

# Meeting International Economic and Trade Rules: A Case Study of Hainan Free Trade Port, China

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This article introduces the development process and main characteristics of China's Hainan Free Trade Port (Hainan FTP) and analyses the risks and challenges China Customs may encounter in matching the high-standard international economic and trade rules in promoting its construction. A comparative analysis is used to demonstrate the comparative advantages of Hainan FTP with other free trade zones (FTZs) around the world. This research shows that, as an important measure of China's high-level economic reform, even though China Customs has to some extent reformed the tariff collection and supervision models towards Hainan FTP, it is still necessary to improve trade facilitation and continuously optimise the business-enabling environment to achieve high-quality development of Hainan FTP.

## 1. Introduction

Free trade zones (FTZs) (also known as 'free ports' or 'free trade ports') are special economic zones with the highest level of economic freedom in the world and can effectively promote the development of international economy and trade (Krugman, 1991). As China's largest pilot FTZ and the only free trade port (FTP), Hainan FTP is a highlight of China's economic reform. China is actively exploring and supporting decisions to better integrate into a new global governance system characterised by high-standard economic and trade rules, and one of its goals was to build an FTP with unique Chinese characteristics, and Hainan is the perfect choice (Meng, 2023). As the most open economy on the Chinese mainland, Hainan FTP has great potential for matching the high-standard international economic and trade rules.

There is currently no official or clear definition of the term 'high-standard international economic and trade rules'. Also known as deep trade agreements (Cui, 2022), high-standard international economic and trade rules have certain characteristics such as a wider scope and coverage, and stricter rule requirements than World Trade Organization (WTO) rules, vigorously promoting the formulation and negotiation of port rules, prioritisation of regional rules and deeper integration of both substantive and procedural rules (Lin et al., 2022; Mattoo et al., 2020; Shi & Zhou, 2024).

There are two types of high-standard international economic and trade rules. The first type is those with higher standards than the existing WTO rules ('WTO plus'), the most typical ones of which are lower binding tariff

levels and longer periods of intellectual property rights (IPR) protection (Quan, 2023). The second type are those that cover more issues, including new issues and rules, in addition to the existing WTO rules ('WTO extra') (Ye, 2014). Typical examples are the Trans-Pacific Partnership Agreement (TPP), which later transformed into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Transatlantic Trade and Investment Partnership (TTIP), the Trade in Services Agreement (TISA) and the United States-Mexico-Canada Agreement (USMCA). Briefly, high-standard international economic and trade rules have higher standards than existing WTO rules, cover more policy areas and have a clearer purpose, with more executive power (Cui, 2022).

Since China established its first pilot FTZ in Shanghai in 2013, China's FTZs have gone through a 10-year development process. As of November 2023, China had 22 pilot FTZs and 171 customs special supervision areas of various types, including 161 comprehensive bonded areas (Xinhua News Agency, 2023).

Academic researchers on FTZs mainly focus on the historical development of, and changes in, free ports (Lavissière & Rodrigue, 2017); the improvement of FTZs' economic productivity (i.e. of their ports) (Fan et al., 2022), as well as the promotion of foreign investment and performance of multinational companies (Frick & Rodríguez-Pose, 2023; S. Li et al., 2021); optimisation strategies on supply chains of FTZs (Benton et al., 2016), and so on. Previous researchers on Hainan FTP mostly focused on issues such as institutional construction (F. Feng, 2023), policy innovation (W. Wang & Fu, 2019) and regulatory models (R. Gao, 2023).

However, the question of how Hainan FTP could meet the high-standard international economic and trade rules, especially the risks and challenges faced by Customs in the supervision process, are generally not covered in the literature in any detail. In view of this, the paper uses comparative analysis to fully highlight the unique characteristics of Hainan FTP. It also points out paths and ways to tackle various risks and challenges that Hainan may encounter in constructing the FTP, especially those facing China Customs, and in meeting the high-standard international economic and trade rules (Li & Wei, 2023).

