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Compatibility Assessment of Hainan Free Trade Port Closure Policy and RCEP System: An Evaluation from Multi-Level Governance Perspective

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ABSTRACT

This study evaluates the institutional compatibility between China's Hainan Free Trade Port (FTP) special closure policy and the multi-level governance structure of the Regional Comprehensive Economic Partnership (RCEP). Hainan FTP aims to achieve island-wide customs closure operation by the end of 2025, creating a new high ground for China's high-level opening-up, while RCEP, as the world's largest free trade agreement, is profoundly reshaping Asia-Pacific regional economic and trade rules. Using multi-level governance theory, this research constructs a compatibility assessment indicator system with seven core dimensions: tariff concessions, rules of origin, customs efficiency, service and investment openness, intellectual property rights, digital trade, and dispute resolution. Through comparative analysis of policy texts and public data, the study shows that the compatibility index between Hainan's closure policy and RCEP rules is approximately 81 (out of 100), indicating "relatively high compatibility." Particularly high compatibility is demonstrated in tariff concessions and service investment openness. However, the research also identifies several potential conflict points, mainly in cross-border data flow rules, special policy coordination for rules of origin, customs supervision risks, intellectual property enforcement capabilities, and limitations in dispute resolution mechanisms. The study concludes that despite overall high compatibility, these conflict points need to be resolved through improved domestic legislation and strengthened central-local-regional collaborative governance mechanisms to ensure Hainan FTP's smooth operation within the RCEP framework and fully release institutional dividends.

KEYWORDS

Hainan free trade Port; RCEP; Institutional compatibility; Multi-Level Governance; Closure policy

1 Introduction

The construction of Hainan Free Trade Port is a major strategic initiative for China to promote high-level opening-up in the new era. According to the "Master Plan for the Construction of Hainan Free Trade Port," Hainan plans to complete island-wide customs closure operation by the end of 2025, establishing an independent customs territory to create a new opening-up highland through greater liberalization and facilitation of trade and investment. Meanwhile, the Regional Comprehensive Economic Partnership (RCEP) officially came into effect in early 2022, covering approximately one-third of the world's population and economic output, aiming to deepen Asia-Pacific regional economic integration by reducing tariff barriers and unifying regional rules. The implementation of RCEP and Hainan FTP's closure process are almost synchronized, with high correlation in geographical location, policy objectives (promoting trade and investment liberalization), and timeline.

In this context, how Hainan FTP's special closure policy can adapt to RCEP's multi-level regional governance framework, and to what extent its institutional design can be compatible with RCEP rules, becomes an important issue with both theoretical and practical significance. On one hand, assessing their compatibility helps Hainan seize regional cooperation opportunities brought by RCEP, optimize its institutional design, and ensure smooth connection between closure operations and international high-standard economic and trade rules. On the other hand, analyzing the interaction between Hainan FTP, a special "within-territory but outside-customs" region, and RCEP provides new cases for understanding the implementation mechanisms of large free trade agreements within member states, the division of roles between central and local governments in opening-up, and the application of multi-level governance theory in Asian regionalism contexts. This study aims to fill the gap in existing literature regarding direct research on the connection between Hainan's closure policy and RCEP rules by constructing a compatibility assessment framework, systematically analyzing their matching degree and potential conflicts in key institutional dimensions, and exploring their governance implications from a multi-level governance perspective.

2 Literature review

Existing related research mainly focuses on three aspects: Hainan FTP policy, RCEP multi-level governance, and multi-level governance theory and institutional compatibility.

Research on Hainan FTP closure policy mostly focuses on policy connotations, objectives, international experience references, and legal system construction. Scholars generally believe that closure operation is a key step in building Hainan FTP, aiming to achieve "first-line opening, second-line control, and freedom within the island," benchmarking the highest international opening level. Research focuses include zero-tariff and low-tax system design, comparisons with mature free ports like Hong Kong and Singapore, and the framework role of the "Hainan Free Trade Port Law" and customs supervision model innovation. However, these studies rarely place closure policy within regional cooperation frameworks like RCEP for systematic connection analysis.

