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English Abstract

Hainan: Is there a Hidden Pearl in the South China Sea?

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In 1988, during the first session of the seventh National People's Congress of China, the central government of China decided to turn Hainan Island, China's largest island in the South China Sea, into China's largest Special Economic Zone (SEZ). On October 1 of that same year, Hainan became an independent province, separating from Guangdong.

In the years since its founding, Hainan Province has been a strategic region for the national leadership. The People's Government of Hainan has been warm and open to collaborations with entrepreneurs, academia, and foreign governments in an effort to make Hainan a success case for the rest of China and the world. This scenario has created a unique opportunity for the author of this paper, who has been living and working in the province for the past seven years, to perform an in-depth analysis of the province's overall development and identify strategies that could assist Hainan in future development in both the short-medium and the long terms.

The background information in this dissertation provides even a reader who is unfamiliar with China with a basic understanding of the structure of the Chinese government, its decision-making process, historical figures, trials and errors, and alternative strategies for overall development – which can be either open-ended, aligned, or interconnected focusing on a few sectors. More specifically, the target audience of the paper comprises policy makers, academics, companies, and individuals who are either working in

China or interested in the region.

This is a first-of-its-kind report in English about the Hainan Province. The author covers in detail the current state of the region, gaps between the present reality and future potential, and economic opportunities. The report and conclusions are based on the author's experience and deep research, facts and figures, and case studies.

Chapter 1 lays down the foundations for the case study and highlights critical issues in the province for which solutions will be provided in subsequent chapters.

Chapters 2 and 3 provide the reader with detailed information about the governor of Hainan, the central government of China, and the history of the policies that allowed it to open its doors to the West; as well as relevant background about the Hainan Province and its leadership, local market conditions, and industry.

In Chapter 4, the author discusses the concept of service excellence: an out-of-the-box, joint venture between the government and local Small-to-Medium Enterprises (SMEs). A descriptive case study about HNA Group, a Fortune 500, multi-sector conglomerate, appears at the end of the chapter.

Chapter 5 investigates various sectors in which the People's Government of Hainan could glean valuable insights from other countries and which they could implement in order to strengthen their competitive advantage, both domestically and internationally.

In Chapter 6, the author proposes and explores several ideas, concepts, and strategies for implementation of new strategies that would strengthen the province's appeal as an international business and tourism destination.

Keywords: Hainan, Special Economic Zone, market gaps, thinking “outside the box,” economic strategy, competitive advantage, implementation plan, opening up of Hainan

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1. Hainan Province: An Overview of the Central Case Study

“There are certain historic occasions that empower us with the wisdom and strength to move forward. This year marks the fortieth anniversary of China’s reform and opening up, and the thirtieth anniversary of the establishment of the Province and Special Economic Zone of Hainan. It is reform and opening up that has given life and prosperity to Hainan, that has turned it from the once backward and remote island into one of China’s most open and dynamic regions, and which has enabled Hainan to achieve phenomenal social and economic growth.”

— President Xi Jinping, Bo’ao Forum for Asia, April 2018

On the afternoon of July 13, 2018, the deputy party secretary and governor of Hainan Province, Shen Xiaoming, opened a meeting, the first of its kind, in the People’s Hall in Hainan’s capital, Haikou. The timing was well-planned: exactly three-months following a declaration by President Xi Jinping during The Bo'ao Forum for Asia. Xi gifted the province, for its thirtieth anniversary, the status of being China’s first free trade port. Following Xi’s announcement many people were surprised, others doubtful. But even more asked, What is a free trade port, and why Hainan?

Shen was tasked with the challenge of a lifetime. After serving many years in first-tier cities such as Shanghai, he was now stationed in a third-tier province. As governor, he needed to transform the island into a self-sufficient, global economic hub in just a few years’ time, without relying on the traditional source of local government revenue – real estate.

How did this all begin?

In 2016, the Hainan Provincial Commission of Tourism Development took a brave step by hiring a local international consulting firm to investigate how to eliminate the gaps between Hainan’s current profile and its desired position as an international

tourism island by 2020. The commission's initiative led local entrepreneurs to believe there was still hope for a positive economic change.

The firm's CEO sent a personal letter to the governor urging him to hold a meeting to assess, together with local experts, the current situation in Hainan with regard to various factors (economic, standard of living, business environment, etc.), gaps, and potential strategies.

With the central government pulling back its dependence on property development as a means for economic and social growth, Shen assembled a team of leading resident foreign entrepreneurs, five out of the six provincial deputy governors, and other senior officials from various departments for an unprecedented meeting to hear and discuss potential new tactics. He conducted it in English, a rare step for a high-ranking official to take in a formal diplomatic setting. The governor declared it an open brainstorming session wherein senior members of the government would hear, learn, and gain understanding from foreign experts living in Hainan. The goal was for participants to examine the difficulties faced by the province and to begin developing potential solutions to the most pressing issues affecting the island's transition into a Special Economic Zone.

During the initial stages of transition, the Hainan government had been using "old school" PR strategies to promote Hainan globally, while being blind to the real challenges both domestic and international companies faced when pursuing business opportunities in the province.

The meeting left people wondering whether the governor had initiated it to drive radical change, or whether it was just a publicity stunt that also served as an opportunity clean up and report on the deficiencies of his predecessors. Only time would tell.

2. General Background

The central government of China made a brave move to transform Hainan from a simple resort island in the South China Sea to a modern logistics hub and center for innovation, education, and medical care. Such ambitious goals required an experienced leader with relevant background to take over the management of the province and push forward an efficient, swift, and successful implementation plan.

2.1 Shen Xiaoming: Deputy Party Secretary and Acting Governor

Shen, a senior politician from the Communist Party of China, is a physician by training. Born in Zhejiang Province, Shen rose through the party ranks thanks to the excellent work he did in the education and health sectors. Before heading to Hainan Province, he served as Deputy Minister of Education and party chief of the Pudong District in Shanghai.

Unlike other leaders in his position, Governor Shen is known for being a man of action and for speaking his mind freely. Therefore, his appointment from Beijing was no surprise. Hainan was set to become an international tourism island, an “international special medical zone,” and China’s first free trade port. His prior roles and experiences would enable him to polish Hainan Province into a gem for the Chinese government and to add a key achievement to his resume. Within eighteen months of his arrival, Shen had reshuffled most of the local government’s senior leadership, including five of the six deputy governors, directors general of the provincial departments, local party chiefs, and mayors of the major cities.

This revolutionary strategy of overhauling decision-makers in the government and enterprises is not uncommon in China. Yet two major questions must be asked:

- 1) Is replacing all C-level executives an efficient way to overhaul an organization?
- 2) Why had this not already happened in Hainan?

To answer this question, we must dig deeper into the last four decades of Chinese economic history and the development of Hainan over that period. Both involve

legendary former Party Chief of China, Deng Xiaoping, at the center.

2.2 Deng Xiaoping: “To Get Rich Is Glorious”

“It doesn’t matter whether the cat is black or white, as long as it catches mice.”

— Deng Xiaoping, former president of the People’s Republic of China

Following the passing of Chairman Mao, President Deng Xiaoping, who from modest beginnings had risen through the ranks, became the paramount leader of China in 1978. Today, he is still honored and loved for his aspirations and remarkable achievements in opening China to the world and lifting millions out of poverty. He achieved these results by navigating many challenges, mostly political, with former leaders as well as with the party leadership.

Upon assuming the office of party chief, Deng immediately set out to implement his revolutionary reform plan. During this process, two main opposing groups in the government struggled for power: those striving for wide-ranging reforms, led by Deng himself, and traditionalists who protested deviation from Mao’s doctrine. Both groups, with Deng mediating, led the process and pace for development during the 1980s.

Deng’s central ideology was composed of two primary components: 1) keeping the party in power, and 2) fast economic growth. To achieve these goals, he was willing to sacrifice and compromise. His plan was incredibly ambitious in light of China’s extreme poverty, overpopulation, and nonurbanized communities. The program was also an opportunity for Deng and the party to be loved again by the people if he would enable them to find suitable work, regain honor, maintain stability, and rebuild China for decades to come.

With regard to economic growth, Deng and his comrades continually tested various market tactics to determine which worked. Successful approaches were adopted and unsuccessful ones discarded.

One example relates to agrarian reform in the late 1970s. Until then, peasants’ lands still belonged to local townships, and farmers were required by the government

to reach production quotas. The quotas were set according to the centrally planned and controlled communist system, similar to that of the USSR. Deng's reform allowed local leaders to allocate sub-quotas to households, whereby each was permitted to keep or sell overages. Called the "household responsibility system," the program was accepted widely by both officials and farmers. It significantly increased production levels and led to higher income for many rural populations.

The experiment's success could not be denied, and in 1983 it was adopted by 98 percent of Chinese agrarian households. Household income grew by 5.7 percent, with oilseed and cotton product yields doubling and tripling, respectively, during that period. Moreover, its success in the agricultural sector also influenced the industrial sector, as provincial governments were then allowed to establish local, collectively owned companies. These entities, managed and supported by local government officials, had access to subsidies and funds from regional banks and other financial institutions. Some of these firms later grew to become, locally and globally, leading Fortune 500 companies.

In order to achieve the ambitious goals, he set for the nation, President Deng was forced to break with tradition. While changes were being applied in the agricultural and industrial sectors, he and his cohorts, as well as the traditionalists, worked mightily to reform governance. This included improving the efficiency of large, state-owned enterprises (SOEs), the privatization of smaller ones, and the promotion of growth in the private sector.

Even as Deng Xiaoping pushed forward with his policies, China still lagged behind other Asian economies such as Singapore, Thailand, and South Korea. While China welcomed economic liberalization and foreign direct investment (FDI), the government remained wary of Western influence. To continue their experiment, while simultaneously learning, controlling progress, and benefiting from increased investment, the party decided to set up four Special Economic Zones (SEZs) in the coastal areas of Fujian and Guangdong (Shenzhen, Zhuhai, Shantou, and Xiamen).

These zones were granted rights to experiment with taxation and investment promotion incentives. Companies operating in these areas were exempt from the strict regulations which were being enforced in other provinces.

The most successful case out of the four was Shenzhen, a small fishing village next to Hong Kong. The experiment showed incredible results: industrial output grew yearly at double-digit rates, reaching 40–60 percent between 1979 and 1983 and 100 percent between 1983 and 1984. Furthermore, FDI increased from US \$9 million in 1978 to US \$8 billion in 1990, and over US \$35 billion in the year 2000 (see Figure 1 and Table 1).¹

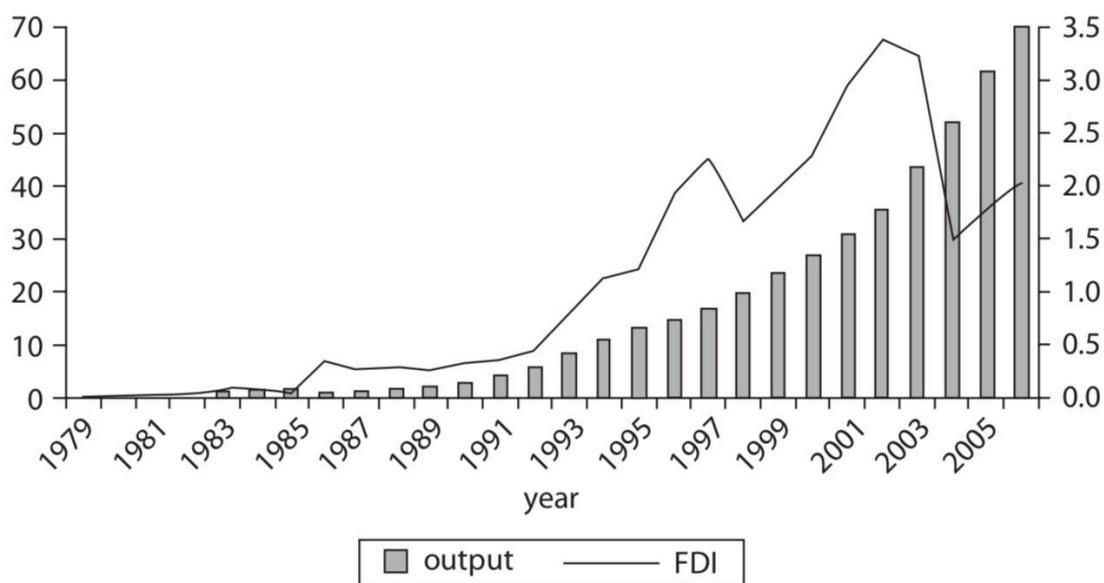


Figure 1: Output and Foreign Investment in Shenzhen's Secondary Sector, 1979 - 2006 (source: Shenzhen Statistics Bureau)

¹ Unless otherwise noted, all dollar amounts mentioned in this dissertation refer to United States dollars.

Year	Shenzhen	Zhuhai	Shantou	Xiamen	Hainan
<i>Exports (billion current US\$)</i>					
1978	0.009 ^a	0.009 ^a	0.251 ^b	0.082	—
1990	8.152	0.489	0.84	0.781	0.471
2000	34.564	3.646	2.595	5.880	0.803
2006	135.959	14.843	3.484	20.508	1.376
2007	168.542	18.477	3.912	25.555 ^c	1.838 ^c
2008 ^d	163.780	19.730	3.278 ^e	26.970	—
<i>Utilized FDI (million current US\$)</i>					
1978	5.48 ^a	n.a.	1.61 ^b	—	0.10 ^b
1990	389.94	69.1	98.09	72.37	100.55
2000	1961.45	815.18	165.61	1031.50	430.8
2006	3268.47	824.22	139.60	954.61	748.78
2007	3662.17	1028.83	171.62	1272 ^c	1120 ^c
2008 ^d	3929.58	1138.49	—	1955.63	—

Table 1: FDI Inflows in Five Comprehensive Special Economic Zones, 1978–2008 (sources: Yeung et al., 2008; Yeung, Lee, and Kee, 2009)

During these years, the world discovered that China’s bureaucratic and efficient political policy making power combined with its economic means was unique among nations.

Figure 2 explains graphically the Chinese government and Communist Party structure.

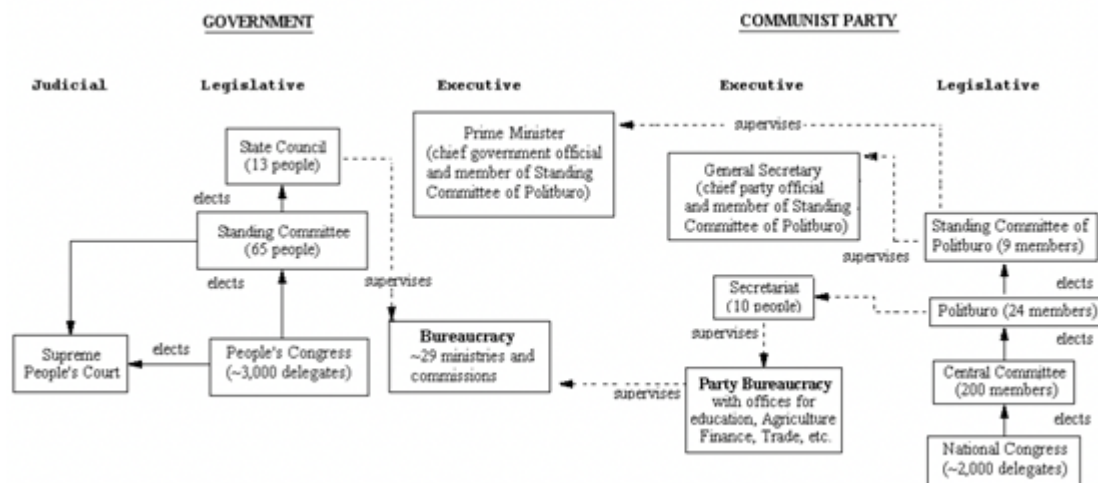


Figure 2: Structure of China’s Government and Communist Party (sources: BBC; Columbia University, *China: A Teaching Handbook*)

3. Hainan Province: Background

The years following President Deng's initial reforms proved the success of the SEZ policy. This led to the government's decision in 1988, during the first session of Seventh National People's Congress, to turn Hainan Island into the largest economic zone in the country.