## 2. Main characteristics of Hainan FTP

On 13 April 2018, Chinese President Xi Jinping announced that the state would support the construction of a pilot FTZ throughout Hainan island, gradually exploring and steadily promoting the construction of an FTP with Chinese characteristics, and establish a policy and institutional system for FTPs in a step-by-step and phased manner.

To promote the construction of Hainan FTP, the Chinese government has successively issued supportive laws and policies such as the *Overall Plan for the Construction of Hainan Free Trade Port* (hereinafter referred to as the *Overall Plan*) (The State Council of China, 2020) and the *Law of the People's Republic of China on the Hainan Free Trade Port* (Office of the Standing

Committee of the National People's Congress, 2021). China is focusing on the high-level design and policy system of Hainan FTP by implementing elevation standards and international economic and trade rules, while fully drawing on advanced management concepts, operating methods and institutional design of international FTPs (Harrison et al., 2020).

At the end of 2023, the entire island of Hainan had seen the completion of preparations for 'independent customs operation' (i.e. 'first line releases, second line controls') (Tang, 2020). Hainan will complete all preparations by 2024 and implement 'independent customs operation' of the entire island by the end of 2025, according to the *Overall Plan* (The State Council of China, 2020). At that point, Hainan will initially establish an FTP policy system, characterised by free and convenient trade and investment. It is expected that by the mid-21st century, Hainan will be a high-level FTP with strong international influence. According to China Customs, Hainan FTP has several unique characteristics, which are discussed in the subsequent sections according to the *Overall Plan* (The State Council of China, 2020).

### 2.1. Policy of Special Customs Supervision Area - 'three zeros'

High-standard international economic and trade rules can reduce trade costs through market access rules and customs procedural rules, thereby promoting trade creation effects and deepening bilateral value chain connections (N. Liu, 2020). They have optimised customs clearance rules, which saves time and transportation costs. The 'three zeros' policy, which means *zero tariff*, *zero barrier* and *zero subsidy*, is often adopted in international customs special supervision zones (Y. Liu et al., 2023).

#### *Zero tariff*

In addition to a 'negative list' (i.e., things that shall *not* be done) of imported self-operated equipment for enterprises, Hainan FTP has drafted three 'positive lists' (i.e., things that can be done) including transportation vehicles for operation, raw and auxiliary materials used in production and processing activities, and imported goods consumed by residents of Hainan (Liang, 2021). To improve the level of trade facilitation brought about by *zero tariff*, duty-free shopping for tourists leaving the island is also adopted (Y. Zhang & Diao, 2020).

#### *Zero barrier*

Following the implementation of independent customs operations, Hainan FTP will remove import duties on items that are not on the list of taxable, prohibited, or restricted commodities. For trade in services, China will implement 'both entry and approval' facilitation measures to remove barriers (Lu & Liu, 2023). Simultaneously, Hainan FTP adopts a market access commitment and entry system, based on the principle of 'non-prohibited entry', as well as a Pre-Establishment National Treatment (PENT) and negative list system for foreign investment, with substantial removal of restrictions and limitations (Tao, 2014).

## *Zero subsidy*

Hainan FTP will strive to create a fair and competitive institutional environment in which all types of ownership market entities are treated equally in terms of factor acquisition, standard formulation, access permits, business operations, policy preferences and government procurement, according to the *Overall Plan* (The State Council of China, 2020).

### **2.2. International Free Trade Port - ‘six frees’**

Hainan FTP will achieve free flow of goods and other factors within the FTP, including free and facilitated trade, free investment, free cross-border capital flow, free personnel entry and exit, free transportation and free safe and orderly data flow (The State Council of China, 2020). From a Customs perspective, the implementation of the *zero tariff* policy is a departure from traditional key principles of revenue collection through tariffs and is perhaps the true representation of ‘free trade’ (H. Wang & Zhang, 2023).

