

Analysis of the Impact of Hainan's Customs Closure Policy on Merchandise Trade-Taking Cosmetic Products as an Example

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Abstract. Hainan's customs policy ("open at the first line, control at the second line, freedom within the island") represents a significant opening-up initiative in China. This paper examines its impact on commodity trade using cosmetics as a case study, focusing on three dimensions: trade patterns, market structure, and corporate strategies. In terms of trade patterns, the policy significantly accelerates customs clearance, while "zero tariffs" reduce trade costs, helping enterprises boost profits. Regarding market structure, foreign companies are establishing bonded warehouses and duty-free stores in Hainan, fostering healthy competition and offering new processing solutions for domestic and international cosmetics firms. Concerning corporate strategies, the policy provides greater flexibility for price adjustments, enabling enterprises to optimize supply chains, increase R&D and design investments, and strategically lower prices to enhance competitiveness. Research indicates that the closed-border policy presents opportunities for the cosmetics market, including simplified trade models and diversified market structures. However, policy uncertainties also carry risks such as intensified competition and increased compliance costs. In response, enterprises must seize opportunities while proactively mitigating risks, while the government should refine institutional frameworks and regulatory systems to jointly advance high-quality development in the cosmetics sector. This paper aims to provide reference for cosmetics enterprises navigating the closed-border policy, clarifying its opportunities and risks to assist businesses in timely adaptation.

Keywords: Hainan customs closure; trade policy; merchandise trade; cosmetic products.

1. Introduction

The 2025 closure of Hainan's entire island border represents a significant step in advancing China's high-level opening-up. It introduces a special regulatory model featuring "first-line liberalization, second-line control, and island-wide freedom," enabling the free flow of goods, capital, and personnel. This initiative not only marks a crucial milestone in China's free trade port development but also signifies a distinctive move by China amid increasingly interconnected global trade—a pivotal practical endeavor. In recent years, as globalization deepens and consumer demand upgrades, international trade has intensified. Increasingly, cosmetics companies are expanding their sales channels and broadening their global reach. Beyond exporting to China, many multinational corporations have invested in establishing factories within the country. Leveraging the "zero-tariff" policy, they achieve mutual benefits. A significant number of companies have entered the domestic market, producing and selling in Hainan, which has become a vital hub for domestic cosmetics consumption. Domestic cosmetic brands can also import raw materials to Hainan for processing before re-exporting finished products to the mainland, significantly reducing production costs.

In recent years, as the development of Hainan Free Trade Port continues to advance, the cosmetics industry has gained increasing prominence in the trade sector. With the continuous implementation of policies, the scale of cosmetics imports to Hainan has also achieved rapid growth. Data from the Haikou Customs of the People's Republic of China indicates that the import value of beauty cosmetics and personal care products reached 1,158,006.9 yuan in 2024, with imports totaling 686,353.5 yuan from January to June 2025, demonstrating robust market demand and growth potential. As reported by CCTV News on March 20, 2025, from the implementation of Hainan's duty-free shopping policy for departing passengers from April 2011 to March 16, 2025, customs authorities supervised duty-

free purchases totaling 250.1 billion yuan, involving 45 million shoppers and 318 million items. Among these, fragrance and cosmetic products consistently accounted for a high proportion of total duty-free sales. The Hainan government has continuously optimized policies to accelerate customs clearance, streamline procedures, and reduce corporate costs. International beauty brands like L'Oréal, Estée Lauder, Shiseido, and Procter & Gamble have established duty-free stores in Hainan. This not only expands beauty product offerings but also fosters healthy competition and innovation among enterprises, driving service optimization reforms and providing consumers with greater choice. However, alongside rapid development and soaring sales, challenges persist, including inadequate oversight and difficulties in ensuring cosmetic quality and safety. Regulatory systems lag behind due to the innovative nature of Hainan's cosmetics model and the market's diversity, making it hard to fully guarantee product safety. This not only undermines the industry's healthy operation but also poses risks to public health. Domestic cosmetics brands, constrained by smaller scale and weaker competitiveness, struggle to penetrate premium markets. As multinational corporations expand their market share, domestic players face further squeeze and market contraction. Cosmetics imports and exports also fluctuate with policy rate changes, increasing the difficulty for enterprises in risk forecasting and decision-making.

