



Travel Retail Market in Hainan FTP - Towards A Golden Future

A Travel Retail White Paper



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By KPMG China and The Moodie Davitt Report



Foreword

It is a great pleasure for KPMG China and The Moodie Davitt Report to jointly publish this white paper on the Hainan Free Trade Port's offshore duty-free sector to mark the opening of the inaugural China International Consumer Products Expo.

The Expo is a landmark event in the ambitious development of the Hainan Free Trade Port (FTP), a project of national and regional importance. The rapid development of the offshore duty-free sector in Hainan province since 2011 has played a key role in Hainan's growing allure and status as an international tourism consumption centre.

By the end of 2020, the offshore duty-free business was worth approximately USD5 billion, boosted by the introduction of an enhanced shopping policy in July 2020, which gave tremendous impetus to brands in the channel as other duty-free markets fell into a deep pandemic-driven slump.

The story of Hainan FTP's offshore duty-free industry represents a triumph of policy, a pro-business, pro-consumer approach that is core to President Xi Jinping's vision of 'dual circulation' and of maximising domestic consumption – in this case by repatriating overseas travel shopping to China.

This white paper considers Hainan FTP's offshore duty-free business within the context of a global duty-free industry that was worth USD86.4 billion in 2019 (pre-COVID). It documents the relentless rise of the business from 2011 to 2020 and notes how Hainan FTP became the 'lighthouse' of travel retail last year as other markets collapsed.

We examine the various policy enhancements that have spurred the business, including a proliferation of retail licences in 2020 that created greater competition in the sector and will help raise standards for the benefit of Chinese consumers.

We also consider Hainan FTP duty-free in the context of the world's biggest duty-free market, the Republic of Korea – a market almost entirely driven in 2020 by 'daigou' traders selling into China. The shifting balance between Hainan FTP's and Korea's duty-free sector promises to be a key theme of the global duty-free industry in the future.

If Hainan FTP continues on its current growth curve, it could become the world's biggest duty-free market in the near term. To ensure that progress, we note some of the areas of improvement that can help drive Hainan FTP's duty-free business to even greater heights. The central government understands very well the contribution of the Chinese consumer to travel shopping globally. It is determined to capture more of their spending pre-departure, on- and post-arrival, and through offshore duty-free. The thinking is highly coordinated, long-term and strategic. And Hainan FTP is its golden light.

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An overview of the global duty-free and travel retail industry



Duty-free is a global sub-set of the tourism and aviation sectors, involving the sale of certain goods on a duty- and/or tax-free status to international travellers.

In three cases (Hainan FTP in China, Jeju in South Korea and Okinawa in Japan), duty-free rights exist for domestic travellers – so-called ‘offshore duty-free’.

The global duty-free industry began at Shannon Airport, Ireland in 1947, run by the state-owned Irish airports company Aer Rianta. By 2019 (pre-COVID), it had grown into a USD86.4 billion industry (see table below) with Asia Pacific representing over 53 percent of sales.

Duty-free sales take place at airports and seaports; certain downtown duty-free stores; onboard airlines, cruise ships and ferries; at land border crossings; in specialised stores serving diplomatic and military personnel; and online through established duty-free retailers.

Products that can be sold duty and/or tax free vary by country and jurisdiction (there is no duty-free between European Union member countries, for example). Goods bought under these rules can be brought into destination countries in varying quantities, called allowances. The Hainan FTP offshore duty-free allowance of RMB100,000 (approximately USD15,470) is the most generous in the world.



Duty free & travel retail sales 2019 vs 2018(in US\$ millions)

REGION	MARKET		MARKET		CHANGE ON YEAR	
	SALES 2019	SHARE 2019	SALES 2018	SHARE 2018	US\$	MARKET SHARE
Asia Pacific	46,370.4	53.6%	38,831.9	49.4%	+19.4%	+4.2%
Europe	21,174.8	24.5%	20,802.7	26.5%	+1.8%	-2.0%
Americas	11,728.0	13.6%	11,799.8	15.0%	-0.6%	-1.4%
Middle East	6,290.9	7.3%	6,362.8	8.1%	-1.1%	-0.8%
Africa	879.4	1.0%	808.6	1.0%	+8.8%	0.0%
Total	86,443.5	100.0%	78,605.7	100.0%	+10.0%	

Source: Generation Research

Duty free & travel retail sales 2019 vs 2018(in US\$ millions)

PRODUCT CATEGORY	MARKET		MARKET		CHANGE ON YEAR	
	SALES 2019	SHARE 2019	SALES 2018	SHARE 2018	US\$	MARKET SHARE
Fragrances & Cosmetics	3,7769.9	43.7%	31,324.1	39.8%	+20.6%	+3.8%
Wines & Spirits	12,769.7	14.8%	12,165.8	15.5%	+5.0%	-0.7%
Fashion & Accessories	11,459.3	13.3%	10,806.2	13.7%	+6.0%	-0.5%
Tobacco Goods	7,453.5	8.6%	7,827.1	10.0%	-4.8%	-1.3%
Watches, Jewellery & FineWriting	6,355.5	7.4%	6,022.7	7.7%	+5.5%	-0.3%
Electronics, Gifts & Other	5,579.4	6.5%	5,330.4	6.8%	+4.7%	-0.3%
Confectionery & FineFood	5,056.2	5.8%	5,129.3	6.5%	-1.4%	-0.7%
Total	86,443.5	100.0%	78,605.7	100.0%	+10.0%	

Source: Generation Research

Duty free & travel retail sales 2019 vs 2018(in US\$ millions)

SALES CHANNEL	MARKET		MARKET		CHANGE ON YEAR	
	SALES 2019	SHARE 2019	SALES 2018	SHARE 2018	US\$	MARKET SHARE
Airport Shops	44,009.2	50.9%	41,501.9	52.8%	+6.0%	-1.9%
Other Shops & Sales	3,7729.1	43.6%	32,285.2	41.1%	+16.9%	+2.6%
Airlines	2,589.3	3.0%	2,632.5	3.3%	-1.6%	-0.4%
Ferries	2,116.0	2.4%	2,186.0	2.8%	-3.2%	-0.3%
Total	86,443.5	100.0%	78,605.7	100.0%	+10.0%	

Source: Generation Research

2020 and the COVID-19 impact



Global travel and tourism were devastated by the COVID-19 pandemic. After a buoyant 2019, air traffic worldwide collapsed in 2020.

According to Airports Council International (ACI), global passenger traffic in 2020 fell 65 percent compared to the projected baseline. As many as 9.5 billion passengers had been predicted for the year, but only 3.4 billion actually flew – a loss of 6.1 billion passengers.

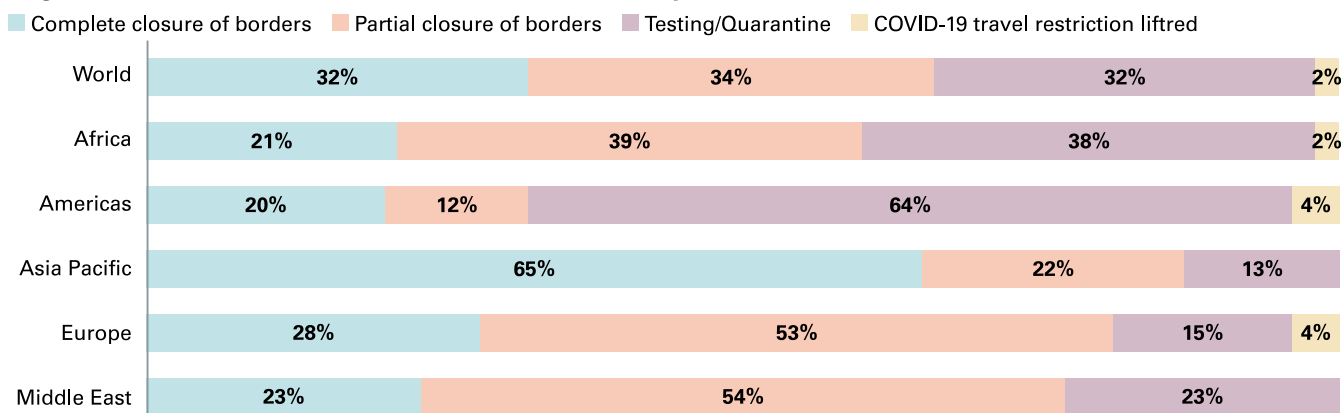
As a result, global tourism suffered its worst year on record in 2020, with international arrivals dropping 74 percent year-on-year, according to the United Nations World Tourism Organization (UNWTO). Destinations worldwide welcomed 1 billion fewer international arrivals in 2020 than in the previous year due to the COVID-19 crisis, the related fall in demand and widespread travel restrictions. This compares with the 4 percent decline recorded during the 2009 global economic crisis.

