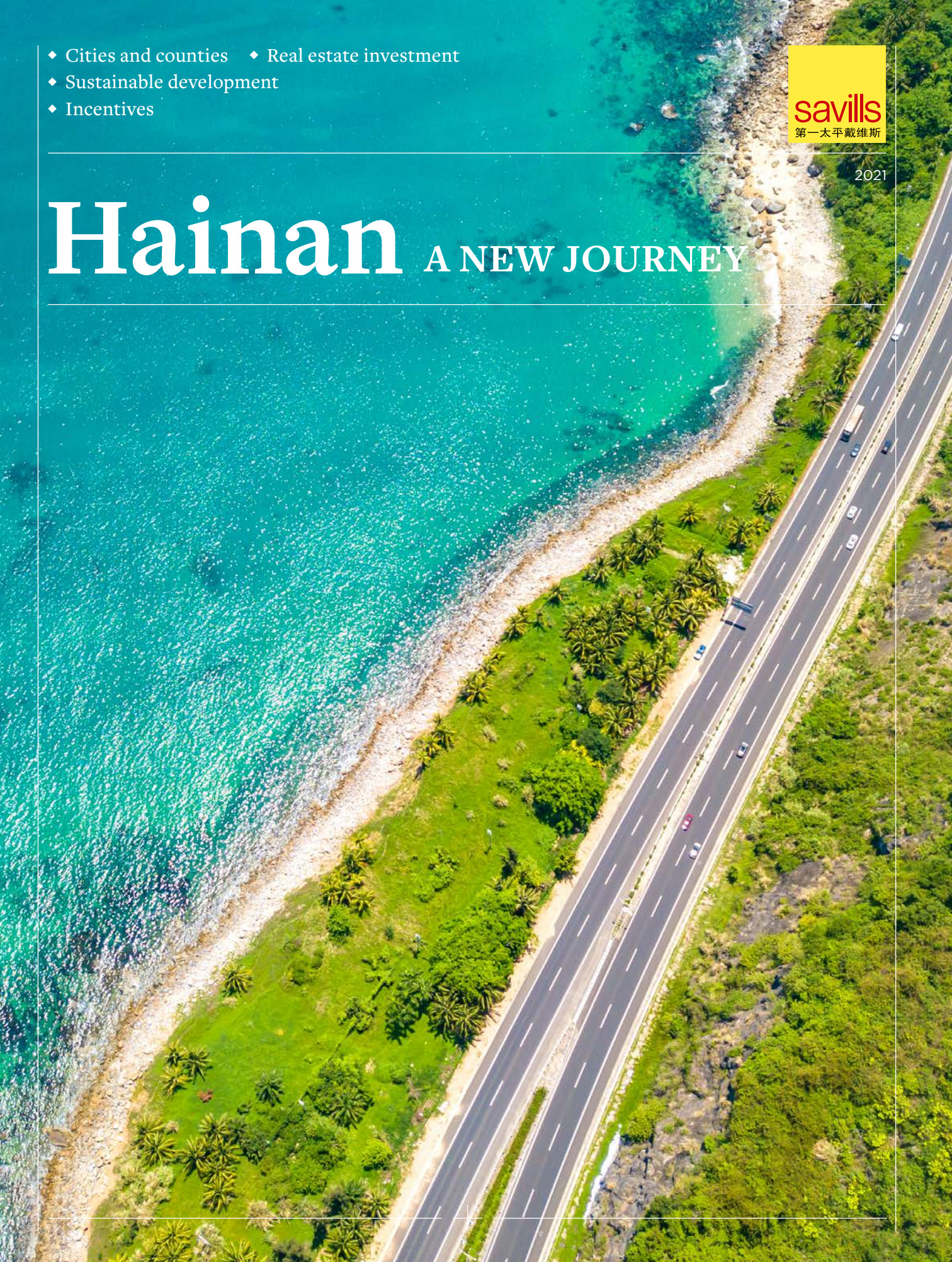


- ◆ Cities and counties ◆ Real estate investment
- ◆ Sustainable development
- ◆ Incentives

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2021

# Hainan A NEW JOURNEY



# Hainan – Reimagined

Starting in 2018, Hainan began its journey to become a free trade port and a key gateway to the Pacific and Indian Oceans. The island province's unique location, taxation and system advantages will bring unprecedented development opportunities for Hainan. According to the 14th Five Year Plan, Hainan will target annual economic growth of over 10% per annum and an urbanisation rate of over 65% by 2025. Haikou and Sanya will be the key drivers of growth, accounting for 60% of the province's population and 70% of its GDP.

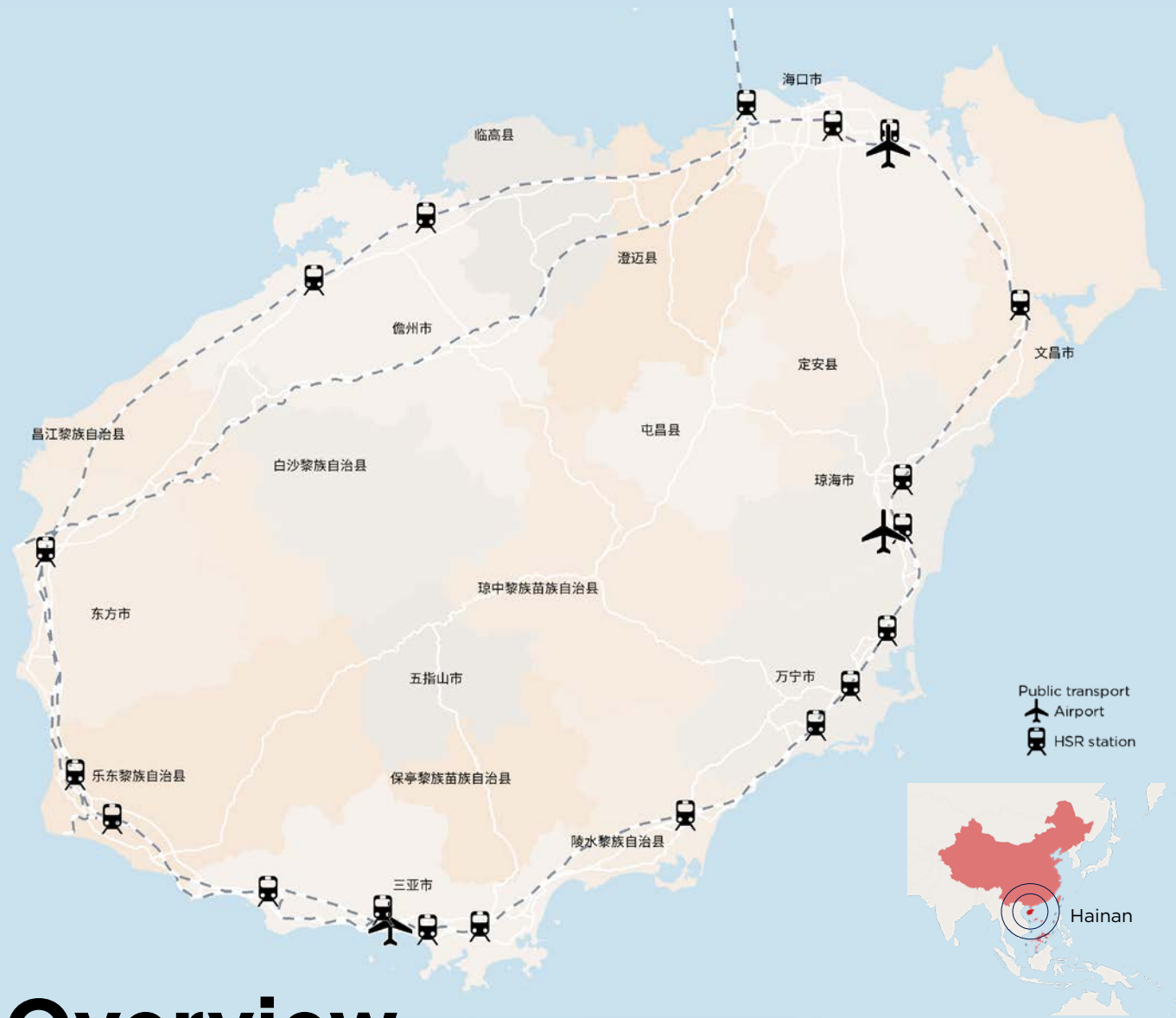
As the economic makeup evolves and is optimised, modern services and hi-tech industries are expected to take a leading role in future growth, reaching RMB350 and RMB150 billion by 2025, respectively. Meanwhile, scientific and technological breakthroughs are expected to be made in the agriculture, marine and aviation sectors.