Against this research backdrop, this paper focuses on cosmetics, examining the impact of Hainan's closed-border policy on domestic and international cosmetic industries. It delves into its effects on trade patterns, market structures, and corporate strategies. The study aims to analyze both the development opportunities and potential risks enterprises face under Hainan's closed-border policy, assisting companies in formulating scientific strategies for comprehensive growth. Additionally, it seeks to encourage relevant government departments to refine regulations, optimize the regulatory framework, and propel the rapid, high-quality development of China's cosmetic enterprises. Ultimately, through the joint efforts of enterprises and the government, this initiative seeks to enhance the international competitiveness of China's cosmetics industry and promote the optimization and upgrading of its trade structure.

2. Impact of Hainan's Customs Sealing Policy on Cosmetics Import Trade

Hainan's customs sealing policy designates the province as a special customs-regulated zone, encompassing three aspects: liberalization at the first line, control at the second line, and freedom within the island. Liberalization at the first line means goods entering Hainan are exempt from tariffs, import/export value-added tax, and consumption tax. Control at the second line requires goods leaving Hainan for mainland China to undergo taxation and inspection. Freedom within the island allows goods to circulate freely within Hainan without tariffs. The development of Hainan's Free Trade Zone has achieved phased results, with legal safeguards continuously strengthened, openness to the outside world steadily expanding, the number of foreign-invested market entities rapidly increasing, and talent recruitment policies accelerating implementation [1].

2.1. Mechanism of Market Structure Impacts

Previously, the process for goods entering China was relatively uniform: declaration, inspection, taxation, and release. Following the establishment of customs control, Hainan Island has become a transshipment hub for cosmetics, enabling the "overseas raw materials – Hainan processing – global distribution" model. For first-tier goods, except for certain special items, imports with zero tariffs and declared goods can be "released directly." The number of items enterprises need to declare has decreased from 105 to 33, inspection rates have significantly dropped, and customs clearance speeds have markedly improved. This not only directly reduces cosmetic costs and expands supply but also enhances distribution efficiency. For second-tier goods, those with a processing value-added rate exceeding 30% qualify for duty-free release. This directly impacts cosmetics companies' profits while reducing the risk of Hainan goods being dumped into the mainland market. The establishment of the Pilot Free Trade Zone (PFTZ) significantly promotes both the quality and volume of Hainan's export trade. Hainan has also introduced policies to prevent quality degradation driven by quantity-focused

growth [2]. This initiative has not only attracted global cosmetics companies to establish manufacturing facilities in Hainan but also influenced brand strategies, leading firms to set up warehousing centers there. Although China's customs authorities have reformed tariff collection and regulatory models for the Hainan Free Trade Port, achieving high-quality development still requires enhancing trade facilitation and continuously optimizing the business environment [3].

The impact of market structural changes depends on the nature of the changes and the substitution and income effects they induce [4]. After customs closure, reduced raw material costs, lower taxes, and increased profits led to higher production volumes, generating economies of scale that decreased average operating costs. In this scenario, imported cosmetic brands will seek to expand market share by establishing bonded warehouses and duty-free stores in Hainan—such as Estée Lauder and Shiseido—to compete with domestic cosmetic markets. Domestic cosmetic brands can leverage Hainan's duty-free policies for first-tier raw materials and processing with over 30% value-added to reduce raw material import costs and tariff expenses. This frees up resources for other investments, enhancing competitiveness. The scope of "zero-tariff" goods has expanded from the current 1,900 tariff lines to approximately 6,600 tariff lines, accounting for about 74% of all commodity tariff lines—an increase of nearly 53 percentage points compared to pre-closure levels [5]. Consumers purchasing cosmetics in Hainan can enjoy prices equivalent to 60-70% of mainland levels, elevating people's welfare standards.