Individuals from 59 countries may enter Hainan without a visa and stay for up to 30 days for business, private and family visits, medical treatment, exhibitions, sports competitions and other needs excluding work and study (Song, 2024).

Hainan will also realise the benefits of shipping policies, such as registry port and bonded oil refilling, expanded foreign trade transfer business, promotion of the expansion project of Yangpu International Container Hub Port (Z. Zhang, 2023) and promotion of the upgrading of hub level and improvement of transfer functions of international airports in Hainan Province (Peng & Zhang, 2023).

### **2.3. Taxation system – ‘five principles’**

In terms of tax system design, Hainan FTP follows the principles of ‘zero tariff, low tax rate, simplified tax system, strong rule of law, and move forward step-by-step’ (Y. Zhang & Diao, 2020, pp. 16–17), gradually establishing a taxation system that is suitable for high-level FTPs. This measure will attract high-end talent and various investments and provide institutional guarantees for the strong international competitiveness of high-end factor agglomeration.

It is worth mentioning that *zero tariff* is the default standard configuration for international FTPs. Hainan FTP will achieve *zero tariff* in two steps, first by exempting some imported goods from import tariffs, import value-added tax (VAT), and consumption tax before independent customs operation (N. Zhang et al., 2020). Second, goods that are not included in the import tax catalogue will be exempted from import tariffs and their importation will be allowed from Hainan FTP, after implementing the independent customs operation and simplified the taxation system (N. Zhang et al., 2020). To this end, China has implemented a series of *zero tariff* preferential policies, for example, exempting import tariffs on raw materials and auxiliary materials (Ministry of Finance (MOF), General Administration of China Customs

(GACC), State Taxation Administration (STA), 2020), vehicles and yachts (MOF, GACC & STA, 2021), which has improved the business-enabling environment of Hainan FTP.

#### 2.4. Preferential shopping policy: ‘Duty-free for offshore passengers’

To better meet the demand of Hainan’s duty-free offshore shopping market, and to promote growth in consumption, on 24 March 2011, the China MOF issued the *Announcement of the Concerning Pilot Implementation of Duty-free Shopping Policy for Travelers Leaving Hainan Island* (Y. Guo, 2022). Starting from 20 April 2011, Hainan became another region in east Asia to implement this policy, in addition to being the biggest offshore duty-free market in the world (Xue, 2022).

From 1 July 2020, the annual duty-free shopping quota for Hainan offshore passengers increased from CNY30,000 per person to CNY100,000 per person, with no limit on the number of purchases made (Y. Guo, 2022). The number of types of duty-free goods have increased from 38 to 45, including electronic consumer products such as mobile phones. In the first quarter of 2023, Haikou Customs District — which is responsible for customs affairs within Hainan Province — supervised a total of CNY16.9 billion in duty-free offshore shopping on outlying islands, an increase of 14.6 per cent year-on-year. The number of shopping passengers reached 2.24 million, a year-on-year increase of 27.2 per cent, and the sales of duty-free goods reached 19.68 million pieces (Cao, 2023).

*Zero tariff* brings about trade facilitation. From 1 April 2023, Hainan’s duty-free shopping increased the ‘guaranteed pick-up’ and ‘buy and pick-up’ delivery methods. ‘Guaranteed pick-up’ means that the passenger needs to submit a guarantee amount equivalent to the import duty of the goods to Customs after purchasing (X. Chen et al., 2023). After submitting the guarantee, passengers can pick up the goods on the spot. When leaving the island, passengers need to apply to Customs to verify the unused duty-free goods and submit shopping vouchers and their valid documents (W. Wang & Wang, 2023). After confirmation, Customs will sign the shopping voucher and return the guarantee after leaving the island. If the passengers do not leave the island within 30 days from the date of shopping or do not actively apply for the verification of duty-free goods, the guarantee will be converted into duty and be collected, and the purchased duty-free goods cannot be used on the island (Ma & Li, 2023). ‘Buy and pick-up’ means that passengers can choose this method when they purchase duty-free goods with a unit price of no more than CNY20,000 and the goods are listed in one of the annexes to the announcement, in which case, after making payment, the passenger can pick up the goods on site, and Customs does not check the goods (Ma & Li, 2023).