Research on RCEP mostly focuses on its agreement framework, regional economic effects, and governance mechanisms. Scholars have analyzed RCEP's tariff concession commitments, cumulative rules of origin, service and investment openness, and new issues such as intellectual property and digital trade. Some studies have explored RCEP's multi-level governance characteristics, such as the "ASEAN Way" of consultation consensus and flexibility, and its dispute resolution mechanism. However, these studies mostly remain at the regional or national macro level, rarely delving into how RCEP rules specifically adapt to the opening policies of specific localities (such as Hainan FTP) at the institutional level.

Multi-level governance theory provides a theoretical framework for analyzing interactions between different level entities (supranational, national, local). This theory emphasizes the dispersion and sharing of authority, and the importance of institutional compatibility for governance effectiveness. Existing research points out that different institutional systems can lead to governance fragmentation if they lack effective connection. Although multi-level governance theory has been applied to regional integration studies such as the European Union and has begun to be used to interpret China's participation in global governance practices, its systematic application to analyzing the institutional compatibility between Hainan FTP and RCEP remains a blank area.

In summary, although existing literature has various focuses, it lacks direct, systematic compatibility assessment research between Hainan's closure policy and RCEP rules, especially integrated analysis based on multi-level governance theory perspective. This study aims to fill this gap.

3 Methodology

This study adopts a combination of theoretical analysis and empirical assessment to systematically evaluate the institutional compatibility between Hainan FTP closure policy and RCEP rules.

3.1 Theoretical framework

The research draws on multi-level governance theory, placing the interaction between Hainan FTP closure policy and RCEP within an interactive framework of three levels: regional (RCEP level), national (Chinese central government level), and local (Hainan FTP level), focusing on the roles and responsibilities of different level entities and policy transmission and coordination in vertical (central-local) and horizontal (China-other RCEP members) dimensions.

3.2 Compatibility assessment model

To quantify the compatibility assessment, this study constructs an "institutional compatibility assessment indicator system" with seven core dimensions. These seven dimensions are derived from the main contents of the RCEP agreement and the focus of Hainan FTP policy, including: 1) tariff concessions; 2) rules of origin; 3) customs efficiency; 4) service and investment openness; 5) intellectual property rights; 6) digital trade; 7) dispute resolution.

For each dimension, a combination of qualitative and quantitative methods is used for scoring. The scoring standard is set from 1 to 5 points, where 1 point represents "obviously incompatible," 3 points represent "partially compatible but with gaps," and 5 points represent "fully compatible." Scoring is mainly based on comparative analysis of policy texts and available public data and implementation status.

To reflect the relative importance of each dimension in overall compatibility, we set weights (wi) for each dimension, ensuring $\sum$ wi=1. The specific weight distribution is as follows: tariffs (15%), rules of origin (15%), customs efficiency (10%), service and investment openness (20%), intellectual property (15%), digital trade (10%), dispute resolution (15%).

Finally, through weighted calculation of scores for each dimension (si), the original comprehensive score Sraw=$\sum$ si×wi is obtained. To more intuitively display the compatibility level, a linear normalization formula is used to convert the original score into a Compatibility Index (CCI): CCI= (Sraw-Smin)/(Smax-Smin) ×100, where Smin=1, Smax=5. CCI score intervals are divided into: 0-39 (low compatibility), 40-69 (medium compatibility), 70-89 (relatively high compatibility), 90-100 (extremely high compatibility).

3.3 Data sources and analysis process

This study is mainly based on the following data sources:

Policy texts: "Master Plan for the Construction of Hainan Free Trade Port," official text of the RCEP agreement, laws, regulations, policy documents, and zero-tariff lists related to free trade port construction issued by Hainan Province and relevant ministries and commissions of China.

Public data and reports: Statistical data and policy interpretations released by official institutions such as the Chinese government website, Ministry of Commerce, and General Administration of Customs; reports from relevant research institutions and authoritative media reports on official information.

The analysis process includes: 1) In-depth interpretation of Hainan's closure policy and RCEP agreement's specific regulations and objectives in seven core dimensions; 2) Comparison of policy provisions and practical progress between the two in each dimension, identifying consistencies and differences; 3) Scoring each dimension according to scoring standards; 4) Calculating the CCI index; 5) Based on comparative analysis and scoring results, identifying and summarizing potential conflict points or institutional connection barriers, and discussing their causes from a multi-level governance perspective.