Hainan's economy is expected to exceed RMB2 trillion by 2035. An important node in China's Belt and Road Initiative, the Hainan Free Trade Port (FTP) status is not only to help boost the island's economic development but also to help direct future reforms for the Chinese mainland.

Significant changes are also afoot for Hainan's real estate market. Residential policies look to curb speculative demand but support end-use demand. The land market looks to augment commercial and industrial development, bringing with it more opportunities but also more competition. Developers should pay heed to long-term policy goals and changes and seize upon opportunities after thorough due diligence.

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# Overview

Hainan, China's southernmost province, is the 28th largest provincial/municipal economy in China, with an output of RMB553 billion in 2020, accounting for 0.5% of the nation's total. Despite its comparatively small island economy, Hainan has been the beneficiary of several reform and opening-up initiatives. China has seven special economic zones (SEZ), but Hainan is the only provincial-level SEZ (covers only Hainan Island, a main area under Hainan's administration).

Hainan enjoys a favourable geography, connecting the Greater Bay Area (GBA) with China's Southeast Asian trading

partners. The island also plays an important role in the "Maritime Silk Road", providing an important platform for cooperation in trade, logistics, tourism and cross-border exchanges between China and other Belt and Road countries.

Hainan, according to the Master Plan for the Construction of Hainan Free Trade Port, released in June 2020, aims to develop three zones and one centre. Namely, (1) a pilot zone for comprehensively deepening reform and opening up; (2) a national-level pilot zone for ecological civilization; (3) the service guarantee zone for national

major strategic projects; and (4) an international tourism and consumption centre. Development will focus on three major industries—tourism, modern services and high-tech sectors.

The Hainan Free Trade Port presents significant opportunities. 1,005 foreign-invested enterprises (FIEs) were established in Hainan in 2020, nearly three times the number in 2019. Meanwhile, utilised foreign direct investment (FDI) doubled to over US\$3 billion. More domestic enterprises are also opening offices in Hainan, with plans to eventually tap into international markets.

## Infrastructure

 Railway	Hainan completed its high-speed rail line in 2015, allowing visitors to travel the circumference of the island in about three hours. The rail loop spans 653 km and connects all twelve coastal cities and counties, with additional stops at Haikou and Sanya airports. Another high-speed railway directly connecting Haikou with Sanya is currently under planning.
 Expressway	Hainan boasted 1,254 km of expressway by the end of 2020. The island tourism road, expected to be completed in 2023, will connect several key tourism hotspots.
 Seaport	Hainan currently has 24 seaports. The four largest ports are Haikou Port, Basuo Port, Yangpu Port and Sanya Port.
 Airport	Hainan has four civilian airports, namely Haikou Meilan International Airport, Sanya Phoenix International Airport, Qionghai Bo'ao Airport and Sansha Yongxing Airport. Haikou and Sanya ranked 16th and 18th in China by 2020 airport passenger traffic, respectively.

## Six concepts

**Free Trade Zone:** Hainan is home to the largest pilot FTZ in China out of a total of 21 FTZs that have been established by the end of 2020. While they are all entitled to preferential taxes and other favourable regulations, they have differentiated positionings aligned to their respective strengths and focuses.

**Free Trade Port:** The Hainan FTP represents a key development goal of Hainan by 2050. It requires policy alignment with international markets in terms of market entry, a financial framework and taxation, which will allow free movement of trade elements, including people, commodities, data and capital.

**6+4+1:** The key elements of Hainan FTP can be summarized by "6+1+4". Where "6" refers to liberalisation and facilitation of (1) trade, (2) investment, (3) cross-border capital flow, (4) movement of

people, (5) movement of transport and (6) the secure flow of data; "1" refers to the building of a modern industrial system; and "4" is strengthening the institutional frameworks in the four areas of taxation, social governance, rule of law and risk prevention and control.

**Free flow across the first border, efficient control at the second border:** The "first-border" refers to China's international customs border where, apart from prohibited and restricted imports and exports, goods and articles can be freely imported into, and exported from, Hainan. The "second border" is between Hainan FTP and Mainland China. Goods transiting between Mainland China and the Hainan FTP are subject to customs duties and import/export-related taxes. This model is in effect at the Yangpu Bonded Port Area and will expand to the entire island by the end of 2024.

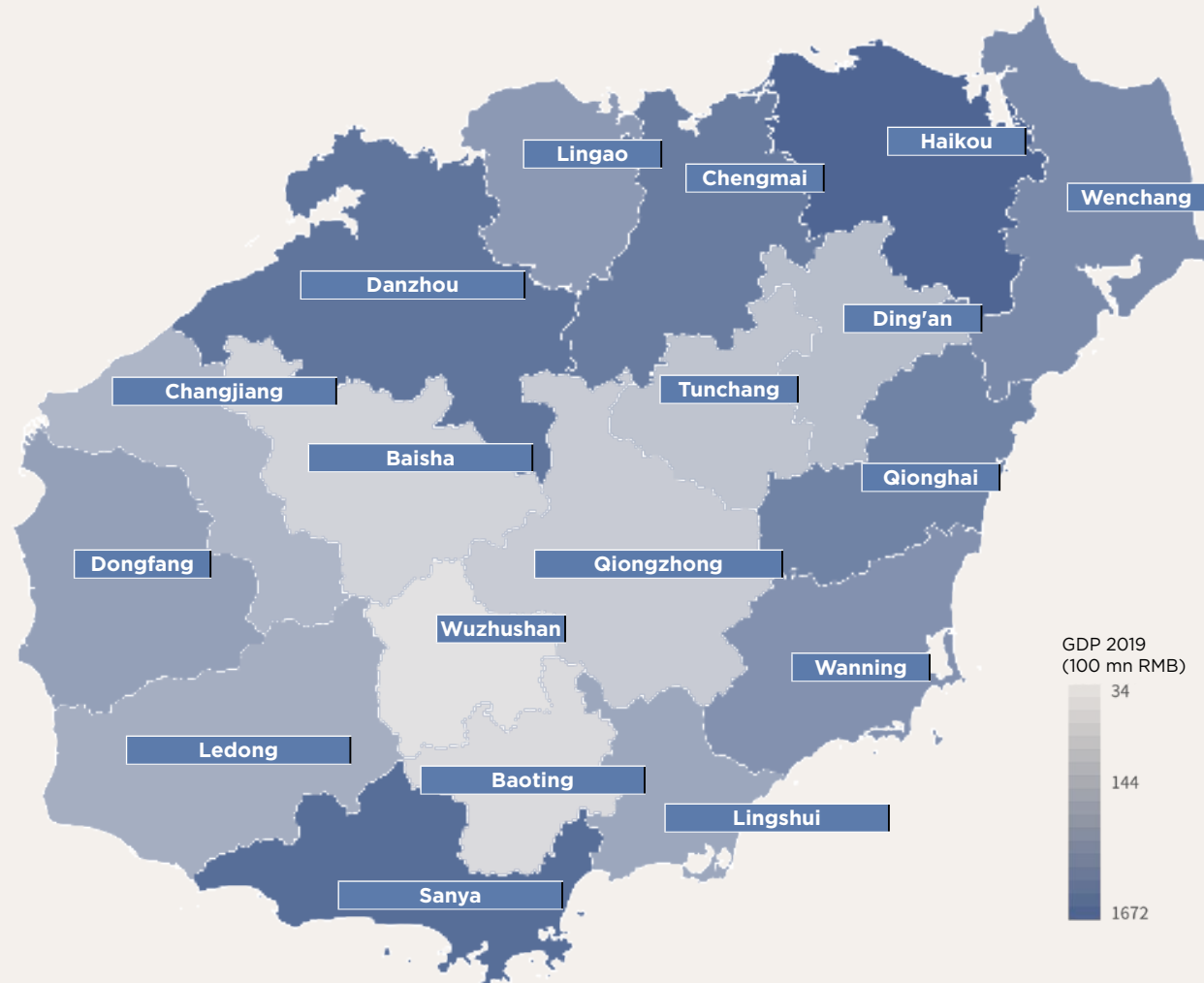
**Offshore duty-free policy:** Individuals travelling from Hainan to the mainland can purchase a limited value and quantity of goods at offshore duty-free shops and collect them from designated areas of airports, railway stations and ports. The tax exemptions include tariff, import value-added tax and consumption taxes.

