

# Research on the Problem-solving Path of the Open Development of Modern Service Industry in Hainan Free Trade Area

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**Abstract**—On the afternoon of April 13, Xi Jinping, General Secretary of the Central Committee of the Communist Party of China and President of the State, solemnly declared at the congress celebrating the 30th anniversary of the establishment of the province-run special economic zone in Hainan province that the Central Committee of the Communist Party of China had decided to support the construction of a free trade pilot zone in Hainan province. As the largest free trade area in China, Hainan province will become an important opening door for China to the Pacific and Indian Oceans. Since then, the state and Hainan Province have issued a number of policy documents on the strategic positioning of the development of Hainan free trade zone, and accelerated the establishment of an open ecological service-oriented industrial system as one of the core development contents. However, how to solve the problems that Hainan free trade zone is facing in the open development of modern service, such as fierce regional market competition, weak high-tech foundation, unclear capital depression, inadequate reserve of middle and high-end talents and weak international competitiveness of independent brands, will become the first problem to be solved for this youngest free trade zone in China. This paper will combine the successful experience or mode of domestic and foreign free trade zones in the open development of modern service industry, and put forward some ideas to solve the problems according to the regional characteristics of Hainan free trade zone.

**Keywords**—Hainan free trade zone; modern service industry; open development; problem-solving

## I. INTRODUCTION

On April 13, 2018, Xi Jinping solemnly declared at the congress celebrating the 30th anniversary of the establishment of a province-run special economic zone in Hainan province that the Central Committee of the Communist Party of China had decided to support the construction of a free trade pilot zone in Hainan province. On April 14, 2018, the Central Committee of the Communist Party of China and the State Council issued the "Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening up" (No. 12, 2018). It was clear that China (Hainan) Free Trade Pilot Area should be constructed with the existing pilot content of free trade pilot area as the main body and the characteristics of Hainan province,

covering the whole island of Hainan. As the youngest free trade zone in China and the only free trade port experimental field in China, various departments issued support rules from April to December 2018, which were even called "policy dividend intensive bombing" by the relevant media, giving Hainan province far more special policies and convenient conditions than the general free trade zone.

## II. VIGOROUSLY DEVELOPING MODERN SERVICE INDUSTRY IS THE KEY POINT IN THE CHARACTERISTIC DEVELOPMENT STRATEGY OF HAINAN FREE TRADE AREA

### A. Innate Location Advantages Provide Basic Resources for the Development of Modern Service Industry

As China's 12th free trade zone, China (Hainan) free trade zone has a total area of 354,000 square kilometers, which is 27 times the total area of 11 other free trade zones in China, 32 times that of Hong Kong, 49 times that of Singapore, and 9 times that of Dubai. From the perspective of industrial economics, land is the first element of urban economic development. The unified layout, unified planning, and unified management of the whole island will form a large economic system of the whole island, which can not only guarantee the strengthening of the source power within the system, but also provide excellent basic conditions for the production-oriented service industry in the modern service industry. Hainan province is characterized by its geographical location as an outlying island with geographical advantages. Hainan province has many natural harbors in terms of port resources: Haikou Port, Qinglan Port and Mulan Port in the north; Sanya Port and International Cruise Terminal in the south; Longwan Port in the east; Yangpu Port, Baimajing Port and Basuo Port in the west and so on. Chen Bo, the executive director of the research center for free trade zone of Huazhong University of Science and Technology, said that the opening of service industry was a common task and challenge faced by 11 free trade zones before Hainan free trade zone. The opening process of such projects as education, health care and cultural tourism was relatively slow. "Hainan's greater characteristics lie in the modern service industry. If the modern service industry can develop in Hainan province, it will be great."