Over the past thirty years, Hainan has experienced many ups and downs, including economic bubbles, mostly in the real estate sector. In 1987, the total output of the local economy was worth approximately 5 billion RMB² (roughly \$700 million), which demonstrated that government preferential policies experimentation proved efficient and useful. The next steps for Hainan's future were based on these prior government successes.

3.1 Hainan: The Early Years of Opening Up

After careful study of and research into the successes and failures of previous government policies, starting in the late 1980s and continuing throughout the 1990s, the State Council issued close to thirty preferential policies to support the rapid development of Hainan. According to Liao Xun, who in 2010 was vice president of the Hainan Provincial Party School, "The most effective policy pertained to exports. In the first six years, the boom in foreign trade was accompanied by another in hotels, entertainment, catering, and business travel. The economy in Hainan progressed to a new level each year." Liao was one of the talents imported from the mainland to Hainan.

Hainan quickly became a land where dreams were realized, and thus was flooded with skilled laborers and opportunity seekers from around the country. Population numbers soared and soon crossed the six-digit mark. The main cities of interest were Haikou, the provincial capital, and Sanya, which today the Chinese consider as a luxury resort town, similar to Miami and St. Tropez.

² RMB, sometimes referred to as the yuan, is the official currency of China. Henceforth, it will be represented by the symbol ¥.

In the early 1990s, the government expanded its initiatives and experiments into Hainan’s housing sector and land ownership rights. This attracted investors and talent from greater Asia, resulting in more than 20,000 new registered companies in the real estate market. Hainan’s population at the time was approximately 6 million, making for a high ratio of one real estate company for every three hundred people. One simple piece of paper with an official red stamp giving ownership and/or development rights, issued by the government to a developer or household in that period, was worth millions.

The Hainan experiment was only a temporary success, and did not have a happy ending. In 1993, the state government decided to adopt macroeconomic measures and introduced price controls, bursting the economic bubble and leading many companies to withdraw from Hainan and return to the mainland. Development projects were left partially finished, and many enterprises defaulted. “Over six hundred unfinished buildings (see Figures 3 and 4) and ¥30 billion, or over \$4 billion in bad debts, were left behind in the aftermath of the burst,” reported China Radio International (CRI), which conducted various interviews with senior leaders of the province.

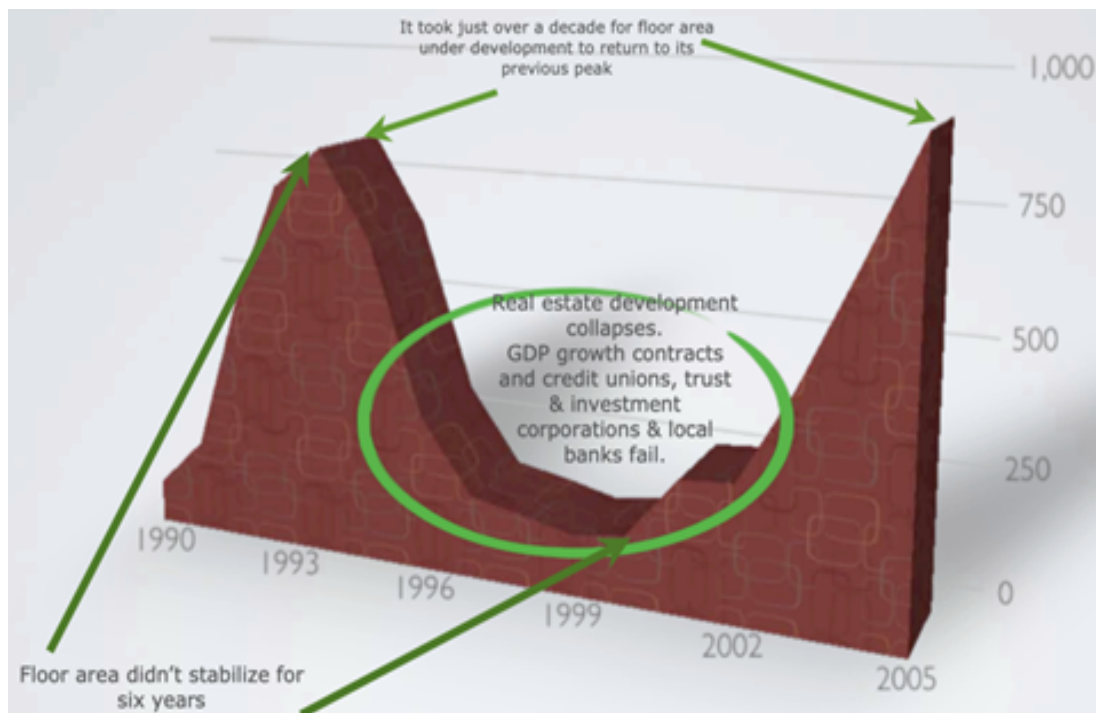


Figure 3: Buildings under Development in Hainan, 1990–2005 per 1000 sq. m (sources: Dow Jones, *China Statistical Yearbook*; *Hainan Statistical Year Book*)

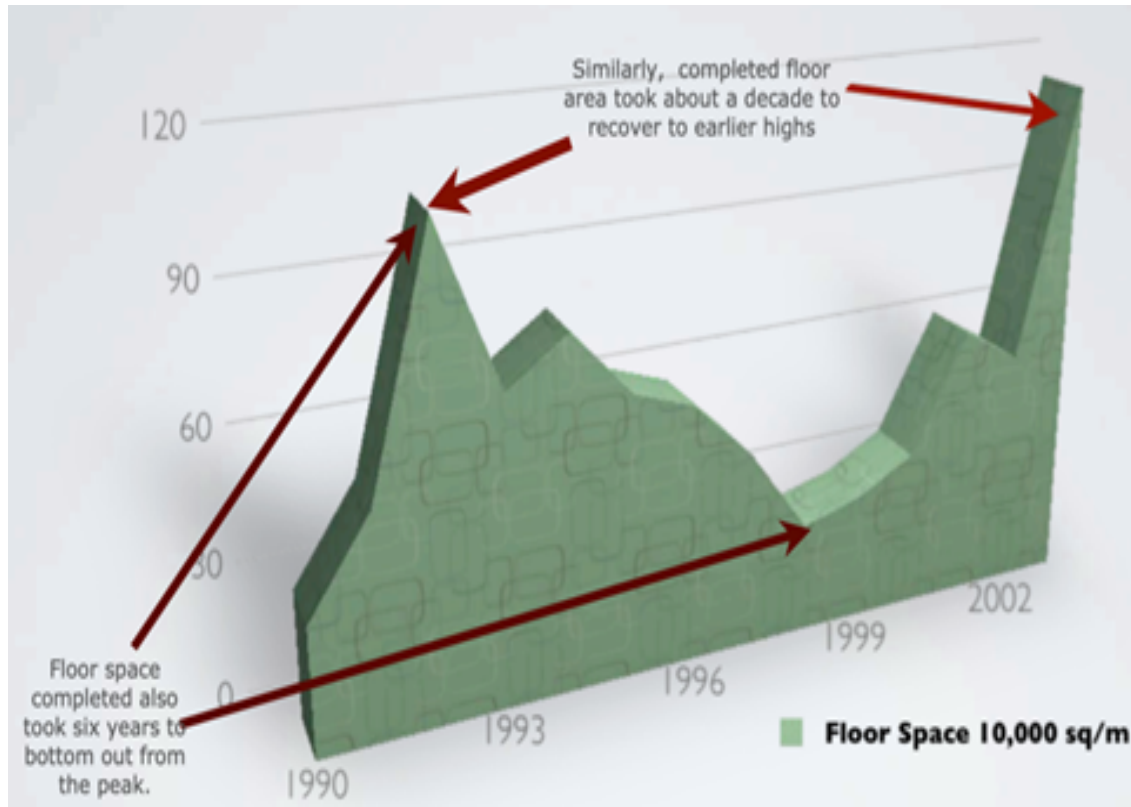


Figure 4: Buildings Completed in Hainan, 1990–2002 (sources: Dow Jones, *China Statistical Year Book*; *Hainan Statistical Year Book*)

Following Hainan’s slow GDP growth (see Figure 4) and the repercussions of the real estate bubble, both the national and the provincial government decided to seek growth opportunities in the agriculture and tourism industries. To that end, by 2007, Hainan became a national vegetable production base, with an output of over 4 million tons annually, according to Chen Yongwang, spokesman for the agriculture department at the time.

In 2010, the government announced it would transform Hainan into an “international tourism island,” with an aim to making it a global destination. Hainan faced many challenges, among them low-ranked universities, an inefficient labor force, the laid-back lifestyle of the locals, the absence of a strong industry, and a weak infrastructure.

Despite significant turbulence, including economic manipulations and quick GDP

wins, quite a few conglomerates came into existence in the province during that period.

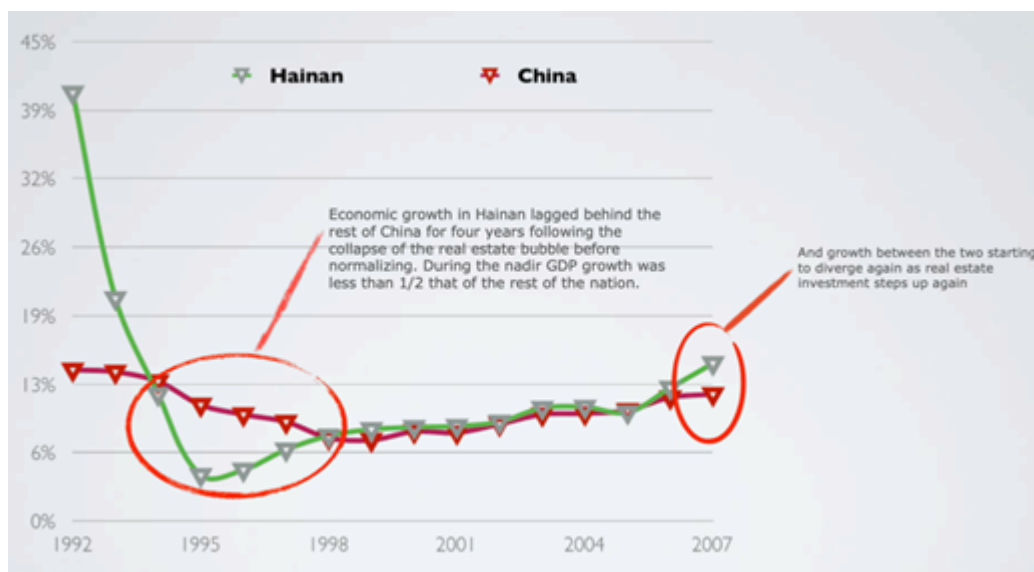


Figure 5: Year-to-Year Change in GDP, 1992–2007 (sources: Dow Jones, *China Statistical Year Book*; *Hainan Statistical Year Book*)

3.2 A Few Phoenixes Arise from the Ashes: The New Tycoons

The careers of some of China's wealthier individuals started during the Hainan real estate boom. However, due to unbalanced growth, most of the early investors, successful or not, eventually fled the province for opportunities back in mainland China.

In China, policies set by the national, provincial, and local governments are oriented toward quick wins and fast achievements. Furthermore, the senior leaders tend to chase Fortune 500 companies, big titles, names, ceremonial milestones, and media coverage for projects they are involved in. Such political strategies lead to further advancement, preferential policies, and political promotion for the involved parties.

The history of Hainan in the 1990s proves this hypothesis: before the reform, one *mu* (equivalent to 667 sq. m, or 7,176 sq. ft.) was worth a few hundred RMB, and afterward – a few million. Between 1992 and 1995, prices skyrocketed 400 percent. According to the People's Government of Hainan's Government Statistics Bureau, the province's real estate investment in 1989 was worth only ¥320 million, or

approximately \$47 million. From 1990 to 1993, investment in the real estate sector grew by 143, 123, 225, and 62 percent, respectively, and annual expenditure amounted to approximately ¥8 billion (see Figure 6).

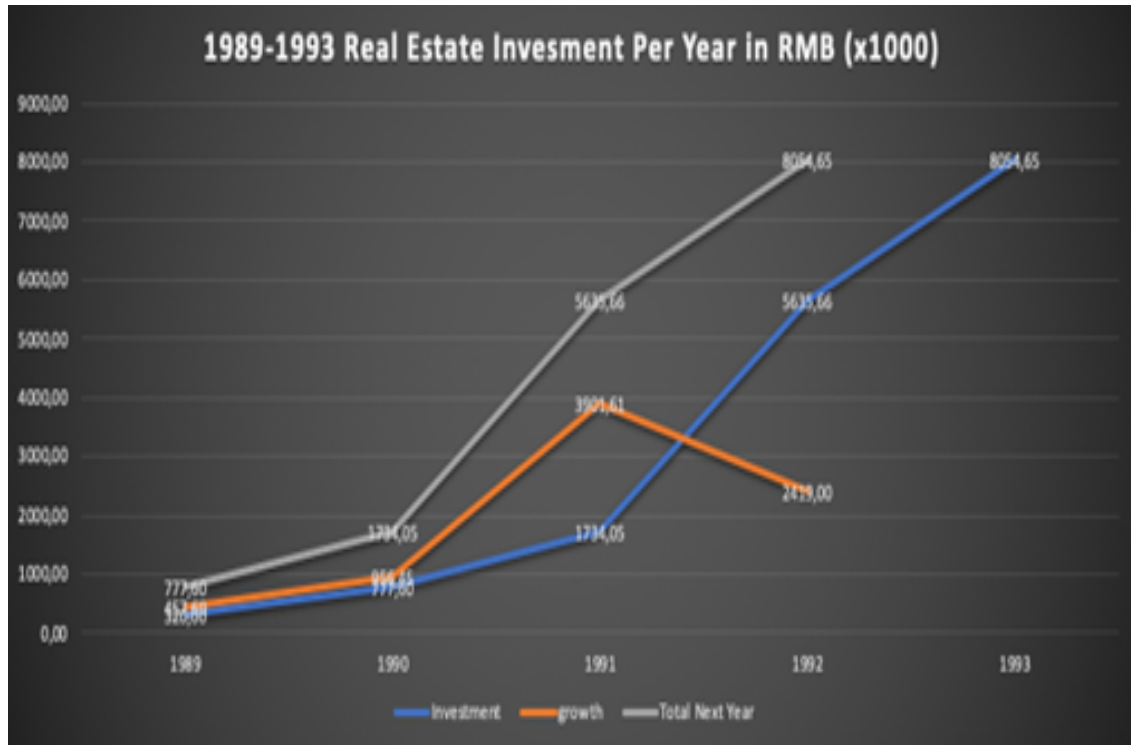


Figure 6: 1989–1993 Real Estate Investment per Year in RMB (source: Hainan Bureau of Statistics)

By the start of 1993, the most substantial portion of the fiscal income generated by the government was real estate. However, by mid-1993, when the national government introduced more traditional policies and control measures, the accelerated growth ceased. These radical changes were unbalanced, and real estate growth reached its ceiling. Still, Hainan still became a successful platform for a few individuals and enterprises, such as: Pan Shiyi, the founder of Soho China, a famous office development company; Feng Lun, the owner of Vantone Group, a real estate investment firm; and Chen Feng and the late Wang Jian, co-chairmen of HNA Group. HNA’s story was an integral part of Hainan Province’s internationalization strategy guided by preferential national policy.

3.3 The Dream of Becoming an International Tourism Island

“If you build it, [they] will come.”

— *“Himself,” Field of Dreams, 1989*

In late 2009, China’s State Council announced that the next plan for Hainan was to transform it into a global, world-class tourist destination by 2020. The World Travel and Tourism Council (WTTC) reported a total 22.5 million visitors to Hainan in 2009, representing an average growth of 14 percent per year since 1995, over 90 percent of them domestic visitors (see Tables 2 and 3).

