

## Press Release

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### **PolyU Study Finds Adjustments Needed to Hainan Tax-Rebate Policy to Enhance Benefits**

The proven benefits of the current tourism-related tax-rebate policy in Hainan could be increased through three broad measures, argue Dr Hanqin Qiu Zhang of the School of Hotel and Tourism Management (SHTM) and a co-author in a recent research article. The researchers suggest that the policy, designed to encourage spending by both domestic and foreign tourists on the Chinese island, would benefit from Hainan being treated as an overseas destination substitute by the central government, the creation of a “regional shopping paradise” through cooperation with Hong Kong, and a great focus on the customer-service aspects of tourism. These adjustments, they suggest, will ensure that this “representative” tourism policy will experience “active dynamics in the future”.

One of the critical things to understand about the rapid development of tourism in China is that it has been made possible by heavy and continual government intervention. The researchers note that this has ensured that domestic tourism is “a key player in the nation’s economic development”, with China also set to be the world’s number one tourism destination in the near future. Within this context, the province of Hainan – a large island in the South China Sea off the southernmost part of the mainland – is an important setting in which to observe the benefits of tourism policy making.

Designated an International Tourism Island in 2009, Hainan “is a subsystem where dynamic tourism policy changes have been witnessed recently”, observe the researchers. The Chinese government intends that the island become a world-class destination by 2020, and has introduced “innovative and reformative policies” that are only applicable locally. Regarded as a “special tourism zone” by the Chinese authorities, the island provides a setting that reflects “the characteristics of the dynamics of contemporary Chinese tourism policies”.

The Chinese government implemented a tax rebate policy on goods purchased on Hainan in January 2011, at first allowing foreign visitors to claim back 11% of the price of imported goods purchased during their visits. There were a number of restrictions on purchases, write the researchers, including an RMB800 minimum purchase amount, the ability to buy from only five designated shops supplied by one company, and the inclusion of the goods on a set rebate list.

During April 2011, the government adjusted the policy to set a maximum purchase amount of RMB5,000, and extended the scope to include domestic visitors, who faced much the same restrictions as foreigners. The one significant difference was that domestic visitors could only enjoy the rebate once a year, whereas foreign visitors could enjoy it twice. In both cases the policy proved to be successful. The researchers point out that the number of visitors in April 2011 was 11.25% greater than the same month

in the previous year. Income from tourism also increased, with tourism receipts from January to April 2011 showing an annual growth of 8.32%.

Given that “the tax-rebate policy process has been closely supervised and monitored by the Chinese central government”, the researchers were particularly interested in examining it carefully. They wanted to understand how a “typical tourism policy was initiated, administered, and practiced in mainland China”. Even more importantly, they wanted to use that knowledge to suggest ways in which the already successful policy could be extended.

One of the more obvious elements of the policy, and the reason for its success, is its implementation in two closely spaced stages. This, the researchers argue, is highly indicative of the Chinese approach to policy making, which has followed an incremental path in other areas of tourism, whether affected by the central government or by local authorities. It is also epitomised in the late Deng Xiaoping’s analogy of “crossing the river by stepping on the underwater stones”. There is, they argue, a two-part rationale to this approach.

In the first instance, the staged implementation enabled what the researchers describe as “policy learning”. The central government could monitor reactions to the policy, and adjust or even reverse elements that it deemed to have failed. In doing so, the researchers write, the government could minimise negative effects “in both economic and political terms”. The approach also helped to “mitigate opposition from both within and outside the policy subsystem”, which can sometimes be powerful enough to prevent the implementation of central government policies.

Given that the central government is likely to continue extending the tax-rebate policy in line with its usual approach, the researchers suggest three specific ways in which it could be enhanced. The first suggestion focuses on the current concern about outbound tourism. With 47.76 million Chinese tourists travelling abroad in 2010 and spending around RMB6,700 each per visit, policy advocates in China are beginning to point out the “considerable financial and social losses to the domestic economy” that outbound tourism is creating.

The researchers suggest that this situation could at least be partly reversed by the central government treating Hainan as a substitute for some international destinations. As the government has long linked outbound tourist numbers to domestic tourism development, it could wind back those numbers and focus efforts on promoting domestic tourism instead. Indeed, the researchers note that especially for source markets in inland China, “the distance to Hainan is similar to overseas destinations like Japan and Korea. This, combined with a more rapid relaxation of the conditions of the tax-rebate policy, would certainly benefit the island’s tourism economy.

Two further extensions to the policy could be achieved through increasing cooperation with Hong Kong and the addition of service quality elements to the policy’s scope. The researchers suggest that cooperation with Hong Kong, a potential rival for tourists, could help to create “a regional shopping paradise”, with the two destinations complementing each other in their appeal to shoppers. Within this scenario, Hainan could leverage Hong Kong’s well-established expertise to improve its service quality levels.

Service quality considerations could also be built into the tax-rebate policy itself to ensure that the “shopping experiences of visitors can be enhanced”. For instance, the policy could enforce the introduction of more comprehensive after-sales service and guarantees of service quality, similar to those in Hong Kong’s quality-mark service and product scheme. The researchers further suggest that intensive staff training should be mandated to improve and standardise the quality of service. The enforcement of less complicated refund procedures might also “stimulate tourists to buy”.

The researchers ultimately argue that the tax-rebate policy still has much room for expansion, with marketing research needed to help “better integrate the tax rebate policy into the realities of the demographic and consumption features of domestic and foreign visitors to Hainan”. Given that the central government has such tight control over the policy making process, this seems likely in the near future, to one extent or another. The only real unknown is how rapidly the government will choose to implement the change.

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