*B. Over the Years, the Industrial Development Has Provided the Industrial Foundation Guarantee for the Modern Service Industry*

With the transformation of China's economy and consumption, Hainan's high-tech and service trade has begun to highlight the late-mover advantages. Shen Xiaoming, the governor of Hainan Province, pointed out in the Hainan Government Work Report in 2018 that in the past five years, Hainan had always adhered to the construction of a modern service industry-led industrial system, focusing on the development of 12 services-based industries, with the service industry contributing 79.5% to economic growth. However, it is necessary to clearly recognize that there is still a certain gap between the economic basis of Hainan free trade zone and other free trade zones, and there is no support from leading enterprises in manufacturing and high-tech industries, (see "Fig. 1"). This decides that Hainan's industrial characteristics as a free trade pilot area and a free trade port will be very obvious: the traditional advantages of tropical agriculture and marine fisheries based on its own foundation, and the future advantages of expanding to the direction of modern service industry.

In 2018, the added value of the provincial service industry was 273.615 billion yuan, an increase of 6.8% over the previous year, a growth rate of 1.0 percentage points higher than the overall economy, and the contribution rate to economic growth was 66.9%, which is an important force driving the economic growth of the province. From January to November, the operating income of services above the scale of the province reached 108.259 billion yuan, an increase of 18.0% over the same period last year. Among them, the revenue of strategic emerging service industry is increased by 16.1%. In terms of business income of major industries, transportation, warehousing and postal industry grew by 17.1%, information transmission, software and information technology services by 13.0%, leasing and business services by 18.2%, and scientific research and technology services by 75.9%. From the above data, it can see that the service industry in Hainan free trade zone has maintained a relatively rapid growth, while the emerging industries have developed rapidly.

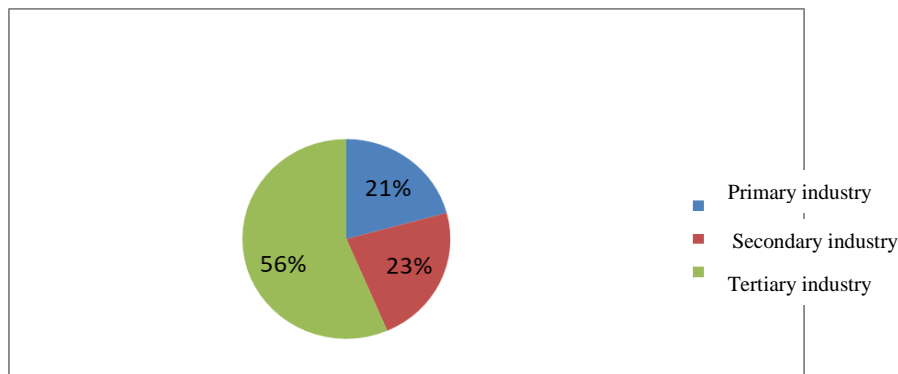


Fig. 1. The composition of three industries in Hainan Province in 2018.

<sup>a</sup> Data Source: the database of Business Industry Research Institute in China.

**III. ANALYSIS ON KEY PROBLEMS IN THE OPEN DEVELOPMENT OF MODERN SERVICE INDUSTRY IN HAINAN FREE TRADE ZONE**

*A. Accurate Positioning and Differentiated Development of Industries*

In April 2018, the Central Committee of the Communist Party of China and the State Council issued the "Guiding Opinions on Supporting Hainan's Comprehensive Deepening Reform and Opening up", which clearly pointed out that it should speed up the establishment of an open ecological service-oriented industrial system, further improve the socialist market economic system and continuously enhance Hainan's economic innovation and competitiveness. It is necessary to support the establishment of international energy, shipping, commodities, property rights, equity and carbon emissions trading sites in Hainan province in accordance with the law and regulations. This guidance provides a clear orientation for the development of modern service industry in Hainan free trade zone. Its purpose is not to let Hainan Province compete with Shanghai, Tianjin and

Zhejiang, but to take advantage of "the Belt and Road Initiative" and Hainan's position in the South China Sea and facing Southeast Asia to participate in international competition, to challenge Singapore and even to win the market in South Asia and Southeast Asia.