**One Negative Three Positives:** The Hainan free trade port will establish one negative and three positives ("zero tariffs") lists by 2025. The negative list is for enterprises importing equipment for their own use, with goods not detailed in the negative list being exempt from tax. The positive lists include transport vehicles; raw materials for manufacturing purposes; and commercial goods for consumption by residents.

## Timeline of the Master Plan for Hainan Free Trade Port

<p><b>2025</b></p> <p>Have the free trade port system basically in place; Establish a leading business environment in China; and Gradual improvement of the law and regulations adapted for the construction of the free trade ports.</p>	<p><b>2035</b></p> <p>Have a mature operation of the Hainan Free Trade Port; Free and convenient exchange of people, transportation and data; and Establish a world-leading business environment.</p>	<p><b>2050</b></p> <p>High-level free trade port with strong international influence established.</p>
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# Cities and counties



Hainan province consists of four prefecture-level cities, five county-level cities, four counties and six autonomous counties.

Haikou and Sanya are the two largest cities in Hainan in terms of economic output, accounting for 32% and 13% of Hainan's GDP in 2020, while being home to 25% and 8% of its population, respectively. They are at the core of Hainan's 2015-2030 development master plan, which focuses on the Northern Hainan Comprehensive Economic Circle and the Southern Hainan Tourism

Economic Circle to drive economic development across the whole province.

Haikou and Sanya both have large tertiary sectors accounting for more than 70% of their local economies. Haikou's tertiary sector, however, is more evenly structured, with financial services and retail both accounting for more than 17%, while Sanya is largely supported by tourism and real estate.

Danzhou is the largest city in Hainan in terms of land area, accounting for 10% of the island's area. Danzhou also comes

third in economic output, one-fifth the size of Haikou and half of Sanya, and second in terms of population, after Haikou. Danzhou has an abundance of tropical agricultural resources while also being home to the Yangpu Economic Development Zone (EDZ) (calculated separately), an important industrial manufacturing area. Danzhou and Yangpu EDZ economies combined are roughly the same size as Sanya.

## Major economic indicators of Hainan by city/county, 2019

City/County	GDP (mn RMB)	GDP per capita (RMB)	Population (10,000)	No. of above-scale industrial enterprises	Real estate investment (mn RMB)	Retail sales (mn RMB)
Haikou	167,193	72,218	233	157	48,073	78,558
Sanya	67,786	87,105	78	25	29,993	26,584
Danzhou	35,764	39,114	92	29	10,161	9,704
Chengmai	33,018	66,413	57	49	6,543	6,472
Qionghai	28,330	54,630	52	11	5,477	10,981
Wanning	23,557	40,490	64	12	4,907	8,841
Wenchang	25,702	44,928	60	17	8,562	8,918
Dongfang	19,308	44,684	46	15	1,535	4,507
Lingao	19,540	43,085	51	3	1,911	4,284
Lingshui	18,320	54,562	39	7	9,883	3,490
Ledong	14,435	29,738	55	5	1,041	4,611
Baisha	5,664	32,486	20	5	387	1,762
Baoting	5,571	36,258	17	1	1,514	1,736
Changjiang	12,632	53,798	26	22	758	2,820
Ding'an	10,442	34,890	35	17	1,241	2,996
Qiongzong	5,748	31,721	22	8	89	1,809
Tunchang	8,565	31,721	31	4	555	2,857
Wuzhishan	3,400	31,573	11	4	93	1,199

# Real estate

The real estate sector is a key recipient of Fixed Asset Investment (FAI) in Hainan, accounting for 56% of the total in 2015, compared to 24% nationally. Investment in real estate development peaked in 2017 and has declined in subsequent years, with its percentage of total FAI falling to 46% in 2019.

The decline in real estate development investment is largely due to the local government's tighter restrictions on land use, which were put into effect in 2018. Hainan introduced a series of policies in 2019 to kick start the development of 31,000 mu (roughly 20.6 sq km) of land, which also has the possibility of converting land zoning to industrial/R&D usage. Hainan continued to explore ways of optimising land usage and allocation of land resources in 2020.

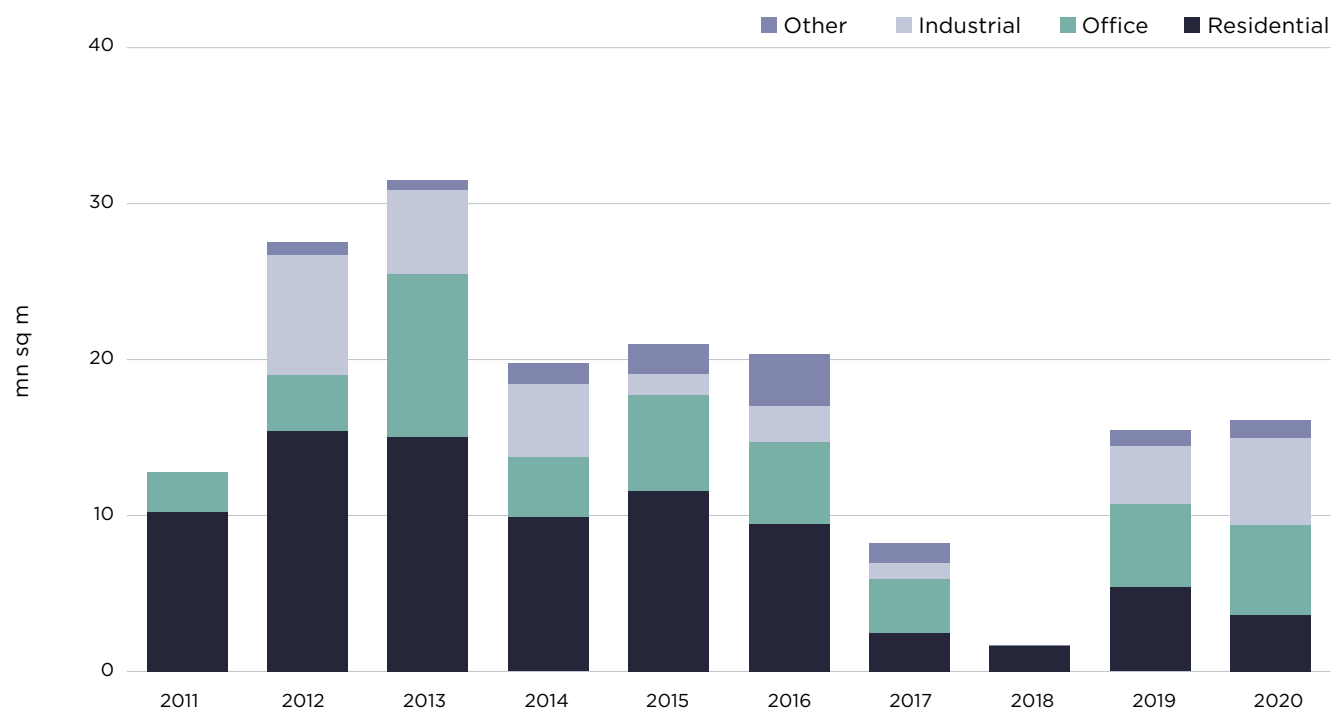
These various measures led to a significant increase in commercial and industrial land sales in 2019-2020 compared to 2017-2018, with a 2.2-fold increase in commercial-zoned land sold and an 8.1 fold increase in industrial-zoned land, bringing their ratios to 35 and 29%, respectively. In contrast, the share of residential zoned land fell from 41% to 29% over the same period, with most of this being built as economic housing.