Revenues of the 95 busiest hubs in the world were completely wiped out, ACI pointed out. As of April 2021, international air travel was still 89 percent down from January 2020 levels. Most international air travel markets are at less than 15 percent of 2019 revenue passenger kilometres (RPKs), according to ACI.

According to the International Air Transport Association (IATA), vaccination progress in developed countries, particularly the US and Europe, is expected to combine with widespread testing capacity to enable a return to some international travel at scale in the second half of the year, reaching 34 percent of 2019 demand levels. 2021 and 2020 have opposite demand patterns: 2020 started strong and ended weak, while 2021 is starting weak and is expected to strengthen towards year-end, IATA says. The result will be zero international growth when comparing the two years.

Domestic passenger traffic is expected to recover quicker and perform significantly better than international markets. This is driven by strong GDP growth (5.2 percent), accumulated consumer disposable cash during lockdowns, pent-up demand and the absence of domestic travel restrictions. IATA estimates that domestic markets could recover to 96 percent of pre-crisis (2019) levels in the second half of 2021. That would be a 48 percent improvement on 2020 performance.

Regional breakdown of travel restrictions as of 1 February 2021



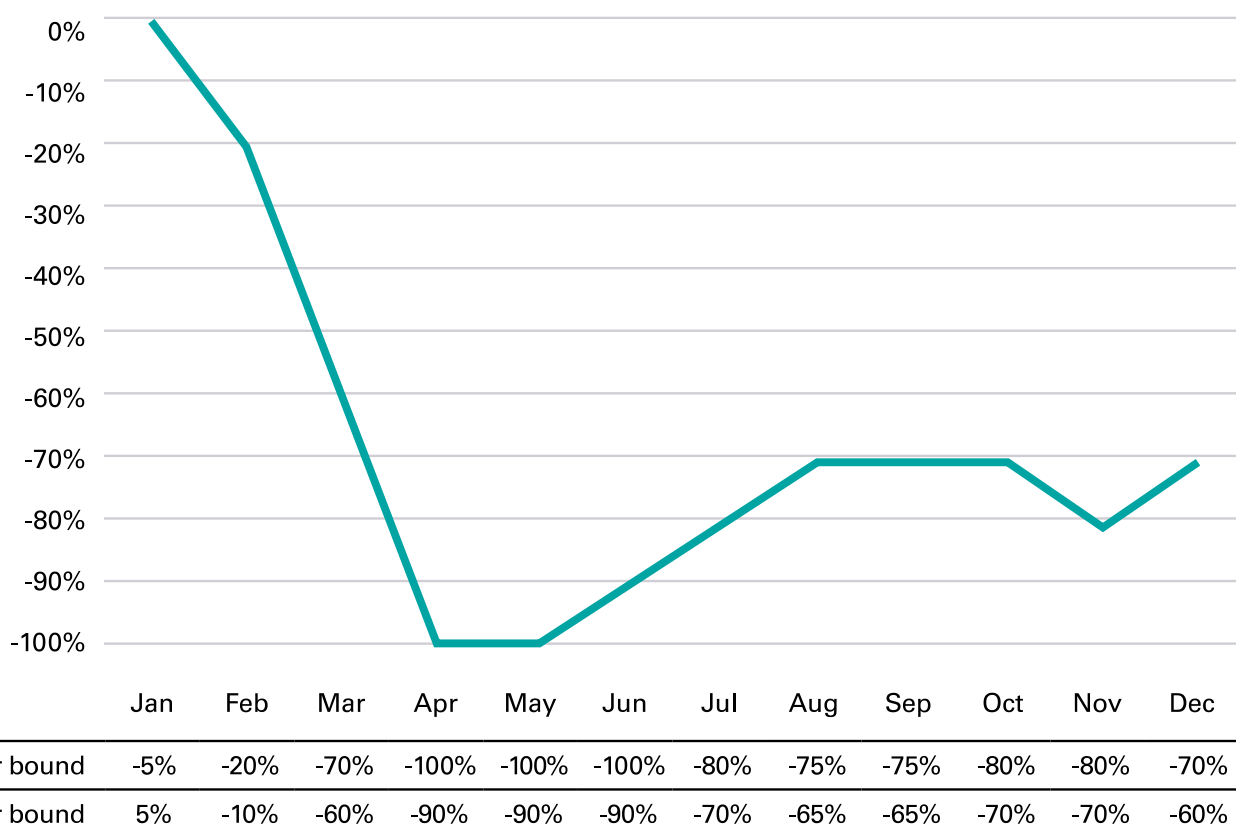
Source: Data compiled by UNWTO as of 1 February 2021.

Duty-free sales collapsed worldwide in 2020

Generation Research figures show the dramatic impact of the pandemic on duty-free and travel retail monthly sales with the months of April and May 2020 seeing an almost complete wipe out of revenues with a modest recovery through June and July, a plateauing through August to October, a dip in November and a slight spike in December.

It is estimated that for the second half of 2020, duty-free and travel retail sales fell by approximately 70% year on year, according to The Moodie Davitt Report. Dubai Duty-free, which traditionally vies with Incheon International Airport in the Republic of Korea for the number one spot in the industry, saw sales fall by 67% in 2020.

