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Report Name: Hainan's Free Trade Port Could Yield Future Opportunities for US Ag Products

Country: China - Peoples Republic of

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Report Highlights:

In June 2020, China's central government announced its economic masterplan to develop the south China island of Hainan into a Free Trade Port (FTP). The advertised zero-tariffs for imported products processed inside the FTP may lead to future opportunities for imports of U.S. ag products, such as meat and seafood. However, for the time being, importers of U.S. ag products seem reluctant to pursue these opportunities until FTP policies, infrastructure, and logistical networks are all solidly in place and working.

Government Unveils Plan to Develop New South China Economic Hub

In June 2020, China's central government announced its economic masterplan to develop the south China island of Hainan into a Free Trade Port (FTP). The plan's overarching goal is by 2050 to make Hainan – China's smallest province with a population of about 10 million – into another major economic-growth hub in South China to complement neighboring Guangzhou, Shenzhen, and Hong Kong. In order to realize this ambitious vision, the government plans to introduce the appropriate mix of infrastructure and policy conditions to stimulate trade and investment, especially in high-tech, tourism, and other service industries.

Imported Ag Products Processed in Hainan to Enter Mainland Duty Free

Although not specifically mentioned in the masterplan, Hainan authorities are interested in developing the island's food processing industry as part of this broader economic initiative. In particular, the local government is looking to attract the needed investment to expand and diversify the island's relatively small food processing industry, most of which is currently focused on seafood and fruit processing.

One of the advertised selling points that the government hopes will attract investment and trade is lower tax rates and zero-tariffs before 2025. Imported agricultural (and other) products that undergo a 30-percent value addition in Hainan food processing facilities can enter mainland China duty free, though still subject to the value-added and consumption taxes. In contrast, imported agricultural products, such as seafood, that are processed in other free trade zones or bonded areas elsewhere in China are usually re-exported since these products are still subject to the same tariffs that apply to direct imports.

In order to demonstrate how the masterplan would work in practice, the Hainan government has touted the island's recent experience in processing its first-ever shipment of Australian beef cattle. The maiden shipment, which totaled about 1,000 head ($3.3 million), arrived in early July 2020. The cattle were processed at a local abattoir and the finished meat products were said to be delivered to island and mainland customers. For reference, about three-quarters of Aussie beef imports (by value) this year (Jan-Sep) was boneless frozen product subject to a 4.8 percent duty.[1]

In addition to beef, Hainan appears to be interested in developing its processing capacity for pork, poultry, seafood, and fruit. Imports of these products from the United States could potentially benefit from the FTP. Nonetheless, some sources predict that the potential volume of processed ag products coming out of Hainan will be relatively small, at least in the short run, since the government seems to be primarily focused on developing other sectors of island's economy.

Businesses Want to See FTP Operational Before Deciding to Redirect Imports

While contacts agree that the zero-tariff advantage for imports of U.S. agricultural products processed in Hainan is appealing, some are appear reluctant to move forward until the food processing industry

[1] According to the China-Australia FTA, the duty on imports of boneless frozen beef from Australia will be gradually lowered and finally zeroed out starting in January 2024.

matures, infrastructure is built, cold chain capacity increases, and logistical connections are in place. Additionally, some contacts want to wait and see how tax, tariff, and other investment policies are implemented in practice before pursuing potential business opportunities.

In the meantime, some companies have already started to invest in the island's agriculture industry. In August 2020, the Jiangnan Fruit & Vegetable Wholesale Market Company – the country's largest produce wholesaler – opened a branch in Hainan as part of its larger nationwide network of wholesale markets. This market could serve as a potential consolidation and shipping point for Hainan and Southeast Asian produce where it will be forwarded to mainland China and other Asian destinations. Additionally, younger mainland entrepreneurs are looking to invest in the island's frozen food industry.

Regarding logistics, until more shipping options become available, there is concern that the tariff-free advantage would be quickly wiped out by high transportation costs for incoming and outgoing shipments. At present, the majority of containerized exports from Hainan go through Yangpu Port – Hainan's main container port – on their way to Hong Kong where there is access to international shipping lanes. For shipments to the mainland, there are a number of regular container routes, though volumes are relatively small compared to mainland coastal ports. There is also barge and ferry service.

In recent months, there has been news about Hainan opening new domestic and international shipping routes. For example, in late September 2020, media sources reported that Hainan opened its first intercontinental shipping line that will connect the island with select mainland ports, the Philippines and Australia. COSCO – the country's largest international shipping line – is reported to be investing in expanding the capacity at Hainan's Yangpu port. In addition, Hainan has opened air freight connections with different mainland and international destinations.

FTP May Appeal More to non-FTA Countries

China has free trade agreements (FTAs) with a number of trading partners, including several major ag supplying countries such as Australia, Peru, Chile, and ASEAN countries. The appeal of the FTP for certain for products from FTA partners may be limited. For instance, if the imported product from an FTA partner already enjoys zero-free duty access into the mainland, the incentive to ship to Hainan may be minimal or non-existent. By comparison, non-FTA countries, which face higher import duties, may have a stronger interest in pursuing business and trade opportunities under the FTP.

Under the provisions of the China-New Zealand FTA, imports of frozen boneless beef (HTS – 02023000) from New Zealand are duty free. The MFN tariff on the same product from non-FTA suppliers, such as the United States, Brazil, and Argentina is 12 percent.[2] Hypothetically, the prospect of this duty being cut to zero could push some imports of frozen boneless beef from these countries to Hainan for processing. In practice, though, the decision to shift some processing to Hainan will come down to whether it is a cost-effective alternative that yields profits for the importer.

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[2] Assumes that the 30 percent retaliatory 301-duty on U.S. beef is waived under the tariff exclusion process. China: Updated Guidance on China's Retaliatory Tariffs and Tariff Exclusions Process for US Products

Attachments:

No Attachments.