The forecast growth in demand resulting from the establishment of the FTP will be met with a significant increase in office, industrial and warehouse space over the mid-to-long term, helping to keep rental growth in check. Developers and landlords, however, will need to pay attention to launch dates and positioning as competition for tenant could prove

fierce if demand doesn't materialise as forecast. Grade A lettable office stock in Hainan is extremely limited, with most projects having been sold strata title. The emergence of quality lettable stock will help meet the needs of larger institutions and high-growth companies that require flexibility and premium service quality.

Corporate tenants and individuals have become increasingly concerned about health and the wider environment in recent years. Hainan has required residential buildings larger than 1,000 sq m, or more than five floors, as well as public facilities and commercial premises larger than 20,000 sq m to meet green building standards. These are also in alignment with the national goal of building an ecological civilisation pilot zone in Hainan.

Land transacted area (GFA) in Hainan, 2010-2020



Source CRIC, Savills Research

Innovative land policies in Hainan, 2020

	Subject	Content
January	Long-term rental apartments	<ul style="list-style-type: none"> <li>Encourage collectively-owned land to be developed into long-term rental apartments.</li> <li>Give priority to the redevelopment of rural idle land, abandoned land, etc.</li> </ul>
April	Standard land system	<ul style="list-style-type: none"> <li>Standard land can be sold through auction, on the basis of lease-first, transfer-later, flexible terms and other methods specified in the notice.</li> <li>Land sales conditions can be tailored to individual use cases if the project brings significant economic benefits.</li> </ul>
April	Point-like land system	<ul style="list-style-type: none"> <li>Small land plots can be bundled and sold together.</li> <li>The total site area of bundled sites should not exceed 30 acres, with each plot generally not less than one acre in size.</li> </ul>
July	Residential land management	<ul style="list-style-type: none"> <li>Encourage the development of rental and affordable housing.</li> <li>Land sold at auction with land and home price caps.</li> </ul>
October	Industrial land	<ul style="list-style-type: none"> <li>Encourage a balanced mix of industrial, storage, R&amp;D, office, commercial and other use types.</li> <li>Industrial land can be supplied in the form of long-term lease, lease-first, transfer-later, a combination of lease and transfer and flexible terms.</li> </ul>
November	Comprehensive land management	<ul style="list-style-type: none"> <li>Promote the launch of urban villages, urban border villages, village collective enterprises (factories), agricultural reclamation enterprises and other contiguous development areas onto the land sales market, in accordance with laws and regulations.</li> </ul>

Source Savills Research

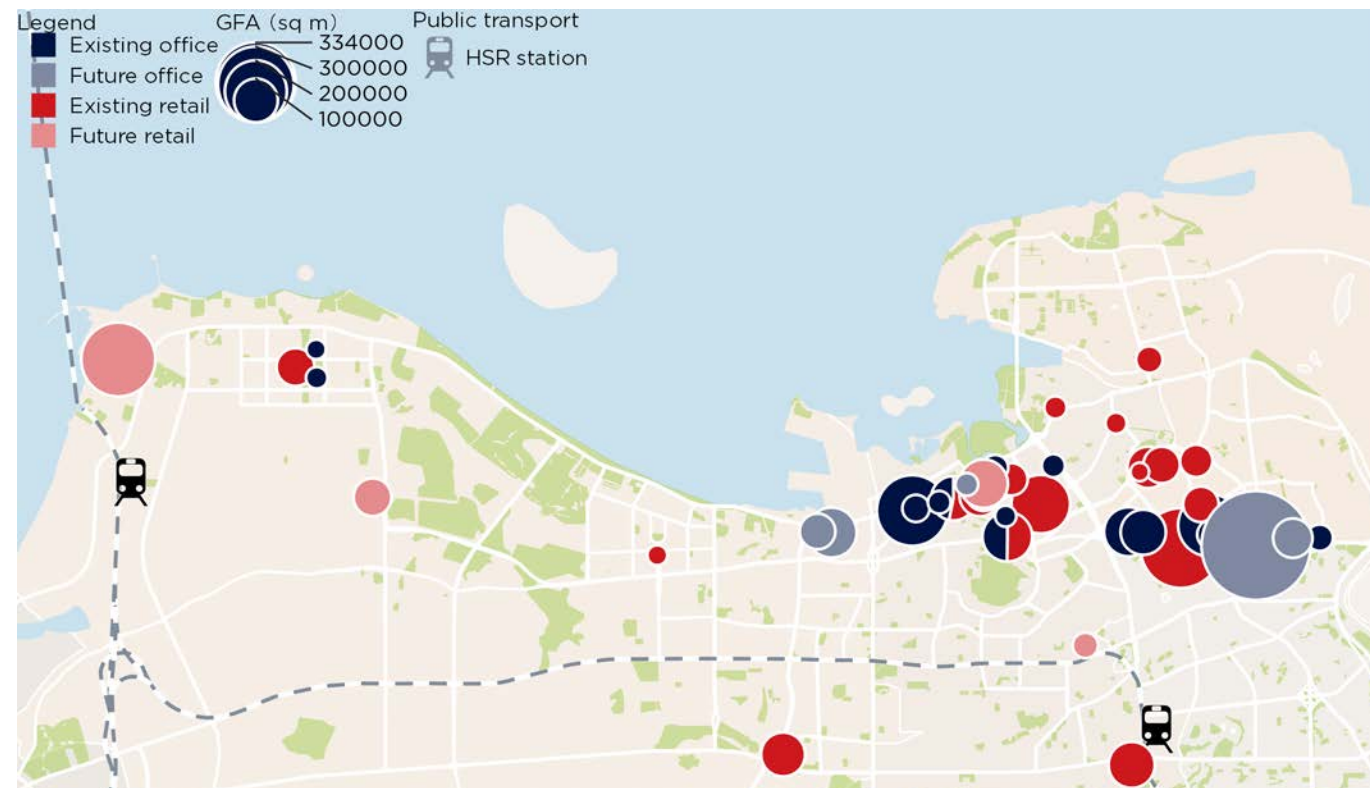
Residential regulations have been tightened significantly. Hainan has halted development in the four ecologically sensitive areas in the central region as well as the development of commodity residential along coastline. Since the implementation of house purchase restrictions in 2018, supply and transaction volumes have declined. Commercial residential transaction units fell 11.4% and 38.1% YoY in Haikou and Sanya respectively, though prices rose by 4.2% and 9.6%. Given limited supply and a growing economy, the long-term prospects for the residential market remain decidedly positive.