2.2. Impact Mechanism on Sales Channels

Hainan's closed-border policy has expanded merchants' sales channels. Following the closure, the variety of duty-paid goods increased. Driven by market demand and bolstered by policy dividends, duty-free shops expanded their offerings. Retail outlets like Sanya International Duty-Free City increased their cosmetics sales areas and brand portfolios, introducing more internationally renowned brands. This shift not only meets consumer demand for diverse, high-end cosmetics but also enhances Hainan's cosmetics industry influence and competitiveness, creating a virtuous cycle. The policy also propelled cross-border e-commerce development. After placing orders at duty-free stores, consumers can have non-stock items delivered directly to their homes via cross-border e-commerce channels, expanding sales avenues. However, traditional cross-border e-commerce models are incompatible with Hainan Customs' special supervision framework. This has driven transformations in the Free Trade Port's cross-border e-commerce operations, where trade liberalization will foster multi-model development [6].

The expansion of processing-for-domestic-sales channels has significantly reduced manufacturers' production costs. Cosmetics with a processing value-added exceeding 30% qualify for duty-free entry into the mainland, substantially lowering enterprises' production, operational, and management expenses. This policy incentivizes companies to establish processing bases in Hainan and expand their domestic sales markets. This initiative not only propels the growth of Hainan's cosmetic processing and manufacturing sector, refining the industrial chain structure and transitioning from pure import-sales to domestic processing-sales operations, but also enables cosmetics to enter the mainland market at lower prices through this policy. This boost purchasing power, granting enterprises a competitive edge in the fiercely contested market.

2.3. Mechanism of Consumer Behavior Influence

The implementation of Hainan's closed-border policy has led to a decline in cosmetic prices. High-end cosmetics, in particular, have gained significant price advantages under the duty-free policy, exerting strong appeal to consumers. Previously, consumers could only access relatively affordable cosmetics through overseas purchasing agents or overseas travel. Now, these products are readily available in Hainan. This price adjustment has driven changes in consumer behavior, impacting not only individual purchasing patterns but also reshaping the proxy shopping industry. More proxy shoppers are now focusing on Hainan, expanding the reach of Hainan's cosmetics market. This trend

could even boost Hainan's tourism sector, aligning with the development of an international tourism and consumption hub and promoting deeper integration between tourism and consumption [7].

Optimized shopping experiences and diversified pickup methods—such as mail delivery and island-wide collection—significantly boost consumer purchasing intent. These innovations save consumers travel costs and effort while alleviating post-purchase concerns. Streamlined customs clearance further enhances the consumer journey, making the entire shopping process more efficient and convenient. This indirectly amplifies the reach and purchasing power of Hainan's duty-free goods.

2.4. Mechanisms of Corporate Strategy Impact

Hainan's customs clearance policy also impacts corporate strategies for cosmetics manufacturers. The establishment of the free trade zone alters the external environment, thereby influencing corporate strategies. Prior to customs clearance, pre-tax profit margins for global cosmetics companies ranged from approximately 13-20% [8,9]. Post-clearance, first, the exemption of taxes on cosmetic raw materials and the removal of tariffs for goods entering the mainland directly reduce corporate costs. This provides companies with greater flexibility to adjust pricing and enhance competitiveness. Second, companies can adjust supply chain strategies by establishing warehouses and processing facilities in Hainan, reducing freight costs and improving supply efficiency. Finally, companies can strengthen brand building, marketing, and innovation to attract consumers. However, companies must also proactively consider the impact of trade policy uncertainties on trade. The complex and volatile international economic environment exacerbates trade policy uncertainties, necessitating preemptive measures to mitigate potential losses [10].

3. Case Analysis

The development of the Hainan Free Trade Port presents immense opportunities for businesses. Since its inception, numerous cosmetics companies have begun establishing a presence in Hainan, constructing duty-free stores and warehouses to expand market share and enhance competitiveness.