4 Results

This section presents a detailed compatibility analysis of Hainan's closure policy and RCEP rules in seven core dimensions, CCI index calculation results, and identified main conflict points.

4.1 Compatibility analysis of core dimensions

Tariff Concessions (Score: 5/5): RCEP is committed to ultimately achieving zero tariffs for more than 90% of goods within the region. Hainan FTP aims for comprehensive "zero tariffs," having already exempted most imported goods (with few exceptions) from tariffs through multiple lists, and implementing a "30% processing value-added" policy for domestic sales tax exemption. Hainan's goals and practices are highly consistent with and even exceed RCEP requirements in direction and intensity.

Rules of Origin (Score: 4/5): RCEP adopts flexible regional cumulation rules (generally requiring regional value content to reach 40%). Hainan, as part of China, follows RCEP commitments, but its "30% processing value-added" policy differs from RCEP standards, requiring further coordination to utilize RCEP cumulation principles and prevent rule arbitrage risks. Basically compatible, but operational details need connection.

Customs Efficiency (Score: 4/5): RCEP requires members to improve customs efficiency, such as 48-hour release and single window. Hainan is building smart customs and single window according to the principle of "first-line opening, second-line control," improving customs facilitation, consistent with RCEP direction. However, effective supervision and risk prevention for the "second line" are still under construction and improvement.

Service and Investment Openness (Score: 5/5): RCEP promotes service and investment liberalization with negative lists. Hainan has implemented a shorter foreign investment access negative list than the national one, introducing more open measures in fields such as finance, tourism, and healthcare, significantly attracting investment growth from RCEP members. The opening level is compatible with and generally higher than RCEP commitments.

Intellectual Property Rights (Score: 4/5): RCEP establishes high-level intellectual property protection rules. Hainan implements China's increasingly improved intellectual property legal system, basically matching RCEP requirements in legal framework. The main challenge lies in improving enforcement capabilities and efficiency to address infringement risks in an open environment.

Digital Trade (Score: 3/5): RCEP advocates free cross-border data flow (allowing security exceptions) and prohibits data localization requirements. Hainan actively develops digital trade but must comply with national laws such as the "Data Security Law" regarding data flow, with requirements for local data storage and exit approval, showing policy differences with RCEP principles, classified as partially compatible.

Dispute Resolution (Score: 4/5): RCEP establishes an inter-governmental dispute settlement mechanism (DSM) but does not include investor-state dispute settlement (ISDS). Hainan itself has no authority to resolve external disputes and needs to cooperate with the national response. Hainan has established local international arbitration centers and foreign investment complaint mechanisms, generally aligning with the RCEP spirit. However, the lack of direct international remedy channels for investors is a limitation of the RCEP mechanism itself.

4.2 Compatibility index (CCI) calculation

Based on the above scores and preset weights, the weighted scores are calculated as follows: tariff concessions (0.75), rules of origin (0.60), customs efficiency (0.40), service and investment openness (1.00), intellectual property (0.60), digital trade (0.30), dispute resolution (0.60), with an original comprehensive score Sraw=4.25.

Substituting the original comprehensive score into the CCI calculation formula: $CCI=(4.25-1)/(5-1)\times 100=81.25\approx 81$

The results show that the compatibility index between Hainan's closure policy and RCEP rules is approximately 81, indicating a "relatively high compatibility" level.

4.3 Potential conflict points and institutional connection barriers

Despite the overall high compatibility, the analysis reveals five main potential conflict points or connection barriers

4.3.1 Data flow and network security conflicts

National data security regulations' restrictions on cross-border data flow create tension with RCEP's advocated free flow principles.

4.3.2 Rules of origin connection challenges

Hainan's "30% processing value-added" policy needs effective connection with RCEP's 40% regional value content standard to avoid rule arbitrage and identification confusion.

4.3.3 Customs supervision and smuggling risks

The effectiveness of "second-line control" is key to successful closure; insufficient supervision capacity could trigger smuggling risks, affecting domestic market order and treaty partner trust.

4.3.4 Intellectual property enforcement and capability gaps

Although legal frameworks are compatible, Hainan's intellectual property enforcement capabilities and efficiency need strengthening to meet RCEP's high-level protection requirements in the face of challenges brought by openness.