Regulations on residential market in Hainan

Subject	Content
Fully decorated	<ul style="list-style-type: none"> <li>After July 1, 2017, commercial residential projects must be fully furnished in order to obtain a sales permit.</li> </ul>
Unit area	<ul style="list-style-type: none"> <li>Construction of commodity residential with unit sizes smaller than 100 sqm (inclusive) to be halted.</li> </ul>
Business reform	<ul style="list-style-type: none"> <li>(Haikou) It is strictly forbidden to change the building usage, especially to residential design. No external balconies. Projects should have public corridors and toilets.</li> <li>Office space sold to an individual should not be less than 150 sqm.</li> </ul>
Existing home sales	<ul style="list-style-type: none"> <li>No pre-sales allowed for land acquired after March 8, 2020 .</li> </ul>
Prices	<ul style="list-style-type: none"> <li>Sanya: Online pricing must be strictly followed; online filing must be in the same month as contract signing.</li> <li>Haikou: Unauthorized price adjustments are not allowed after filing; online filing must be within 30 days of contract signing.</li> </ul>
House purchase restrictions	<ul style="list-style-type: none"> <li>Non-Hainan households can purchase a maximum of one unit; Hainan households can purchase a maximum of two.</li> <li>Non-Hainan households must have paid local social security or individual income tax for two years before purchasing. Five years of social security or individual income tax are required for some jurisdictions in Sanya, Haikou and Qionghai.</li> </ul>

Source Savills Research

# Haikou commercial markets



## Office

Haikou's office market has developed rapidly in recent years thanks to both the favourable policy environment and improving economy, while new developments are typically of Grade A standard. Haikou's Grade A office stock stood at 1.0 million sq m at the end of 2020, while its vacancy rate was at 39.3%, down 9.0 percentage points (ppts) YoY. Financial, professional services and real estate companies are still the main demand drivers.

Hainan has three key business areas, of which Binhai and Guomao are the most mature, while Dayingshan, situated close to the provincial government headquarters, is still emerging. Future development is expected to spread east and west into the Jiangdong New Area and West Coast, respectively, as the establishment of Hainan's industrial park network creates new business opportunities. High-quality office stock in these areas is incredibly limited at the moment, but new developments are in the pipeline.

Preferential tax policies are expected to attract numerous services firms and technology enterprises to set up premises and help grow their businesses, driving further demand for the city's rapidly growing Grade A office market.

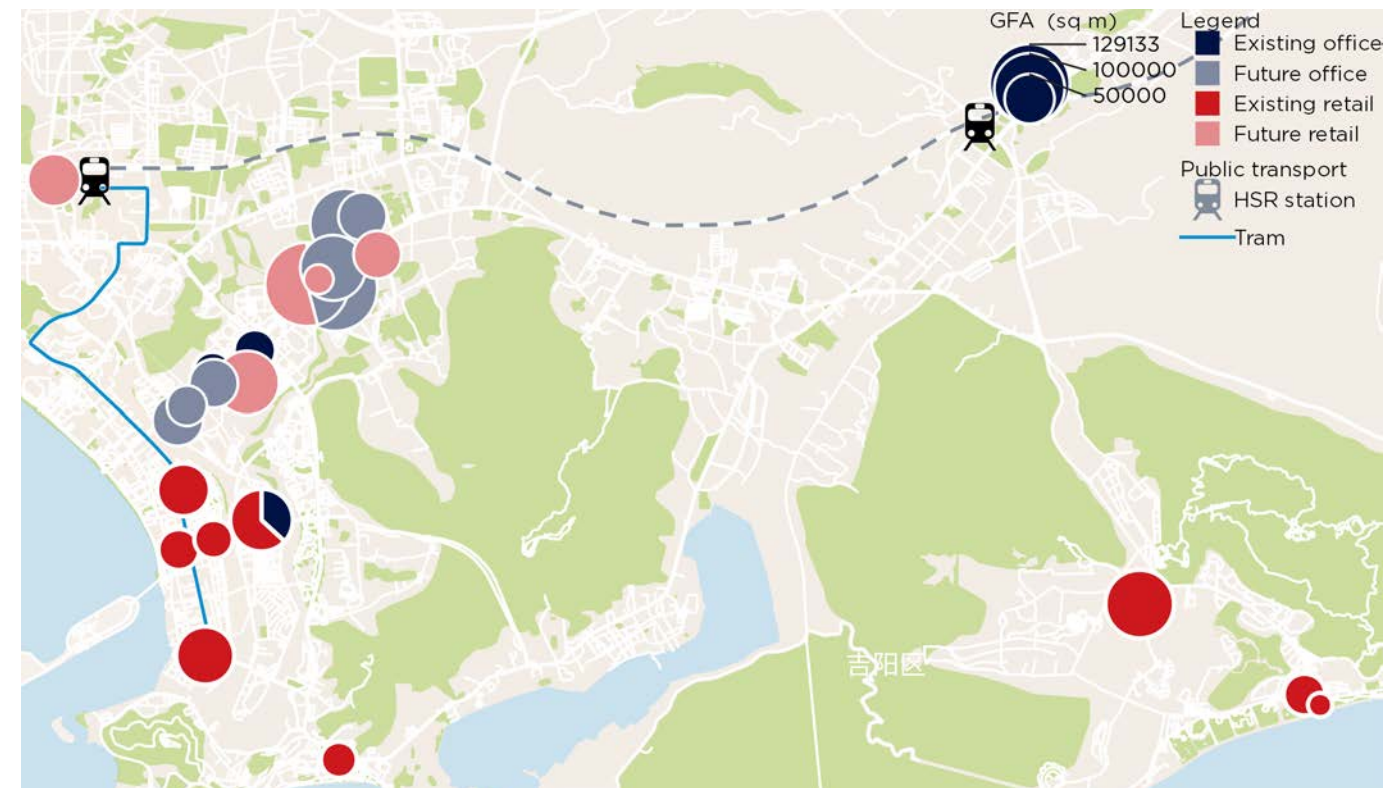
## Retail

Haikou's retail market started with department stores and they remain popular today. Nevertheless, new developments have been exclusively shopping malls since 2016. This has resulted in a gradual change in the structure of the retail property market to one that is now dominated by malls. The city's total retail stock stood at 1.2 million sq m by the end of 2020, with a citywide vacancy rate of 16.9%, up 4.3 ppts YoY.

Despite being relatively small, the Haikou market can still be separated into ten distinct retail precincts. Of the four prime downtown precincts, Jiefang Rd and Haixiu are the oldest, while Guomao-Binhai and Dayingshan have benefited from the continued development of the surrounding office markets. Emerging retail areas have emerged in response to new urban planning, such as the West Coast, or target large, prosperous residential communities and Transportation Oriented Developments (TODs), such as East Railway Station-Yingbin Rd, Xiuying and Mission Hills.

Favourable policies and improving market confidence will see more well-known brands and operators explore new opportunities or expand market presence in Haikou, bringing new dynamism to the market. Several large retail centres are in the works, including projects from China Resources, Longfor and OCT Group. The upgrade and increasing range of options available will be sure to attract both domestic and international retailers.

# Sanya commercial markets



## Office

Sanya, as predominately a tourist city, has a relatively underdeveloped office market, with only a handful of completed projects. These projects tend to be located along Yingbin Road, as well as in the Hedong and Hexi areas. Yingbin Road boasts the best developments in the city, with stock in Hexi and Hedong primarily stratified Grade B and C developments. Sanya had only 97,000 sq m of Grade A office stock by the end of 2020, with a vacancy rate of 29.5%.

As the tertiary sector continues to grow and investment pours in from financial services firms and SOEs on the back of policy support, office leasing demand should pick up, and tenants upgrade to Grade A premises as these become available. Future Grade A office supply, concentrating along Yingbin Road, is expected to peak in 2022, with total stock expected to increase seven-fold in the next five years.