Global duty free & travel retail monthly sales performance 2020 versus 2019

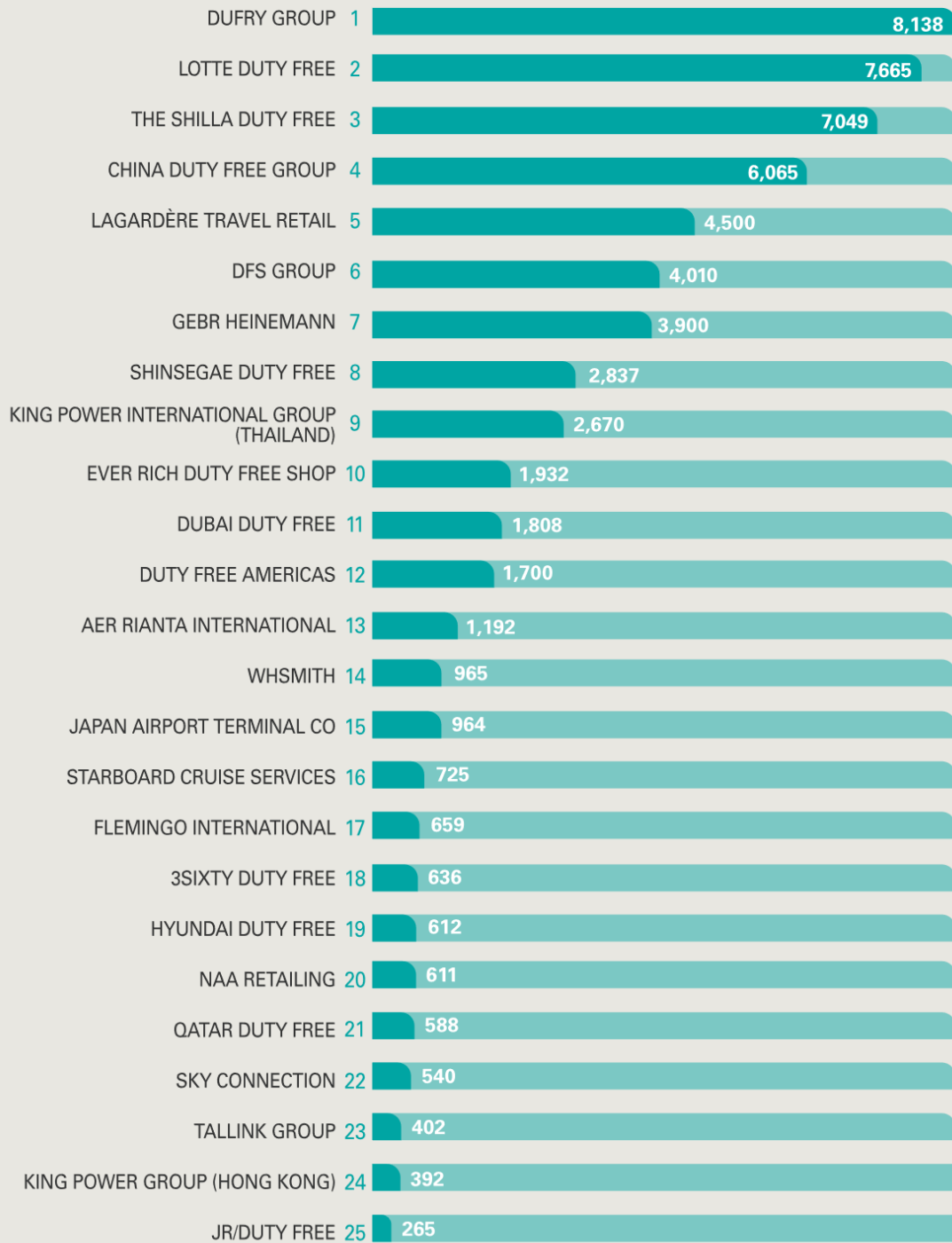


Source: Generation Research

The collapse in sales had a profound impact on the world ranking of duty-free and travel retailers. In 2019, according to the industry benchmark Top 25 Travel Retailers produced by The Moodie Davitt Report, China Duty-free Group (Hainan FTP's dominant duty-free player) ranked number 4 in the world behind Dufry, Lotte Duty Free and The Shilla Duty Free.

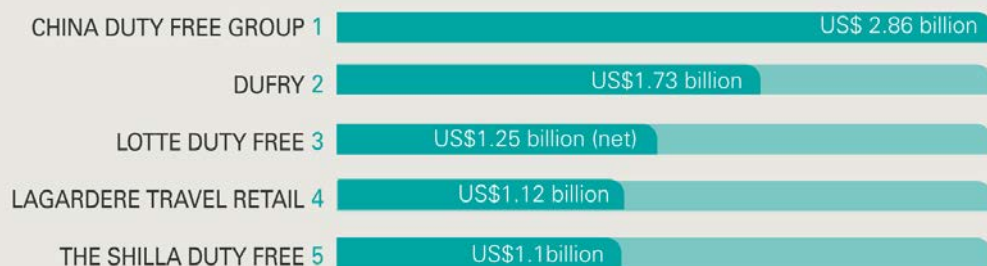
By the end of the first half of 2020, China Duty Free Group ranked number one, a position it consolidated by year end (see charts below), when it was officially named the world's leading travel retailer in revenue terms by The Moodie Davitt Report, ahead of Lotte Duty Free.

THE MOODIE DAVITT REPORT'S TOP 25 TRAVEL RETAILER RANKINGS 2019
(BY TURNOVER, € MILLION)



Note: Conversions are based on currency values as at 31 December 2019. Source: Moodie Davitt Business Intelligence Unit

TOP TRAVEL RETAILERS TURNOVER H1 2020



Source: Moodie Davitt Business Intelligence Unit

The great Hainan FTP opportunity



Since its inception in 2011, Hainan's offshore duty-free sector has been the rising star of global duty-free and travel retail. In 2021 Hainan FTP became what The Moodie Davitt Report called the 'lighthouse' of the industry.

In global terms, Hainan FTP's offshore duty-free market has become almost 'an industry within an industry' – a unique development that blurs the lines between domestic and duty-free shopping by dint of its audience and the increasingly preferential benefits offered to it.

Hainan FTP is not alone in offering an offshore duty-free shopping model. The Japanese island of Okinawa has operated such a policy (through LVMH and Robert Miller-owned DFS Group) since 2005. A similar model has been in existence since 2002 on Jeju, the holiday island off the south coast of the Republic of Korea. But no location has succeeded to the extraordinary degree that Hainan has.

In ancient times, Hainan island (then Qióng) was considered a lonely, barren place of exile for officials who had betrayed the rulers of feudal dynasties. "There are only ten thousand miles to the end of the earth and these withered weeds make me full of sorrow," wrote Song Dynasty official and poet Hú Quán. "Travel one thousand miles and it's hard to go back," reveals the Li Deyu, a poem written by a Tang Dynasty (618-907) Prime Minister.

Today that same once desolate island is one of China's and the world's hottest tourism destinations, a place that combines a pristine environment, balmy winter-free climate, soft sand beaches and beguiling tropical scenery. A natural paradise and now a shopping paradise.

A triumph of policy – sales boosted by pro-business, pro-consumer measures

In 2019, over 83 million tourists, most of them from the Mainland, visited the island, driving some USD15 billion in tourism revenues. Even in COVID-ravaged 2020, the 'Eastern Hawaii' attracted some 64.6 million visitors, down just 22.2 percent from 2019. Since 2011 a critical commercial component has been added to Hainan's rollcall of natural attractions – 'offshore duty-free' shopping, the result of a far-sighted central government policy designed to stimulate the island's economy and to boost domestic consumption.

To date, boosted by regular pro-business and pro-consumer improvements to the policy, those dual aims have been triumphantly met, even accelerating in the face of a global pandemic that has effectively shut off Chinese outbound tourism to the world.

Despite the 22.2 percent reduction in arrivals, sales at Hainan FTP's offshore duty-free shops (including tax-paid items) rose by 127 percent year-on-year in 2020 to around RMB32.74 billion (USD5.05 billion). By remaining COVID-free from April, Hainan FTP grew in allure to mainlanders, an attraction underscored by the announcement in late June of a sweeping enhancement of the policy and other key stimulus measures.

Hainan FTP offshore duty-free sales should hit RMB60 billion (USD9.3 billion) in 2021, a spike of over 80 percent on 2020, said Acting Governor Feng Fei during the fourth meeting of the Sixth People's Congress of Hainan Province in late January.

By 2022, sales are expected to climb to at least USD15.5 billion and to USD46.5 billion by the end of 2025 in line with Hainan province's 14th Five-Year Plan.

Here we examine the major improvements to the offshore duty-free shopping policy in recent times.

1) 1 July 2020 policy enhancement

In late June 2020, the Hainan FTP authorities announced that the annual offshore duty-free shopping allowance would be tripled to RMB100,000 (USD15,470 at exchange rates as of April 2021), effective 1 July 2020. Additionally, the number of categories was extended from 38 to 45 (including cell phones and alcohol, the latter with a 1.5 litre per trip allowance); the previous single purchase limit of RMB8,000 (USD1,250) was removed; and the limit on cosmetics skus (or stock-keeping units) raised from 12 to 30. This had profoundly beneficial impacts for the luxury and beauty categories.

2) Licence proliferation

Another source of stimulus to the sector came with the issuing of licences to several newcomers in 2020, resulting in a proliferation of retailers in both the capital Haikou in the north and the shopping heartland of Sanya to the south (see table below).

Downtown openings were as follows:

30 December 2020: Hainan Tourism Investment Duty-free Co Ltd (HTI), a wholly-owned subsidiary of Hainan Tourism Investment Development Co Ltd, opened the Hainan Tourism Downtown Duty-free Shopping Complex in the heart of Sanya. Its supply and services partners include French travel retailer Lagardère Travel Retail and other suppliers.