Arrivals ('000)	1995	2000	2005	2006	2007	2008	2009
Inbound	327.8	486.8	431.9	616.9	753.1	979.3	551.5
Foreigners	64.5	93.7	269.4	465.7	593.1	731.3	372.1
Overseas Chinese	263.3	393.1	162.5	151.2	160.0	248.0	179.4
Hong Kong & Macau	148.8	325.4	106.7	99.5	107.4	168.2	127.4
Taiwan	114.5	67.7	55.8	51.7	52.6	79.8	52.0
Domestic	3,282.4	9,588.9	14,732.8	15,433.3	17,702.0	19,620.7	21,951.8
Hainan residents	na	na	5,343.5	5,616.1	6,503.0	7,292.5	8,122.8
Other Mainland Chinese	na	na	9,389.3	9,817.2	11,199.0	12,328.2	13,829.0
Total	3,610.2	10,075.7	15,164.7	16,050.2	18,455.1	20,600.0	22,503.3

Source: Hainan Tourism Development Commission (HTDC)

Table 2: Visitors to Hainan, 1995–2009 (source: Hainan Tourism Development Commission (HTDC))

Annual growth (%) ^a	1995	2000	2005	2006	2007	2008	2009
Inbound	11.7	8.2	-2.4	42.8	22.1	30.0	-43.7
Foreigners	21.3	7.8	23.5	72.9	27.4	23.3	-49.1
Overseas Chinese	9.9	8.3	-16.2	-7.0	5.8	55.0	-27.7
Hong Kong & Macau	0.1	16.9	-20.0	-6.7	7.9	56.7	-24.3
Taiwan	48.0	-10.0	-3.8	-7.3	1.7	51.7	-34.8
Domestic	28.3	23.9	9.0	4.8	14.7	10.8	11.9
Hainan residents	na	na	na	5.1	15.8	12.1	11.4
Other Mainland Chinese	na	na	na	4.6	14.1	10.1	12.2
Total	26.0	22.8	8.5	5.8	15.0	11.6	9.2

^a 5-year averages for 1990-95, 1995-2000 and 2000-05, annual growth 2006-10
Source: HTDC

Table 3: Visitor Growth in Hainan, 1995–2009 (source: HTDC).

Statistics published by the government show that in the tourism sector, including the levels of outbound tourists, there was double-digit growth between 2006 and 2008. Slower growth was observed between 2008 and 2009, due to the global economic crisis (See Table 4 and Figure 7).

DESCRIPTION	2006	2007	2008	2009
Outbound Tourism (millions)	34.52	40.95	45.84	47.70
Year to Year Growth		0.19	0.12	0.04
Inbound Tourism	124.94	131.87	130.02	126.47
Year to Year Growth		0.06	-0.01	-0.03

Source: China Ministry of Tourism Statistics

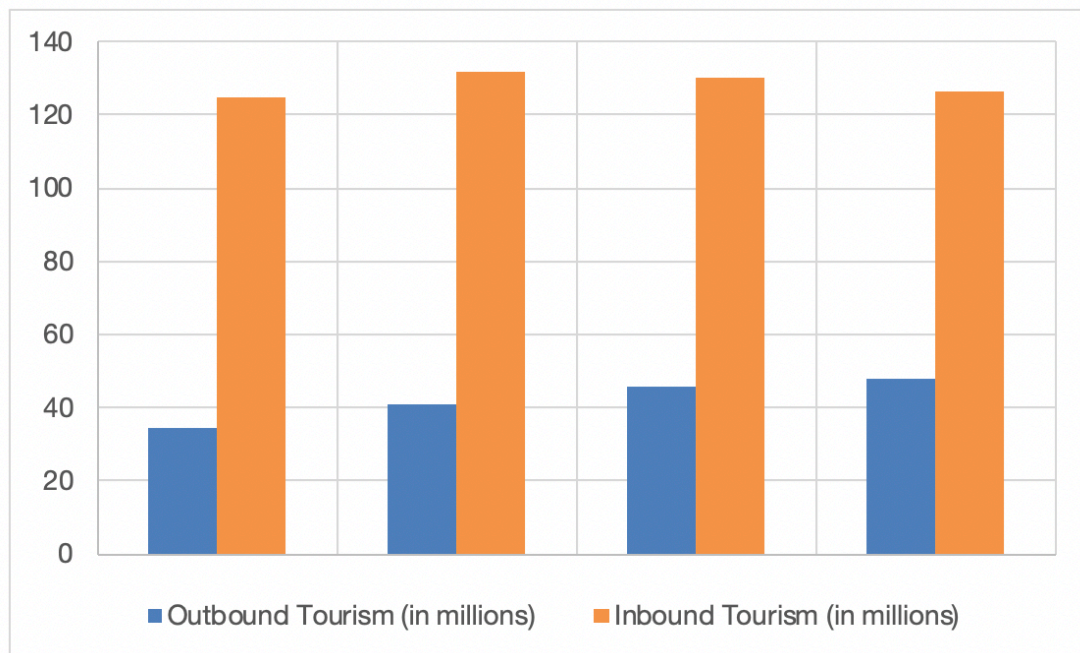


Figure 7: Tourism to and from China, 2006–2009 (source: China Ministry of Tourism)

Even though the numbers presented were stagnant, officials believed that the growth of China’s middle class and recovery from the recession would have Hainan outperforming larger world economies in tourism numbers and expenditure based on their analyses of the growing figures of Chinese travelers.

Hainan is unlike the rest of China. The province does not have heavy industry, manufacturing, smart services, or top-ranked academic institutions, but it does have China’s best air quality, which appeals to the domestic market.

Following the “International Tourism Island” announcement, Hainan real estate prices soared, and company and shop names as well as corporate logos were changed to include the word “International.” In the following years, new roads were built, airports were expanded, a round-island bullet train was installed, hundreds of hotels opened, new golf courses were inaugurated, and many new real estate projects were completed.

In 2013, the WTTC held its global summit in Sanya, bringing the global leadership of the tourism sector to Hainan. The national and the provincial government provided

Hainan Airlines with multiple special policies and subsidies, expanding its network and opening more international routes to the island. China also opened its door to the world, allowing its citizens, in turn, to travel globally. By 2017, 130 million Chinese had traveled abroad (see Table 5).

DESCRIPTION	2009	2010	2011	2012	2013	2014	2015	2016	2017
Outbound Tourism (millions)	47.70	57.38	70.25	83.18	98.19	109.00	117.00	122.00	130.00
Year to Year Growth	0.04	0.20	0.22	0.18	0.18	0.11	0.07	0.04	0.07
Inbound Tourism	126.47	133.76	135.42	132.40	129.07	126.49	133.82	138.00	139.48
Year to Year Growth	-0.03	0.06	0.01	-0.02	-0.03	-0.00	0.04	0.03	0.01

Table 5: China Outbound and Inbound Tourism, 2009–2017 (source: China Ministry of Tourism)

Hainan served as a “warm nest” destination for Chinese “Northern Birds” – citizens who travel to Hainan during the cold winter. They bought myriad properties between 2009 and 2016, which accounted for a major source of income for the government. Since many investors purchased more than one property and often did not live in those properties, many of the new developments were considered ghost towns. However, the increasing demand for properties sharply drove up prices.

The province’s peak tourist period is from October to February; hotel prices often increase to ten times those of similar resorts in Bali, Thailand, and the Philippines. During the other seven months of the year, prices drop dramatically, and hotels aggressively compete for occupancy. In Haikou, Hainan’s capital, there were years when the industry’s occupancy averaged between only 20 and 30 percent.

The “hardware” – which includes air routes, hotels, infrastructure, and modern airports – was developed, but the “software” – high-quality service, multilingual support, and entertainment – was nowhere to be found. Foreign visitor numbers to Hainan dropped yearly between 2009 and 2015, compared to the years prior to 2009. The younger Chinese generation, with easy access to passports, opted to visit Thailand or Malaysia instead of staying domestic, thus diminishing island tourism even further.

Even though many world-renowned brands, among them Chanel, Gucci, and Cartier, have set up boutiques on the island, and numerous “international” signs are visible, the quality of service in Hainan is far from global standards. Service issues include a lack of multilingual hotel check-in counters and information desks at transportation centers, no toilet paper in washrooms, and the absence of multilingual menus in restaurants, making it challenging for international visitors to communicate. The island also lacks attractions for both foreign and domestic visitors.

The number of Chinese domestic and outbound travelers had had multi-digit growth in the last decade. These tourists were seeking premium experiences. The world was opening up to China, and thus Hainan was facing fierce competition. Local authorities struggled to evaluate the gaps between the island’s current and ideal product offerings, and explored the steps needed in order for the province to reach its full potential, able to compete with other holiday destinations.

4. Hainan Province: Service Orientation and Global Aspiration

“We cannot solve our problems with the same thinking we used to create them.”

— Albert Einstein

In early 2016, Yuval Golan, the author of this dissertation, was invited to a meeting with the senior leadership of the Hainan Provincial Tourism Reform and Development Commission, a body equivalent to the Ministry of Tourism. Golan is the CEO of Unique 1 Asia, a Wholly Owned Foreign Enterprise (WOFE) focusing on business development, consulting, and investment. The objective of the meeting was to find a way to address the gaps between the province’s current market conditions and its goal of becoming an international tourism island by 2020.

Golan had prior involvement with the world’s largest crowdsourcing project conducted by Finnair and Helsinki Airport, which was directly related to the tourism industry, customer experience, and the successful transformation of an airport and airline. These organizations were the recipient of global service excellence awards and had an international reputation.

A group of seven professionals, among them Golan, were hired by Finnair and Helsinki Airport to resolve challenges in the travel process and with regard to service, as well as problems related to interactions between clients, the carrier, and the airport (“touch points”); and to transform the customer’s travel experience into a memorable one.

The government felt that Golan’s experience, plus the global success and media exposure the project earned, were relevant to Hainan, and that they could adapt and apply his techniques locally.

Furthermore, during open discussions, the leaders openly admitted that a group of professional outsiders could provide them with insights, challenges, and opportunities

the authorities might not be not aware of.

4.1 Finnair and Helsinki Airport’s “Quality Hunters”

In 2010 Finnair and Helsinki Airport developed an initiative to boost their online ticket sales and customer experience via an online-offline campaign. The concept was to select several unique individuals with diverse backgrounds and requirements to travel the world, sharing their emotions, experiences, and opinion on service standards through a blog and media platform. Such a campaign had the potential to revolutionize travel experience for the industry.

At the beginning of the initiative, Finnair and the airport launched a small-scale online recruiting campaign for four candidates. Those who were chosen came up with such creative ideas for improvement that both companies decided to launch a more extensive campaign the following year.

Consequently, in 2011, the company recruited seven unique candidates via an open, online application. Their charge would be to travel, collect information, share ideas, and talk to passengers and experts about the following seven subjects as they related to travel: business, entertainment, food and beverage, in transit, services, shopping, and socializing. More than two thousand candidates applied, and the lucky seven traveled, shared their stories, and presented twenty-five ideas which revolutionized the travel industry.

The seven “quality hunters” traveled to more than thirty countries on the Finnair network via Helsinki and other airports, to inspect, learn, experience, and share their ideas and findings on the blog. The team also posted on social platforms such as Flickr, Facebook, and Twitter, and their experiences were covered by the media globally. Total media reach was just under 10 million users (see Figure 8).

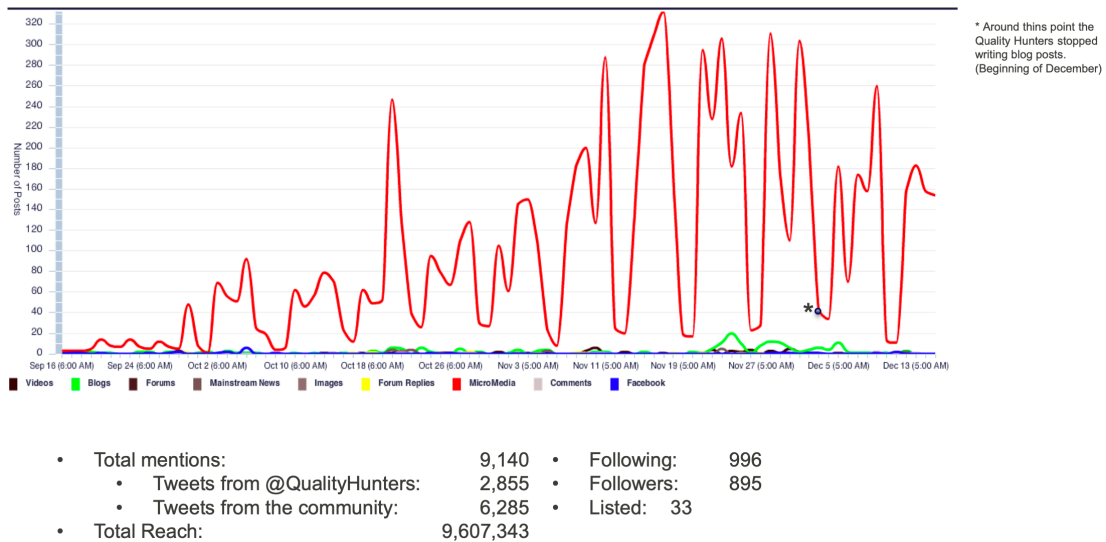


Figure 8: Finnair Quality Hunters Media Reach, in thousands (source: Finnair Quality Hunters Case Study)

Some of the travelers’ ideas included reducing carbon emissions by serving vegetarian meals, creating meaningful airport experiences (e.g., fashion shows and entertainment), transforming the boarding gates to be more visual and user-friendly, and introducing a Finnish atmosphere to the airport (see Figure 9 for more information).

- Meat-free Monday
- **Magazine and book swap**
- Boarding bracelet
- A public place for the arts and performances
- Finnish Asian fusion kitchen
- Fresh deli mobile unit
- An ongoing online service development platform
- **Airport Explorer Service app**
- **Audiobook or e-magazines**
- **Organizing random business meetings**
- **Theme flights**
- Acknowledge birthdays and anniversaries
- New meal options for the airport and flights
- Activity/action center
- Strategic theming at gates
- Airport hostel
- On board private hiding place
- **Micro communication at all touchpoints**
- Developing announcement at the airport and onboard
- Finnair/Helsinki Airport themed products
- Communication cards on plane
- **Bring Finnish nature to the airport**
- Airport Casino
- Personal shopping assistant
- An intermediary class for Finnair

Figure 9: Finnair and Helsinki Airport Quality Hunters Shortlisted Ideas (source: Finnair Quality Hunters Case Study)

The Quality Hunters project exceeded expectations, yielding a total of 576 posts, with 552 posted by the participants and twenty-four by guest writers. Online activity reached 10 million users, who generated approximately 5,500 comments (an average of 131 per day) and more than 24,000 Twitter mentions. The airline reported an EBITDA in 2011 of close to €150 million, and the following year approximately €242 million. Some might claim that the project was one of the main reasons for this drastic increase in performance.

In light of the Finnish project's overwhelming success, Golan pitched the idea of duplicating it to the Hainan government. Although attracted to the initiative, the government wished to keep things below the radar and as an internal inspection. Its findings would then be reported directly to the Provincial Tourism Bureau and other relevant departments if necessary, but not open to the public.

4.2 Hainan's "Quality Hunters" Project

The provincial tourism department of Hainan met up with Unique 1 Asia for strategic discussions on a Hainan version of Quality Hunters. Both sides agreed on inviting ten to fifteen foreign travelers from different countries of importance to Hainan to explore the island and visit its attractions. The project took place in 2016, seven years after the implementation of the national strategy to transform Hainan into an international tourism island – but there were still significant gaps.

Their plan was for these veteran travelers to tour, inspect, review, and construct a comprehensive report with regard to six categories: local accommodations, airports, attractions (entertainment, museums, activities, visitors' information centers, etc.), food and beverage, transportation, and quality of service all in these spots. The investigation period was set at three months.

These "travel experts" were invited from Canada, Israel, Japan, Kazakhstan, Romania, Russia, Serbia, South Korea, Spain, the Netherlands, and the United States. They traveled individually and in teams to collect personal and group insights, while investigating thirty-five tourist destinations and transportation hubs on the island. These

locations were close to the main cities in the province (Haikou, Sanya, Qionghai, and Wanning). In order to inspect without prejudice, they were instructed to use their native languages or English, Japanese, Korean, or Russian, and/or any others unless no other means of communication were possible. At that point they could either speak Mandarin or ask someone to translate. This approach enabled participants to inspect the spirit of “internationalism” toward an ordinary tourist.

Participants were charged with evaluating Hainan with regard to multiple factors. They found the following components as relevant to each industry they encountered. This would enable the government to align their strategies and understand a user’s thinking process, as well as build a positive and memorable experience for tourists.

(1) Attraction – All tourism products begin with an attraction, experience, or feeling related to the destination itself or to a product offered in that location.