Combining with the orientation of Hainan Free Trade Area and the development strategy of modern service industry, it can clearly see that industrial Internet has become an important starting point for the layout of modern service industry in Hainan free trade port. Using the advantages of industrial internet, the period lies in realizing the deep integration of traditional industry and Internet relying on big data, promoting Hainan's industrial economy to break away from weakness to reality, and realizing transformation and upgrading. At the same time, people can learn from the basic experience of commodity trading in Hong Kong, Singapore and Dubai, which are the three major free trade ports in the world, pay attention to transaction costs, create a convenient business environment and promote the globalization of trade services. Being highly transparent, people should abide by data privacy and security rules. Allowing 100% of foreign

investment, it can break existing domestic trade port regulations in the free flow of funds, and should redesign policies that conform to international norms and at the same time have certain competitive advantages. Only in this way can it develop new advantages for Hainan Free Trade Port and related ancillary service industries in the relatively stable world free trade port pattern.

*B. Reasonable Planning and Achieving Energy Gathering among Industries*

The "Guiding Opinions of the Central Committee of the CPC and the State Council on Supporting Hainan's Comprehensive Deepening Reform and Opening up" put forward specific requirements and supporting policies for the opening up of Hainan's service industry. It not only supports Hainan's establishment of international energy, shipping, commodities, property rights, equity, carbon emission rights and other trading sites, but also clearly points out that it is necessary to focus on the development of modern service industries such as tourism, Internet, medical health, finance, exhibition and so on, accelerate the innovation and development of trade in services, and form a service-oriented and economy-oriented industrial structure.

According to statistics, there are 61 industrial clusters with more than 100 billion yuan in China. In the next three years, the national 100 billion-level platform will be born at the rate of 10 digits by using the industrial Internet to innovate the business model of "industrial e-commerce + industrial finance + industrial clusters". The business model of "industrial e-commerce + industrial finance + industrial clusters" has become the trend of industrial development. The reason for Hainan's "regional" pilot project is to give full play to the location advantages of Hainan Island's independent geographical units and the overall advantages of the island's pilot project, to facilitate the strengthening of reform system integration, to enhance the integrity and synergy of institutional innovation, and to put forward the pilot task. For example, it is necessary to fully implement the management system of national treatment and negative list before the entry of foreign capital, abolish the restrictions on foreign capital share ratio of ships (including subsections) and trunk lines, feeder lines, general aircraft design, manufacturing and maintenance, and delegate the examination and approval authority of foreign capital access to value-added telecommunications services to Hainan Province. At the same time, "Key Investment Task List of Hainan Free Trade Pilot Area (Port)" published on May 20, 2018 disclosed the latest situation: "It plans and constructs horse racing venues and sports, tourism, commercial facilities, and investment targets are to be determined." The responsible unit is the Hainan Provincial Cultural Department. According to statistics, there are at least nine companies in Hainan Province whose main business involves horse racing, and the registration time is from 2016 to 2017. Up to now, at least three listed companies have announced the preliminary work of the Hainan horse racing project. By issuing lottery tickets and raising funds, horse breeding can be improved and horse racing industry upstream and downstream can be stimulated. It has been pointed out that in

the field of pilot lottery, if Hainan can take a more open attitude, issue more licenses and allow more enterprises to participate in competition, it will play a positive role in improving service level and reward return rate, and be conducive to the development of tourism, improving investment environment and promoting economic development.

*C. Policy Overlapping and Breaking Through the Bottleneck of Talent Structure*

As the free trade zone is committed to creating an international, legal and market-oriented business environment, it will inevitably generate a large demand for high-level talents, especially in the fields of finance, logistics and IT. With the increase of foreign-funded enterprises in free trade zone, more and more opportunities will be available for foreign enterprises.