30 December 2020: Sinopharm-owned CNSC inaugurated the Sanya International Duty-free Plaza in Hangzhou Square, Dadonghai, one of Sanya's most popular seaside tourism areas.

31 January 2021: Hainan Development Holdings, fully owned by the Hainan Provincial Government, and supported by international travel retail giant Dufry, opened phase one of the Global Duty-free Plaza (GDF Plaza) in the Mova Mall, Haikou.

31 January 2021: Licence holder Shenzhen Duty-free Group and support partner DFS Group opened the first phase development at Shenzhen Duty-free Haikou Mission Hills Duty-free City (Times DF), sited within the upscale Haikou Mission Hills leisure resort.

A who's who and who's where of Hainan's offshore duty free sector

Location	Licence holder	Support partner	Comments
Haikou Global Duty Free Plaza	Hainan Development Holdings	Dufry	Phase 1 of three opened 30 January. Eventually it will embrace 38,920sq m across two buildings of the Mova Mall – Aquarius and Capricorn.
Haikou Mission Hills	Shenzhen Duty Free	DFS Group	Phase 1 opened 30 January. The circa 30,000sq m complex, located within one of Hainan's leading upscale leisure resorts, will be completed over the next two years. It will eventually span over 30,000sq m and boast the largest Beauty Hall in DFS Group's global network.
Haikou Meilan International Airport Duty Free	China Duty Free Group		A further 9,300sq m expansion of the already extensive shopping offer is due to be completed in early 2021.
Haikou Ri Yue Plaza	China Duty Free Group		This operation in the Mova Mall, a few minutes walk from the Hainan Development Holdings/Dufry store will be replaced by the extraordinary new Haikou International Duty Free City, claimed to include the world's biggest duty free store, in 2022.
Sanya International Duty Free Shopping Complex (CDF Mall), Haitang Bay	China Duty Free Group		The benchmark for Hainan's offshore duty free newcomers and the epicentre of Chinese and global travel retail in 2020.
Hainan Tourism Duty Free Shopping Complex	Hainan Tourism Investment Duty Free Co	Lagardère Travel Retail and other supply partners	Opened 30 December 2020. The 95,000sq m gross surface complex includes a 2,500sq m bonded warehouse, a small supermarket, and a food court. The 30,000sq m of retail space covers five floors.
Sanya International Duty Free Plaza	CNSC		Phase 1 of two opened 30 December 2020. The development is set for completion in three to five years. The Plaza is well located in the core business district of Dadonghai, one of Sanya's most popular seaside tourism areas.
Sanya Phoenix International Airport	China Duty Free Group		The market leader opened a new store on 30 December 2020 with further expansion set to take place in the coming year.
Bo'ao Duty Free	China Duty Free Group		A 4,200sq m store in the city most famous for its hosting of the annual Boao Forum for Asia.

Source: The Moodie Davitt Report

3) Online replenishment service

In April 2020, the government approved a new measure allowing Hainan FTP offshore duty-free stores to launch an online replenishment service. Visitors who had departed from the island and spent offline at Hainan FTP's duty-free stores could now use their remaining quota to buy further duty-free products through official online shopping platforms for up to 180 days after their departure.

This measure should considerably boost sales to non-regular visitors to Hainan FTP – for example tourists who make a once-a-year visit, allowing them to 'top up' their spending when they get home.

4) Mail delivery for mainlanders; home pick-up for Hainan residents

In February 2021, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation announced that visitors to the island will be able to have their goods posted back to the Mainland instead of having to hand carry them. Additionally, Hainan FTP residents visiting the Mainland could pick-up their goods upon return to the island rather than having to carry them on the journey

Maximising domestic consumption and the Free Trade Port

As discussed, offshore duty-free is a key component of Hainan FTP's Free Trade Platform programme, a project of key national importance that will see an island-wide Free Trade Port system focused on trade and investment liberalisation created in Hainan FTP by 2025 (with full maturity by 2035).

The central government's support for the project was announced in April 2018 by Chinese President Xi Jinping and the roll-out has accelerated since. The Master Plan for the Construction of Hainan Free Trade Port, revealed with great fanfare on 1 June 2020, meant that "China's door is opening wider and wider and Hainan FTP is becoming the new highland of China's reform and opening up", according to Hainan Provincial Bureau of International Economic Development Director Han Shengjian.

As far back as 2010, the State Council announced its intentions for Hainan to become a "world-class island for leisure travel and vacation tours" and that by 2020 tourism service facilities, management and service quality would be fully in line with world standards.

In just over a decade, much progress has been made towards that vision. As President Xi has said, international tourism is an important "business card" for Hainan FTP, and while the pandemic has meant that foreign visitors have been restricted from coming to the province, the continued development of tourism infrastructure bodes well for when they do.



Hainan FTP v South Korea - a key comparison



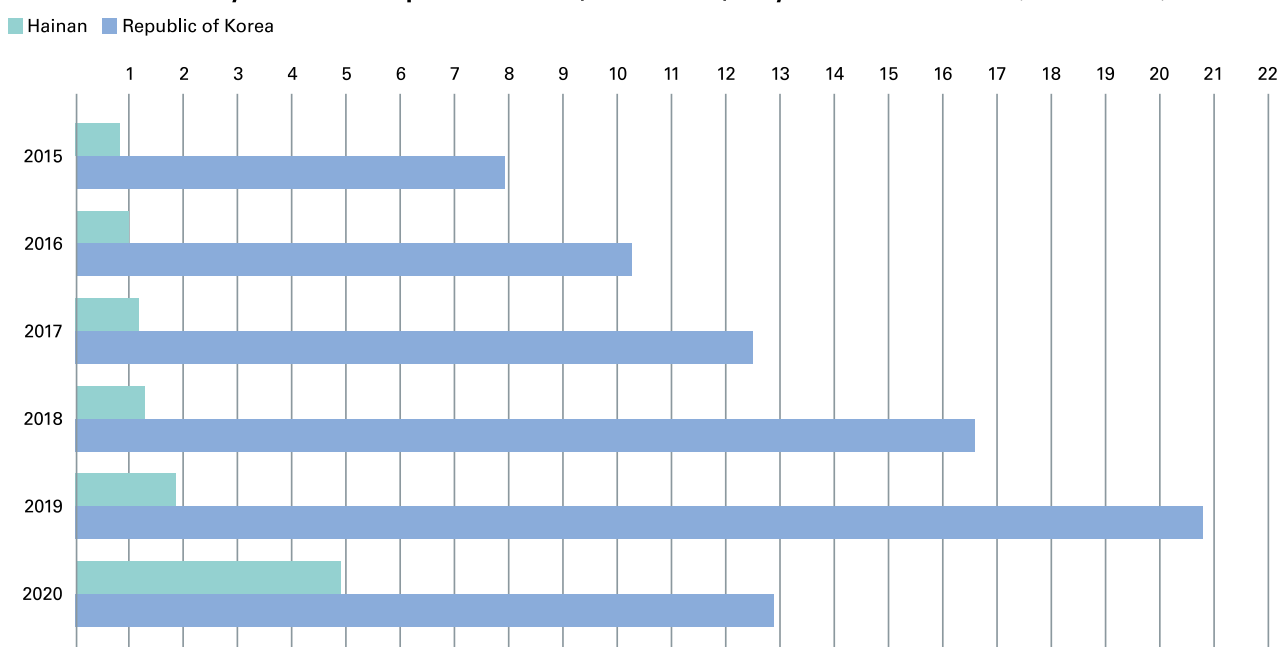
If one examines the numbers in the context of pre-COVID record results for the South Korean duty-free market in 2019 (at USD21.3 billion the world's biggest), **Hainan FTP is on track to become the biggest duty-free market in the world within the next two years.**

The Korean market continued to decline in early 2021 (down 13.3 percent for January and February combined) and with the pandemic still seeing more than 700 new local cases each day through April 2021, the prospects of any early recovery of inbound or outbound tourism are slim.