Sanya Duty-Free City stands as a benchmark for Hainan's duty-free operations, with cosmetics being a particularly prominent category. Its Cosmetics Plaza commenced operations on December 28, 2023, becoming the world's first standalone cosmetics tourism retail plaza. According to a 2025 report by Sanya Daily, beauty bestsellers have proliferated since the start of the year. Star products from Estée Lauder and Lancôme saw sales surge by 153% year-on-year, with cumulative sales of Estée Lauder's Advanced Night Repair Serum sets and Lancôme's Advanced Génifique Serum sets reaching 40,000 units—a 153.25% increase. The plaza hosts numerous luxury beauty brands. An array of star products, including exclusive brand sets and limited-edition items, has drawn substantial consumer interest, driving economic growth.

International beauty giants like L'Oréal and Estée Lauder have actively responded to policies by expanding their presence in Hainan. L'Oréal Group has established multiple enterprises, flagship stores, and offices across Haikou and Sanya, achieving comprehensive coverage of duty-free channels. In 2023, it established and launched a warehousing and operations center in Haikou Comprehensive Bonded Zone, efficiently serving Hainan's massive duty-free market for departing passengers while enhancing supply chain efficiency and reducing costs. Jean-Paul Bouchard, President of L'Oréal North Asia and CEO of L'Oréal China, expressed the company's unwavering confidence in the Chinese and Hainan markets, pledging to deepen its investment and footprint in China to continuously meet Chinese consumers' beauty needs. In June 2024, Lancôme's flagship store opened in Zone C of Sanya International Duty-Free City, becoming the world's largest Lancôme flagship store. During the same period, Maison Margiela launched a summer limited-time pop-up store at Sanya International Duty-Free City.

Estée Lauder has established offices, flagship stores, and duty-free shops in Hainan, deepening its operations in the province. Leveraging the preferential policies of Hainan Free Trade Port, the company has optimized solutions for raw materials and logistics, enhancing overall supply chain

efficiency. This enables closer service to the Chinese market while significantly reducing costs. Estée Lauder has also pursued product innovation, improving customer shopping experience through localized innovations.

The nation's vigorous promotion of free trade port development has introduced numerous preferential policies. Companies have actively responded by expanding warehousing and constructing exhibition centers in Hainan, positioning the province as a regional distribution hub. This optimizes supply chain layouts, drives coordinated regional economic development and enhances industrial competitiveness. Such initiatives not only help enterprises seize opportunities in intense market competition but also inject vitality into Hainan's free trade port construction. They achieve mutual resonance between corporate strategies and policy directives, fostering a win-win outcome for all parties involved.

4. Recommendations

Amidst the wave of globalization, the domestic and international cosmetics industry has actively engaged in international trade, ushering in vast market opportunities while also facing certain challenges. This necessitates that governments and enterprises implement corresponding measures to accurately leverage policy dividends and guard against potential threats.

4.1. Strengthening Oversight and Refining Policies

Government departments play a crucial role in the cross-border development of the cosmetics industry, making it imperative to enhance oversight of cosmetics trade. Optimizing market oversight is a vital driver for creating a favorable business environment. This not only fosters an efficient and convenient administrative environment but also enhances resource allocation. Effective market regulation safeguards consumer interests, promotes corporate innovation, and attracts more foreign-funded and private enterprises to invest in Hainan [11]. Measures include establishing cross-departmental collaborative oversight mechanisms, leveraging big data and other technologies to improve regulatory efficiency, and refining relevant policies.

Establishing cross-departmental collaborative oversight mechanisms is a key measure to strengthen regulation. The cosmetics industry involves multiple departments, including market supervision and customs. This necessitates inter-departmental information sharing networks to enable real-time data exchange, avoid redundant inspections and oversight gaps, and form a unified regulatory force to enhance operational efficiency and regulatory intensity.

Leveraging big data and other technologies to improve regulatory efficiency has become a primary trend in industry oversight. With societal and technological progress, big data technology has become an indispensable analytical tool for both enterprises and governments. Big data tools assist governments in predicting future trends for enterprises through historical data analysis, identifying potential regulatory evasion based on past records, and helping businesses forecast market preferences for new products. Digitalization has injected new vitality and innovation prospects into the Hainan Free Trade Port, driving the transformation and upgrading of traditional industries while fostering new forms of the digital economy [12].