Table 1. Progress in 'Offshore Duty-Free Shopping' Policies for Hainan

Year	Number of purchases allowed per year	Amount per purchase allowed (CNY)	Total amount allowed (CNY)	Number of duty-free goods available	Number (items)
2011	Once for Hainan residents, twice for other residents	5000	5000	18	Two perfume, five cosmetics, the rest unlimited
2012	Once for Hainan residents, twice for other residents	8000	8000	21	Five perfume, five cosmetics, the rest unlimited
2015	Once for Hainan residents, twice for other residents	8000	8000	38	Eight perfume, 12 cosmetics, the rest unlimited
2016	Once for Hainan residents, others unlimited	8000	16000	38	Eight perfume, 12 cosmetics, the rest unlimited
2018	Unlimited	8000	30000	38	Addition of some household medical devices
2020	Unlimited	100000	100000	45	30 cosmetics, four mobile phones, 1500ml of alcohol, the rest unlimited

Source: Guo (2022, p. 24).

According to statistics from Haikou Customs, from the implementation of the 'offshore duty-free' policy on 20 April 2011, to 19 April 2023, Customs had supervised a total of CNY185 billion in offshore duty-free shopping, with 34.28 million people shopping (Cao, 2023). As is shown in [Table 1](#), offshore duty-free shopping policies have changed since 2011 (Luo, 2023).

### 3. Advantages and opportunities of Hainan FTP in matching high-standard international economic and trade rules

Hainan is a provincial administrative region at the southernmost end of the People's Republic of China. To the north, it is bounded by the Qiongzhou Strait and Guangdong Province and to the west, it faces the Beibu Gulf and faces Vietnam. To the east, it faces the South China Sea and Taiwan Province. To the southeast and south, it faces the Philippines, Brunei, Malaysia and other countries in the South China Sea. As an island surrounded by the sea on all sides, it is a typical island economy. The unique geographical location makes it difficult to carry out smuggling activities, which gives Hainan an advantageous location and conditions to build an FTP (Meng, 2023).

#### 3.1 Wider geographical coverage

Hainan FTP is the world's largest FTP, with both urban and rural economic regions, which is different from other FTPs that mainly rely on urban economic regions. The land area of Hainan Province is more than five times bigger than Shanghai, and 50 times bigger than Singapore (T. Liu, 2021).

Hainan is in the middle of China and southeast Asia, two major active economic belts, and is an important hub of the maritime Silk Road of ‘the Belt and Road’ initiative (Yu, 2024). Backed by the Chinese mainland market, with unique geographical advantages, it is a natural offshore environment in which to carry out cross-border trade and promote international economic and trade cooperation.

### 3.2. Unique advantages in institutional openness

Due to the open and free nature of the FTP, international standards such as the Mega Regional Trade Agreements (RTA) represented by the Regional Comprehensive Economic Partnership (RCEP) and the CPTPP have clarified the benchmarking direction for the construction of Hainan FTP (Zhao, 2023).

In terms of high-level opening-up, the innovative reform of Hainan FTP is mainly reflected at the institutional level, which forces China’s existing relevant rules and regulations to match advanced international standards in industrial policies, competition policies, and business enabling environments (Moenardy, 2021). The current *Law of the People’s Republic of China on the Hainan Free Trade Port* provides a clear legal basis for Hainan FTP to actively match international economic and trade rules, but specific details must be clarified.

