

Comparison of Business Environment between Hainan Free Trade Zone and Hong Kong Free Trade Zone

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Abstract. The business environment is one of the key topics of current research. The researchers found that there is still a research gap in the comparison of the business environment between the Hainan Free Trade Zone and Hong Kong Free Trade Zone in China. Therefore, this paper analyzes the business environment of Hainan and Hong Kong through the six indicators of the business environment. They are soft environment, ecological environment, market environment, operating cost environment, social service environment and infrastructure environment. The paper studies some significant problems in the development of the business environment in Hainan. Hong Kong has done well in this same field because of its law and politics. Hainan can learn from Hong Kong in the field. However, there are also some problems such as a single industrial structure in Hongkong and the process of lld registration being cumbersome, which can be solved by exchanging and cooperating with mainland companies as well as some innovative thoughts.

Keywords: Hong Kong Free Trade Zone; Hainan Free Trade Zone; Business environment.

1. Introduction

The business environment is a rich soil for enterprise development, innovation and entrepreneurship, which directly affects the quality and speed of national or regional economic development [1]. In an important speech at the 16th meeting of the Central Financial Leading Group, it was stressed that "we should improve the investment and market environment, accelerate the pace of opening up, reduce the cost of market operation, and create a stable, fair, transparent and expected business environment" [2]. The 2019 Business Environment Report said: Training for Reform released by the World Bank shows that China's business environment has jumped from 78th to 46th in the world. In the past year, China has made remarkable and concrete achievements in optimizing its business environment, but some areas still need improvement. Therefore, it is of great significance to study the business environment. Most of the existing studies have separately discussed the business environment of each free trade zone, and few have compared the business environment of Hainan and Hong Kong. Therefore, this article mainly discussed the comparison between the business environment of Hong Kong Free Trade Zone in China and the business environment of Hainan Free Trade Zone. In order to promote the development of Hainan Free Trade Zone and Hong Kong Free Trade Zone, according to the index of business environment, this paper discussed the problems faced by Hainan and Hong Kong in the construction, analyzed the causes of Hainan and Hong Kong trade zones, and proposed solutions. This paper believed that Hainan Free Trade Zone should learn from the development experience of Hong Kong Free Trade Zone and develop its own characteristics.

2. Business environment

The business environment is the sum of the surrounding environment and conditions that accompany the entire life cycle of business activities (from the beginning and operation to the end of each link). It includes activities involving various political, economic, legal, social and cultural factors related to economic and social reform and opening up, including multidisciplinary system engineering. The World Bank's Business Environment Report points out that the so-called international business environment refers to the global trend of regulatory transparency and convenience of the business environment of a country or region and the international business environment [3]. It has established the operating mechanism and institutional rules of the market economy, and created a fair and orderly

market competition environment, an open and transparent policy environment, and an efficient and convenient business environment for enterprises [3].

The soft environment, ecological environment, market environment, business cost environment, social service environment and infrastructure environment are comprehensively calculated [3]. Hong Kong's business environment index ranks relatively high in the world. Over the past decade, Hong Kong has been among the top five in the world, while Hainan's business environment index was far behind Hong Kong. This paper will analyze and compare the business environment of Hainan and Hong Kong from the above six environments.

2.1 Analysis of business cost environment in Hainan

2.1.1 Phenomena and problems

In terms of business cost environment, Hainan, as a tourist area vigorously developed and constructed by government, has been developing a free trade zone in recent years. However, compared with developed countries at home and abroad, the business environment in Hainan is still far behind them. As a long-term free trade zone in southern China, Hong Kong has obvious advantages over Hainan in terms of market environment. The procedures required by the Hainan Free Trade Zone are very complex, and it is difficult for enterprises to apply for business licenses and other relevant certificates. Enterprises need a lot of approval from the government in the process of operation, resulting in reduced operational efficiency and waste of human, material and financial resources [4]. In 2015, the Prime Minister said that some government agencies in Hainan have set multiple obstacles for enterprises to handle affairs. The State Council voted on the satisfaction of government agencies. Within a day and a half, hundreds of netizens took part in the voting. About 96.2% of participants said that the government's work process was too complex. The government needed too many stamps. The employees had a bad attitude and shirked their responsibility to others [5]. As a result, enterprises usually need 1-2 months to get a certificate. According to the survey, Hainan people can handle all businesses in the office window, but it had not reached 70% of the total number of events. It only reached about 30% of the total number of events [4]. Some netizens will seek interpersonal relationships through the exchange of money and power and quickly obtain certificates. This allows officials to gain personal benefits through corruption and the use of power.

