



Hainan Free Trade Port—Business Opportunities with new Customs Regime

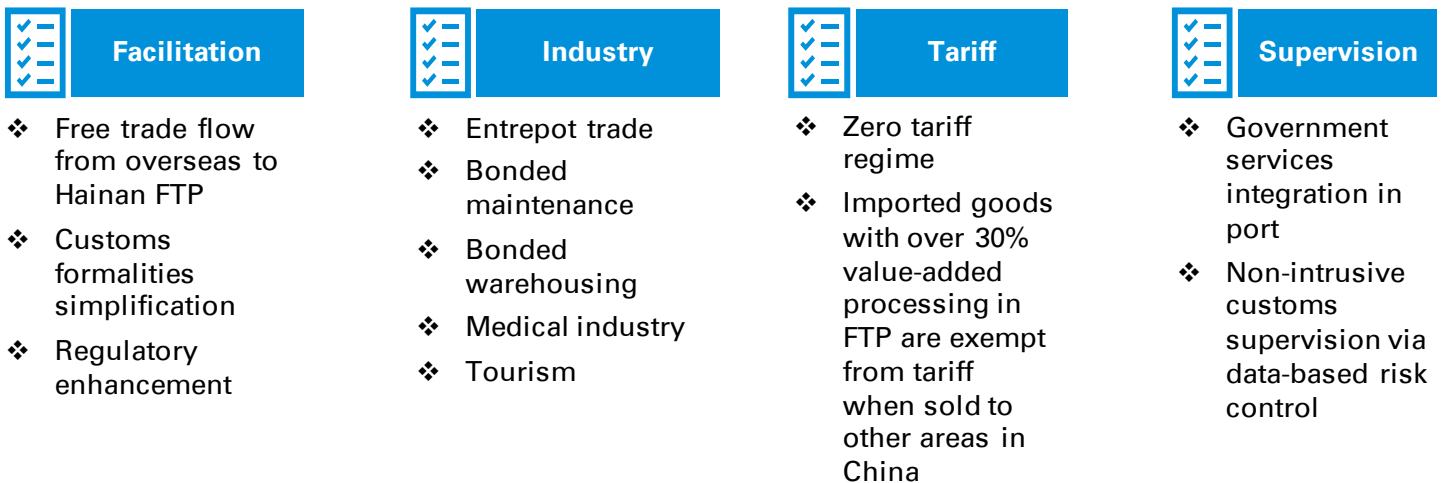
Summary:

The Overall Plan for the Construction of Hainan Free Trade Port (“Hainan FTP Plan”) was released on 1 June 2020, setting out preferential policies on trade facilitation, import and export duties, and customs supervision that will be rolled out over the next years. Businesses are highly encouraged to explore the exciting new opportunities arising from China’s planned new world-leading free trade port.