In addition, the GACC and other departments point out the need to fully leverage the synergistic effect of Hainan FTP and the RCEP. In fact, there are many similarities between the policies of Hainan FTP and the RCEP, which make Hainan FTP more susceptible to external pressures brought about by high-standard international economic and trade rules like the CPTPP and the Digital Economy Partnership Agreement (DEPA).

### 3.3. Fully draw on successful experiences

Hainan FTP aligns with the highest level of openness in policy and institutional design, constantly adapting to the new trend of high-standard international economic and trade rules, and fully drawing on the advanced administrative experience of mature free ports such as Singapore, Dubai and Hong Kong Special Administrative Region of the People’s Republic of China (Hong Kong SAR) (J. Chen et al., 2018; Yang et al., 2019).

The construction of Hainan FTP is not a local or regional development, or opening-up strategy in China, but rather an institutional opening-up policy that promotes high-level opening-up to the world while continuously developing laws, regulations, management and standards. Unlike Singapore or Hong Kong SAR, which are separate customs territories, Hainan FTP must consider not only the overall demand for opening-up, but also an effective connection to the Chinese mainland market, as well as the role of Hainan FTP as a bridge between the Chinese mainland and other regions of the world (Wei et al., 2020).

### 3.4. Different overall functions and development priorities

From a global perspective, the vast majority of FTPs focus on transit trade and process manufacturing. However, Hainan FTP breaks through this inherent development model, focusing on developing tourism, modern services and high-tech industry. The aims are to build a comprehensive development model that initiates comprehensive reform and develop a pilot zone, a national ecological civilisation pilot zone, a national major strategic service guarantee zone and an international tourism consumption centre (G. Gao et al., 2023).

The construction of Hainan FTP is not a partial or regional development and opening-up strategy of China, but a new measure of adhering to the promotion of high-level opening-up and steadily expanding institutional openness in terms of rules, regulations, management and standards (Meng, 2023). In fact, the most important factor is to pilot the implementation of high-standard international economic and trade rules, providing experience and solutions for China's comprehensive implementation in the future. Unlike Singapore or Hong Kong SAR as independent economies, Hainan needs to consider both the overall demand for opening-up to the outside world and the effective connection with the Chinese mainland market, as well as its role as a bridge for communication between the Chinese mainland and the rest of the world (Z. Zhang, 2023).

## 4. Risks and challenges of Hainan FTP in matching high-standard international economic and trade rules

### 4.1 High self-positioning of high-standard international economic and trade rules

The issue of compliance in international trade is a focal point in current world trade disputes and frictions. Meanwhile, non-tariff trade barriers are not beneficial to the free flow of goods worldwide. At present, there are three main models of high-standard international economic and trade rules globally: first, the American Model, for example, the CPTPP; second, the European Model, for example, the EU-Japan Economic Partnership Agreement, and third, the Asia-Pacific Model, for example, the RCEP (Lin et al., 2022). These three models share the following characteristics.

#### *Significant subjects covered*

The three models essentially capture the contemporary styles and cutting-edge fields of global economic growth, including the digital economy and artificial intelligence (AI). The accelerating rise of digital trade also calls for the reconstruction of international economic and trade rules, as high-standard worldwide Free Trade Agreements (FTAs) are evolving into divisions according to the global value chain. For instance, the USMCA directly renamed the chapter on e-commerce to digital trade and optimised the pertinent content.



### *Issues have binding effect*

High-standard international economic and trade rules can currently serve as powerful binding factors on the trade and investment behaviour of contracting parties at and beyond border ports, and are not just restricted to ports. In comparison to earlier rounds of high-standard international economic and trade rules, the new ones have more durable institutional policies regarding trade rules after entry at border ports and customs (Hayakawa, 2024). Border regulations cannot satisfy current demands as trade and investment between nations simply expand. Some trade regulations that apply beyond border ports significantly affect the level of fair competition between contractual parties. To align with high-standard international economic and trade rules, customs authorities should strengthen capacity building and actively aid import and export entities to cope with trade barriers, while improving the competitiveness of domestic goods and enterprises.