Korea continues to rely on large-scale 'daigou' (or cross-border) purchasing to drive its duty-free trade. In 2020, 94 percent of the country's duty-free business was to foreigners, almost all daigou traders. However, foreigners accounted for just 30 percent of total customer numbers, underlining the heavy nature of daigou spending.

While we expect the Korean duty-free market to normalize over time once the pandemic eases and traditional sales to return, the momentum shift between the two markets is set to continue through 2021 and possibly well into 2022.

Hainan offshore duty free sales v Republic of Korea (South Korea) duty free sales 2015-2020 (in US\$ billions)



Source: The Moodie Davitt Report

Notes: Figures rounded; Sales in US\$ at prevailing exchange rates at the time of reporting

2021 starts strong

In contrast, Hainan FTP got off to a flying start in 2020. Offshore duty-free sales soared 143.6 percent year-on-year in January to RMB3.78 billion (USD585.6 million). And despite the softening impact of the recent northern China COVID-19 outbreaks on visitor arrivals (down 30 percent), the seven-day Chinese New Year holiday period from 11 to 17 February 2021 generated RMB1.5 billion (USD231.9 million) in revenue, of which duty-free items accounted for around RMB1.4 billion (USD216.5 million) – an approximate doubling of sales from the equivalent holiday period in the benchmark pre-COVID year of 2019.

Hainan FTP's overall market duty-free sales grew 22 percent quarter-on-quarter in Q1 to RMB13.9 billion (USD2.13 billion), around 90 percent of it captured by China Duty Free Group. Despite the flurry of new competitors introduced in late December and early January, China Duty Free Group posted a 329 percent revenue increase year-on-year in Hainan FTP to RMB12.8 billion (USD1.96 billion), up 12 percent quarter-on-quarter.

Residents' duty-free policy will boost sales further

An announcement of the new "inland" or "residents" duty-free policy is expected soon. This scheme will cater specifically to Hainan residents, who will not have to leave the island to shop and will benefit from an annual allowance on a range of categories, including household commodities. A flurry of retail licences will be awarded by the Hainan provincial government soon after.

It is worth noting that despite the impressive top-line numbers, both penetration and average basket size are relatively modest. According to Goldman Sachs Equity Research, average spend per trip reached RMB6,676 (USD1,035) in the second half of 2020, higher than the first half's RMB5,753 (USD890) thanks largely to the impact of the new allowances but still allowing plenty of room for growth.

Shopper conversion rate reached 28.1 percent for the full year, the same report said, up from 26.4 percent in the first half and touching a high of 32.1 percent in December – the latter almost three times the rate recorded just three years earlier in the second half of 2017.

In that context, it is interesting to note that despite fewer inbound tourists, the number of shoppers actually increased 9 percent month-on-month in January 2021 to 701,000 (from 566,000 and 645,000 in November and December 2020), driven principally by the impact of the two new downtown stores in Sanya and the newly opened one at Sanya Phoenix International Airport (China Duty Free Group).



Key challenges and areas for improvement for Hainan FTP offshore duty-free



With wide-ranging international travel restrictions likely to remain in place for much of 2021, Hainan FTP is strongly placed for continued growth. While any ultimate recovery of international travel will change the relative revenue contribution of Hainan FTP to Chinese and global travel retail, it is unlikely to suppress the volume rise.

Authorities expect the offshore business this year to rise to RMB60 billion (USD9.3 billion), a spike of over 80 percent compared with 2020. By 2022, the figure is expected to climb to at least USD15.5 billion. Hainan FTP recently suggested on its official WeChat account that sales could climb to USD46.5 billion by the end of 2025 in line with the province's 14th Five-Year Plan.

Inevitably with a business that has grown as fast as Hainan FTP's there are growing pains. If several key areas that need improvement can be addressed, the business will accelerate even faster.

- **Brand support:** The challenge for all the new duty-free retailers in Hainan FTP is to convince luxury brands to support them and beauty houses to create meaningful personalised presences. Many brand companies are wary of the proliferation of licences and are adopting a wait and see attitude before committing to the new arrivals. Standards of merchandising and staff service (see below) are critical to brand image.
- **Recruitment and staff training:** Chinese consumers deserve the best and much effort must be poured into proper staff training to ensure that world-class standards are developed. The world's great brands nurture their image closely and want to have fully-educated staff on hand who understand the products and can communicate about them well.

- **Pricing:** Overly aggressive discounting will disrupt the market and cause concern among brand partners. The protection of brand image through disciplined price control and high-class visual merchandising is crucial.
- **Improvements to the supply chain:** Out of stock situations are bad for business and consumer perception. The recent announcement that Cainiao Smart Logistics Network, Alibaba's logistics arm, is launching direct cargo flights between Singapore and Hainan seven days a week to bolster the supply of beauty products and luxury goods to the offshore duty-free industry is welcome in that respect. So is the new Hainan Airlines transcontinental cargo route between Hainan and Paris.
- **Digital excellence:** Digital communication is integral to Hainan FTP offshore duty-free, which has taken giant steps in this regard. The power of digital gives retailers and brands the power to reach a vast audience beyond that in the store. This should remain an absolute priority into the future. Similarly, the continued evolution of touchless in-store technology will help reassure consumers in an acutely health-conscious age. Finally, the development of a full omnichannel offer through the further development of ecommerce platforms will be key to future growth.
- **Chinese brands:** While offering great international brands is fundamental to the success of Hainan FTP's offshore duty-free sector, the proud heritage and craftsmanship of Chinese products should also occupy centre stage. Retailers must be committed to developing a 'sense of place', both in terms of Hainan FTP specifically and China in general.
- **Corporate social responsibility:** We live in an age of extreme environmental concern and awareness. Consumers expect much from retailers and brands in terms of commitment to sustainability, the environment and society. This is particularly relevant to Hainan FTP, which offers such a pristine environment and eco-conscious society. Retailers must lead from the front in displaying their commitment to the planet and its people.

FAQs - What to consider when entering and doing business in Hainan FTP



1. Business investment environment – What makes Hainan FTP an attractive destination?

1) What makes Hainan FTP's business environment special?

Hainan FTP benefits from national strategies, institutional design and policy supports. The idea of top-level openness is fully reflected in the design of the Hainan FTP system. Compared with other special regions in China, Hainan FTP has its unique business environment and strengths:

- **Open free trade:** The free and convenient trade system has unique characteristics including “zero tariffs” and “loose the restrictions on both market access and business operations for trade services”. The implementation of this system can boost market vitality, allow more companies to enter the Hainan FTP by different business models and provide significant cost reductions for the trade of goods.
- **Offshore duty-free policy:** Hainan FTP has greatly improved the offshore duty-free shopping policy, increased the duty-free shopping quota, expanded the scope of duty-free items to stimulate the prosperity of the duty-free industry. Besides, Hainan FTP also added two new ways to pick up duty-free goods:
 1. offshore passengers can mail their goods to their destination; and
 2. inland residents can pick up their goods upon their return.

All of these policies have created fertile ground for the development of the travel retail industry.

- **Free cross-border capital flows:** The cross-border capital flows of the Hainan FTP will be subject to fewer financial regulatory restrictions. The Hainan FTP emphasises that financial services must serve the real economy. Focusing on the liberalisation and facilitation of trade and investment, capital flows of an investment nature will be opened step-by-step. This policy will reduce restrictions on capital and foreign exchange for foreign investors to invest in the Hainan FTP.
- **Encourage, facilitate and protect foreign investments:** An “allowed to enter unless on the negative list” policy greatly loosens restrictions to enter Hainan’s free trade market. Hainan FTP has committed to simplifying foreign exchange registration procedures, improving the construction of intellectual property protection systems and building a multi-functional free trade account system, etc., striving to help foreign investors successfully set up and do business in Hainan FTP.
- **Tax incentives:** Companies can enjoy a 15 percent preferential rate for corporate income tax, employees for individual income tax capped at 15 percent. Local financial incentives are also available as long as they meet the relevant requirements. These preferential tax and financial policies further assist companies reduce the tax cost of operations in Hainan FTP, and benefit its long-term development.