(2) Accessibility – An attraction should have easy access; otherwise, it risks a reduction in number of travelers able to visit. Furthermore, accessibility was also interpreted as the capability to accommodate a certain number of visitors.

(3) Activity – Travelers like to experience a variety of attractions, including shows, food fairs, festivals, hikes, and more. Each destination, therefore, must market its offering to a wide range of guests in order to attract a diverse group of travelers.

(4) Services – This includes functions related to planning before the visit and services available both during a guest’s stay and after departure. These can be directly associated with accommodation bookings, availability of online information, restaurant and hotel facilities, multilingual support, information center level of excellence, and an easy commute.

(5) Qualified Personnel – This is directly related to the service offering, and requires that management and property developers, and food and beverage outlet operators, hire, train, and maintain qualified workers. Customer-oriented service quality directly affects a visitor’s experience, as well as their reviews and comments regarding their visit.

(6) Promotion and Marketing – Some destinations might have unique offerings; however, if they do not promote them well, or promote them to the wrong audience, such offerings are in vain.

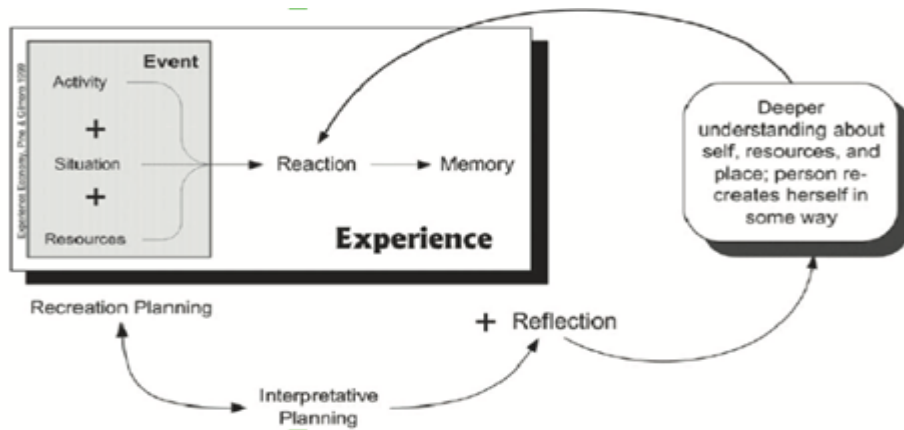


Figure 10: Anatomy of an Experience (source: USAID, George Washington University, Tourism Destination Management. Adapted from Pine and Gilmore)

An experience is an event created by a user, and the product itself plays a crucial role in building it. The event creates a positive, negative, or ambivalent reaction, which in return creates a memory and, finally, a reflection, which later shall create a meaning. Repeating this process on multiple occasions transforms or “re-creates” the person – hence the source of the term recreational activities.

Pine and Gilmore defined this re-creation process; its steps, reactions, and final imprinted experience, in Figure 10.

International tourists are looking for a combination of factors when planning a trip: variety of activities, cultural integration, physical resources, accessibility, and most importantly, a positive, memorable experience. For users to consider a return visit or word-of-mouth promotion, they expect a facility to maintain a high level of service or to imprint something unique on their past experiences that challenges their senses.

As mentioned earlier, Chinese tourists, who in the past had difficulties leaving the country, have in the past decade enjoyed easier access to passports as well as to alternative vacation destination options. Many countries opened their doors to travelers

from China, and even trained local staff to communicate in Mandarin. Therefore, domestic tourism to Hainan has diminished. The island would do well to build up their attraction to the international market. However, the province will be less competitive unless it can offer products that match the market's needs.

4.3 Findings from the Chinese Experiment

The major issues the travel experts who participated in the study found were a lack of segmentation focus, low-level customer experience, limited availability of online information, and communication challenges.

4.3.1 User Experience

Participants inspected more than thirty sites, among them Monkey Island, the provincial museum, and the Guanyin Nanshan Visitors' Center. They noted that most destinations resembled a factory-style, fast-in–fast-out production line. Large visitor groups would enter, take photographs, head to the souvenir shop – and the experience was over. However, the study findings showed that tourists seek to use their five senses and to have a memorable experience, which most locations in Hainan failed to deliver.

Hainan had the potential to be a great place to visit, but around China it earned its nickname: “Cultural Desert.”

Some of the ideas suggested by the participants included building websites to introduce the story of Hainan to potential visitors, adding AR/VR experiences, improving food quality, and working with the press and media. Another basic need was the ability to book train tickets online and to use foreign credit cards, both of which were unavailable. To deal with the language barrier, which is a very challenging issue, participants suggested introducing a multilingual, walking audio-guide. They also highlighted the necessity of frequent updates and relationship management with tourists after their trip. Maintaining personal engagement with former visitors could nurture word-of-mouth recommendations to potential tourists.

The travel team suggested the government promote new experiences as well, including sports, adventures, and local entertainment. It recommended offering

financial support to Small-to-Medium Enterprises (SMEs), with the aim of encouraging them to open up new attractions – which in turn would increase tourist numbers and spending. Finally, the team recommended the formation of an association of SMEs from the region to grow and promote local experiences.

A similar approach was introduced in the Dominican Republic, where an alliance of local enterprises supported business growth in an environmentally sustainable manner through market-driven tourism development linkage programs, cluster activities, and a reinvention of tourism on fragile coastal and inland environments. A world-class team of individuals and institutions from the public, private, and NGO sectors was brought together with leading national, regional, and international tourism industry enterprises to address the multi-dimensional aspects of sustainable tourism in the country. In less than a year, nine business plans were written for various tourism products, sales and marketing strategies were designed, and pilot projects were launched. Training programs for tourism personnel were introduced, as well as a commission for Dominican treasures.

4.3.2 Workforce Development and SME Support

To transform Hainan into a world-class destination, the team identified challenges in human resources training and management with regard to lack of know-how, service quality, linguistics, awareness, and multicultural training. Additional research found a yearly workforce turnover rate of 40 percent at the leading hotels; most employees, once trained in Hainan, found better opportunities in mainland China or in neighboring countries. The local hotels could not compete with the salaries around the region as well as the occupancy rates, level of service, and training quality, which might explain the high turnovers.

The “quality hunters” from the Chinese project found the Hainanese community to be very friendly, warm, and welcoming, especially in rural cities such as Qionghai and Wanning. However, familiarity with foreign demand was minimal: there were translation errors and a lack of basic English. On one hot day, where temperatures

reached 35° C (95° F), foreign guests were served boiling water. Those who have lived in or visited China are familiar with the common habit of drinking warm water, but Western visitors are used to cold, refreshing drinks. The team found that a combination of several main factors such as basic training, education level, low exposure to and interactions with foreign visitors, and lack of available multilingual written material inhibited understanding between the local workforce and client needs.

Building a professional, service-oriented workforce, especially in Hainan, requires intense collaboration between the government, academia, and the private sector. Together, they can create a platform for desirable jobs, competitive pay, and growth opportunities. The Hainan provincial government, led by the tourism, education, and human resources departments, together with Hainan University, should initiate integrated programs to improve the current educational system by partnering with leading academic institutions that offer international tourism education (e.g., Cornell University and Ecole hôtelière de Lausanne). The province must enable students to build the skills needed to meet current and projected demand, assist in job creation opportunities for youth, and offer competitive salaries bundled with government incentives.

One example of integrating tourism with education is to offer international students work–study internships at local five-star hotels. This initiative would certainly allow for improvements to the hotels by offering tourists multilingual guest services and giving students the opportunity to experience new cultures. Another approach would be adding a foreign language as part of the mandatory curriculum to graduate from high school. It would also be worth considering giving students returning to or residing in Hainan government grants for these courses.

Comparing China's SME support with regard to the tourism industry with that of other countries, the team found that the national government of Ecuador collaborated with various industry stakeholders. This resulted in drastically increased inbound tourism. The country has become an established tourism destination with its spectacular

scenery, rich cultural heritage, high levels of biodiversity, and numerous leisure destinations.

The Ecuadorian government recognized that significant work and resources were required for the country to become a sustainable global tourist destination. Initial difficulties included location, socioeconomic factors, and mismanagement of natural parks and resources. The leadership found that protected areas were potential vital sources of employment and tourist attractions, which, in turn, could alleviate poverty issues and increase investment in the conservation of national treasures. The government took courageous steps to meet these goals, including:

(1) Education and Building – Improving the tourism skills of industry stakeholders via training programs for small businesses in the food and beverage, tour guiding, accommodation, and transportation services; establishment of the “Friends of Protected Areas” program; and the issuance of “green passports” to help educate local tourism businesses and travelers on sustainable tourism practices.

(2) Domestic and International Strategically Targeted Promotional Efforts – Marketing and delivering each attraction separately and according to its specific requirements, while simultaneously focusing on the right clientele for the product.

(3) Support and Development – Partnering with local associations and communities, which leveraged SME networks for the expansion and establishment of community-supported companies in the tourism sector.

The results were quite impressive. The World Bank reported a growth in Ecuadorian tourism of 51 percent between 2017 and 2018 – from 16 million to 24 million visitors, respectively. Moreover, the WTTC as reported an average constant growth in the past few years of 5 percent due to foreign investment in the tourism sector.

The development of three small, community-based SMEs caused general improvement in quality of services, diversification of sustainable tourism products, and available services in protected areas. Furthermore, the establishment of such localities within and around the protected areas integrated well into the tourism value chain. The

associations also created the National Ecotourism Portal of Ecuador, an online resource to assist travelers in planning their visit to the country's protected areas.

4.3.3 Investment Promotion and Product Development

The Chinese government set goals to attract multinational companies (MNCs), especially Fortune 500s, from all sectors, to invest in Hainan. The leadership set massive promotion budgets to advertise the island in the global media, including large campaigns such as a BBC Travel TV series and ads in Times Square. The government frequently supports flashy, exclusive, luxurious events such as the ProAM World Golf Tournament and the Sanya Rendezvous, which make headlines and temporarily attract high-net-worth, top-percentile travelers to Hainan.

Although the authorities invested in infrastructure, they did not spend money on the small details, which are what make customer experience unique and unforgettable. They focused on Fortune 500 companies who would benefit from tax-exempt status and leave as soon as other international investment offers were on the table, and celebrities who don't spend a dime on the island but provide exposure. Chinese leadership must weigh the benefits of the strategies they have so far employed in Hainan.

The government heavily supported the real estate industry. Their investment provided employment and quick GDP growth, but there was no architectural or long-term city master plan. This led to coastline development, which destroyed the wild nature people liked and sought in Hainan, and with it the potential for ecotourism.

Jack Ma, the founder of Alibaba Group, said during a recent visit to Hainan that a hundred small businesses are more important to the local economy than one large corporation; the SMEs tend to stay, grow, and establish roots in a community, while MNCs ultimately leave. Research has shown that local Hainanese businesses have started experimental projects. One such project is the surf school in RiYueWan and Wanning, which has eventually become the base for surf competitions in China. But if the landscape, surroundings, accommodations, and services in the area are below customer expectations, the events and attractions suffer. In Thailand, the investment in

small-scale businesses by foreign visitors on the islands have helped grow the tourism sector. These enterprises have created job opportunities, paid taxes, and engendered memorable customer experiences.

Another primary site inspected by the travel experts was the Nanshan Cultural Tourism Zone, a Buddhist spiritual location in Sanya. At the entrance to the facility, the team noticed a sign stating, “Customer Experience of Excellent Quality.” The experts felt it was a “tourist trap.” The beautiful location had the potential to provide an excellent opportunity for religious connection, photography, and a memorable tourist experience. However, the site was disorganized, flooded with thousands of visitors (a great sign of its potential), and offered services which were far from excellent. The weak connection and integration with nearby attractions showed great potential, but nothing had been done to integrate complementary products into one package.

The team came up with several suggestions to the provincial government for the Nanshan Cultural Tourism Zone, which included highlighting the scenic and spiritual offerings to create a destination that brings in repeat visitors. Some of the recommendations included:

(1) Assessment and Segmentation – Start from the concept stage, then research the visitors: their needs and requirements, and compare them the existing offering. Coordinate with other local attractions, which can provide a complementary experience and create a more holistic destination.

(2) Business Planning – Turn tourism assessment information and product concepts into full-fledged business plans and tour packages. These packages could, for example, include yoga and meditation retreats, relevant exhibitions, and more.

(3) Operations Planning – Understand each step of the experience from the client’s point of view, and provide solutions where required. In order to know how to communicate with clients before, during, and after their visit, and to encourage return visits, the host and the government need to see and understand the process a tourist goes through: from trip planning, gathering online information, booking transportation, and

purchasing tickets, to the actual on-site experience.

(4) Tour Planning and Guide Training – Guided tours are a vital offering that enrich the whole visitor experience. Local guides need to act as “ambassadors” of their communities and destinations, creating an engaging, well-delivered, and multilingual interactive tour experience.

Nanshan was just one stop in Hainan, which has much to offer in terms of ecotourism: volcanic parks, seashore, rivers, mountains, and rainforests. The communities and individuals in the region are willing to promote, build, and make this island a better place.

The quality hunters also prepared a case study in the entertainment sector, in which they detailed the economic impact of electronic dance festivals in rural locations. One example they cited is the Electric Daisy Carnival (EDC), which takes place annually in Las Vegas, Nevada, bringing approximately 100,000 visitors to the city for three days. This festival alone brings to the economy upward of \$100 million in accommodations, flights, food and beverage, transportation, tax, and more.

Other suggestions from the team included setting up specific cycling routes that connect to remote destinations and support rural tourism, and collaborations with marine life conservation initiatives.

After the final, detailed reports for each site and city visited were submitted to the provincial tourism commission, there were several senior meetings held by the provincial party secretary, governor, deputy governors, and various department heads to investigate and address the identified gaps. To this end, a cohort was also tasked with investigating HNA Group and its subsidiary, Hainan Regional Airlines (see Section 4.5, below).

4.4 Mini Case: HNA Group

Our target is twofold: To be a world-class airline and to be a world-class company.

— Chen Feng, Co-Chairman, HNA Group

Hainan Regional Airlines was established in 1993 as a small carrier, with only two leased aircraft and a government grant of ¥10 million, based out of the southernmost province of China. The provincial governor appointed Chen Feng, an experienced navy pilot and an official from the Civil Aviation Administration of China (CAAC), to set up a local airline.

Years earlier, in 1988, as part of the reform efforts, China's top leadership started deregulating the aviation sector. Foreign airlines were allowed to make stopovers in China en-route to other countries, non-majority foreign direct investment (FDI) was permitted in local carriers, and a policy of partial open skies was implemented in Hong Kong, Shanghai, and Hainan.

The national government transitioned the CAAC from a local carrier to a policy making body, which also allowed provinces to set up regional airlines. At the same time, new airports were built, pilot training programs were implemented, and leasing and acquisition agreements for planes from foreign companies were signed.

Chairman Chen, a visionary entrepreneur, invited a selected group of colleagues to join him in the new venture. These cofounders had aviation and financial backgrounds, and together they raised capital of approximately \$30 million to structure the new company.

When laying the foundation for their strategy, the airline's management team, well familiar with Porter's generic competitive strategies (see Figure 11), chose differentiation and focus as their game plan.



Figure 11: Michael Porter’s Generic Strategies (source: Michael Porter, *How Competitive Forces Shape Strategies*, vol. 2)

While most new airlines must compete for main hubs on domestic and international routes, Hainan Airlines focused on the island itself and its incoming and outgoing passengers – with an emphasis on providing excellent service. The company’s leadership believed that the tourism sector as a whole and Hainan’s economic markets specifically would flourish in the coming decades.

The company needed to grow to meet its global aspirations. Thus, in 1995, it took advantage of the newly introduced policies in the industry and sought external financing from Wall Street, garnering \$25 million from George Soros. By 1997, the company was ready to sell its success in the domestic stock market and raised approximately \$33 million in the Shanghai Exchange. In the following decade, the company focused on expanding its route network, fleet, and sectors of focus, which led to worldwide growth. Its strategies proved successful, and the airline received the lucrative Skytrax five-star service airline award for eight consecutive years, between 2011 and 2018. In 2017, the

carrier reported approximately 70 million passengers. The Xinhua News Agency reported in early 2019 – based on statistics collected by the provincial authorities – that in 2018, Hainan received over 76 million domestic and overseas tourists (overnight stays).