### *Stricter enforcement efforts*

Currently, the contracting parties face more stringent and administrative measures in international economic and trade rule negotiations, especially in areas such as environmental protection, government procurement, competition policy and IPR protection (Hoekman, 2023). For example, in e-commerce rules there is only one mandatory provision in the WTO for electronic transmission tariff exemption, while there are three provisions in the United States-Korea Free Trade Agreement: electronic transmission tariff exemption, non-discriminatory treatment of electronic products, and electronic authentication and electronic signature. There are 10 e-commerce rules involved in the CPTPP. It may be argued that the concerns of the contracting parties have become more sophisticated. The same is true for IPR, where overall standards in terms of scope and duration of IPR protection are gradually improving.

### *Physical and procedural rules*

Before the TPP was proposed, international economic and trade rules were mostly based on substantive rules, supplemented by procedural rules. The TPP further expands and deepens substantive rules, and the proportion of procedural rules increases (Zhou & Huang, 2021). While further enhancing substantive rules, the USMCA promotes and improves procedural rules, reflecting the deep integration of substantive and procedural rules (H. Li, 2023). In fact, both substantive and procedural rules reflect national interests and reflect the international community's philosophy of promoting free trade and rule governance.

## 4.2. Challenges of matching the RCEP

Currently, China is a member state of the RCEP. In terms of customs supervision, the biggest impact is the accumulation of rules of origin. Hainan FTP should apply the rules of origin in FTAs (Ji et al., 2023), leverage the overlapping policy advantages of customs special supervision zones and the highest level of openness, and further promote the development of the foreign trade industry (Zhu, 2021). The RCEP adopts a system of independent declaration by enterprises but compared with the North American Free Trade Area (NAFTA) model, not all RCEP member states have a complete verification procedure for declaration of origin, or sufficient and strict legal provisions for declaration of origin fraud, which poses a significant challenge to customs supervision inside the region (Pomfret, 2021). With the effective implementation of the RCEP, the gap between the rest of the Chinese mainland and Hainan FTP in terms of goods trade openness will continue to narrow, and the policy advantage of Hainan FTP may face further risks of weakening.

## 4.3. Risks of matching the CPTPP and DEPA

The CPTPP is a highly influential international trade rule in the Asia-Pacific region, following the RCEP. In September 2021, China officially applied to join the CPTPP. After the UK officially joined in July 2023, China became a popular candidate to join the agreement (J. Feng, 2024). The highly liberalised trade and investment rules formed by the CPTPP in terms of tariff preferences, market access, regulatory standards and personnel mobility pose certain challenges to the policies of the special economic functional areas pursued by Hainan FTP (J. Feng, 2024).

In addition, the CPTPP has put forward stricter requirements for the expedited release of temporarily imported goods, the 6-hour release of express goods and the online publication of pre-ruling content as much as possible, as well as the implementation of ex officio customs protection of IPRs for transit goods, which belong to the scope of trade facilitation and digitisation (Quoc, 2020). Hainan FTP needs to explore and pilot the CPTPP while ensuring safety without violating current laws.

As a high-level digital trade rule, the DEPA is a separate agreement on the digital economy proposed in addition to existing trade and investment agreements (Peters, 2023). This is the world's first important rule on the digital economy. Compared with the current open, transparent and flexible investment rules of the DEPA, Hainan FTP has significant room for improvement in terms of institutional innovation in supporting measures for digital and service trade. Therefore, the administrative power of digital trade by Customs also needs to be further clarified and effective management functions should be employed.