2.1.2 Cause analysis

The service process in Hainan is so complex, mainly because the government has not actively served the people and the service level is not relatively high. First of all, the government does not have enough service awareness to inform people of all processes. Second, the network is unstable. The guidance to market entities is not clear enough, and many audit materials need to be submitted offline. Third, the expected "minimalist approval" is still in the pilot stage and has not been promoted in the province [4].

2.1.3 Measures and solutions

First, the Hainan government should ensure that the list or catalogue implemented in the implementation process is scientific, operable and quantifiable. The list should not be vague or casual. In order to create a good environment, operations and regulations must be open and transparent. Secondly, the government should promote the approval of minimalism, which means they need establish a good website for company submission, and make it easier for residents to submit materials. The materials will be reviewed faster [4]. The government should improve the management process and strengthen their supervision of process. The third one is to improve the service awareness and service level of government personnel. For example, Hong Kong civil servants should improve their learning ability. The government should select high-quality government personnel, and cultivate well-paid and honest government office staff.

2.2 Analysis of business cost environment in Hongkong

2.2.1 Phenomena and problems

The Hong Kong Free Trade Zone has more obvious advantages in terms of business cost environment. Its advantage is that Hong Kong has carried out five commercial reforms, such as the abolition of the requirements for corporate seals, the abolition of capital tax and the introduction of electronic online services. At present, according to the provisions of Hong Kong law, any group or individual can register a company according to the relevant conditions and procedures. The registration process is very simple, including two steps (registration application, employee insurance and MPF). It can be completed in less than two days, and the cost of registration is about only HK \$2000. The number time and cost of procedures in Hongkong are far lower than those of high-income OECD economies [6]. After the establishment of the enterprise, it will enter the start-up stage, which mainly includes three procedures: handling construction permit, obtaining power and registering property. The construction permit is one of the most complex procedures and the most numerous departments involved in the issuance of each permit. The average processing time for high-income economies is 12.7 and 153 days. The number of handling procedures in Hong Kong is basically the same as the average level, but it takes only 72 days. That is to say, the handling efficiency has more than doubled without the reduction of the process [6]. The disadvantage is that Hong Kong also faces the problem of too long time and too high cost in registering property. For the standardized case assumed by the World Bank, Hong Kong needs five procedures for property registration (land searching, preparation of agreement, implementation and filing, tax payment and registration), which takes 27.5 days. It costs about 7.7% of the property value, which is the lowest (53rd) indicator of Hong Kong's business environment. It is also one of the only two indicators that Hong Kong lags behind the mainland of China (27th) [6].

2.2.2 Cause analysis

The procedure in Hong Kong is very simple, because the procedure in the Hong Kong Special Administrative Region is more effective and mature under the basic national policy of "one country, two systems". The Hong Kong government can operate safely because its business regulations are open and transparent, and its fault-tolerant processing efficiency is high. However, the process of land and property registration in Hong Kong is complex [6]. Due to Hong Kong's large population, but limited land resources, the government has strict control over land and buildings, which also leads to a very high quality of land management in Hong Kong.

2.2.3 Measures and solutions

However, there are relatively few problems in Hong Kong. Therefore, it is necessary to continue to adhere to the national system and seek solutions to the complex problem of property registration. The land issue in Hong Kong has always been a topic worthy of discussion, but it should eventually be resolved to promote the development of the people.

2.3 Analysis of soft environment in Hainan

2.3.1 Phenomena and problems

From the perspective of soft environment, Hainan also has many problems. First of all, Hainan Free Trade Zone lacks investors. In some industries, the supervision of enterprises is still loose, lagging behind, and even lack of policies to manage enterprises. Second, a zero tariff, low tax rate and simple tax system has not yet been formed. The heavy tax burden of domestic and foreign investors makes it difficult for Hainan Free Trade Zone to attract more investors and entrepreneurs [4].