Refining relevant policies is crucial for ensuring the smooth operation of international cosmetics trade. Governments can refine tax incentives for cosmetics imports and exports, offering tariff advantages to well-performing cosmetics enterprises to encourage creative and compliant development. Simultaneously, clear standards for China's cosmetics imports and exports must be established to prevent losses arising from differing national standards. The success of a free trade zone requires a continuous process of reform and innovation. Its successful development must align with contemporary contexts and trends, continuously refining relevant policies and systems to adapt to shifting market demands and drive deep, sustained industrial integration and development [13].

4.2. Supporting Enterprise Development and Brand Building

Encourage enterprises to increase R&D investment to enhance product quality. Simultaneously, strengthen the development of local cosmetic brands through initiatives such as brand promotion campaigns and enhanced intellectual property protection to boost their competitiveness.

Substantial R&D innovation bolsters a company's vitality. Enterprises should focus on developing new cosmetic technologies and functionalities to reduce skin irritation. For instance, incorporating plant-based ingredients and traditional Chinese medicinal components into cosmetics not only promotes Chinese cultural heritage but also addresses consumer concerns about post-application skin conditions. Concurrently, companies must establish rigorous oversight systems with dedicated monitoring teams to ensure precise tracking at every stage, aiming for the highest national standards.

Furthermore, hosting brand promotion events can effectively elevate the international influence and recognition of Chinese cosmetic brands. Companies can also leverage international social media platforms for brand marketing to cultivate a global brand image. Intellectual property serves as a crucial safeguard for brand development; enterprises should promptly apply for patents for newly developed products and designs to avoid potential disputes.

4.3. Responding to Changes in the Trade Environment

Trade barriers and the increasing uncertainty in trade policies across nations are compelling many multinational corporations to reevaluate their global operational strategies in response to the volatile world environment [14]. Companies can promptly address shifts in the trade landscape by enhancing market research and analysis, formulating flexible market strategies, and expanding into diversified international markets. Governments can bolster trade cooperation and policy coordination with other countries and regions to safeguard the cosmetics trade.

Given the complex and volatile global landscape, cosmetics enterprises must cultivate keen market insight and agile adaptability. Enhanced market research and analysis form the foundation for strategic planning. Companies should conduct detailed studies on target market consumer preferences, spending habits, and purchasing power levels before formulating corresponding strategies. Companies should also consider local cultural traditions, religious beliefs, and specific functional demands. Based on research findings, flexible market strategies can be developed—for instance, adapting products regionally while preserving core brand identity to meet diverse consumer needs. Pricing mechanisms can similarly be tailored according to national development levels and market conditions.

Government departments should strengthen trade cooperation and policy coordination with other countries and regions to foster a favorable external environment for enterprises. This can be achieved through measures such as joining trade organizations or signing trade agreements to reduce tariff and non-tariff barriers.

5. Conclusion

This paper examines the impact of Hainan's customs clearance policy on the cosmetics industry. Using literature analysis, it concludes as follows: From the producer's perspective, the policy reduces import costs for cosmetics, enhances price competitiveness, expands market scale, generates economies of scale, and increases profits. For consumers, it lowers cosmetic prices and stimulates market demand. Enterprises should stay informed about trade policies, adapt to evolving circumstances, leverage policy benefits, and innovate to develop new products. This paper further elaborates on the challenges faced and offers recommendations. The government can adjust policies in response to market conditions, further refine the cosmetics market regulatory framework, strengthen oversight customs, improve the legal system, and encourage corporate innovation. Enterprises can address challenges by enhancing innovation, strengthening promotional efforts, and implementing flexible market strategies. Looking ahead, as the Hainan Free Trade Port continues to

develop, the openness of the cosmetics market will increase further, contributing significantly to high-quality economic growth.

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