



Hainan Free Trade Port: Hainan's Transformation Ushers in New Opportunities for Foreign Investors

On 1 June 2020, Chinese authorities rolled out the Master Plan for the Construction of Hainan Free Trade Port (the “**Masterplan**”) with the eventual goal of transforming Hainan into a high-level free trade port with strong international influence.

The Hainan Free Trade Port (“**Hainan FTP**”) is set to become the largest special economic zone in China. Since the announcement of the Masterplan, regulations from various governmental departments and agencies have already been issued to put this Masterplan into action, all of which signal new opportunities for foreign investors in light of the increased facilitation of cross-border trade and investment in the region.

Amongst these subsidiary regulations, the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange, recently issued the Opinions on Financial Support for Hainan's Comprehensive Deepening Reform and Opening Up (the “**Opinions**”) on 9 April 2021.

Several measures in relation the facilitation of cross-border investment were released in the Opinions, including:

- (1) allowing qualified foreign limited partnerships (QFLPs) in the Hainan FTP to freely remit funds outward and inward in accordance with the balance management model;
- (2) simplifying foreign exchange registration procedures;
- (3) setting up a capital pool which integrates local and foreign currencies, for qualified multinational enterprise groups to facilitate domestic and foreign currency flows in a centralized manner within the group while under macro-prudential supervision;
- (4) allowing qualified overseas financial institutions to wholly-own or hold shares in futures companies in Hainan; and
- (5) encouraging overseas financial institutions to settle in Hainan and support the establishment of Sino-foreign joint banks.



The Ministry of Commerce also issued the General Plan for the Comprehensive Pilot Program to Further Open Up the Services Industry in Hainan Province (the “**General Plan**”) on 21 April 2021.

The General Plan encourages market-oriented development, removal of barriers to entry, as well as strengthening of the regulatory system in various key sectors. Specifically in relation to the financial services industry, in order to spur innovation and further liberalize the industry, it encourages, amongst other measures:

- (1) multinational companies to establish wholly foreign-owned financial companies in the Hainan Province;
- (2) a platform for exchange and collaboration in fintech and green finance to be established;
- (3) overseas institutions to collaborate in developing cross-border commercial medical insurance products and carry out international commercial medical insurance settlement in accordance with the relevant provisions;
- (4) overseas financial institutions to invest and set up foreign-invested securities companies; and
- (5) expanding the activities which qualified foreign banks are allowed to participate in.

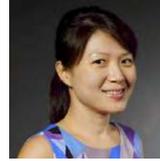
Further, to encourage foreign investment in the modern service industry, according to the Notice on Preferential Policies of Enterprise Income Tax of Hainan Free Trade Port issued by the Ministry of Finance and State Taxation Administration on 23 June 2020, enterprises in the modern services industry, including the financial services industry, which are incorporated in the Hainan FTP, can be exempted from corporate income tax if such income comes from overseas direct investments.

Most recently, the Standing Committee of the National People's Congress passed the Hainan Free Trade Port Law (the "**Hainan FTP Law**") which took effect on 10 June 2021.

The aim of the Hainan FTP Law is to make institutional arrangements to transform these various policy objectives into concrete legislation. This includes implementing the "pre-establishment national treatment policy" that allows foreign investors and their investments to receive treatment no less favorable than that accorded to its own nationals at the initial entrance stage of investment. A more permissive Negative List has also been specifically tailored for the Hainan FTP, and its industry restrictions have been relaxed as compared with the Negative List applicable to other non-special zones, thus allowing foreign investments into more sectors than ever before. Importantly, per the Hainan FTP Law, a free trade tax system will be implemented, with the principles of zero tariffs, low tax rates and streamlining of a simplified tax regime.

It is foreseeable that, in line with the Masterplan, more and more subsidiary regulations in all forms will be rolled out by the relevant government bodies and the State Council. These various laws and regulations will no doubt have an impact on the business and investment landscape of the Hainan FTP in the years to come and investors who are interested in seeking a gateway to the Chinese market should pay attention to the developments happening in this region.

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