2.3.2 Cause analysis

The root cause of these problems in Hainan is the lack of rule of law in Hainan. It seems that this is the lack of social integrity construction in Hainan, but in fact, the legislative system has not solved

the phenomenon of "fragmentation" and "mismatch" [4]. First, Hainan's legislation is relatively backward. The Hainan Free Trade Port Law was promulgated in June 2021. The second is that the government's law enforcement capacity does not match the requirements of the international standards for the operation of the free trade port, and the government's law enforcement capacity is insufficient. Third, social intermediary services lack the necessary legal protection and supervision mechanism, resulting in social chaos [4].

2.3.3 Measures and solutions

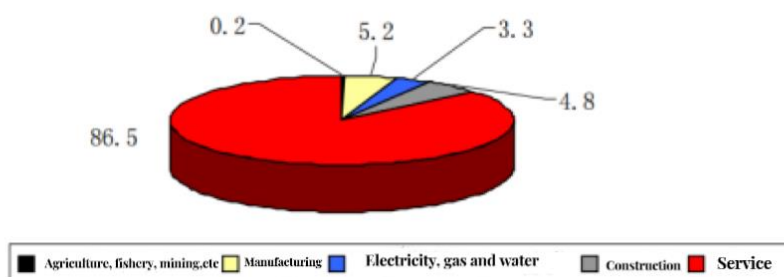
Hainan should learn from Hong Kong. The legal system needs to be improved. Management rules need to be improved. The scattered laws, systems, policy information and resources related to the construction of free trade ports need to be integrated and shared. Only in this way can the government achieve centralized, efficient and convenient management of enterprises. The construction of the business environment of Hainan Free Trade Port should not only meet the highest standards of the world's open form, but also overcome the shortcomings in the optimization of the business environment of the National Free Trade Pilot Zone. Various software and hardware factors affecting the business environment also need to be considered comprehensively [4].

2.4 Analysis of soft environment in Hongkong

2.4.1 Phenomena and problems

Hong Kong has a simple tax system, low tax rate, narrow tax scope. Tax laws are sound in Hongkong [7]. The tax system of Hong Kong Free Trade Port belongs to the classified tax system, which takes income tax as the main system, supplemented by behavior tax and property tax. Hong Kong's tax system is much simpler, mainly including gains, salaries, and property taxes, but excluding value-added tax. Profit tax rates are very low, but it accounts for 58.9% of total tax revenue. The salary tax mainly adopts the progressive tax rate and the standard tax rate. The progressive tax rate is suitable for low-income people, and the standard tax rate is suitable for high-income people. In the income tax, profit tax and salary tax are the main body, accounting for 94.4% of the income tax [7]. According to the individual taxable income, Hong Kong's salary tax has an excess progressive tax rate model and a standard tax rate model. The progressive tax rate of the five-level excess progressive tax rate is 2%, 6%, 10%, 14%, and 17% respectively [7]. The standard tax rate is fixed and the tax rate is 15%. This tax model is more beneficial to high-income people. However, in the soft environment, Hong Kong has the problem of irrational industrial structure, which leads to difficulties in transformation. Hong Kong has the world's top universities and scientific research institutions, but the problem of industry cavitation is serious, and the investment in forward-looking projects is huge, which cannot maintain the stability of income and expenditure. It can be seen from the chart below that there is a structural imbalance in Hong Kong's economy. The service industry is the dominant industry, and other industries are out of proportion [8].

Proportion of Hongkong's GDP in 2001



Source: Statistics Department of the Government of the Hong Kong Special Administrative Region

Fig 1. Proportion of Hongkong's GDP in 2001 [8]

In Fig. 1, the black block is Agriculture, Fishery and Mining industries, etc. The yellow block is Manufacturing industry. The blue block is Electricity, Gas and Water industries. The grey block is Construction industry. The red block is service industry. All the data come from Statistics Department of the Government of the Hong Kong Special Administrative Region.

2.4.2 Cause analysis

Hong Kong's regulatory system and tax system are excellent, but there is still a problem of industrial imbalance. The reason is that Hong Kong's economy is structurally unbalanced, with the largest service industry and a disproportionate number of other industries. As an important support for the regional service industry, the local manufacturing industry has formed a "hollow industry", which seems unrealistic to develop vigorously in the short term. The relatively stable population served the local power, natural gas and water industries, while the real estate foam burst. Therefore, the development of the service industry determines the overall trend of Hong Kong's economy [8].

