's special geographical location and geographical pattern, as well as the need to serve and obey the major strategic layout of the country in the new era. Therefore, Hainan was selected for the construction of pilot free trade zone and free trade port with Chinese characteristics to highlight the responsibilities of China for reform, development, opening-up and a win-win situation in the new era, China's determination and confidence in supporting the WTO's multilateral trading system and promoting economic globalization. Hainan will be set as a new benchmark for China to deepen the reform and opening-up in the new era.

Third, the construction of a pilot free trade zone and free trade port with Chinese characteristics on the entire Hainan Island must be guided by the overall realization of the four strategic positionings, consider the actual situation of Hainan, find the correct starting step, plan for the starting strategy, act after planning and steadily advance to avoid violent fluctuations. By deeply understanding and accurately grasping the strategic positioning of Hainan's new goal and new mission, we can clearly recognize

that the key to and highlights of Hainan's comprehensive deepening of reform and opening-up lie in institutional innovation, rather than more preferential policies.

### 3 Insights on Key Points

#### (I) Why must the central government's decision on and deployment of Hainan's development be grasped from a holistic perspective?

The new goal and new mission given by the central government to Hainan has very rich connotations. In the important speech on April 13, 2018, General Secretary Xi Jinping requested Hainan to shape a new pattern of comprehensive opening-up, plan for a high starting point to advance the reform, take the lead in the country in boosting high-quality development, pilot the reform of the system of ecological civilization, benefit more people fairly by reform and development, and strengthen the Party's overall leadership (Xi, 2018a). The Central Government File No. 12 provides 31 bits of guiding opinions for supporting Hainan's comprehensive deepening of the reform and opening-up. The so-called grasp of the central government's decision and deployment refers to accurately understanding and resolutely implementing the core meanings of the central government's decision on and deployment of the development of Hainan, correctly taking the direction of the four strategic positionings, avoiding the dangers of "mistaking the part for the whole" or "seizing upon one point and ignoring the overall picture", not being confused by the so-called "hot spots" or "bright spots", being careful not to be "penny wise and pound foolish" and resolutely excluding the misunderstandings on and distortions of the mind, public opinion and social expectations.

#### (II) Why must we emphasize continuing to emancipate our minds and carry forward the spirit of the special economic zone?

The new goal and new mission of Hainan are "unprecedented" undertakings that must continue to emancipate the mind. They can be achieved only by boldly thinking about what the predecessors cannot think out. We are not afraid of failure, but we are afraid of not thinking things out; we are not afraid of thinking things out, but we are afraid of not having the courage to think. In the process of practicing the new mission and striving for the new goal of Hainan, we must not lose the spirit of the special economic zone being "enterprising and pioneering with unprecedented motivation". The new goal and new mission of Hainan is the great cause of "advancing with giant strides". Only continuing to emancipate the mind can we take it easy when faced with the enormous challenges and risks that have never been seen before. When the reform and opening-up go deep into the "no man's land", any hesitation and withdrawal will be fruitless, and any follow-suit and copycat will miss the opportunity. In order to fulfill its new mission and strive for the new goal, Hainan must break through the constraints of stereotype rules, remove the ideological ambiguity of "the chicken or

the egg problem”,<sup>1</sup> respond to the call of and follow the directional guidance of the new mission and new goal.

**(III) Why must we advance Hainan’s comprehensive deepening of reform and opening-up guided by the construction of a free trade port with Chinese characteristics?**

The construction of a pilot free trade zone and the steady advancement of the construction of a free trade port with Chinese characteristics on Hainan Island can be summarized as “two steps and one goal”. The construction of a pilot free trade zone is the initial stage when the regional scope of the pilot free trade zone is clarified to guide Hainan to replicate the experience and practices of the 11 free trade zones faster and better and achieve a good start. The real goal and mission of Hainan’s deepening of the reform and opening-up are to gradually explore and steadily boost the construction of a free trade port with Chinese characteristics. According to the schedule and roadmap determined by the central government, we should neither understand it as two stages of “one goal first and then two steps”, nor as two goals in succession, but two work steps closely linked and integrated with the construction of a free trade port as the orientation of the goal. The schedule given in the *Guiding Opinions of the CPC Central Committee and the State Council on Supporting Hainan’s Comprehensive Deepening of Reform and Opening-up* stipulated that: by 2020, it should start, complete the replication of the system, experience and practice of the free trade zone and establish a pilot free trade zone; by 2025, the system of free trade ports will be initially established in 7 years; by 2035, after another 10 years, the institutional and policy system of the free trade port will become more mature; and by 2050, a beautiful new Hainan featuring economic prosperity, social civilization, ecological habitability, and people’s well-being will be built.