Over the following two decades, Hainan Airlines transformed into HNA Group, a powerhouse global Fortune 500 conglomerate with operations in aviation, finance, logistics, media, real estate, technology, and tourism, with assets valued at close to \$200 billion and a turnover of close to \$100 billion in 2017 as reported by *Fortune* magazine. Hainan Airlines and HNA Group's success story was covered by four Harvard case studies and prominent media outlets.

However, just like its home province, HNA Group and its airlines were setting aspirational goals. During its growth phase, HNA experienced internal power struggles, between spiritual co-chairman Chen and the aggressive financial wizard co-chairman Wang Jian, who eventually seized decision-making power. As Wang took control of the company, he reshuffled management and positioned his army of obedient bureaucratic soldiers at the top of the company. Most of these individuals lacked industry expertise and caused the demise of the company by causing it to lose its core focus. Wang, in his top leadership position, was like an emperor, similar to some of the senior government officials who sought fast growth via large mergers and acquisitions (M&As), top Fortune 500 rankings, and multiple titles and “trophy collections” over the long term.

Examples of the trophy collection included buying overpriced assets and top-ranked hotel chains, and running HR recruitment campaigns at the world's top ten universities. As the company rapidly grew, it needed to expand their areas of expertise, strengthen management teams, and better integrate employees and partners. However, Chairman Wang's inexperienced executives lacked the capabilities to execute these vital tasks, which caused some promising projects to fail.

Research conducted on the company found more than two dozen new hires placed across different functions with varying years of experience and areas of expertise. They

were posted in non-decision-making positions and subjected to exhausting HR department processes – which also included false promises to candidates – and ended in resignations within two years and some legal actions.

The company pursued M&As between direct competitors such as NH Hotels and, following this, The Radisson Hotel Group. This resulted in HNA losing seats on NH Hotels’ board of directors and the loss respect among the shareholders of the NH Group due to the conflict of interest. Chairman Wang deployed his soldiers on “Game of Thrones”-like expeditions, sending different subsidiaries to chase similar deals while hiring different bankers without disclosure. This behavior caused disastrous management relationships and PR issues. Negative headlines, as well as accusations of malpractice, led to audits by the central government in 2016. Some of the findings included forged accounting statements, strategic contracts with family members, and highly leveraged financing.

In July 2018, turmoil again hit the company: Wang died while in France. His passing required Chen to helm the partially wrecked ship, which included sale of assets, company cleanup, HR reshuffling, and steering the company toward a better, honest, and more focused future.

4.5 “Quality Hunters” Inspection of Hainan Airlines, 2016–2018

In 2016, the Hainan provincial government tasked a group of investigators with conducting surprise inspections in various airports and on the local carrier, Hainan Airlines. The airline, as well as its parent company, the HNA Group, represented the dream of Hainan becoming international, and it became the province’s global business card. During the period of the government assignment as well as in the following years, the team regularly communicated, exchanged information, and checked the progress of the various gap-closing endeavors being implemented as a result of the 2016 Hainan tourism study recommendations.

In general, the company and its subsidiary airlines boasted a fleet of the newest aircraft models available: the A-350, the Dreamliner 787-9, and the 737 Max.

Investigators found that the company, together with industry experts, mostly thought and planned how to accommodate its passengers by means of infrastructure, available services, and steps taken during the travel planning process. However, just like in the tourist destinations in Hainan Province, attention to detail was not the company's strong suit. Hence, there was a need for further fine-tuning.

4.5.1 Pre-Flight Experience

A potential traveler looking up information for an upcoming trip expects to find details about the destination, modes of transportation, pricing, and service, which would enable them to make choices, including but not limited to choices with regard to hotels, airlines, and restaurants. One of their decisions is purchasing, if available, an air ticket, and to become a customer of an airline. It may seem that Hainan Airlines currently has an excellent reputation, with a worldwide, five-star Skytrax ranking and known as one of the best carriers in mainland China. However, Golan believed that the company still had a long way to go to reach the level of its global counterparts.

First, the company website frequently has issues with payments. Certain transactions above a specific amount require customers to submit a two-sided copy of their credit card along with a copy of their passport. Secondly, the information available online is extensive but unorganized. Thirdly, the airline's membership program leaves something to be desired. Although Hainan Airlines offers services similar to Turkish Airlines, Emirates, Qatar Airways, Cathay Pacific, and the other world-leading airlines, a customer's choice will depend also on membership benefits.

4.5.2 Membership Program

It might appear on the surface that the Fortune Wings Club, the membership program for Hainan Airlines and its subsidiaries, has made great efforts to create a luxurious members' program, yet it has failed to create unique value for clients. For one, its partner airlines include Hong Kong Airlines, Capital Airlines, Alaska Airlines, Virgin Airlines, and other small regional carriers. It is not a member of a large group such as Star Alliance, SkyTeam, or One World, putting it at a disadvantage with regard

to points accumulation and redemption. Furthermore, the network of flight destinations is limited, and point value is quite low compared with other programs. Point or mile redemption on international flights is restrictive, and the company charges between two and ten times the aviation tax and fuel charge rates of competing airlines. It recently changed its miles accumulation point system to be connected to customer spending, which means the accrual ratio is even lower than its competitors.

The company currently offers five membership tiers. The requirements for achieving and maintaining them are quite high, and the benefits are not worth the financial investment and loyalty to the club. For example, Hainan Airlines upgrades top-tier club members only on oversold seats, while other airlines in the region, in Europe, and in the United States automatically upgrade their top-tier clients to the next class based on availability. Members of the investigative team tried over twenty times to receive a complimentary upgrade on HNA's various airlines, but not one upgrade has been provided; even a Platinum member was denied.

4.5.3 Customer Communication and Client Access

The airline continually publishes articles and promotes itself as a leading international, five-star Skytrax airline. However, they still lack an English language app. Moreover, the information posted on their English website is rarely refreshed and does not correspond with the equivalent Chinese webpage.

A multi-language customer service line is available and quite professional, but the staff are required to transfer the case to a Chinese-speaking agent and apply for a decision – meaning there is a lag between issue and resolution. In addition, there is no central system for the collection, summary, and management of information, and thus clients are required to explain themselves repeatedly concerning the same problem – and at times without any result. The customer service team often replies via text or email, adding no name or direct contact information. This turns the process into an exhausting and vicious cycle. Emails sent to the company in English are sometimes replied to in Chinese. Replies from the company sent in English frequently do not

undergo spelling or grammar checks, which further represents the company poorly.

4.5.4 Airport Arrival and Pre-Flight

Hainan Airlines offers a complimentary Mercedes “limo” to and from the airport for international business class passengers. Unfortunately, most passengers who qualify are unaware of the service, as the airline lacks an acceptable customer relations management (CRM) system. At the airport, airline staff are well-trained and kind, and offer “service with a smile,” which is an integral part of the travel experience. The check-in process is quite efficient for both economy and business class passengers as well as Fortune Wings Club members. When passing through security, business class passengers and economy class passengers with top-tier cards may receive free preferred seats; however, even this option is currently being transformed into a paid service, and prices will vary depending on level of membership status.

Hainan Airlines’ lounges in Haikou, Beijing, and other locations are superior to other local carriers in China and most US ones. Unfortunately, the company still needs to improve its in-flight food quality, beverages choices, and entertainment options to be worthy of its five-star rating.

4.5.5 In-Flight

On Hainan Airlines flights, business class and economy class passengers with high-tier cards are greeted personally by name, and economy class passengers with a high membership tier receive a complimentary bottle of water, newspaper, and preferred seating if available. Similar to Turkish Airlines, there is a chef on board in business class on international routes. Flat-lying seats, bed set, pajamas, and meals designed by Michelin Star chefs are available.

The framework is there, but when we start to dig into the small details we find a lot lacking:

1. There is no Wi-Fi connection on board, unlike other competitor airlines.
2. There is no standardized movie and TV series selection on the fleet; it varies depending on the aircraft model. Some entertainment systems are not updated for

months, and show outdated or unknown titles. Some of the movies' brief introductions appear to have been written by junior, non-native-speaking staff members.

3. There are frequent technical issues: seats, TVs, and electrical or USB ports may not be functioning, and if the seating class is full, there is no chance to resolve the issue or change seats. The kitchen facilities also have issues such as broken coffee machines and insufficient inventory.

4. Besides not having Wi-Fi, narrow-body aircrafts have no entertainment systems, tablets, or other alternative communication solutions. Both domestic competitor airlines such as China Southern and international ones like United offer pads, internet connection, or both.

Hainan Airlines possesses a basic lack of understanding of the steps required to assist customers through the travel process. For example, a domestic flight departing after 8:00 p.m. does not serve meals, even to business-class passengers. When the investigative team analyzed the airport arrival process, they estimated a 45- to 60-minute transit time to the airport and 30 minutes for check-in and clearing security. Assuming a standard mealtime of 7 p.m, this could cause a passenger who arrives at the airport at 6:00 pm to miss dinner. The likelihood of this happening might indeed be slim, but a quality airline should be able to identify service gaps in order to deliver the best to its clientele – especially those who pay for the higher classes.

Another prominent example with regard to Hainan Airlines is the feedback forms, which flight attendants may hand out during the flight or right before landing. The company offers passengers an option to contact them for further monitoring or follow-up, but for years the company has not responded to passengers who requested a call-back.

Hainan Airlines has the potential to become a global leader in air travel since on average it outperforms its domestic competitors. However, to achieve this goal, its staff should be able to connect all the dots, understand processes, and work with all stakeholders.

4.5.6 Landing and Post-Flight Customer Service

The airline strives to provide excellent service to its clients. In fact, according to passenger and Skytrax surveys, it is considered by many the best in China, as the rest are state-owned entities. However, connecting the dots is not their strength, so issues arise with after-flight service and customer communication.

Upon arrival, staff greet passengers with standard professional courtesy. However, employees usually have no English skills, and are thus unable to answer questions regarding baggage claim, ground transportation, or connecting flight details.

Transit passengers in both business and economy classes are required to manually collect their luggage and check in again at the domestic terminal. Priority luggage, which should be unloaded for transit passengers first, arrives with the rest of the bags. These issues can be easily resolved by the management and ground support staff, as they are undoubtedly aware of flights and passenger information, and are thus able to collect the luggage while the customers wait in the transfer lounge.

As explained in detail above (Section 4.5.3), when calling the support center, customers may encounter a variety of issues, including delays in resolution, the need to deal with multiple customer service representatives, and language barriers. Customers seeking assistance at a physical counter or sales office post-flight are often met by local staff who are unable to help. They may even refer travelers to the same customer hotline that is so rife with issues. In cases of a missed connection due to a flight delay, the ground staff frequently state that weather conditions or military training caused the delay, forcing passengers in some cases to pay additional fees to change flights.

As the government pushes the HNA Group to divest itself of its myriad other interests and return to its roots as an airline, the company must introduce more efficient processes, higher-quality and more variety of services, excellent CRM systems, and customer conversion systems; both domestically and internationally. There are speculations that a state-owned group may acquire the company, which would be

disastrous and dissolve any hope of the airline becoming a national champion in service quality.

5. Hainan Province: Pillars for Success

For the past two decades since the Asian and global economic crises, the economies in South Asia have become stronger and financially stable, especially in China, which is now the world's second-largest economy.

According to the International Monetary Fund (IMF) and the China National Statistics Bureau, in 2018 Shanghai was ranked the largest Chinese city in terms of GDP, followed by Beijing, Shenzhen, and Guangzhou, with ¥3.27 trillion, ¥3.03 trillion, ¥2.4 trillion, and ¥2.3 trillion, respectively. Haikou, the capital city of Hainan, was insignificant compared with one hundred other cities on the list. While comparing administrative regions in the nation, Hainan ranked 28th in the country, with only ¥446 billion GDP output (see Figure 12).

Rank	City	GDP (trillion yuan)	Year-on-year growth
1	Shanghai	3.27	6.6%
2	Beijing	3.03	6.6%
3	Shenzhen	2.40	7.5%
4	Guangzhou	2.30	6.5%
5	Chongqing	2.04	6.0%
6	Tianjin	1.88	3.6%
7	Suzhou	1.85	7.8%
8	Chengdu	1.53	8.0%
9	Wuhan	1.48	8.0%
10	Hangzhou	1.35	7.0%

Figure 12: Largest Cities in China by GDP, 2018 (source: Local government reports, CEIC Data)

The province heavily relies on tourism, real estate development, and agriculture products. While the government envisions transforming Hainan into a technological hub, the facts are that salaries are too low and the academic institutions are of poor caliber, not even making China's Top List. As a result, there is a limited talent pool,

inefficiency in the work environment, and a brain drain to the Chinese mainland. The gaps are too big and seem to be due to poor planning and/or overlooking the necessary factors for building a supportive and sustainable ecosystem.

Based on the author's experience working in a global environment and in China for the past decade, this chapter will focus on Hainan's relevant sectors, the challenges they face, and solutions that would improve the daily life and business environment in the province.

5.1 Industry Focus, Innovation, and Academia

Haikou City, like many other cities in China, has set up several industrial clusters in the form of parks. There are parks for high tech development zones such as RSC Software Park and Fullsing Innovation Park, the latter of which is located closest to the city. The parks promote themselves as state-of-the-art technological hubs with great opportunities for companies to set up shop. With the exception of Fullsing and a handful of others, these parks are far from downtown. The aim of most projects is to get companies to relocate their regional headquarters, set up businesses or a physical office, and, in return, enjoy grants, tax refunds, and various other benefits guaranteed by the local government. In reality, the application process, time frame for approval, and outcomes are unclear.

The RSC park leadership in several cases made unfulfilled promises to multiple enterprises, which ultimately had to close down. Their business model is based on marketing real estate development to "experts" and their families. Currently, the park is a ghost town.

Fullsing's leadership is no different. They frequently travel abroad to study other models, understand their market further, and promote the park; however, according to several entrepreneurs based in their park, including the author, they lack the research into and understanding of how industrial parks in other cities in China perform, as well as the needs and requirements of SMEs. Fullsing promotes the park by offering special policies and incentives, but in several cases, these promises proved to be empty ones.

The author, on various occasions, was approached by the parks to assist in international promotions, but refused. In a recent conversation between the author and Fullsing's leadership, they requested he invite Israeli companies to set up offices in Haikou. Below is a brief summary of the conversation:

(1) Question (author): Why should companies set up their offices in Haikou?

Answer (Fullsing): Because Haikou has the cleanest air quality in China and labor is affordable.

(2) Question: How does this affect the business owner's decision-making?

Answer: They can work less and enjoy a laid-back lifestyle.

(3) Question: Do you realize they come here to work and not for a holiday?

Answer: Then you can invite them to invest here.

(4) Question: These companies have the technology and a list of international companies lining up to invest in them. Why would they invest here?

Answer: Because Hainan has great potential and opportunity to invest in property.

(5) Question: Do you realize they are tech companies looking for local HR and venture capital to expand their market, and not real estate developers?

Answer: But why would they not want to invest in real estate? There are good returns.

(6) Question: How does your park compare with other parks in Shanghai, Shenzhen, Guangzhou, Chengdu, and other leading cities?

Answer: Not sure, but here the air quality is better, and we have special benefits.

(7) Question: Which benefits do you offer, and what is the procedure to get them?

Answer: Case by case; you have to trust us.

(8) Question: The primary market for foreign entities is in the major cities, which offer quality universities and quality labor. Why would a company set up in Haikou if labor is scarce?

Answer: Tell the companies we are the window to Southeast China, but with

cheaper labor.

(9) Question: Why would foreign enterprises choose Haikou over Hong Kong, Singapore, or Vietnam?

Answer: Can you just ask them to place a secretary here so Fullsling would be more international?

The above conversation, a summary of one of many that were held, highlights a complete lack of basic understanding, focus, and ability to work with international companies or even Chinese players, and which deters companies from establishing an office in Hainan Province. Some domestic companies establish their business, physical presence, or regional office to enjoy tax breaks – if they do exist – for a two- to three-year period, and then move on to a new location.

Just like Singapore in the early days, but much larger in size, population, and central government funds, Hainan Province has the potential to become an active player in Southeast Asia and around the South China Sea. Unlike the 70s, 80s, 90s, and even the early 2000s, technology in China, Singapore, and neighboring countries is now at the forefront. Time for taking advantage of all China has to offer is limited, and the government must make radical policy changes to attract talent, companies, and innovation – especially if they want specific regions such as Hainan to become globally relevant.