In addition, policies to introduce talent, visa-free entry for tourism, the continuous optimisation of government services, and improvement to the legal environment are also in full swing in Hainan FTP, promoting Hainan FTP to become an international high-level FTP.

2) What are the opportunities in Hainan FTP for travel retailers?

As discussed in previous sections, there are multiple opportunities in Hainan FTP for travel retailers.

Hainan Province is a hot tourist destination in China, with a large number of high-quality tourism resources. According to *Hainan Province's 14th Five-Year Plan and Outline of Long-Term Goals for 2035*, by 2025, the total number of tourists in Hainan will exceed 110 million, and total tourism revenue will exceed RMB180 billion¹. During the 13th five-year plan period, as an international tourism consumption centre, Hainan successfully hosted activities such as the Hainan Island International Film Festival and the International Tourism Consumption Year to further expand Hainan's international influence in the tourism and consumption industries.

On the basis of its tourism industry resources, together with the joint effect of the external environment and internal policies, Hainan FTP is now at the "golden age" of development of the travel retail industry.

¹ 'Information Office of the State Council holds a special press conference on the construction of Hainan Free Trade Port to introduce the progress of the establishment of Hainan Free Trade Port policy and system'. April 12, 2021.

https://m.thepaper.cn/baijiahao_12163261

- The coronavirus epidemic in 2020 had a devastating blow on the global tourism market. Thanks to the Chinese government's effective epidemic prevention and control measures, the Chinese economy quickly recovered from the downturn caused by the epidemic. As of April 2021, tourism in China was gradually returning to normal. Overseas tourism consumption, especially the consumption of duty-free and luxury goods, has flowed back to China due to restrictions on international travel. More and more Chinese tourists prefer domestic travel, which has gradually heated Hainan's tourism consumption market.
- To cope with the development of Hainan's tourism industry, the core policy of building an FTP, which is conducive to the booming retail industry, has also been gradually implemented. New policies such as a zero tariff policy for raw materials and ingredients, a zero tariff policy for transportation equipment and yachts, an annual offshore duty-free shopping quota for island tourists, and a zero tariff policy for imported goods consumed by residents on the island are close to being implemented. These policies will greatly stimulate a boom in Hainan's duty-free retail industry.



The above-mentioned internal and external factors have obvious stimulating effects on the travel retail of Hainan FTP. Data shows:

- According to Chinese Customs data, from 1 July 2020 to 6 April 2021, Customs supervised a total amount of RMB34.7 billion in offshore duty-free shopping, which included 43.26 million items and 4.96 million shoppers, representing year-on-year increases of 244 percent, 215 percent and 101 percent, respectively².
- The spread of the epidemic and the implementation of Hainan's policies also changed the ranking of global travel retailers. In the first half of 2020, China Duty Free Group (CDFG) jumped to first place from fourth in 2019³.
- From 3 February to 6 April, 2021, Hainan offshore duty-free shops completed the mailing of 530,000 pieces of duty-free goods worth RMB400 million, which were purchased by more than 100,000 people⁴. Meanwhile, Hainan's offshore island duty-free shops accepted applications from island residents for off-island storage and return to the island to pick up duty-free goods worth RMB2.62 million, which added up to 2,216 duty-free goods and 406 shoppers⁵, reflecting the rapid growth of its Hainan duty-free business.

Shen Xiaoming, Director of the Standing Committee of the Hainan Provincial People's Congress, mentioned during a special conference on the construction of Hainan FTP on 12 April 2021, that sales of offshore duty-free goods may exceed RMB60 billion this year⁶.

According to the WeChat official account of the Hainan FTP, during the 14th Five-Year Plan period, Hainan FTP will continue to improve the island's sales network for duty-free goods. By the end of 2025, foreign goods and domestic purchasing power will be fully connected and sales of duty-free shopping will be approximately RMB300 billion⁷.

Zou Jiayi, Vice Minister of the Ministry of Finance, stated that the implementation of several zero tariff policies for list management will further expand the scope of duty-free products by expanding the positive list and shortening the negative list⁸.

As more domestic and foreign brands, retail groups and other industry players deploy in the Hainan FTP, the types of products and the scale of sales have greatly exploded. The global travel retail industry has been overshadowed by the coronavirus, but with the continuous opening of the Hainan FTP, there is a bright prospect for the travel retail business in Hainan FTP

2.4.5.6.7.8 'Interpretation of Hainan's three-year comprehensive deepening of reform and opening up and the free trade port policy system!'. Hainan Free Trade Port WeChat official account. April, 2021.

<https://mp.weixin.qq.com/s/8RN4EnXg6Qh5VloF0ldV4g>

3. Source from Moodie Davitt Report

3) Are there any incentive policies for travel retail businesses in Hainan FTP? How can these incentives be accessed?

The main fiscal and tax preferential policies relevant to travel retail companies are listed below:

No.	Tax	Before 2025 (or the island is sealed off, whichever earlier)	After 2025
1	Corporate Income Tax (CIT)	<p>Enterprises in encouraged industries registered in the Hainan FTP with business substance are entitled to CIT at a reduced tax rate of 15 percent.</p> <p>The substantive operation mentioned means that the actual management organization of an entity is established in the Hainan FTP, and the organization implements substantive and comprehensive management and control over the enterprise's manufacturing and business operation, staff, accounts, properties, etc. Entities which do not comply with the criteria of substantive operation shall not enjoy incentives.</p>	Enterprises registered in the Hainan FTP (except for industries listed on the Negative List) with business substance are entitled to CIT at a reduced tax rate of 15 percent. (Rules will be clear after the follow-up policy is released.)
2	Individual Income Tax (IIT)	<p>For high-end talent or urgently-demanded talents working in the Hainan FTP, the portion of their actual IIT burden exceeding 15 percent shall be exempted. Requirements to enjoy 15 percent IIT cap are listed below:</p> <ul style="list-style-type: none"> ➤ High-end or urgently-demanded talents recognized by government. ➤ Qualified income covering comprehensive income (including salary and wages, personal independent service income, royalty and author's remuneration), business operational income and Hainan talent subsidy. ➤ Enter into a one-year legitimate employment contract with a company registered in Hainan FTP with business substance. ➤ Social security contribution in Hainan: more than 6 consecutive months in one tax calendar year (December included). 	IIT would be levied at 3 percent, 10 percent and 15 percent rates for all individuals staying in Hainan over 183 days or more per year. (Rules will be clear after the follow-up policy is released.)
3	Duty	<ul style="list-style-type: none"> ➤ Free duty for selected goods, including production equipment, transportation vehicles and raw materials for production. ➤ Offshore duty-free policy: Entities with duty-free license can participate in duty-free operation on Hainan's offshore retailing market according to the regulations, and 45 categories of duty-free goods are exempt from import duty. ➤ Inland resident "Zero Tariff" policy for daily consumption. 	Duty free for all imported goods excepted those on the negative list.
4	VAT and Consumption Tax (CT)	<ul style="list-style-type: none"> ➤ For those import exempted from duty, it is also exempted from VAT and CT. ➤ For sales side, general VAT and CT rate apply as those in mainland China (e.g. 13% and 6% for sales of goods and service respectively). 	VAT and CT simplified and streamlined into Sales Tax. Detailed rules is yet to release.

In addition to the above preferential tax policies, Hainan FTP provides relevant financial incentives or industrial support incentives to locally registered and qualified companies.

2. Corporate structure and business model – How to do business in Hainan FTP?

1) How to set up an operating entity and what are the key considerations for corporate structures in Hainan FTP?

Based on business type, model and income scale, an entity can consider setting up a holding subsidiary or branch company when entering Hainan FTP. The key considerations for the entity's corporate structure include the following:



2) What are the different types of duty-free business in Hainan FTP?

Hainan FTP has initially proposed four major duty-free models, including airport duty-free, offshore duty-free, resident duty-free and departure tax rebates.

When entering the duty-free market and developing a travel retail business in Hainan, foreign investors can consider the following three models:

- **Co-operation with duty-free operators:** Currently, duty-free stores in Hainan FTP can only be operated by State-owned license holders.