## 5. Strategy of China Customs regarding Hainan FTP

Hainan FTP is not only a leading area for China to explore the construction of a new open economy system, but also a test area for the pressure of opening-up to the outside world. Guo (2021) discusses Hainan FTP's independent customs operation and branch management style, as well as the influence of the FTP's construction on the reform of China's special customs supervision areas. On the premise of actively matching with high-standard international economic and trade rules, China Customs should fully draw on the management experience of FTPs in developed countries and regions around the world and accurately and efficiently push forward innovation and reform of China Customs, to promote the high-quality development of Hainan FTP.

After the completion of construction of Hainan FTP, Hainan will establish trade and investment rules characterised by freedom, fairness, rule of law and high-level process supervision, achieving trade liberalisation and facilitation, investment, cross-border capital flow, personnel entry and exit, transportation, and data security and orderly flow. At the same time, Hainan FTP will follow the 'three zeros' in international economic and trade rules, explore and create an internationally fair and competitive FTP, especially in the field of goods trade, focus on strengthening customs clearance facilitation construction, such as: actively promoting paperless trade, optimising customs supervision processes in pre-arrival processing, pre-ruling, goods release and post-clearance audit (PCA) (Y. Guo, 2018). Hainan FTP will also accelerate the construction of special channels for fast freight transportation. At the same time, China Customs strives to cooperate with the goals of FTP international settlement and free international shipping, further reducing the cost of production factors during entry and exit, such as labour, capital and technology, and improving customs clearance efficiency through streamlining and optimising customs procedures (Liu and Zhen, 2022).

### 5.1. Customs supervision mode - 'first line releases, second line controls'

In fact, the purpose of formulating high-standard international economic and trade rules is to reduce tariffs, eliminate trade barriers and achieve freedom and convenience in trade and investment. To this end, China Customs focuses on goods trade and continues to launch stronger measures to facilitate customs procedures through FTPs, continuously promoting market opening, trade facilitation and liberalisation.

On 19 April 2021, the Ministry of Commerce of the People's Republic of China (Ministry of Commerce), GACC and other departments jointly issued the *Circular of the Ministry of Commerce and Other 19 Government Agencies on Measures for Promoting Trade Liberalization and Facilitation in Hainan Free Trade Port* (Ministry of Commerce, 2021), with the goal of optimising the business environment of Hainan FTP and continuously

improving the legal and regulatory framework, constructing a more rigorous risk prevention and control system, and assisting Hainan FTP to rise to new economic heights in China.

According to the institutional design, China Customs builds up a ‘first line’ between Hainan FTP and other countries and regions beyond the customs territory of the People’s Republic of China, and a ‘second line’ between Hainan FTP and the rest of the Chinese mainland. It follows the ‘first line releases, second line controls, free inside island’ principle for goods trade (Pei, 2022). After independent customs operation, goods outside the list of imported taxable goods will be exempt from tariffs. In the ‘first line’ import and export stage, China Customs will strictly follow the commitment period stipulated in the RCEP to ensure the fulfilment of obligations under the agreement and fully guarantee the predictability, transparency and consistency of customs procedures and practices (D. Guo et al., 2023).

Goods entering Hainan FTP from abroad through the ‘first line’ can be duty-free or bonded and goods for personal use and reasonable quantities can be duty-free. Duty-free (bonded) goods are allowed to freely flow within Hainan. When entering other regions of the Chinese mainland through the ‘second line’ from Hainan FTP, they will be considered imported, and customs procedures will be handled in accordance with relevant regulations, while prohibited and restricted goods and items shall still be handled in accordance with current laws and regulations (Zhao, 2023).

After implementing independent customs operations, Hainan FTP will not only have a policy on duty-free or bonded goods, which will be further expanded compared to [Table 1](#), but the declaration elements for them will also be simplified, if not involving certification or inspection, further promoting the flow of goods within Hainan (Y. Guo, 2022). In addition, a distinctive tax exemption policy will be implemented for imported luggage and items. Luggage from passengers who enter for the first time within a certain period, if it complies with relevant regulations, will be released duty-free by Customs (Y. Guo, 2022).