The government of one Southeast Asian country took attracting talent very seriously, researching the gaps between the current situation and the desired future, and succeeded – Singapore.

5.2 The Singapore and Israel Models

Despite the odds and obstacles, Singapore, a country two-thirds the size of Hong Kong (approximately 722 sq. km), has achieved global success. The state faced an uphill battle when it became the independent Republic of Singapore in the mid-1960s. The country lacked natural resources (except for a deep harbor), had a weak

infrastructure and a poorly educated population, and faced the loss of British military and financial support. However, the country's first elected president, Lee Kuan Yew, was able to establish a warm, welcoming society composed of multiracial and multilingual citizens and residents of diverse religions.

Initially, the country faced a labor shortage. The leadership addressed this by promoting the first wave of foreign labor employment in the early 1970s, for both skilled and professional workers. The government frequently experimented with wages, residence duration, quotas, and benefits over the years to reach a winning formula.

Singapore transformed itself into a logistics hub by leveraging its strategic location on the Europe–Far East shipping route. It became one of the top five global ports, with close to two hundred shipping routes utilized by more than fifty nations. The country introduced a 24-hour berthing service in its first freight terminal, which eventually became a ship repair center.

The government continuously supported salary increases, which in turn pushed the private sector to shift its focus from low-end to high-end products. This led to new technologies, efficient methods, and a well-trained labor force. The country's leadership played a crucial role in building production skills, investing in R&D, upgrading labor quality, and importing talent into the country – all of which increased total productivity.

The key motif in Singapore was to continually build new factories, introduce new services, invent, innovate, and promote efficiency to maintain a competitive edge in the region. Over the past five decades, Singapore has built outstanding academic institutions, a qualified labor force, and world-class financial sectors, becoming a major driver of further innovation in the region.

Both Singapore and Israel have mandatory military service, which puts men and women in almost impossible conditions of stress and limited resources, and into survival mode, in order to become innovative and creative leaders. Furthermore, to drive economic growth, both governments have introduced supportive policies in terms of talent, grants, and cooperation between the authorities, private sectors, and academia.

In Israel, the military is a key incubator of technology and innovation, both of which are later developed in the private sector. (We will discuss more about the Israel model later in this chapter.)

After Singapore's massive transformation, dozens of start-up companies emerged, and with them incubators, accelerators, and coworking spaces. Block 71, a building located adjacent to INSEAD School of Business' Singapore branch, is an ecosystem builder and grower connecting entrepreneurs, investors, and academia to foster creativity and build new technologies. Currently, the 175,000 sq. ft. space is home to more than 250 start-ups, as well as thirty incubators, accelerators, and VCs.

In Singapore, the rule of law is transparent, grants and benefits are published online and accessible, and intellectual property rights are respected. Furthermore, to push forward innovation and drive VC investment inward, the Singaporean government committed to supporting the industry heavily. In 2008, it launched an early-stage venture investment fund program, which allowed financial institutions to support in-country sectors with the government matching up to 85 percent of the investor's 15 percent investment. This mechanism helped build trust for investors based abroad, foster innovation, build a generation of entrepreneurs, and push Singapore to the forefront of global technology.

In the early years, investment in the tech industry in the country was not typical, venture funding would occur only every few months, and an IPO or M&A (exits) in the sector would happen perhaps yearly. In 2010, there were approximately ten exits. Today, reports suggest that investments occur weekly. As a KPMG headline recently declared, there was a "[s]trong start for 2018 VC market with Q1 tally of \$49.3 billion invested worldwide." Singapore saw record-size investments of \$2.68 billion, with a leading global Singaporean player, Grab, the car-hailing app, in the headlines with Series G funding.

Once a robust ecosystem is built and backed by qualified labor, human capital, academia, finance, and friendly government policies, people are willing to work in the

country and create a supportive, reoccurring innovation cycle. Entrepreneurs will build start-ups, either grow and manage or sell them, then start another venture while reinvesting capital in new companies, guiding and nurturing new generations of entrepreneurs.

Hainan could use the CCC (Copy, Customize, Commercialize) model from Singapore and other countries to deploy relevant strategies, actively involving government in the private sector to build a strong ecosystem; including grants, venture capital, salaries on a level with larger cities, housing subsidies, professional training, and education.

For now, in Hainan, buildings are being erected and signs with “International” in the title are being hung on walls, but writing on a wall does not an international business ecosystem make. Multiple senior delegations visit foreign countries to promote the island. Forums are conducted to tempt enterprises to invest in Hainan, but only a few are setting up local representative offices, mostly temporarily to enjoy tax benefits. Any SME interested in an accelerator or incubator is welcomed without a selection process – adding so-called “trophies” to a long list of names and measuring quantity instead of quality.

The Chinese government should be open to more foreign involvement in the economy. Enterprises from abroad should be funded and/or subsidized. Moreover, the leadership should consider moving their focus to SMEs, whose products and services will be made in Hainan for Hainan and the rest of China. According to a report on China's fourth economic census released by the National Bureau of Statistics and published in *China Daily* (December 28, 2018), at the end of 2018, the number of medium-sized, small, and micro enterprises in China rose 115 percent, to 18.07 million, since 2013, making up 99.8 percent of all legal entities. The report went on to say that those enterprises employed approximately 233 million people, accounting for 79.4 percent of all enterprise employees nationwide.

Despite the statistics pointing to SMEs as the largest business sector in China, the

government is still inclined to support the major state-owned, provincial-owned, and municipal-owned enterprises, as they carry less risk. Their lowered investment risk is due to the fact that they are backed by the government and financial institutions, which are managed by the Communist Party and thus project stability. In our case, helping SMEs, which are established by private citizens, can be incubated in the province. Their technologies can be deployed on local projects funded by the government, by state-owned enterprises, or by domestic companies. These projects could be the first batch of transactions for the new companies, which, in turn, would foster innovation and attract venture capital.

Supporting enterprises locally that may expand to mainland China or abroad will allow Hainan to build brand awareness and an ecosystem similar to those of Singapore and Israel. Both of these countries are small, but nevertheless, their governments support innovation and their education is high quality. These two factors produce efficient and innovative individuals, despite their lack of “alliances” with other countries (as in the case of Singapore) or being surrounded by enemies (as in the case of Israel).

5.3 Education, Human Resources, and Innovation

Education plays a crucial role in the development of a country, region, or province. Unfortunately, Hainan Province lags behind the rest of the country in the education sector, from elementary to high schools, academic institutions, and local training centers. By contrast, the transformation of Israel and Singapore, two small nations with big aspirations but no natural resources, occurred through outstanding educational opportunities, mandatory military service, raw will, and commitment. Hainan’s leadership would do well to use both countries as an example for their own growth and development.

Israeli children are raised to question the known and the unknown; questions are foundation of knowledge. At the age of 18, a few weeks or months after graduating from high school, both males and females are required by the state to join the Israeli

Defense Forces (IDF).

The Army's recruiting departments seek talent at young age. They follow bright and promising young people at local schools. At the age of 16, they are invited to an initial selection process. This includes an interview, a psychometric exam, and a psychological evaluation. After several months, candidates receive invitations to relevant units, for example, the air force, intelligence, or special forces.

During the second round, recruits complete additional physical examinations, group-work evaluations, and memory and language tests relevant to specific units. The process is long but efficient. Israeli culture embraces trial-and-error learning, and considers mistakes as lessons toward successful paths combined with a bottom-up attitude.

During the mandatory two- and three-year military service for women and men, respectively, the young adults are trained to become efficient, smart, well-performing, and outside-the-box thinkers. All are trained as soldiers going to war to defend their country with their own set of unique skills. The army allocates budgets for development projects, initiatives, strategy-building, technologies, and systems development. All become responsible, mature, sharp, and dedicated individuals at a young age, with love for their country.

Unlike their counterparts in other countries, who at the age of 18 attend university, these Israeli teenagers learn to live today as if there might not be a tomorrow. Some take these lessons with them once they leave the army and set up their own well-run start-up companies with a dream of success. Israel has earned the title of "Start-Up Nation," as it has the largest start-up per capita ratio of about 1:1000.

Academia is connected to the start-up ecosystem with state-of-the-art laboratories, technology transformation centers, and scientists who are allowed to develop ideas in the free market. Large MNCs set up their incubators and venture capital funds, or partner with local academic institutions, to set up joint operations. Examples of such organizations include Alibaba, GE, Microsoft, Qualcomm, Google, and others.

The Interdisciplinary Center (IDC) in Herzliya promotes new start-up talents via the Zell Program, in which students are mentored, trained, evaluated, and ultimately given investment opportunities. The Israeli government offers unique initiatives, subsidies and loans, via the Office of the Chief Scientist, to support promising companies. The country's legislators follow the developments in the technology scene (e.g., agritech, AI, medical devices, and cybersecurity), loosening or introducing regulations to support the relevant sectors. Israel has also recently become a world leader in cannabis technologies. Consequently, the government passed a law allowing companies to grow and export the products. There is a supportive ecosystem, which includes schools, the IDF, academia, and government.

The Singaporean story is no different from Israel's. The nation's leadership learned their lesson carefully after suffering several global economic shocks. In the first few decades after gaining independence, Singapore continually sought solutions for dealing with both the country's tiny physical size and its labor shortages. The government recognized the necessity of moving toward more technology and capital-intensive industries. In 1981, Tony Tan, at the time the minister of trade and industry, declared, "The prime objective of the plan is to develop Singapore into a modern industrial economy based on science, technology, skills, and knowledge." The government saw itself as a strategic partner of the companies operating in Singapore, setting up an ad hoc fund to train employees through a grant scheme. The results were remarkable: Within seven years, Singapore's economy was growing again at a rate of 11.3 percent per year, which at the time was the highest in the world.

During the next two decades, the government continued introducing initiatives toward reform, clearly understanding that to maintain competitiveness and economic growth, the country needed to shift away from dependence on foreign investment to industrialization, research, and development in order to become a tech hub for the region. In the early 2000s, the government realized that investing in, guiding, and nurturing SMEs and start-ups would transform these businesses into local champions,

and potentially to MNCs. They began by attracting multinational biotech companies to invest in education and research, transforming Singapore into a hub of biomedical R&D, drug discovery, genetic medicine, pharmaceutical production, and health services.

Two of the state universities, the National University of Singapore (NUS) and Nanyang Technological University (NTU), were given greater autonomy by the Ministry of Education to become entrepreneurial, competitive, relevant, and marketplace-associated universities. They are currently incubating university spin-off companies as well as educating and nurturing entrepreneurship and innovation. Their students are expected to develop creative solutions to complex problems and apply them in the real market. The motto of NUS is: “Toward a global knowledge enterprise.” These institutions have set up global partnerships in the United States, Israel, China, and Europe to enable their students to have exposure to global markets, learn from experts, and expand their network. At the same time, top-down encouragement of innovation has come with rewards, scholarships, and awards.

Singapore’s Economic Development Board launched new initiatives to strengthen the nation’s higher education system. They sought internationally top-ranked institutions to set up satellite campuses in Singapore. To date, INSEAD, Wharton, Tsinghua, MIT, and Johns Hopkins have set up either programs or satellite schools. Their academic offerings include business and scientific research, awarding the entire range of degrees, from bachelors to PhD.

The Singaporean government played a crucial role, especially through the support of the Ministry of Education, to reform higher education. This had significant influence with regard to turning Singapore into a problem-solving, service-oriented nation. The process took years, but the investment paid off. Singapore was eventually able to achieve the three goals set by the country, and to transform into a home for business, talent, and innovation (see economic and growth indicators in Table 6 and Figure 13).

	Singapore	Malaysia	Indonesia	Thailand	South Korea	Hong Kong
Demographics						
Population (in millions)	4.84	26.99	228.25	67.39	48.61	6.98
Population growth (2008)	5.3%	1.7%	1.2%	0.6%	0.3%	0.7%
Urban population (in millions)	4.84	18.99	117.46	22.45	39.60	6.98
Unemployment (% of total labor force)	3.2%	3.3%	8.4%	1.2%	3.2%	3.6%
Total labor force (in millions)	2.6	11.9	110.3	38.3	24.6	3.7
Labor force participation (% of population)	72.2%	63.2%	69.6%	78.2%	65.2%	69.5%
Economy						
GDP at market prices (current US\$ in millions)	\$181,948	\$194,927	\$514,389	\$260,693	\$929,121	\$215,355
GNI per capita, PPP (current US\$)	\$47,940	\$13,740	\$3,830	\$5,990	\$28,120	\$43,960
Agriculture, value added (in % of GDP)	0.1%	10.2%	14.4%	11.8%	2.5%	0.1%
Industry, value added (in % of GDP)	27.8%	47.7%	48.1%	45.5%	37.1%	7.7%
Services, value added (in % of GDP)	72.2%	42.0%	37.5%	42.6%	60.3%	92.2%
Gross capital formation (% of GDP)	30.9%	21.9%	27.8%	27.8%	31.4%	20.4%
Goods exports (BoP, current US\$ in millions)	\$372,964	\$204,674	\$154,465	\$180,382	\$509,461	\$457,693
Goods imports (BoP, current US\$ in millions)	\$326,455	\$167,061	\$144,167	\$162,904	\$520,144	\$434,236
Exports of goods and services (% of GDP)	234.3%	110.2%	29.8%	76.0%	52.9%	212.5%
Imports of goods and services (% of GDP)	215.3%	89.9%	28.6%	68.1%	54.1%	201.6%
Health and Education						
Life expectancy at birth (years) (a)	80.5	74.3	70.6	69.0	79.0	82.3
Infant mortality rate (per 1,000 live births) (a)	2.4	9.6	24.8	6.4	4.4	n/a
Health expenditure, public (% of GDP) (a)	1.1%	1.9%	1.3%	2.3%	3.6%	n/a
Public education spending (% of GDP) (a)	2.9%	4.6%	3.5%	3.9%	n/a	3.5%
Business Environment						
Personal computers (per 100 people) (a)	74.3	23.1	2.0	6.7	57.6	68.6
Cell phone subscribers (per 100 people)	131.7	100.5	61.6	118.0	93.8	163.0
Telephone mainlines (per 100 people)	38.4	15.9	13.3	10.5	43.9	58.9
Macroeconomic Policy						
Inflation (GDP deflator annual %)	1.1%	10.3%	18.3%	3.6%	2.7%	1.4%
Tax revenues (% of GDP) (a)	13.9%	n/a	n/a	16.8%	16.6%	n/a
Present value of debt (% of GNI) (a)	n/a	33.9%	42.8%	29.1%	n/a	n/a
External debt (current US\$ in millions) (a)	n/a	\$53,717	\$140,783	\$63,067	n/a	n/a
Gross Domestic Savings (% of GDP)	50.0%	42.2%	28.9%	35.8%	30.2%	31.2%
Stock market capitalization (% of GDP)	98.9%	96.0%	19.2%	39.4%	53.2%	217.6%

Table 6: Economic Indicators in Southeast Asia, 2008 (created by case writers using data from the Conference Board and Groningen Growth and Development Centre; GDP per capita, 1990 US\$ [converted Geary Khamis PPPs])

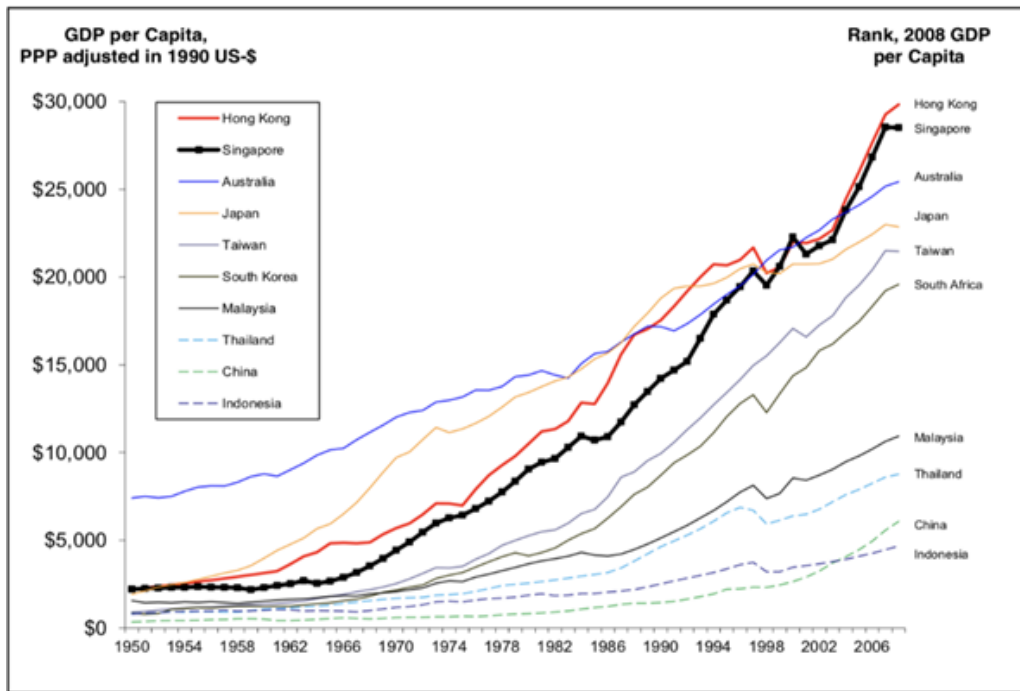


Figure 13: Prosperity Growth, Selected Leading Economies in Southeast Asia (source: Neo, Porter, and Ketels, “Remaking Singapore” [see Bibliography and References], based on World Development Indicators, 2010)

5.4 Services and Quality of Life

Looking at Singapore, we find that academic development, ease of doing business, open, integrated immigration policies, a safe environment, and competitive salaries make it a great place to live. The country has been ranked as one of the top five countries to live in for the past decade by *Financial Times*, *Conde Nast*, and other publications. Singapore has positioned itself globally as a convenient and hospitable place for both families and individuals to establish a primary residence or a second, home away from home.