We recently noticed that some major foreign duty-free groups are exploring PRC-legitimated legal, transactional and business structures to enhance co-operation with Chinese license holders in Hainan FTP, so as to realise collaboration and resource sharing in areas such as brand, supply chain, capital, data and management experience, etc.

- **Resident duty-free:** At present, many foreign entities are paying closer attention to the upcoming duty-free policy on consumer goods for residents in Hainan FTP.

It is likely that foreign investors will not be completely excluded from market access to the resident duty-free segment, and they may be able to work with domestic duty-free operators with a joint venture to develop the local duty-free business. (detailed regulations is yet to release).

- **General retail stores:** According to the *Master Plan of Hainan FTP*, it is expected that after 2025, except for those on the negative list, all goods imported will be duty-free, and there will be neither VAT nor consumption tax. There will be only sales tax for retail business.

This new trend will close the gap of tax cost between operation of general retail stores by foreign investors and state-owned duty-free operators.

Based on our current observation, although foreign investors cannot directly operate duty-free business in Hainan FTP before 2025, they can still actively plan for the layout of retail sites in Hainan FTP to seize the best location and develop market opportunities.



3) How to select a proper business model for travel retailer in Hainan FTP?

In terms of the right timing and model, various factors shall be considered in the selection process, including but not limited to:

- **Policy development path in Hainan FTP:** A zero tariff policy, retail sales tax and preferential tax policies will be further optimised in 2025. There will be different policy implications to entities entering Hainan FTP before or after 2025.
- **Enterprise strategy:** The scale and rhythm of entities entering Hainan FTP business; the group's overall future business plan in Hainan FTP.
- **Business and performance requirements:** Expected degree of participation in management and the decision-making process of brand building and retail activities. Resources to be input, value contribution, control over the business and the profit-sharing scheme if there is a local business partner.
- **Local resources synergy:** Entities' historical investment and advantages in the mainland Chinese market (e.g., existing operating entities, distribution channels, brand marketing power, etc).

The plan for continuing investing funds, labour and resources in the Chinese market, and synergies with existing regional or Chinese operations within the group.
- **Costs for compliance and risk management:** Entities' familiarity with local legal requirements.

Estimation of all aspects of cost required for compliance in the Chinese market.

Whether it is necessary to cooperate with local entities to resolve business license/qualification issues.

4) How to collaborate with domestic duty-free players in the market?

Foreign brand owners have rich overseas brand resources, brand operation experience and supply chain channels, while domestic duty-free operators have duty-free licenses, financial and fund strengths and deep understanding of Chinese duty-free markets and compliance requirements.

Therefore, it is a good choice for both parties to collaborate and dig into Hainan FTP travel retail markets. Currently, business models being explored by travel retail brands and duty-free operators include:

- **Wholesale and retail model:** Brand owners supply goods to duty-free operators and duty-free operators will be fully responsible for local retail activities.
- **Light retailisation model:** Brand owners partially participate in retail activities of duty-free operators (such as promotion activities, customer sales data analysis, etc.).
- **Full retailisation model:** Brand owners working with duty-free operators within the legally permitted scope are more deeply involved in retail activities and collaborate with duty-free operators (further to the light retailisation business model, brand owners further participate in sales planning, sales advisor dispatching, etc.).

According to current observations on the market, brands tend to establish more comprehensive partnerships with duty-free operators to get deeply involved in local retail activities and brand operation, enhance utilisation of terminal retail customer data, so as to get closer to end market, and grab a share of retailing profits.

Such participation also means more resources to be invested and higher operational risks for brand owners, as well as (probably quite difficult) negotiations on new business models with duty-free operators.

Both parties negotiate and bargain with each other based on their positions and opinions of respective strategic objectives, brand image, sales channels, supply chain, data layout and understanding of profit recognition logic of different business models. A good cooperation framework will, no doubt, help both parties achieve a win-win situation.

3. Doing business the right way – Comply with tax, customs and forex regulations

1) Regulatory compliance regarding investment, financing and profit repatriation

When entering Hainan FTP to establish an operating entity, the following compliance issues should be paid attention to:

- **Dividends:** According to PRC tax law, a 10 percent withholding income tax is applicable to foreign dividends paid by domestic entities.

If there is a tax treaty between China and where the foreign shareholder is located, the foreign shareholder can enjoy a withholding tax rate specified by treaty if the foreign shareholder can be identified as a beneficial owner.

Tax registration shall be filed for dividends over USD50,000 to be paid to foreign shareholders.

- **Thin-capitalisation:** According to PRC tax and transfer pricing regulations, the threshold of related-party debt-to-equity ratio is 2:1 for non-financial entities.

When the related-party debt-to-equity ratio exceeds the above threshold, the local entity shall prepare a thin-capitalisation special file to explain the reasonableness of the arrangement, and otherwise interests paid exceeding the above threshold are not tax deductible.

It is suggested to take the thin-capitalisation issue into account when considering the financing structure of a Hainan company.

2) Rules to watch out when handling importing, logistics and warehousing of goods

During the whole process from importing duty-free products from overseas to Hainan FTP, selling to individual consumers, to the products finally leaving Hainan FTP, multiple logistics and warehousing procedures are involved.

Due to the specialty of duty-free goods management and different business models between brand owners and duty-free stores, there could be some common issues such as the below:

- **Direct dispatch to stores:** After obtaining special approval from Customs, imported goods can be transported directly to duty-free stores without going through the duty-free warehouse first.

However, duty-free stores still need to go through the inbound and outbound goods registration process in the customs duty-free supervision system.

- **Returns of slow-moving stocks:** Currently, there are just a few isolated cases of duty-free shops returning slow-moving stocks to overseas brands (other than expired, unusable, deteriorated condition, etc.). The detailed customs procedure/timeline for such returns may be different in different Customs authorities.

Meanwhile, it is also necessary to communicate with banks and forex departments to confirm whether and how to receive foreign exchange for refunds of returned goods.

- **Customs and transfer pricing considerations regarding import declaration pricing:** If brand owners start a general retail business in Hainan FTP before 2025, its Chinese entity shall pay attention to the transfer prices of imported goods and balance Customs and transfer pricing risks when domestic entities import goods from overseas related parties and sell to the local market.

Economic analysis is recommended to assess a reasonable pricing strategy.

3) Special considerations behind cross-border service/IP licensing arrangements

When cooperating with duty-free stores, in addition to buying and selling of goods, brand owners may also empower local retail business by providing services or licensing intangible assets.

If such transactions are involved, the following issues should be considered:

- **Permanent establishment (PE) risk:** Brand owners should be mindful of the risk of being challenged that a PE is constituted in China due to the domestic service arrangement (e.g., directly sending employees from overseas to provide services in China, conducting price negotiations and contract signing activities by the domestic service team on behalf of foreign brand owners, etc.), which could incur additional tax.

- **Withholding tax for outbound service fee/royalty payments:** royalty/service fee outbound payments may incur withholding tax and VAT.

If outbound service fee/royalty payments exceed USD50,000, a tax registration shall be filed. Meanwhile, trademark royalty payments also need trademark licensing contract registration at the Trademark Office.

- **Transfer pricing risk of outbound payments:** Related-party outbound service fee/royalty payments are of interest and an area of focus for tax authorities in recent years.

We suggest fulfilling the business substance of overseas related parties providing services/intangible assets, and conduct necessary economic analysis to support a reasonable pricing policy, so as to mitigate the risk of being questioned by tax authorities about the transfer prices and China tax deductibility.



4. People come first – How to help your team settle down in Hainan FTP

1) Any conveniences for work visa applications, housing, children education, health care, etc. to facilitate expatriates working and living in Hainan FTP?