Against the background of building free trade zone and considering Hainan's population situation, as shown in "Fig. 2", the Hainan Provincial Government issued the "Hainan Provincial Population Development Plan (2030)" (hereinafter referred to as the "Plan"). It is expected that the total population size of Hainan Province will continue to grow in the future. The permanent population of Hainan Province will be about 9.96 million in 2020 and 12.48 million in 2030. According to the plan, factors affecting Hainan's population growth in the future include the implementation of a comprehensive two-child policy, the construction of Hainan Free Trade Zone (port), the implementation of the Action Plan for Millions of Talents to Hainan (2018-2025), seasonal holidays and healthy old-age migration.

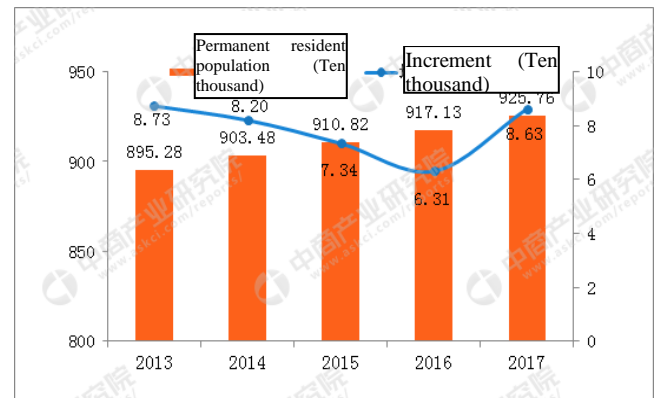


Fig. 2. Hainan resident population statistics from 2013 to 2017.

<sup>a</sup>. Data Source: the database of Business Industry Research Institute in China.

At present, Hainan's natural population growth rate is about 8.7%. It is very difficult to achieve the existing goal by natural growth rate alone, and it is also difficult to have enough qualified personnel to support the construction of a free port. As proposed in the "Plan", Hainan's Million Talents Program will help to increase Hainan's population growth rate.

Hainan Province is exploring the construction of free trade zone. In terms of the talents, Hainan Province is facing

the increasing number of "migratory bird" talents. To these talents, the government should not only provide material allowances, but also provide assistance to them. Hainan Province can learn from the experience of Tianjin Free Trade Zone, cancel the policy restrictions on their household registration, and implement the registration system. Finally, when the experience is popularized, it can promote the reform of household registration system and realize the freedom of migration. Hainan Province should give the talents outside Hainan Province the greatest open degree of freedom. Of course, this policy should also have corresponding management system to ensure the rationality, legitimacy and controllability in the process of human resources management.

#### IV. THE PROBLEM-SOLVING PATH TO THE OPENING UP OF MODERN SERVICE INDUSTRY IN HAINAN FREE TRADE AREA

##### A. *Accelerating Infrastructure Construction and Promoting a Highly Open Modern Service Industry*

From the perspective of the development of modern service industry, Hainan Province belongs to underdeveloped areas, with few market players, small scale, weak strength and lack of leading enterprises. In order to make up for this shortcoming, attracting investment is the key. On May 20, 2018, Hainan Province formally launched the 100-day Business Invitation (Project) Campaign. As of December 27, 2018, 230 agreements had been signed and 106 registered project companies had been registered, of which 54 projects had been put on the ground and started construction. The first batch of headquarters enterprises had been identified as headquarters enterprises, and 30 enterprises had been identified as headquarters enterprises. The case of PwC Consulting Services (Hainan) Co., Ltd. getting a business license in one month shows that Hainan Free Trade Zone has taken a big step in the business environment.

*1) Improving the process of administrative examination and approval with the core of improving business efficiency:* It is necessary to simplify the procedures for the establishment of foreign-funded enterprises, delegate the power of setting up and changing the filing of foreign-funded enterprises to cities and counties, and make it clear that foreign-funded projects under US\$100 million shall be approved and filed by the development and reform departments of cities and counties. Foreign-funded enterprises should set up "one-stop processing" for business record keeping and industrial and commercial registration, realize "paperless, zero meeting and zero fee" in the process of processing, and meet the relevant requirements of the overall scheme of free trade zone ahead of time.