**(IV) Why Must we Inhibit Speculators?**

Looking back on the journey of Hainan in establishing the provincial special economic zone and constructing the international tourist island, serious damage caused by speculators to Hainan’s development could be visibly observed, so we can clearly understand the necessity and urgency for inhibiting speculators when Hainan has the new mission and new goal. The damage caused by speculators upon the previous two developmental opportunities of Hainan were embodied as follows. First, they prevented the policies from being implemented. In the process of speculation on the real estate by speculators carrying huge amounts of hot money, the preferential policies of the central government in supporting Hainan’s reform and opening-up were maliciously exploited and overdrawn, or inadvertently abandoned and neglected, thus leading to the failure of such policies and the missing out on opportunities. Second, they affected the realization of the developmental goal. Because of the speculation on real estate, Hainan’s reform and opening-up needs for

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<sup>1</sup> The causality dilemma of “the chicken or the egg problem” refers to the problem that “which came first, the chicken or the egg?” This dilemma is not helpful for solving real problems, and may lead to misleading our mind and behaviors and a waste of opportunity for development.



industrial development, institutional construction and social progress were squeezed or suppressed, resulting in failure to achieve Hainan's developmental goals. Third, they misled the directional flow of investments. Due to the exorbitant profits of speculation, all kinds of capital was hugely concentrated in the real estate industry. When bubbles were formed quickly, they emptied the industrial investment funds needed for Hainan's development and resulted in the abnormal development of Hainan's industrial structure, so the shortcomings and weaknesses in the industrial foundation could not achieve a balanced development. Once the real estate bubble burst, this disaster would have a serious impact on the normal economic and social development of Hainan. Fourth, this could strengthen the "rich wealth" mentality and erode the spirit of the special economic zone. After multiple rounds of speculation in the real estate of Hainan, speculators were able to harvest windfall profits. The overwhelming temptation of profiteering spread to all walks of life through the social transmission mechanism. It formed the social-psychological tendency of "speculation all over the country, never missing an opportunity" and induced people to have the psychological expectation of "getting rich in one night" through speculation. This psychological expectation seriously affected honest workers in all industries and seriously eroded the spirit of the special economic zone. In short, the current measures to inhibit all kinds of speculators in Hainan and promptly impose restrictions on real estate purchase are not only necessarily based on historical lessons, but they are also urgent for implementing the central government's decision and deployment. It is the right choice of Hainan's resolution to comprehensively deepen the reform and opening-up with confidence.

#### (V) **How is it possible to make good plans, arrangements and a good start?**

In the past two months, under the guidance of the central government, the Provincial Party Committee and the Provincial Government of Hainan have made arrangements and achieved a good start.

From the perspective of work arrangements: First, Hainan had a delegation led by provincial leaders, and they visited 11 pilot free trade zones in China to learn from their successful practices and existing experiences that could be replicated and promoted. Second, according to the important speech of General Secretary Xi Jinping on April 13, 2018 and the spirit of File No. 12 of the CPC Central Committee, 356 items were determined as the tasks to be implemented by functional departments under the guidance of provincial leaders. Third, by actively connecting with the relevant ministries and commissions of the central government, the overall plan was made for the construction of a pilot free trade zone and a free trade port with Chinese characteristics in Hainan.

From the perspective of introduction of new policies: Hainan Provincial Party Committee held the Fourth Plenary Session of the Seventh People's Congress to implement the *Decision* of the CPC Central Committee on supporting Hainan's deepening of reform and opening-up, launch the 100-day investment plan, introduce the new talent policies, restrict the purchase of real estate and fueled vehicles in the whole province, construct the Haikou Jiangdong New Area and build a new urban CBD.

From the perspective of work style and mentality: The Provincial Party Committee and the Provincial Government of Hainan will mobilize the whole province, the provincial leaders will set an example by themselves, and the provincial departments and the municipal and county party committees and government officials will lead all industries in the province to work hard. Our slogan is that “One day can be regarded as three days, so we must devote greater efforts”. The cadres, party members and constructors in the province are organized and mobilized to work diligently and make contributions to constructing the pilot free trade zone on Hainan Island and steadily advancing the construction of a free trade port with Chinese characteristics.

## 4 Expectations of Hainan

In full efforts to implement the central government’s decision and deployment and solidly advance the construction of a pilot free trade zone and a free trade port with Chinese characteristics, Hainan expects all walks of life across the country to pay more attention to Hainan and support Hainan, and correct various misleading ideas and misunderstandings; it expects that experts and scholars in the academic circle of social sciences will be able to do more research on Hainan, give early warnings and provide intellectual support for Hainan’s comprehensive deepening of reform and opening-up; and it also expects tourists and consumers all over the country to visit Hainan frequently, experience the policies of Hainan, enjoy the fruits of development and bring the vitality of development to Hainan.

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