4.3.5 Dispute resolution mechanism deficiencies

RCEP's lack of ISDS mechanisms means investors facing issues in Hainan lack direct international remedy channels, potentially affecting investor confidence.

5 Discussion

This study finds that Hainan FTP closure policy and RCEP rule system have relatively high overall compatibility ($CCI\approx 81$), laying a good institutional foundation for Hainan to utilize "two markets, two resources" and deeply integrate into Asia-Pacific regional economic integration. Especially in core areas such as tariff concessions and investment liberalization, Hainan's pioneering not only highly aligns with RCEP goals but even exceeds them in opening degree, reflecting its positioning as China's reform and opening-up experimental field. This high compatibility is conducive to generating policy "superposition effects," attracting trade flows, investment flows, and talent flows from the RCEP region to Hainan, preliminarily confirmed by the rapid growth of economic and trade exchanges between Hainan and RCEP member countries in recent years.

However, the analysis also reveals that compatibility is not perfect, with the five identified conflict points reflecting the complex challenges faced when connecting special local policies with regional/international rules under a multi-level governance framework. Conflicts in digital trade typically reflect tensions between national sovereignty (data security) and international economic and trade rules (free data flow), which are common in global digital governance. The connection issue of rules of origin highlights the technical connection difficulties between domestic special preferential policies (such as Hainan's 30% value-added tax exemption) and multilateral agreement rules (RCEP cumulation principle), which if not handled properly could lead to trade distortion or compliance risks. Challenges in customs supervision and intellectual property enforcement point more toward local governance capacity modernization, namely how to effectively improve supervision efficiency and risk prevention capabilities while achieving high-level opening, requiring central-level guidance, local-level resource investment, and cross-departmental or even cross-border collaborative governance. The limitations of dispute resolution mechanisms expose RCEP's own deficiencies in investment protection, meaning Hainan needs to place more emphasis on optimizing the local business environment and improving domestic remedy channels to enhance investor confidence.

From a multi-level governance perspective, resolving these conflict points requires coordinated efforts from central, local, and regional/international levels. For example, data flow issues need balancing security and development at the national level, while seeking international consensus through participation in rule-making on multilateral platforms like RCEP; rules of origin connection requires central authorization and guidance, with specific operational details formulated by departments like customs, and technical consultations with other RCEP member countries; improving local enforcement capabilities requires central resource support, local government capacity building, and exploration of enforcement cooperation mechanisms with RCEP member countries.

The findings of this study have certain implications for policy-making. Hainan should continue to adhere to high-level opening direction while making institutional adjustments and capacity building for identified conflict points. For example, actively exploring ways to promote orderly data flow within the national data security framework; quickly clarifying the connection plan between the "30% value-added" policy and RCEP origin cumulation rules; continuously investing in smart customs construction, strengthening "second-line" supervision capabilities; increasing intellectual property protection enforcement; improving foreign investment complaint and dispute resolution mechanisms, etc.

The study also has certain limitations. The assessment is mainly based on policy texts and existing public data, with actual operational effects still to be observed. Meanwhile, compatibility assessment involves subjective judgment, and weight settings may also affect results. Future research can conduct dynamic tracking assessments and deepen analysis by combining broader stakeholder surveys.

6 Conclusion

This study systematically analyzes the connection between Hainan FTP closure policy and RCEP rule system by constructing a seven-dimension compatibility assessment model. The research finds that the two have relatively high overall compatibility (CCI index approximately 81), especially showing high synergy in tariff concessions and service investment openness. This indicates that Hainan FTP's institutional design follows the trend of regional economic integration and provides a positive institutional environment for RCEP implementation in China. However, the study also points out potential conflicts and challenges in digital trade rules, rules of origin policy connection, customs supervision capabilities, intellectual property enforcement, and dispute resolution mechanisms. Effectively resolving these contradictions requires strengthening policy coordination between central and local governments within China's multi-level governance framework, enhancing local governance capabilities, and actively participating in regional cooperation and rule consultation under the RCEP framework. Looking ahead, with the deepening of Hainan's closure operation and the continued release of RCEP effects, a Hainan FTP with more compatible institutions and smoother operations is expected to become an important strategic fulcrum and successful example for China's deep integration into RCEP and promotion of higher-level opening-up.

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