*2) Providing humanized talent attraction policy guided by attracting talents:* It is necessary to establish "one-stop" service window and online service area for foreigners, and establish joint deliberation mechanism for relevant departments. However, the author believe that while these enterprises are stationed in large numbers, they should actively dock their application and registration procedures

with the international community, and construct efficient channels for necessary conditions such as capital, personnel and technology. At the same time, in order to break the shortage of talents as soon as possible, it should also introduce relevant policies for reducing and exempting the high proportion of individual income tax that foreigners pay more attention to.

*3) Taking the demonstration project as the traction, gradually realizing the comprehensive opening of modern service industry:* Hainan Province should speed up the opening up of modern service industry, and actively explore the opening up of modern service industries, such as tourism, internet, health care, finance, exhibition, etc. to the outside world. For example, Hainan Province should vigorously expand international routes, deepen the pilot projects of innovative development of service trade, grasp the landing and demonstration role of pilot tasks, and increase the types, amount and frequency of duty-free goods purchased on outlying islands.

##### B. *Deepening Foreign Exchanges and Strengthening the Breadth of Opening Up Modern Services*

Deepening foreign exchanges and cooperation and creating an important opening door for China to the Pacific and Indian Ocean is an important responsibility for building a pilot zone for deepening reform and opening up in an all-round way.

*1) Making full use of the opportunity of the Maritime Silk Road in the 21st century:* Since ancient times, Hainan Province has been the only place and important relay port and refuge port of the Marine Silk Road. It is also an important node of the Marine Silk Road in the 21st century. The vision and action of promoting the co-construction of the Silk Road Economic Belt and the Marine Silk Road in the 21st century (hereinafter referred to as "Vision and Action") put forward that Hainan Province should strengthen the development and opening up of international tourism islands. The 7th Party Congress of Hainan Province clearly proposed that Hainan Province should fully integrate into the national construction of "the Belt and Road Initiative", give full play to the strategic fulcrum of Haikou and Sanya, and the role of Sanya airport international gateway airport, and make Hainan an international exchange and cooperation platform of "the Belt and Road Initiative" and a marine development cooperation demonstration zone. 3 million 900 thousand overseas Chinese in Hainan Province are distributed in 59 countries and regions, and only about 2000000 people in Southeast Asian countries. It is an indispensable resource for Hainan Province to take part in the construction of "the Belt and Road Initiative".

*2) Giving full play to the effect of the Boao Forum for Asia:* As the only international conference organization permanently settled in China, the Boao forum for Asia is also the only one of the few countries participating in the construction of "the Belt and Road Initiative" that is clearly



listed in the vision and action. The whole province should have a unified understanding and take it as the main platform for Hainan Province to take part in the construction of "the Belt and Road Initiative", so as to give full play to the platform advantages of Boao forum for Asia political and business dialogue. It will promote the forum to take "the Belt and Road Initiative" issue as an important direction of exchange and deliberation, and form a normalization mechanism to provide new paths and new opportunities for economic globalization and regional economic integration, and to inject new kinetic energy into China's linkage development with other countries.

3) *Making full use of the special economic zone policy of the pilot area to achieve more freedom in international exchanges:* Freedom is the core keyword of free trade zone. When it comes to freedom, it is indispensable for people to move freely. Especially, in order to attract a large number of tourists, it is necessary to open convenient access to customs. Since May 1, 2018, Hainan Province has implemented the policy of entry exemption for 59 nationalities as shown in "Table I". The residence time after entry has been extended to 30 days, and the team exemption has been relaxed to individual exemption, thus further supporting Hainan's comprehensive deepening of reform and opening up.