No.	Issue	Content
1	Work visa	<p>Negative list will be adopted to manage work permits of foreigners in Hainan FTP. Foreigners who are not on the negative list will not be restricted to work in Hainan FTP.</p> <p>In addition to the main application materials, applications for work permits and work residence permits for foreigners are allowed for “incompleteness of documents” when the applicant and his/her employer have provided their commitment.</p>
2	Rental allowance	<p>Class A/B/C talents will be provided with rent-free apartments, and 80 percent / 100 percent property rights will be granted respectively after 5 / 8 years of full-time work in Hainan.</p> <p>For other talents, following subsidies would be provided for no more than 36 months (or 3 years) in total:</p> <ul style="list-style-type: none"> ➤ Class D talents will be provided with rental subsidies of RMB5,000/month, and house purchase subsidies of RMB60,000/year; ➤ Class E talents will be provided with rental subsidies of RMB3,000/month, and house purchase subsidies of RMB36,000/year; ➤ Master students/staff with intermediate titles will be provided with rental subsidies of RMB2,000/month, and housing subsidies of RMB24,000/year; ➤ Undergraduate students/staff with intermediate title will be provided with rental subsidies of RMB1,500/month, and housing subsidies of RMB18,000/year.
3	Healthcare	<p>Class A/B/C talents:</p> <ul style="list-style-type: none"> ➤ Medical insurance services: class A and B talents can enjoy corresponding levels of medical and healthcare services provided by the government of RMB20,000/year and RMB10,000/year respectively, and class C talents can enjoy annual physical examinations. ➤ Green channel: can enjoy “green channel” service in provincial tertiary hospitals. <p>Class A/B/C/D talents:</p> <ul style="list-style-type: none"> ➤ Commercial health group insurance purchased by government. <p>Promotion of the opening of international medical and special outpatient service in 3A-grade hospitals, and establishment of direct settlement platform for medical expenses in co-operation with international medical insurance entities.</p> <ul style="list-style-type: none"> ➤ Several top China public hospitals (e.g., West China Hospital) and international hospitals (e.g., Brigham and Women's Hospital) operate in Hainan FTP.
4	Children's education	<ul style="list-style-type: none"> ➤ Case-by-case principle: <ul style="list-style-type: none"> For class A/B talents, the ‘case-by-case principle’ is applied to talents’ children's enrolment in primary and secondary schools and kindergartens in Hainan province. Nearby admission without examination: <ul style="list-style-type: none"> Coordinated by city/county levels, children could be enrolled in public schools which are relatively near to their residences. ➤ High quality education provided by international schools: International schools such as Harrow School, Wycombe Abbey and Ecole Hoteliere de Lausanne have settled in Hainan FTP.

2) Common working arrangements for expatriate employees in Hainan FTP? Any differences?

The current common arrangements for foreign employees working in Hainan FTP are as below:

1. Frequent traveller to Hainan
2. Secondment to work in Hainan
3. Local hire working full-time in Hainan.

From a work visa and residence permit perspective:

- 1st arrangement: Depending on the length of stay in China and the way companies pay salaries (e.g., direct payment or not), etc., work visas, residence permits and work permits could be required for foreign employees (excluding Hong Kong, Macao and Taiwan compatriots);
- 2nd and 3rd arrangements: Hainan companies are responsible for preparing the above three certificates for their foreign employees.

From a tax perspective:

- 1st arrangement: May incur China tax depending on the project needs and the length of stay in China, etc.;
- 2nd and 3rd arrangement: Hainan companies are required to withhold individual income tax for their foreign employees.

3) What's the trend of talent flow into Hainan FTP?

"Recently, Hainan FTP has preliminarily established a scientific and effective talent policy scheme", said Shen Xiaoming, Director of the Standing Committee of the Hainan Provincial People's Congress, at a press conference regarding the construction of Hainan FTP on 12 April 2021.

Over the past three years, Hainan has introduced 233,000 talents, marking year-on-year growth of up to 675 percent. Of these 233,000 talents, more than half were introduced in less than a year since the release of the master plan for the Hainan FTP, and the pace of talent gathering is accelerating⁹.

9. 'Interpretation of Hainan's three-year comprehensive deepening of reform and opening up and the free trade port policy system!'. Hainan Free Trade Port WeChat official account. April, 2021.

<https://mp.weixin.qq.com/s/8RN4EnXg6Qh5VloF0ldV4g>

5. Going digital - What role technology and e-commerce play in the retail sector in the Hainan FTP?

Brand owners will find that China's advanced web-based technology and mature e-commerce model offer great support for their business operations in the Hainan Free Trade Port. In this regard, brand owners will need to focus on four areas: building an omni-channel retail operation that enables online and offline synergy; improving data analytics and consumer operation capabilities; improving digital terminals and developing digital touchpoints; and developing digital warehousing and logistics.

1) Building an omni-channel retail operation that enables online and offline synergy

Regarded as a key policy that has been adopted by the Hainan Free Trade Port, the offshore duty-free shopping policy allows tourists to pay for goods at a duty-free store or an approved online sales site and then have the goods delivered to them at a designated airport, railway station or port pick-up counter. Currently, many duty-free stores have launched a model that allows customers to "buy online and pick up locally". Under this model, consumers can purchase a duty-free item online, and the purchased goods will then be delivered based on their departure time and destination. However, the success of this model depends on efficient and effective store operations, interaction with airports, and online and offline synergy. All of these areas are underpinned by advanced digital technologies. At present, most brand owners have not yet seamlessly integrated their online stores or WeChat mini-programme tools with their Hainan FTP offline retailing channels. To address this problem, brand owners need to build a complete middle-office that enables the integration of online and offline channels. In this way, they can offer an entire catalogue of products both online and offline.

2) Improving data analytics and consumer operation capabilities

A data management platform driven by big data technology enables brand owners to collect consumer data from various touchpoints and channels during customers' shopping journey. This data can provide insights into customer behaviour and help improve consumer operation capabilities across customer acquisition, conversion, retention and repurchase scenarios. In addition, marketing technology not only helps with diverting traffic, data collection and governance across all channels—it can also help businesses achieve a dynamic label system, perform customer group analysis and segmenting, and evaluate the effects of marketing. It can also help companies address the issues that arise when data is collected from fragmented traffic channels. Data analytics tools driven by smart technology can help companies select target customers and touchpoints in order to carry out customised marketing campaigns and strategies, while also helping them more effectively control their use of marketing resources.

3) Improving digital terminals and developing digital touchpoints

Duty-free stores represent the most significant contributor to retail sales in the Hainan FTP. For this reason, accelerating the digitalisation of stores is a key area for the application of digital technology. In recent years, brand owners have been searching for a compelling digital solution to help them achieve that goal. To this end, one of their key focus areas has been to improve frontline employees' digital capabilities in order to inspire their creativity. In this way, brand owners will be able to offer a better digital shopping experience to consumers and develop digital touchpoints that enhance their interaction with consumers while reducing operating costs.

In addition, the same technologies that have been adopted to improve digital terminals and develop digital touchpoints may also come into play when brands build their e-commerce retailing channels, online interaction communities, WeChat mini-programmes or livestreaming tools and help to explore the systematic construction of online-offline integrated channels system.

4) Developing digital warehousing and logistics

As China ushers in a new development paradigm and continues to develop the Hainan FTP, more global brands are expected to open stores in the region. This trend will help boost foreign trade, but at the same time it will pose significant challenges for the FTP's efforts to establish warehousing and logistics capabilities that are sufficient to support the surge in business. As a result, building an efficient web-based warehousing eco-system that is driven by digital and smart technology has become an important trend. Digital warehousing and logistics solutions can help achieve better connectivity between various supply chain processes, including marketing, manufacturing, and distribution processes. These solutions also enable brands to share real-time updates with suppliers regarding raw materials that are out of stock, make real-time estimates regarding the life cycle of products, and get updates on goods that are out of stock, in stock and in transit. By building a digital and resilient supply chain, brand owners will be able to capture and predict customer demands faster, which will allow them to coordinate their research and development, manufacturing, and delivery resources. With these capabilities, they can address customer demands that are becoming more diversified and complex, and they can better satisfy customers who long for innovative products and services that are affordable and delivered quickly.



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