## Retail

Sanya's retail market, still at an early stage of development, features a mix of shopping malls, department stores, retail streets, duty-free stores and outlet malls. With supply being limited in recent years, shoppers still prefer established department stores and retail podiums for the time being.

There are six major retail precincts in Sanya, mostly along the coast. Jiefang Road and Dadonghai are the oldest retail areas and tend to serve local neighbourhoods. Sanya Bay, Yalong Bay and Haitang Bay cater to tourist needs, with Haitang Bay positioned slightly higher than the other two. Meanwhile, Yingbin Road targets white-collar workers in the city's central business district. Sanya has 424,000 sq m of shopping mall space at the end of 2020, with a citywide vacancy rate of 15.7%.

Sanya's retail market is heavily reliant upon the tourism industry. More malls are specifically targeting tourists and are offering experiential tenant mixes heavily weighted towards the F&B, leisure and entertainment trades. Sanya has benefited from a lack of outbound tourism over the last year, attracting throngs of domestic tourists looking for a substitute to Bali, Phuket or Halong Bay. Additionally, duty-free stores and outlets have also attracted those looking to replace trips to Hong Kong, Dubai or Jeju.

Key industrial parks in Hainan

Yangpu Economic Development Zone	
City	Danzhou area
Leading industry	Hi-tech
Key subsectors	Oil & gas, logistics, ocean equipment

Fullsinging Town Internet Innovation Park	
City	Haikou
Leading industry	Hi-tech
Key subsectors	Digital

Yangpu Economic Development Zone (Lingao Jinpai Port Lingang Industrial Park)

Haikou Integrated Free Trade Zone	
City	Haikou
Leading industry	Modern service
Key subsectors	Bonded manufacturing, bonded logistics, cross-border e-commerce, completed car import

Haikou Jiangdong New Area	
City	Haikou
Leading industry	Modern service
Key subsectors	Airport, service, ecology

Wenchang International Aerospace City	
City	Wenchang
Leading industry	Hi-tech
Key subsectors	Aerospace technology

Yangpu Economic Development Zone (Dongfang Lingang Industrial Park)

Hainan Resort Software Community	
City	Haikou
Leading industry	Hi-tech
Key subsectors	Internet

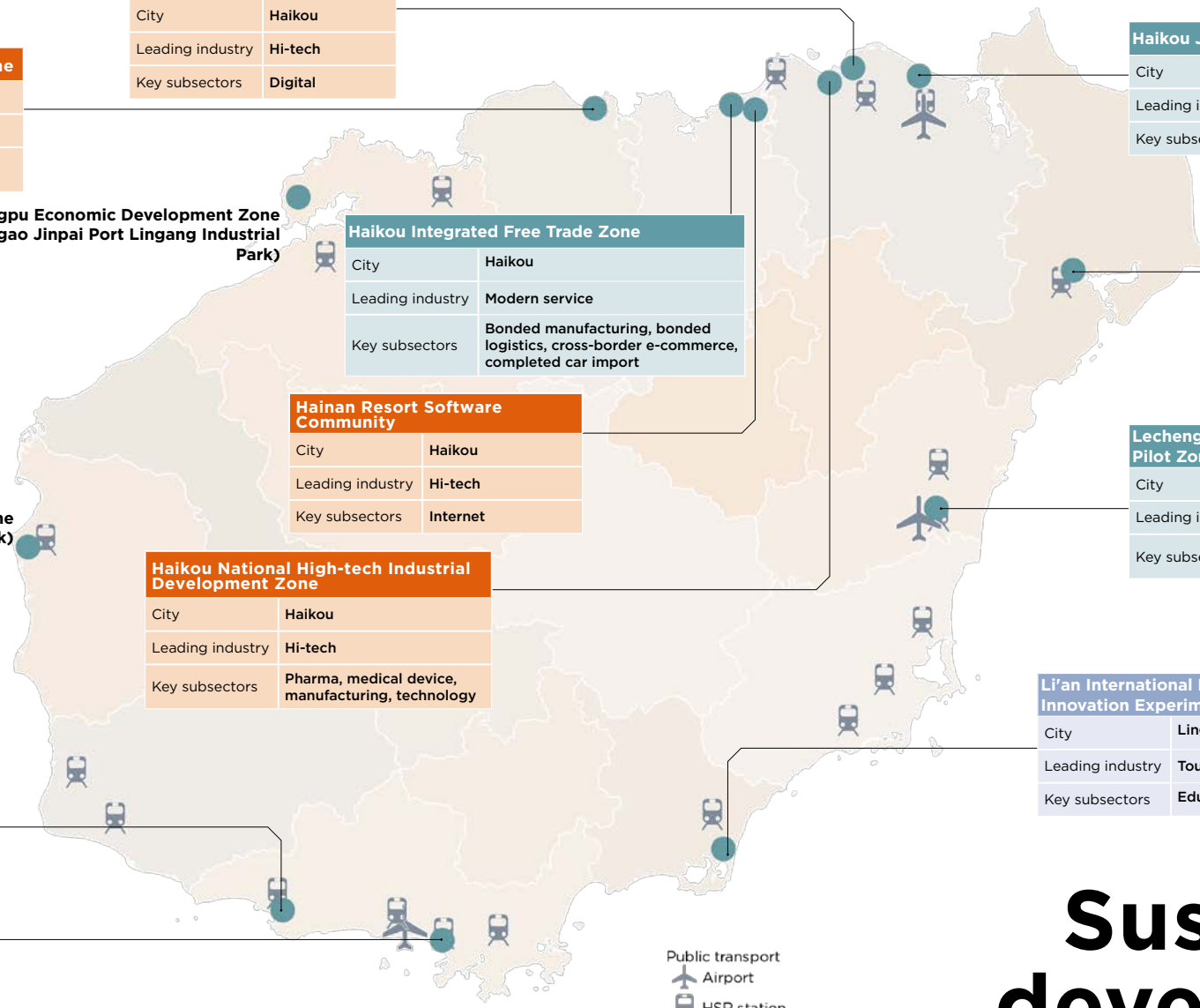
Lecheng International Medical Tourism Pilot Zone	
City	Bo'ao
Leading industry	Modern service
Key subsectors	Medical care, medical tourism

Sanya Yazhou Bay Science and Technology City	
City	Sanya
Leading industry	Hi-tech
Key subsectors	Deep-sea technology, agriculture

Haikou National High-tech Industrial Development Zone	
City	Haikou
Leading industry	Hi-tech
Key subsectors	Pharma, medical device, manufacturing, technology

Li'an International Education Innovation Experimental Zone	
City	Lingshui
Leading industry	Tourism
Key subsectors	Education

Sanya Central Business District	
City	Sanya
Leading industry	Modern service
Key subsectors	Headquarters, trade business



# Sustainable development

Hainan's economy is small, at RMB553.3 billion in 2020, and its GDP is just 5% the size of Guangdong's economy. The economic makeup of each city can vary significantly. Over 80% of Haikou's economic output comes from the tertiary sector. Sanya also has a larger tertiary industry but is more reliant on tourism. Danzhou has a larger primary industry (agriculture), while Yangpu EDZ (within Danzhou's boundaries but usually listed separately in statistics) is one of the provinces' largest industrial bases.