TABLE I. SPECIFIC VISA-FREE COUNTRIES

Russia	England	France	Germany	Norway	Ukraine
Italy	Austria	Finland	Netherlands	Denmark	Switzerland
Sweden	Spain	Belgium	Czech Republic	Republic of Estonia	Greece
Hungary	Iceland	Latvia	Republic of Lithuania	Luxembourg	Malta
Poland	Portugal	Slovakia	Slovenia	Ireland	Cyprus
Bulgaria	Romania	Kingdom of Serbia	Croatia	Bosnia and Herzegovina	Republic of Montenegro
Macedonia	Albania	the United States	Canada	Brazil	Mexico
Argentina	Chile	Australia	New Zealand	Republic of Korea	Japan
Singapore	Malaysia	Thailand	Kazakhstan	the Philippines	Indonesia
Brunei	United Arab Emirates	Qatar	Monaco	Republic of Belarus	

From the list of visa-free countries in "Table I", people can see that many countries have not exempted China from the visa in addition to Qatar, the United Arab Emirates, Indonesia and Cyprus. In fact, according to the principle of visa reciprocity, the "visa-free" can be mutual. The author hopes that Hainan Province can actively discuss the "two-way visa-free" with the above-mentioned countries in the future policy adjustment.

*C. Optimizing the Business Environment and Escorting the Development of Open Economy*

On December 10, 2018, the Action Plan for Optimizing Business Environment in Hainan Province (2018-2019) was officially announced to the public, and 40 reform measures were put forward from 11 aspects in order to further accelerate the construction of a business environment characterized by rule of law, internationalization and facilitation.

1) *Deeply promoting the innovation of system and mechanism:* First, it will deploy pilot projects for innovative development of trade in services to explore the simplification of the "negative list" of trade in services. Second, it is necessary to adhere to the highest international standards, promote reform through evaluation, draw lessons from the advanced experience of Singapore and Hong Kong, find out shortcomings one by one, try boldly, make bold and independent reforms, and strive to make breakthroughs in key areas and key links of trade in services. Thirdly, it should bring the management of trade in services into the "single window" of international trade, and implement a higher level of trade facilitation policy.

2) *Strengthening intellectual property protection:* It is necessary to establish an efficient protection system covering the whole chain of intellectual property creation, application, protection, management and service. Intellectual property court should be set up to improve the judicial mechanism of "three in one" of civil, administrative and criminal aspects of intellectual property. It should establish a public service platform for intellectual property rights, improve the network complaint reporting function, and build a development model of "great service + great protection + great operation" for intellectual property rights.

3) *Strengthening the training of service trade talents:* Firstly, Hainan Province should build an "institution-led, enterprise-supported" talent training system for trade in services, and carry out multi-level special training for trade in services in various industries. Second, scientific research institutes should be encouraged to cultivate research-oriented talents in service trade. Third, universities should be encouraged to strengthen the education of qualifications of high-level talents in service trade. Fourth, it should support enterprises to build service trade talent training base and improve talent incentive mechanism.

V. CONCLUSION

In the southernmost part of the country, China has achieved the largest and highest degree of opening up, which shows that the central government's decision-making is to open up independently and at the highest level. The Plan clearly points out that by 2020, the construction of Hainan Free Trade Pilot Zone has made significant progress, and the international openness has been significantly improved. The efforts have been made to build a high-standard and high-

quality free trade pilot zone featuring convenient investment and trade, normative legal environment, perfect financial services, safe and efficient supervision, and prominent radiation-driven role. According to the statistics in 2018, foreign investment and foreign trade in Hainan Province have increased at a high speed. In the first 11 months of 2018, 114 new foreign-funded enterprises were set up in the province, an increase of 71.43% over the same period last year, and the number of foreign-funded enterprises attracted for the whole year is expected to increase by 100%. Total imports and exports of goods are expected to grow by 18% for the whole year, 13% higher than the expected target. A series of solid new measures to expand opening up are accelerating the pace of development of Hainan's modern service industry, which has increased its openness, competitiveness and attractiveness.

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