2.4.3 Measures and solutions

Hong Kong needs to strengthen the integration between the digital and real industries. Government will strengthen the connection between different cities to achieve exchanges and complementarity between infrastructure and public goods [9]. The country can rely on Hong Kong, Shenzhen, Guangzhou and other cities with strong infrastructure to promote the flow of digital infrastructure. At the same time, the Hong Kong government can made effective breakthroughs in multiple frontier industries by combining the industrial advantages and scientific research resources advantages of different cities. The government can focus on electronic information manufacturing, software and information service industry, semiconductor and integrated circuit industry, high-end equipment manufacturing industry, intelligent robot industry, quantum communication industry, new materials, new energy industry, digital creative industry, etc [9].

2.5 Analysis of other environment in Hainan

2.5.1 Phenomena and problems

From the perspective of ecological environment, market environment, social service environment and infrastructure environment, Hainan Free Trade Zone also has some problems.

First, foreign enterprises and private enterprises have low satisfaction with the business environment. The allocation of resources is unreasonable. The market supervision is lack of innovation, and the market economy cannot develop quickly. Second, the degree of internationalization of the service industry is not high. There are few internationally renowned enterprises. Hainan Free Trade Zone has little attraction for international advanced talents. The overall market innovation atmosphere is not good [4].

2.5.2 Cause analysis

The reason why the business environment of Hainan Free Trade Zone is not good enough is that "the degree of internationalization is not high". It seems that there are few internationally renowned enterprises, but the market environment in the south of Shanghai is not very good. First, the supply of professional service institutions is seriously insufficient. Second, the entrepreneurial atmosphere in Hainan is not good, and the space for large-scale innovation is small. It is not attractive to international high-end talents. Third, the high-quality transportation and cross-border funds needed for the development of international enterprises cannot be guaranteed [4].

2.5.3 Measures and solutions

First of all, the human resources, construction permit, tax system, environmental assessment and other factors not considered in the World Bank's business environment indicator system are included in the scope of business environment assessment [4]. Second, the government should formulate measures according to the problems, create a good environment and strengthen infrastructure construction. Third, for "environmental protection", Hainan Free Trade Port should strictly abide by

the highest international standards of ecological and environmental protection and relevant laws and regulations for the industrial development and environmental protection of Hainan. It should take a "zero tolerance" attitude to combat the destruction of the ecological environment [4].

2.6 Analysis of other environment in Hongkong

2.6.1 Phenomena

Hong Kong has always adhered to the principle of "market-led and government-promoted". The government takes developing and promoting the economy as the keynote. They maintain "big market and a small government", provides a broad platform to the public, and gives full play to the power of the free market. Hong Kong has no trade barriers, investment restrictions or foreign exchange controls. The government only focuses on creating an investment environment, building infrastructure, and formulating economic regulations. For example, in 1996 the Government introduced a business facilitation program to ensure competitiveness and continue to provide the best conditions to facilitate the development of business enterprises [3]. In 1997, Hong Kong maintained its status as the best local and regional center of excellence. In 2006, Hong Kong established the Business Promotion Advisory Committee (Council) to promote the work of the former Economic and Employment Commission and its Business Promotion Group [3].

2.6.2 Measures and solutions

On the other hand, the Hong Kong government can continue to supplement the mainland and maintain a stable development trend. The government has investment promotion teams or consultants in Shanghai, Hangzhou, Wuhan, Chengdu and other mainland cities to help mainland enterprises understand Hong Kong and promote the development of "mutual benefit and win-win" [10].

3. Conclusion

This study compared the business environment of Hainan with that of Hongkong and found that there are some problems in the evaluation and analysis of the business environment of Hainan Free Trade Zone, such as low efficiency, imperfect laws and regulations, and unreasonable resource allocation. Hainan needs to learn from Hong Kong. Hong Kong has strong advantages in this regard. One country, two systems have given Hong Kong great freedom. However, Hong Kong also has some problems with a single industrial structure, which requires coordination and complementarity with the mainland. This study can provide some ideas for the improvement of the Hainan Free Trade Area and Hong Kong Free Trade Area. The research in this paper lacks more data to support and focuses more on the comparison. Therefore, there can be more digital analysis of the business environment in the future.

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