

## Design and Reform of Hainan's Offshore Duty-Free Policy

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Hainan's offshore duty-free regime is a distinctive institutional innovation that advances the Hainan Free Trade Port. Through iterative adjustments since 2011, it has delivered early gains in tourism-led consumption while revealing bottlenecks in traveller-to-purchaser conversion and regulatory capacity. This commentary distils the policy's unique features, diagnoses stage-specific frictions and proposes targeted supervision reforms – risk-based sectional control, enterprise credit governance and digital modernisation – to align openness with enforceability.

### Commentary

The Hainan offshore duty-free scheme is a domestically administered exemption from import taxes that allows eligible travellers departing Hainan by air, rail or sea to purchase specified goods at designated duty-free shops or approved online platforms within per person annual quotas and category limits. Purchases may be collected at designated departure counters or, where permitted, delivered by post to a domestic address after departure. Unlike conventional duty-free regimes tied to exit from the customs territory, this scheme operates within China's customs territory, with exemptions triggered by off island rather than international departure. By prescribing product lists, per person quotas, and pickup/delivery procedures, the policy curbs illicit resale while aligning consumer access with regulatory capacity. Since 2011, nine rounds of policy refinement have successively increased purchasing quotas, expanded product scope, liberalised both offline and online sales channels, and simplified collection procedures – illustrating the Free Trade Port's adaptive governance towards 'low tariffs and freer flows' ([Table 1](#)).

Underpinning this model is an integrated digital infrastructure that links customs subsystems, the Hainan e-port, retailers' point-of-sale and fulfilment data, and terminal departure systems. This network enables end-to-end traceability, forming the bedrock of a regulatory framework designed to preempt the diversion of duty-free goods and uphold system integrity. The effectiveness of this digitally enabled oversight is evidenced by the rarity of major smuggling or organised resale incidents.

However, this performance, while strong, has been uneven. Duty-free sales rose rapidly through 2021, then fluctuated amid post-pandemic normalisation and a fading 'policy dividend' ([Table 2](#)).

Table 1. Development of Hainan's offshore duty-free policy

Round	Date	Item	Overview of policy content
1	April 2011	Policy document	Announcement of the General Administration of Customs of the People's Republic of China (GACPRC) No. 20 of 2011 (GACPRC, 2011)
		Notes	Tax-free shopping quota of CNY5,000; one purchase for Hainan residents and two for off-island tourists; 18 categories of goods; age 18+; only for travellers departing the island by air without leaving the country
		Adjustment	Quota conditions; purchase frequency; commodity categories
2	November 2012	Policy document	Announcement of the GACPRC No. 50 of 2012 (GACPRC, 2012)
		Notes	Tax-free shopping quota increased to CNY8,000; categories expanded to 21; relaxed limits on quantities per purchase; purchaser age threshold lowered to 16
		Adjustment	Quota conditions; commodity categories
3	March 2015	Policy document	Announcement of the Ministry of Finance of the People's Republic of China (MFPRC) No. 8 of 2015 (MFPRC, 2015)
		Notes	Tax-free goods categories expanded to 38 categories and relaxation of quantity restrictions on single purchases of 10 types of goods
		Adjustment	Commodity categories
4	February 2016	Policy document	Announcement of the MFPRC No. 15 of 2016 (MFPRC, 2016)
		Notes	Quota for off-island tourists raised to CNY16,000; purchase-frequency limit removed for tourists; online sales channels permitted
		Adjustment	Quota conditions; purchase frequency; sales channels
5	January 2017	Policy document	Announcement of the MFPRC No. 7 of 2017 (MFPRC, 2017)
		Notes	Off-island duty-free shopping expanded to apply to tourists leaving the island by train
		Adjustment	Duty-free shopping modes
6	December 2018	Policy document	Announcement of the Ministry of Finance of the People's Republic of China, General Administration of Customs and State Administration of Taxation (MFPRC, GACPRC & STA) No. 158 and No.175 of 2018 (MFPRC, GACPRC and STA, 2018a, 2018b)
		Notes	Quota raised to CNY30,000; frequency limits further unified and removed to cover residents; certain medical devices added; eligibility extended to sea departures
		Adjustment	Quota conditions; commodity categories; purchase frequency; duty-free shopping modes
7	July 2020	Policy document	Announcement of the MFPRC, GACPRC & STA No. 33 of 2020 (MFPRC, GACPRC and STA, 2020)
		Notes	The off-island duty-free shopping quota was increased to CNY100,000, with no limit on the number of purchases, and the categories were expanded to 45, with the addition of alcoholic beverages (2 bottles, 1.5 L) and mobile phones (4 units)
		Adjustment	Quota conditions; commodity categories
8	February 2021	Policy document	Announcement of the MFPRC, GACPRC & STA No. 2 of 2021 (MFPRC, GACPRC and STA, 2021)
		Notes	Introduces two pickup methods – postal delivery and pickup by island residents upon return
		Adjustment	Duty-free shopping modes
9	April 2023	Policy document	Announcement of the MFPRC, GACPRC & STA No. 25 of 2023 (MFPRC, GACPRC and STA, 2023)
		Notes	Added two methods of picking up goods, namely guaranteed immediate pickup and immediate purchase and immediate pickup
		Adjustment	Duty-free shopping modes