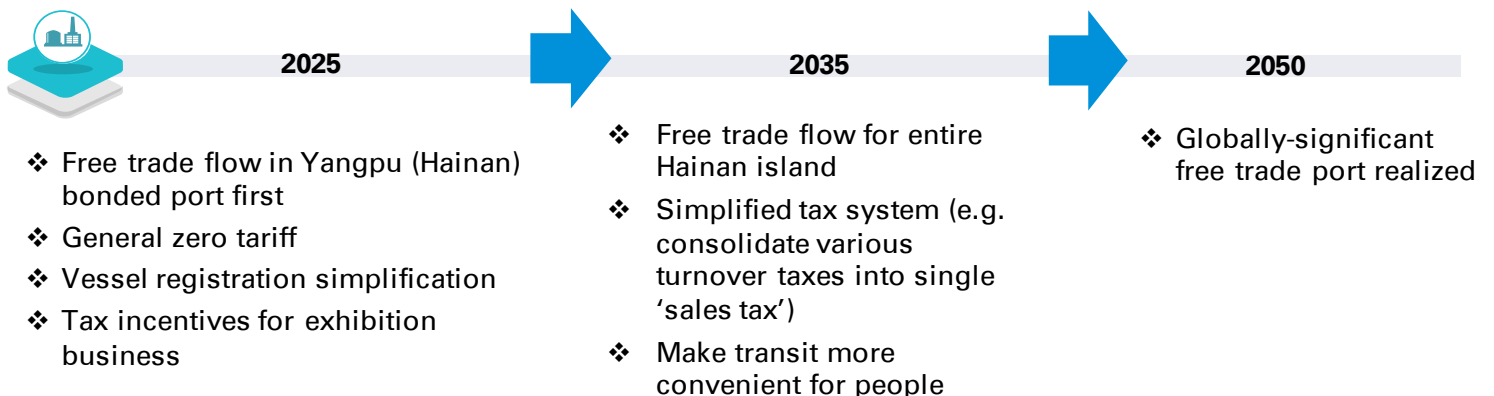
Background



The Plan, put forward by the Chinese central government focuses on trade and funds flow liberalisation and facilitation, enhanced cross-border transport links, and tax changes to support industrial upgrade. Key measures to support import and export enterprises are shown below:



Stages of the Hainan FTP Plan are as follows:



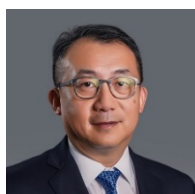


Enterprises have a lot to gain from establishing operations in Hainan. They should pay attention to the following issues and seek professional advice where necessary:

- **Processing in Hainan and supply chain optimisation:** Under the new import processing policy, goods can be imported zero tariff to Hainan, processed in Hainan, and then sold to elsewhere in China at zero tariff. This provides significant new access to the China market and opportunities for supply chain optimisation. Assessment will be needed on whether Hainan processing meets the 30% value-added threshold and whether the necessary “Hainan Origin Certificate” can be obtained. Special attention needs to be given to complexities arising where goods are imported from China free trade agreement partners into Hainan, at low tariff rates, for on-sale to other parts of China.
- **Supply chain management across special customs zones:** The Hainan FTP joins existing special customs zones across China, and supplants the pre-existing special Hainan zones. Businesses setting up in Hainan FTP will need to navigate the phasing out of the pre-existing Hainan special regimes, manage the complexities of moving bonded materials between different special zones, and fully leverage the preferential policies for bonded maintenance, warehousing and exhibitions.
- **Export tax refunds:** Exporters from Hainan FTP will need to manage claims for VAT refunds on exports of goods and services, and manage the transition to the new ‘sales tax’.
- **Trade-facilitation services:** Business should look to leverage forthcoming preferential measures for cross-border finance leasing, cash and treasury management, and entrepot trade services.
- **Hainan FTP or Yangshan Special Comprehensive Bonded Zone:** In 2020, the government is also promoting the newly enhanced Yangshan Special Comprehensive Bonded Zone in Shanghai port. While Yangshan does not have the special Hainan FTP processing incentive, it does have numerous enhanced customs regime features. Business operators should conduct a full assessment to see which of these two regimes, or another China special zone, works best for their China operations.

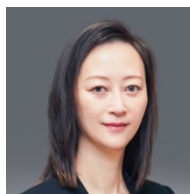
KPMG is closely monitoring the development of Hainan FTP. With its extensive experience, the firm can provide deep insights, advice and services in relation to industrial development planning, surveys on policy incentives, tax and customs optimisation, and assistance in accessing preferential regimes.

Contact us



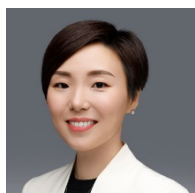
Lewis Lu

Head of Tax
KPMG China
T: +86 (21) 2212 3421
E: lewis.lu@kpmg.com



Lilly Li

Partner-in-Charge, National Tax Markets
KPMG China
T: +86 (20) 3813 8999
E: lilly.li@kpmg.com



Nicole Zhang

Tax Partner,
Partner-in-Charge of Hainan
KPMG China
T: +86 (898) 6525 3230
E: nicole.ll.zhang@kpmg.com



Eric Zhou

Lead Partner
China Trade & Customs Services
KPMG China
T: +86 (10) 8508 7610
E: ec.zhou@kpmg.com



Nathan Wang

Director
China Trade & Customs Services
KPMG China
T: +86 (10) 8553 3713
E: nathan.s.wang@kpmg.com