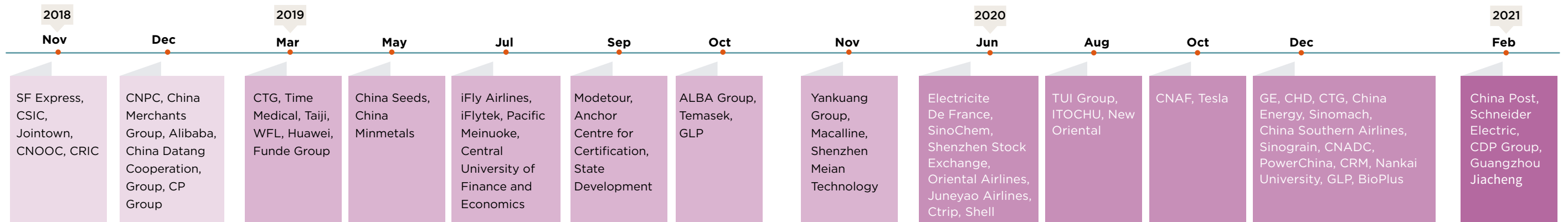
The Hainan government identified twelve key industries in 2015 as important drivers of the economy. Output from these industries accounted for 66.1% of Hainan's GDP in 2020, up 3.2 ppts YoY. The tourism and the Meetings, Incentives, Conventions and Exhibitions (MICE) sectors were greatly affected by COVID-19 in 2020, but other sectors, including internet, medical and cultural, saw growth rates accelerate.

Tourism, modern services and hi-tech sectors were identified as leading industries and a key focus for the FTP going forwards; they also overlap with the twelve key industries identified in 2015. In 2020, these three leading industries accounted for 43% of provincial GDP. While tourism has been the traditional driver of Hainan's economy, the local government hopes that modern services and hi-tech industries will attract a growing talent pool, with policy support such as lower personal income tax, and build a more varied and resilient economic base.

The establishment of eleven key industrial parks was announced in June 2020 to attract relevant industries and business, including five in Haikou and two in Sanya. The eleven industrial parks contributed over 30% of tax income for the whole province in 2019.

Hainan, at the vanguard of reforms designed to attract foreign investment, enjoys special policy advantages. Hainan FTP's 2020 negative list includes fewer industries (27 items) than the national negative list (33 items) and free trade zone negative list (30 items).

Selected construction projects, corporate signings and key projects



Source Hainan Government, Savills Research

# Tourism

## Building on a firm foundation

Hainan, as a tropical island, enjoys a comfortable climate and abundant natural resources. Tourism has become the province's pillar industry. Revenue from tourism grew at a compound annual growth rate of over 10% between 2010 and 2019, while its share of GDP increased to 8.5%. Tourism revenue fell by 10.8% in 2020 as a result of the pandemic. However, with a strong second half, tourism still managed to account for 7.3% of the year's economic output.

The majority of visitors to Hainan are from the mainland, with Chinese domestic tourists accounting for 96.3% of visitors over the past decade. Nevertheless, starting in 2018, 59 countries were granted 30-day visa-free access to Hainan, helping to stimulate double-digit growth in overseas visitors, though it remains a very small share of total tourist numbers.

While it is one of China's most developed tourist destinations, Hainan still has

tremendous potential for further growth. However, it still needs to upgrade its tourism offerings from products to services—for example, the number of international flights to Haikou and Sanya needs to increase to extend coverage to countries that have access to visa-free travel. The industry also needs to develop more attractions and improve the services on offer to maintain its attraction to existing tourists and competitive advantage over competing locations.

### Duty-free stores

#### Opportunities

Hainan enjoys an exclusive offshore duty-free policy. Travellers leaving Hainan (but not the country) have an annual duty-free quota of RMB100,000 per year. The island had nine offline duty-free shops by the end of January 2021 and is expected to see more in the coming months and years.

The duty-free market in Hainan will play an important role in attracting outbound tourism expenditure back to China. In 2020, duty-free sales increased 104% YoY, with luxury sales accounting for around 7 to 9%, according to Bain & Co.

### Cruise

Cruise liner and yacht charter firms not only provide tourists with a richer experience but can also potentially benefit related industries. Hainan could also link up with other popular tourist destinations along the Belt and Road to improve its offerings.

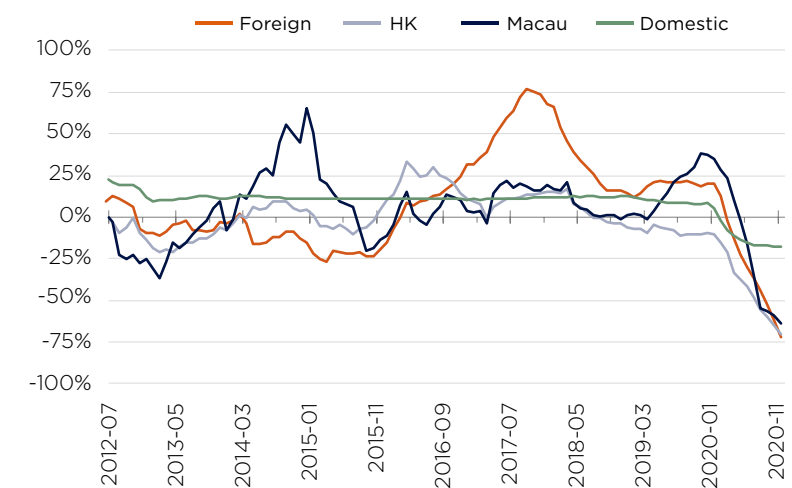
Sanya Phoenix Island International Cruise Port plans to establish itself as a home port for the cruise shopping industry, attracting more international cruise firms. More policies, such as the loosening of registration thresholds and cruise ship logistics tracking, are expected to be rolled out soon.

### Culture

An increased emphasis on cultural tourism could enhance Hainan's tourism market. Compared to the island's plentiful natural resources, Hainan's cultural elements are still underdeveloped. Hainan has just six 5A national tourist attractions, compared to 279 for the whole country.

Hainan's culture industry saw 17.7% growth in 2020 despite COVID-19. Haikou Fullsinging Town Internet Innovation Park has already attracted well-known companies such as Alibaba Pictures and Aiqiyi Innovation Centre.

Tourism visitor time YoY growth rate



Source: Hainan Statistics Bureau, Savills Research



# Enhancing industry

# Modern services

Hainan's modern service sector, which accounted for 29.1% of GDP, recorded the fastest growth of the three leading industries in 2020, growing by 10.9% YoY. Haikou and Sanya account for 43% and 15% of the island's tertiary industry, respectively. According to Oxford Economics, Haikou's tertiary industry is expected to triple in the next 15 years to over RMB400 billion, bringing new demand to the city's office market.

A more open economic policy structure will be particularly beneficial to tertiary industries such as trade and business services, while a maximum individual income tax of 15% will be attractive to local and international companies and individuals from high-paying industries such as finance and hi-tech R&D.

Hainan's 2020 foreign investment negative list, compared to other parts of China, has further liberalised access to industries such as education and business services. Overseas higher educational institutions and vocational colleges specialising in science, engineering, agriculture and medicine can operate facilities independently in Hainan, complementing local educational resources.

Medical

## Opportunities

The medical-related industries output increased 11% per annum over the last three years, accounting for 3.5% of the province's economy by 2020. Hainan's subtropical to tropical climate is deemed a suitable setting for developing the medical care and nursing home industry, similar to retirement communities such as Florida. Other related sectors, such as medicine and medical devices production, are also growing rapidly.

Bo'ao Lecheng International Medical Tourism Pilot Zone plans to be at the forefront of China's medical and health care field reforms. The pilot zone plans the only storage warehouse for innovative medicine and medical devices.

Exhibition

The growth in the MICE industry will lead to growth in related industries such as transportation, F&B and accommodation, which accounted for 88% of revenues in 2020.