Source: Compiled by the authors based on publicly disclosed data.

Table 2. Duty-free sales and year-on-year change

Year	Sales (billion CNY)	Year-on-year change (%)
2011-2019	A cumulative total of 53.80	
2020	27.50	↑103.7
2021	49.50	↑80.0
2022	34.90	↓29.5
2023	43.76	↑25.4
2024	30.94	↓30.0

Source: Compiled by the authors based on Haikou Customs, the Hainan Provincial Department of Commerce and other public sources.<sup>1</sup>

Despite high passenger volumes, traveller-to-purchaser conversion rates and per capita quota utilisation remain low, with monthly snapshots showing large gaps between total travellers and actual purchasers. This indicates persistent frictions in access, convenience and perceived value, beyond mere cyclical factors. The policy's layered thresholds – age limits, quotas, categories, piece and trip caps, weight limits and specific pickup protocols – create a high-friction purchasing experience.

Meanwhile, the supervision model is highly manpower intensive, requiring continuous on-site presence across stores, bonded warehouses and departure-area collection points. This requires substantial staffing, limits agility and scales poorly as the retail network expands to a 'many points, long lines' model. It also concentrates risks at traveller touchpoints during exceptional circumstances, such as flight delays or merchandise returns.

These operational frictions arise from two interconnected challenges. First, there is a structural divergence between policy design and modern consumer behaviour: rising disposable incomes fuel strong demand for duty-free goods, but the regime's complex restrictions deter travellers and constrain sales. Second, the regulatory model is operationally unsustainable, with end-to-end physical supervision consuming disproportionate customs personnel and proving difficult to scale. Current rigidity constrains future expansion and increases operational exposure during irregular operations, potentially affecting traveller experience and continuity of operations.

Accordingly, we propose three central reforms to shift duty-free supervision from a manpower-intensive model to an intelligence-led framework. First, adopt risk-based supervision, focusing assurance on high-materiality nodes like bonded warehousing and write-offs, supported by randomised audits and standardised digital workflows for exceptions. Second, institutionalise a credit-based regulatory mechanism for enterprises by using a quantitative risk index to grant facilitation to low-risk operators and apply

<sup>1</sup> Data on offshore duty-free shopping in Hainan are sourced from Haikou Customs and relevant official websites as follows: 2024 [Haikou Customs statistical data](#); 2023 [General Administration of Customs of China – Media briefing](#); 2022 [Haikou Customs statistical data](#); 2021 [General Administration of Customs of China – Media briefing](#); 2020 [Hainan Provincial Government portal – Press release](#); 2011–2019 [National Development and Reform Commission – Policy interpretation on offshore duty-free policy adjustment](#).

stricter oversight to high-risk ones, thereby reinforcing market discipline. Third, modernise digital infrastructure and identity assurance by integrating real-time data feeds, Internet of Things for event-driven monitoring and analytics to prioritise inspections. A cornerstone is a high-assurance digital identity system to bind every transaction into a closed-loop, auditable chain.

By reviewing multiple rounds of reform to the Hainan offshore duty-free policy – including the expansion of product categories, adjustment of age restrictions, and enhancement of traveller entitlements – the Chinese government's continuous efforts to stimulate consumption and promote openness become evident. However, the lower-than-expected traveller purchasing rate and the tightening of customs manpower resources pose new challenges that call for regulatory innovation in parallel. Accordingly, this paper advances the concept of 'smart and streamlined management', which aims to enhance operational efficiency and traveller experience without compromising security assurance, thereby unleashing latent consumer demand and providing a replicable model for broader economic liberalisation.

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