Surveys, newspapers, and global research institutes frequently rank Singapore as one of the top countries with regard to ease of doing business (see Table 7). Among the several parameters that inform the ranking system are regulatory issues, procedures, and laws that are clear and easy to follow. New companies can be registered and become operational within less than one day via offline or online procedures at minimal cost.

Intellectual property is respected, and the rule of law is transparent. Singapore makes it easy for highly educated workers to find employment and gain permanent residence, according to clear criteria. Government procedures, banking, and administrative processes produce easy, smooth, and efficient results. The service and solution-oriented attitude is remarkable. The country stands out as well for its cleanliness, its culture, and its having one of the highest standard of living in Asia and worldwide.

TABLE 1.1 Ease of doing business ranking											
Rank	Economy	EODB score	EODB score change	Rank	Economy	EODB score	EODB score change	Rank	Economy	EODB score	EODB score change
1	New Zealand	86.59	0.00	65	Colombia	69.24	+0.20	129	Barbados	56.78	0.00
2	Singapore	85.24	+0.27	66	Luxembourg	69.01	0.00	130	St. Vincent and the Grenadines	56.35	+0.01
3	Denmark	84.64	+0.59	67	Costa Rica	68.89	-0.47	131	Cabo Verde	55.95	+0.02
4	Hong Kong SAR, China	84.22	+0.04	68	Peru	68.83	+0.56	132	Nicaragua	55.64	+0.37
5	Korea, Rep.	84.14	-0.01	69	Vietnam	68.36	+1.59	133	Palau	55.59	+0.01
6	Georgia	83.28	+0.48	70	Kyrgyz Republic	68.33	+2.57	134	Guyana	55.57	-1.21
7	Norway	82.95	+0.25	71	Ukraine	68.25	+0.94	135	Mozambique	55.53	+1.78
8	United States	82.75	-0.01	72	Greece	68.08	-0.12	136	Pakistan	55.31	+2.53
9	United Kingdom	82.65	+0.33	73	Indonesia	67.96	+1.42	137	Togo	55.20	+6.32
10	Macedonia, FYR	81.55	+0.32	74	Mongolia	67.74	+0.27	138	Cambodia	54.80	+0.41
11	United Arab Emirates	81.28	+2.37	75	Jamaica	67.47	+0.55	139	Maldives	54.43	+0.10
12	Sweden	81.27	0.00	76	Uzbekistan	67.40	+1.08	140	St. Kitts and Nevis	54.36	+0.01
13	Taiwan, China	80.90	+0.24	77	India	67.23	+6.63	141	Senegal	54.15	+0.37
14	Lithuania	80.83	+0.29	78	Oman	67.19	-0.02	142	Lebanon	54.04	+0.07
15	Malaysia	80.60	+2.57	79	Panama	66.12	+0.41	143	Niger	53.72	+1.24
16	Estonia	80.50	+0.01	80	Tunisia	66.11	+1.51	144	Tanzania	53.63	+0.34
17	Finland	80.35	+0.05	81	Bhutan	66.08	+0.20	145	Mali	53.50	+0.23
18	Australia	80.13	-0.01	82	South Africa	66.03	+1.37	146	Nigeria	52.89	+1.37
19	Latvia	79.59	+0.33	83	Qatar	65.89	+0.64	147	Grenada	52.71	+0.07
20	Mauritius	79.58	+1.29	84	Malta	65.43	+0.28	148	Mauritania	51.99	+0.92
21	Iceland	79.35	+0.05	85	El Salvador	65.41	+0.21	149	Gambia, The	51.72	+0.23
22	Canada	79.26	+0.38	86	Botswana	65.40	+0.46	150	Marshall Islands	51.62	+0.01
23	Ireland	78.91	-0.51	87	Zambia	65.08	+1.48	151	Burkina Faso	51.57	+0.12
24	Germany	78.90	0.00	88	San Marino	64.74	+2.27	152	Guinea	51.51	+2.02
25	Azerbaijan	78.64	+7.10	89	Bosnia and Herzegovina	63.82	+0.27	153	Benin	51.42	+0.13
26	Austria	78.57	+0.03	90	Samoa	63.77	+0.01	154	Lao PDR	51.26	+0.11
27	Thailand	78.45	+1.06	91	Tonga	63.59	+0.03	155	Zimbabwe	50.44	+1.92
28	Kazakhstan	77.89	+0.73	92	Saudi Arabia	63.50	+1.62	156	Bolivia	50.32	+0.15
29	Rwanda	77.88	+4.15	93	St. Lucia	63.02	+0.06	157	Algeria	49.65	+2.06
30	Spain	77.68	+0.07	94	Vanuatu	62.87	-0.21	158	Kiribati	49.07	+0.33
31	Russian Federation	77.37	+0.61	95	Uruguay	62.60	+0.34	159	Ethiopia	49.06	+0.91
32	France	77.29	+0.99	96	Seychelles	62.41	-0.01	160	Micronesia, Fed. Sts.	48.99	0.00
33	Poland	76.95	-0.36	97	Kuwait	62.20	+0.75	161	Madagascar	48.89	+0.71
34	Portugal	76.55	-0.07	98	Guatemala	62.17	+1.01	162	Sudan	48.84	+3.75
35	Czech Republic	76.10	+0.05	99	Djibouti	62.02	+8.87	163	Sierra Leone	48.74	+0.15
36	Netherlands	76.04	+0.01	100	Sri Lanka	61.22	+1.80	164	Comoros	48.66	+0.14
37	Belarus	75.77	+0.72	101	Fiji	61.15	+0.04	165	Suriname	48.05	-0.05
38	Switzerland	75.69	+0.01	102	Dominican Republic	61.12	+0.55	166	Cameroon	47.78	+0.83
39	Japan	75.65	+0.05	103	Dominica	61.07	+0.04	167	Afghanistan	47.77	+10.64
40	Slovenia	75.61	+0.02	104	Jordan	60.98	+1.42	168	Burundi	47.41	+0.73
41	Armenia	75.37	+2.06	105	Trinidad and Tobago	60.81	-0.12	169	Gabon	45.58	-0.23
42	Slovak Republic	75.17	+0.29	106	Lesotho	60.60	+0.19	170	São Tomé and Príncipe	45.14	+0.30
43	Turkey	74.33	+4.34	107	Namibia	60.53	+0.24	171	Iraq	44.72	+0.04
44	Kosovo	74.15	+0.44	108	Papua New Guinea	60.12	+1.19	171	Myanmar	44.72	+0.51
45	Belgium	73.95	+2.24	109	Brazil	60.01	+2.96	173	Angola	43.86	+2.16
46	China	73.64	+8.64	110	Nepal	59.63	-0.32	174	Liberia	43.51	-0.04
47	Moldova	73.54	+0.38	111	Malawi	59.59	+0.84	175	Guinea-Bissau	42.85	+0.27
48	Serbia	73.49	+0.17	112	Antigua and Barbuda	59.48	+0.06	176	Bangladesh	41.97	+0.91
49	Israel	73.23	+0.64	113	Paraguay	59.40	+0.41	177	Equatorial Guinea	41.94	+0.28
50	Montenegro	72.73	+0.20	114	Ghana	59.22	+2.06	178	Timor-Leste	41.60	+1.71
51	Italy	72.56	-0.15	115	Solomon Islands	59.17	+0.33	179	Syrian Arab Republic	41.57	+0.02
52	Romania	72.30	-0.53	116	West Bank and Gaza	59.11	+0.39	180	Congo, Rep.	39.83	+0.36
53	Hungary	72.28	+0.34	117	Eswatini	58.95	+0.13	181	Chad	39.36	+1.15
54	Mexico	72.09	-0.18	118	Bahamas, The	58.90	+0.77	182	Haiti	38.52	+0.11
55	Brunei Darussalam	72.03	+1.85	119	Argentina	58.80	+0.87	183	Central African Republic	36.90	+2.67
56	Chile	71.81	+0.37	120	Egypt, Arab Rep.	58.56	+2.74	184	Congo, Dem. Rep.	36.85	+0.67
57	Cyprus	71.71	+0.44	121	Honduras	58.22	+0.09	185	South Sudan	35.34	+2.04
58	Croatia	71.40	+0.34	122	Côte d'Ivoire	58.00	+4.94	186	Libya	33.44	+0.23
59	Bulgaria	71.24	+0.11	123	Ecuador	57.94	+0.12	187	Yemen, Rep.	32.41	-0.59
60	Morocco	71.02	+2.46	124	Philippines	57.68	+1.36	188	Venezuela, RB	30.61	-0.24
61	Kenya	70.31	+5.25	125	Belize	57.13	+0.02	189	Eritrea	23.07	+0.13
62	Bahrain	69.85	+1.82	126	Tajikistan	57.11	+0.08	190	Somalia	20.04	+0.06
63	Albania	69.51	+0.50	127	Uganda	57.06	+0.65				
64	Puerto Rico (U.S.)	69.46	+0.20	128	Iran, Islamic Rep.	56.98	+2.34				

Table 7: World Bank Ease of Doing Business Ranking, 2019 (source: World Bank Doing Business Database)

The government has invested substantial funds in transforming Singapore into a lively country of integrated cultures, multilingual support, museums, galleries, casinos, fine cuisine, and entertainment hubs. The country hosts global events such as Formula 1 races, the Ultra Music Festival, and Fashion Weeks. A state-of-the-art, multipurpose stadium was built to host large scale concerts. Both Singapore Airport and Singapore

Airlines are globally ranked for in-service quality. Airport management has removed the wait-time bottlenecks and created a wonderful experience for travelers in one of the busiest airports in Asia, which has turned the airport into a convenient and user-friendly location. The country has become a home or a secondary base for many multinational companies, SMEs, and start-up companies due to its preferential tax policies, and excellent health and educational institutions.

In China, the leading cities preferred by international and overseas Chinese expatriates as well as local talent include Shanghai, Hangzhou, Shenzhen, Guangzhou, and Chengdu. These major hubs with their large population, market size, international exposure, academic institutions, level of openness, and convenience attract and maintain large, high-quality, highly trained foreign communities.

The gaps between Hainan and mainland China were an opportunity for many of the early entrants into the market; however, making the correct radical changes in Hainan's business culture takes too long to implement. For example, even though the Hainanese cities of Haikou and Sanya usually appear on the top of the lists for best air quality and best cities to live in China, the local expatriate community is quite limited. The current number of legally registered foreigners on the island is in the thousands and mostly comprises students from developing countries and English teachers. There is a small community of hoteliers who are employed by the international five-star hotel chains, as well as pilots working for Hainan Airlines. The entrepreneur community on the island is even smaller, at only a few dozen.

One of the reasons for the dearth of entrepreneurs in Hainan could have been the lengthily foreign company registration process. Up until few years ago, it took three to eight months to set up a new enterprise. This entailed receiving all required licenses, company chops, and bank account approvals while running between all relevant departments. The government did successfully implement new policies for single-stop services, which shortens the process to about one week. However, bank procedures still take about two to three weeks to complete.

In 2017, the Chinese government introduced a national reform of visa and immigration policies, which included a straightforward ranking system for foreign expatriates living in or planning to move to China. The system evaluated individuals according to their contributions and achievements, sector of employment, academic background, awards, and other factors (see Table 8 for more information). The new system divided the individuals, by points, into three categories, A, B, and C, with scores of 85 and above, 64–84, and below 64, respectively. The maximum residence permit is ten years; for foreign experts, it is up to five years. The authorities in major cities such as Shanghai or Beijing were excited to grant such long-duration visas, as it would reduce the bureaucratic burden on local departments.

In Hainan, the number of foreigners was significantly smaller, and these new reforms were greeted with suspicion. Immigration officers feared taking the risk of granting over-lengthy visas. The ranking evaluation process was unclear, and sometimes foreigners with A qualifications were granted B ranking without consideration; in other cases, one- to two-year visas were issued instead of five without reason. It also happened that the local visa authority informed individuals who had already lived on the island for over five years that they had been denied a long-duration visa, stating uncertainty about their remaining in Hainan for the long term.

Another cumbersome policy in China was requiring foreigners to report to the local police station upon their return from abroad to their city of residence. The National Public Security Bureau removed this requirement in 2017. Unfortunately, the local police officers, who in any case were not very well trained, were not informed of this change. Their ignorance of the new policy and lack of professionalism resulted in their calling and threatening to fine foreign individuals who did not report after each return from abroad.

	Criteria	Score
Qualification exclusive of point-based system	Qualification for a plan for the introduction of talent and holds internationally recognized achievement in special areas	-
	Conforms to criteria for encouraged employment categories	-
	Innovative entrepreneurial talent	-
Annual salary paid by employer	RMB 450k and above (US\$66k)	20
	RMB 300-450k (US\$51-66k)	17
	RMB 250-350k (US\$36-51k)	14
	RMB 150-250k (US\$22-36k)	11
	RMB 70-150k (US\$10-22k)	8
	RMB 50-70k (US\$7-10k)	5
	Under RMB 50k (US\$7k)	0
Educational qualification or vocational skills qualifications	Doctorate; highest possible international vocational qualification, technical expert or equivalent	20
	Master's; technical expert or equivalent	15
	Bachelor; high level worker or equivalent	10
	None	0
Work experience	Over 2 years, for each additional year 1 point (max 20)	6-20
	2 years	5
	Under 2 years	0
Time spent working in China per year (in months)	Over 9	15
	6-9	10
	3-6	5
	Under 3	0
Mandarin proficiency	Formal Chinese National; Bachelor's degree or above, taught in Chinese, HSK (Chinese Proficiency Test) level 5 or above	5
	HKS level 4	4
	HKS level 3	3
	HKS level 2	2
	HKS level 1	1
Location of employment in Mainland	None	0
	Western Regions	10
	Old industrial areas in the Northeast region	10
	Areas of interest such as impoverished counties	10
Age	18-25	10
	26-45	15
	46-55	10
	56-60	5
	Over 60	0
Extra Credit (experience)	Has graduated from a high-level university	5
	Has work experience at a Fortune 500 company	
	Possesses patent or intellectual property rights	
	Already has 5+ years of work experience in China	
Extra Credit (given at regional level according to encouraged areas of employment)	Talent satisfying shortages in areas necessary for the development of the regional economy (concrete criteria are specified by the provincial department responsible for the management of foreigners)	0-10

XiamenMango.com

Table 8: China Work Permit Scoring System for Foreigners (source: State Administration of Foreign Experts Affairs of China)

Chinese banking services leave much to be desired. For example, in most cases local banking systems prohibit making an appointment to take care of customer requests,

instead requiring both private and corporate customers to line up for service. Moreover, all fifty foreigners the author interviewed for this dissertation who applied for a credit card had their application rejected, with the bank claiming, “Foreigners in China are not allowed to hold credit cards.” Some of them had to locate a foreigner based in China who held a credit card to escort them to the bank and reapply for a credit card. If successful, the line of credit issued would vary between ¥1,000 and ¥10,000 (approximately \$150–\$1500), even if the individual presented income proof of much more substantial sums.