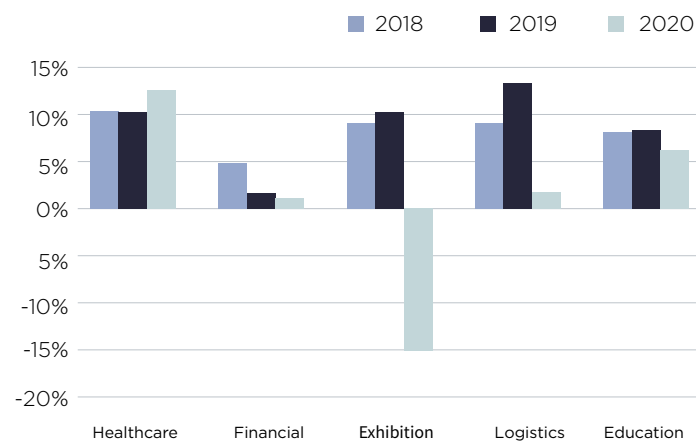
Hainan has already established several exhibition series, namely Bo'ao Forum for Asia and the World New Energy Vehicle Congress (WNEVC). The China International Consumer Products Expo or "Hainan Expo" will be added to this growing roster in the future.

Finance

Hainan also enjoys significant policy support for future financial reform. For example, there is no minimum entry threshold requirement for Qualified Foreign Limited Partnership (QFLP) enterprise registration to attract foreign investment.

Financial services are key to the goal of free trade and investment. Several banks have already accepted applications for free trade accounts to facilitate cross-border capital transfers.

Output of selected service sectors, 2018-2020



Source: Hainan Statistics Bureau, Savills Research

# The future Hi-tech

Internet

Hainan was home to 838 government-certified hi-tech companies by the end of 2020, growing by more than 40% per annum for the last three years. Of the eleven key industrial parks, six target the hi-tech sector. Haikou National High-tech Industrial Development Zone, the only national-level industrial park in Hainan, saw hi-tech companies contribute over 70% of the park's total output.

Traditionally, Hainan is not particularly strong in hi-tech industries, except for the marine and aviation sectors. There are, however, opportunities to cooperate and coordinate with the GBA economies to help the island attract businesses and talented workforces.

Hainan is also investing in modern infrastructure to assist with the development of smarter cities and communities. The island allows for foreign investment into the value-added telecommunication field, while restrictions in online data processing and transaction processing have also been removed. Registered enterprises with service facilities in Hainan are also allowed to develop data centres and content distribution platform services in Hainan and internationally. More internet companies are expected to benefit from further opening up.

The National Development and Reform Commission (NDRC) is also supporting the development of the automobile industry in Hainan. Foreign-invested automobile manufacturers in Hainan are no longer subject to foreign equity restrictions or restrictions regarding the number of joint ventures producing similar products. Meanwhile, the improvement of new energy vehicle (NEV) infrastructure is also in line with the government's vision to upgrade industrial bases while promoting sustainable development.

NEV

Ocean & aviation

## Opportunities

Hainan's internet industry is one of the fastest-growing sectors in recent years, with its industrial output increasing by 32% in 2020 alone. Companies are concentrated in Hainan Resort Software Community and Fullsinging Town Internet Innovation Park, contributing 63% of revenue.

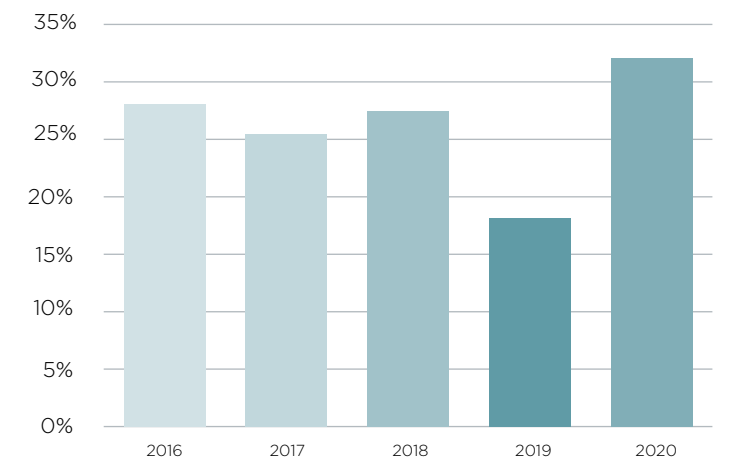
The internet industry will continue to expand rapidly in the coming years, with plans to make it a trillion RMB industry by 2035, representing an annualised growth rate of 26% over the next 15 years.

Hainan plans to prohibit the sale of diesel and petrol vehicles by the end of 2030, instead relying upon NEVs. Hainan NEV sales increased 142.5% in 2020 with 31,200 new NEVs registered, three times the original plan.

The automobile sector has a long value chain. Tax support for imported vehicle manufacturing and assembly would significantly benefit the development of Hainan's industrial base.

Hainan has a strong base of marine and aviation industries and R&D capabilities, with the majority of companies located in Sanya Yazhou Bay Science and Technology City and Wenchang International Aerospace City. As a pillar industry of Hainan, the marine industry accounts for 36.3% of the province's GDP.

Internet industry output growth rate, 2016-2020






Source: Hainan Statistics Bureau, Savills Research

# Corporates

## Tax discounts

1. Corporate income tax (CIT) for encouraged enterprises will be capped at 15%. (Encouraged enterprises refer to those whose main business falls under the “encouraged catalogue” and account for over 60% of business revenues.)
2. Corporate capital expenditures to be fully tax-deductible or to accelerate their depreciation and amortisation.
3. Corporate tax exemptions for tourism, modern services and high-tech industry enterprises on the income acquired from a new foreign direct investment between January 1, 2020, and December 31, 2024.

## Industry specific

 <p><b>Manufacturing</b></p> <p>Enterprises importing production equipment and input materials for their own use are exempt from import tariffs, import value-added taxes and consumption taxes.</p>	 <p><b>Trade</b></p> <p>Goods transiting and leaving the country via Yangpu Port will be rebated at the port of departure on a trial basis. The import and export management system of “first-line liberalisation and second-line control” will be implemented in Yangpu Bonded Port Area.</p>	 <p><b>Retail</b></p> <p>Island residents are exempt from import duties, import value-added tax and consumption tax on purchases of imported goods.</p>	 <p><b>Aviation</b></p> <p>Allow flights in and out of Hainan to refuel with bonded aviation fuel. Expand air traffic rights to include the fifth and seventh freedoms of the air.</p>
 <p><b>Financial</b></p> <p>Support overseas securities, funds, and futures institutions to set up wholly-owned or jointly-owned institutions in Hainan. No minimum entry threshold requirement for QFLP enterprise registration.</p>	 <p><b>Automobile</b></p> <p>Foreign-invested automobile manufacturers in Hainan are no longer subject to foreign equity restrictions or restrictions regarding the number of joint ventures producing similar products.</p>	 <p><b>Consultancy</b></p> <p>Restrictions on foreign investment in the field of market research will be removed, except the radio broadcasting and TV ratings which must be controlled by a domestic joint venture partner.</p>	 <p><b>Education</b></p> <p>Allow international higher education institutions and vocational colleges specialising in science, engineering, agriculture and medicine to independently open campuses in Hainan.</p>
 <p><b>Exhibition</b></p> <p>Duty-free import and sales of overseas exhibits at exhibitions.</p>	 <p><b>Telecommunication</b></p> <p>Open value-added telecommunication business to foreign investment.</p>	 <p><b>Law</b></p> <p>Foreign firms can engage in non-litigation commercial affairs in Hainan.</p>	 <p><b>Logistics</b></p> <p>Prioritise land supply for key logistics infrastructure.</p>

# Individuals



Talent

1. Maximum individual income tax of 15% for eligible talent (based on salary, professional certificates or awards).
2. Foreign personnel are permitted to serve as legal representatives for legal bodies, public institutions and state-owned enterprises.
3. Eligible individuals are entitled to subsidies for the lease or purchase of a residential property.



Cross border

1. 30-day visa-free access for foreign nationals from 59 countries.
2. Pre-arrival registration can be made by individuals or through a travel agency.
3. Foreign nationals travelling to Hainan for trade or business purposes, visiting relatives, seeking medical care or attending conferences or sporting events can register for visa-free entry.



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