Duty-free (bonded) goods entering the rest of the Chinese mainland through the ‘second line’ of Hainan FTP shall be subject to customs procedures in accordance with the relevant regulations for imported goods, and tariffs and import related taxes shall be levied. Processing value-added goods that meet the conditions for domestic sales shall be exempt from import tariffs (Hainan FTP, 2022). There are no restrictions on personnel entry and exit in the ‘second line’ and luggage and items that are allowed to enter the mainland after being duty-free at the opening port of Hainan FTP are subject to customs supervision and tariff exemption in accordance with regulations (Y. Guo, 2022). For passengers who do not carry duty-free items when leaving the area through the second line, no declaration is required.

## 5.2. Continuously explore and optimise the post-clearance supervision model

High-standard international economic and trade rules mostly consider ‘post-clearance measures’ as an important negotiation topic. In fact, ‘post-clearance measures’ have broken through traditional customs regulatory boundaries and widely involve various fields such as IPR, labour rights protection, environmental protection and the development of small and medium-sized enterprises (Lan, 2019). These are cutting-edge and highly challenging issues globally. Due to the significant degree of national sovereignty transfer involved in ‘post-clearance measures’, there are certain risks and challenges in benchmarking the international economic and trade rules of Hainan FTP (Lan, 2019).

On the one hand, when seeking innovation and promoting reforms, government regulatory departments, including Customs, should pay attention to regulating market openness and trading behaviour to prevent supervision of ‘liberalisation and facilitation’ from being equivalent to finishing customs procedures without full supervision. On the other, relevant government departments should take indirect measures to promote orderly reform step-by-step and seek constant improvements. By continuously streamlining administration, delegating power and optimising regulatory measures, the domestic regulatory system should be restructured, and the modernisation of government governance level and capacity should be continuously improved.

On this basis, within the universally applicable legal frameworks and administrative procedures, China Customs will: guide import and export enterprises to reasonably use administrative reconsideration (a China Customs remedy measure), administrative litigation and other remedy measures to safeguard their legitimate rights and interests; encourage diverse groups, including the private and public sectors, to participate in pre-clearance, ongoing and post-clearance supervision; and explore the reform plan of ‘post-clearance measures’ under the FTP system in an orderly manner (Xu & Geng, 2021).

## 6. Conclusion

High-standard international economic and trade rules demonstrate two major characteristics. The first is a wide coverage area and the second is the high standard of rulemaking. The wide coverage area is an important manifestation of the ‘high standard’ of rules within Hainan, but inevitably brings the risk of ‘exclusivity’ outside the region.

Faced with the reconstruction and iteration of international economic and trade rules, Hainan FTP not only has many advantages in matching with high-standard international economic and trade rules, but also needs to prevent adverse factors brought about by trade protectionism, geopolitics and trade disputes between economies.

Therefore, it is necessary for China Customs to continuously innovate and strengthen reforms, including increasing the linkage system among customs districts in China, strengthening international customs cooperation considering FTZs (ports) and special supervision zones and continuously promoting the high-quality development of Hainan FTP. Especially in emerging trade formats, including service trade, a 'negative list' management approach is adopted. By implementing a regulatory model of 'negative list + PENT' and promoting a more simplified and open negative list system (Chaisse & Pomfret, 2019), China will change its conservative positive list regulatory model in the RCEP agreement.

Over 50 per cent of global trade in services has basically been digitised, over 12 per cent of cross-border goods trade is completed through digital platforms and there are broad prospects for the future development of global digital trade (Shi & Xu, 2022). Therefore, regarding the cross-border transmission of information through electronic means, Hainan FTP will actively benchmark the provisions of high-standard international economic and trade agreements such as RCEP, CPTPP, and DEPA, continuously enhance the supervision of digital trade, reasonably, compliantly, and legally guide the network and data security of cross-border digital trade in an orderly manner, ensure the safe and orderly flow of data and guard against systemic risks.

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