Changing foreign currency at a bank’s counter could take up to two hours, which eventually created a local grey market exchange that provided quick and efficient service, with better exchange rates. The local government made great efforts to reform, change, and make the processes more efficient, less time consuming, and available online.

Some of the top- and mid-level leaders fully understand the role and contribution of SMEs to the economy. They try to actively involve them in initiatives as well as introduce them opportunities for growth. The missing factor is the people in the middle and lower positions, who need training more in line with the Israel and Singapore models, in order to develop the ability and courage to take risks, think outside the box, and understand customer needs. Some officials are afraid to make mistakes, and hence, procedures require piles of documents and extended time for review, revision, and (possible) approval. Some of these issues can be resolved via “local” connections, but this is not a way to conduct daily business.

The owners and founders of small businesses need to invest time in actual work and not just paperwork, especially when launching start-ups. The next stages are survival and growth. The obstacles during these phases include dealing with local clients, financial institutions, and public tenders. In general, for small enterprises, this requires massive amounts of resources and funds. At the same time, the institutions generally prefer working with large, established corporations. Furthermore, it is quite

challenging for SMEs to receive preferential policies or access to capital, which again weakens their position.

Salary, market size, quality of life, and career development play a crucial role for individuals. Wages in Hainan Province are significantly lower (the Hainan city paying the highest wages in the province is ranked 13th in the country) than the first- and second-tier cities in China, as well as less competitive (see Tables 9 and 10 for ranking and more details). Hainanese cities' lower competitive index (i.e., choosing this location) could stem from job availability, sectors actively hiring, and the candidate's interest.

Average monthly salary for cities in the first quarter of 2018					
Ranking	City	Average monthly salary (RMB)	Ranking	City	Average monthly salary (RMB)
1	Beijing	10,197	20	Fuzhou	7,005
2	Shanghai	9,621	21	Changsha	6,988
3	Shenzhen	9,134	22	Wuxi	6,879
4	Hangzhou	8,500	23	Jinan	6,860
5	Guangzhou	7,965	24	Hefei	6,849
6	Dongguan	7,723	25	Nanchang	6,768
7	Ningbo	7,680	26	Zhengzhou	6,704
8	Nanjing	7,523	27	Tianjin	6,622
9	Foshan	7,483	28	Qingdao	6,591
10	Suzhou	7,411	29	Lanzhou	6,577
11	Xiamen	7,363	30	Xi'an	6,381
12	Urumqi	7,281	31	Dalian	6,288
13	Haikou	7,205	32	Shijiazhuang	6,274
14	Nanning	7,202	33	Yantai	6,239
15	Chongqing	7,177	34	Changchun	6,114
16	Wuhan	7,082	35	Taiyuan	6,045
17	Chengdu	7,061	36	Shenyang	5,901
18	Kunming	7,053	37	Harbin	5,818
19	Guiyang	7,043			

Table 9: White Collar Average Salaries in Selected Cities in China (source: Zhaopin.com.cn)

Competitive index for cities in the first quarter of 2018					
Ranking	City	Index	Ranking	City	Index
1	Beijing	102.9	20	Lanzhou	29.3
2	Chengdu	55.1	21	Guiyang	27.2
3	Shanghai	54.0	22	Shijiazhuang	27.0
4	Shenyang	53.5	23	Qingdao	26.0
5	Shenzhen	53.5	24	Jinan	24.0
6	Xi'an	47.8	25	Hefei	22.7
7	Tianjin	45.0	26	Haikou	22.2
8	Dalian	39.1	27	Wuxi	22.1
9	Chongqing	38.0	28	Kunming	21.0
10	Harbin	36.7	29	Urumqi	19.8
11	Wuhan	34.4	30	Yantai	19.0
12	Changsha	34.1	31	Nanchang	18.5
13	Guangzhou	32.9	32	Dongguan	16.4
14	Changchun	31.4	33	Fuzhou	15.5
15	Taiyuan	31.0	34	Xiamen	15.1
16	Hangzhou	30.8	35	Nanning	14.2
17	Suzhou	30.7	36	Foshan	14.0
18	Nanjing	29.8	37	Ningbo	13.7
19	Zhengzhou	29.8			

Table 10: Competitive Index in Chinese Cities (based on candidates for available job offers). Source: Zhaopin.com.cn

As mentioned earlier, Hainan has a long way to go in terms of lifestyle, entertainment, restaurant offerings, and quality schools. Although the government is currently working closely with large companies, such as Merlin Parks, to develop theme parks in Hainan, a vibrant nightlife, food options, museums, weekly art shows, and exhibitions are still quite limited.

The authorities should take an active role in shaping Hainan's economy, assisting local SMEs owners and their employees by understanding their needs – both personally

and professionally – in order to devise solutions. These companies and individuals act as ambassadors for the province, and if they have no reason to present a positive picture of the province, corporate interest in the island may waver. Furthermore, the leadership should support new strategies, relevant sectors, and other initiatives that stimulate the economy and involve the smaller players in the market who have the potential to become significant in the future.

5.5 The Role of Agriculture

According to recent statistics published by the Hainan Provincial Tourism Reform Commission, the island had approximately 76 million overnight stays in 2018 and the current population of the island is close to 10 million.

The province suffers yearly from typhoons, high temperatures, and humidity. It also has fertile volcanic soil surrounded by the South China Sea. Currently, agriculture product quality, supply, and prices are unstable and variable. A large amount of produce is imported from mainland China to meet demand and combat natural and geographic conditions. These factors cause prices to rise sometimes to an even higher level than first-tier cities in China, despite the fact that Hainan residents have much lower incomes.

The Chinese national government has in recent years expressed their goal of becoming agriculturally independent. This will require technological solutions to increase food productivity, quality, and safety. At the same time, rural- and agritourism have become increasingly popular among travelers. They enjoy escaping the busy cities to connect with nature and live in cabins, campsites, or high-end resorts. Smart integration of agriculture and tourism has already proven successful in several countries, including Italy, Israel, Japan, the Netherlands, and France.

The connection between tourism, nature, and industry improves the agriculture value chain. The relationship between people and nature also drives product sales, rural tourism, and new product offerings. Demand, in turn, supports family businesses and SMEs, creates the need for supplementary services, and can potentially create strong local brands, which can be exported to new markets and attract additional clientele.

Israel, for example, has turned its northern subtropical region into the most popular tourist destination in the country. The Upper Galilee is administered by a small regional council, and the area comprises twenty-nine kibbutz communities, with a land area of approximately 30,000 hectares (300 sq. km or 116 sq. mi.) with less than twenty thousand residents and two thousand rooms. The region welcomes a yearly average of 4 million tourists. Farmers in the region grow avocados, grapes, oranges, lychee, and other fruits and vegetables, which are both sold in Israel and exported. The area has developed an agritourism sector, which is known all over the nation. People spend a day or a weekend in wooden or high-end stone cabins or at a spa, while enjoying organic fruit, vegetables, wine, and other quality produce of the region. Approximately 10 percent of the Upper Galilee's income is from tourism.

The Hainan leadership would do well to understand and apply the lessons from successful examples set by other countries that have integrated agriculture, tourism, accommodation, real estate, entertainment, and specialized cuisine, and provide their own residents and visitors quality service and memorable stays.

Potential initiatives include the following:

(1) Agritourism Study and Resource Allocation – Tourism could become a complementary sector and a significant source of income for advancing agriculture in Hainan, especially for small farmers. Furthermore, the government could select and allocate a type or variety of produce to grow in each specific location. Each county would become a champion for a fruit or vegetable and its associated products. Car, bicycle, and pedestrian routes between villages and farms would allow visitors to experience various items. Food, souvenirs, relevant parks, fruit picking, and other family activities could be further developed with professionals.

(2) Agriculture Specialty Products – Both domestic and international tourists enjoy buying souvenirs including food products and specialty handcrafts, which can be sold at tourist stops.

(3) Training in Integration of Tourism and Agriculture Sectors – This entails inviting experts from the agritourism industry to discuss, train, explain, and plan an integrated strategy for Hainan. The tourism sector could set its demands for agriculture varieties, quantities, and qualities to create win-win cooperation.

(4) Subsidies and Support for Entrepreneurs in the Sector – The young generation enjoys moving to the big cities and far from nature, especially if they have roots in the agriculture sector. These same people might potentially return later in their career trajectory, possessing both a desire for family and nature, and a successful work portfolio. Their expertise and experience could help develop new initiates in the agriculture sector, which should be supported by the government according to clear goals and processes.

(5) Standardization and Branding – Given that Hainan is blessed with fertile soil and sufficient water sources, the government should set global-level standards for agriculture growing, packing, and pre- and post-harvesting of produce. The produce should be clean, fresh, and healthy. The brand should reflect the source – “Made in Hainan, China” – to create awareness and to promote both the nation and the province.

Hainan has the challenging task of closing the wide gap between its current status and its ambitious goals of transforming itself into an international-level tourist destination island and the first free trade port of China. Once the government faces the fact that Hainan is at a disadvantage compared to other provinces in China and countries in the region, it should then consult foreign experts and openly leverage their advantages to position the province with better and unique offerings.

6. Potential Strategies and Final Remarks

“China’s development is blessed with a rare period of strategic opportunities. And if we don’t grasp it, it will slip away.”

– *Remarks of Chinese Premier Wen Jiabao at Harvard University, December 10, 2003*

There is no doubt that the Chinese national and Hainan provincial governments have spent substantial time, resources, and funds on policy planning and its implementation in Hainan, including but not limited to real estate, tourism, and entertainment. In this dissertation, the author discussed some of the challenges and opportunities in the province. To truly transform Hainan into a leading province with international standards of business; high quality of life; competitive options in the region; and viable opportunities for both domestic and international enterprises, families, and individuals requires nontraditional methods and thinking outside the box.

Genuine commitment requires the leadership to join with resident entrepreneurs and experts in coming up with a comprehensive report of the current situation; gaps; and short-, medium-, and long-term solutions. The government would do well to limit international headlines, promotions, and empty statements as long as there are no concrete plans of action coupled with immediate execution. Failing to do so may cause a snowball effect – just as in life, where a bad first impression can quickly cause a significant antipathy toward the whole enterprise. Before executing any plan, it is essential for implementers to collect information regarding benefits provided to enterprises, institutions, and talents settling in other provinces, and tailor the lessons to Hainan’s unique needs.

Admitting Hainan is in a disadvantageous position can become its greatest advantage, and the regional leadership should not hesitate to apply to the central government for funding to attract top international institutions – enterprises,

universities, and other innovative organizations – who, with government financial backing, could potentially set up satellite offices in the province. Benefits, subsidies, salary support, and other preferential policies for people who move to the island could promote exposure and interest.

Some suggested solutions include but are not limited to:

(1) Individual Compensation Packages – When diplomats are sent by their governments to developing countries, their government compensates them accordingly with a package comprising a higher salary, additional holidays, return tickets to their home country, training, private schools for their children, signing bonuses, and other benefits. Likewise, with regard to recruiting enterprises and others to Hainan, the local government must accept that great weather and air quality are not enough to satisfy career goals, pay a mortgage, or build a family. Companies and their employees are taking a risk moving to Hainan, and should be compensated accordingly. For example, if in order to attract talent in Shenzhen an employer must offer a monthly salary of ¥20,000, Hainan should offer ¥30,000 either via company tax subsidies, individual tax reduction, lower interest rates for a house mortgage, or direct payment to the employee.

Other modes of compensation include one-time grants for home purchases or an exemption from property tax after a certain number of years living in the province. Another solution could be yearly tickets for the individual and his family to a destination of his choosing. A new standard for qualified employees should be defined according to experience and number of years in a specific industry, and matching alternative compensation packages to the professionals relocating or already living in Hainan should be offered by the local authorities.

(2) LGBTQ Tourism – In 2017, a report published by the WTO about lesbian, gay, bisexual, transgender, and queer (LGBTQ) travel trends claimed that members of this community tend to travel more than non-LGBTQ people, as well as and spend more during their trips. Furthermore, it was stated that the size of the current LGBTQ community in China is close to 70 million, with an estimated market size and

purchasing power of \$470 Billion. This places China as the third largest market after the United States and Europe. The same report stated that the potential markets to be tapped by the LGBTQ crowd include tourism, fashion, cosmetics, destination weddings, entertainment, and surrogacy.

Tel Aviv, Amsterdam, and San Francisco have been selected on multiple occasions as the most gay-friendly cities in the world. The cities hold monthly and yearly activities, festivals, and conferences, which attract tens of thousands of participants annually. These visitors spend their earnings on flights, visas, accommodations, transportation, food and beverage, and other activities which enables local businesses to thrive and thus pay more taxes. The local authorities support these varied activities, closing streets to hold festivals, for example, and providing preferential policies to conference organizers. Israel's Ministry of Foreign Affairs reported that in March 2018, a quarter of a million people from around the world took part in the twentieth anniversary of the Gay Pride festival, which that year was also the largest of its kind in the Middle East.

(3) Gay Marriages – Economists and relevant experts from the state of California estimated the economic impact of legalizing gay marriage on the American marriage market. They projected that the approximately fifty thousand couples who would tie the knot within a three-year period and spend \$400 million would yield close to \$30 million in local tax revenues. Additional research conducted by the government in the UK before the 2012 legislation allowing same-sex marriage passed predicted an additional three thousand ceremonies per year (out of six thousand unions). These events would produce £14.4 million in additional spending.

The state of New York reported that between 2011 and 2012, approximately 200,000 guests attended at least 8,200 same-sex wedding events, which brought more than \$200 million to local economies. Same-sex support creates a strong branding of tolerance, openness, respect, and progress, which builds the trust and number of travelers, and promotes locales as honeymoon destinations.

(4) Cannabis Tourism – The Netherlands, one of the world’s most open-minded nations, reformed its drug abuse laws in 1972 and divided them into four subcategories, placing marijuana in the least dangerous category. Since 1976, “coffee shops” selling marijuana for personal use to customers began to appear in the country. Product is sold in local registered shops for personal use, and only up to five grams. It is crucial to mention that the use of the drug was not legalized, but since 1976, millions of tourists have flooded the country to enjoy the experience. At its peak, the city hosted four hundred shops, and today there are close to two hundred operating businesses that sell marijuana. Amsterdam city authorities report that coffee shops are mostly frequented by tourists, with numbers reaching up to 30 percent of visitors to the city. *The New York Times* reported that, in 2017, 20 million tourists visited Amsterdam. Four decades after the Netherlands introduced coffee shops that offer marijuana, more countries are following the trend, among them Uruguay and several states in the United States and Canada.

According to a recent report published by CNN, the Canadian government has been doing significant preparations for societal, behavioral, and consumption changes with regard to cannabis. The country has an advantageous location for tourists from the United States and Europe, and product will be sold just like cigarettes and in similar venues. The authorities should approve a certain quantity to be carried and shared among friends, as well as the total number of plants allowed to be grown at home. In late 2017, the federal government rolled out a tax plan for cannabis of approximately 10 percent per gram, which they estimate could generate close to CAD \$1 billion per year. BDS Analytics reported \$9 billion in marijuana sales during 2017.

Colorado legalized recreational marijuana in 2012, and is a great case study for this sector of tourism. Local authorities reported that visitor numbers have grown by 51 percent since 2014, and the state saw close to 6.5 million cannabis tourists in 2016.

Packages and tours are complementary offerings, which could include farm tours, culinary experiences, festivals, bus tours, workshops and conferences, and meditation.

If such programs are to be implemented, necessary regulation, cautionary planning, and rules of conduct are essential, and should be handled by the local authorities in Hainan.

(5) Cannabis Farming and Related Technologies – Chinese history mentions cannabis in the ancient text of Taoism. In the 19th century, Xinjiang grew, produced, cultivated, and exported hashish, a product made from the resin of cannabis, to British India. These goods, estimated to be tens of tons per year, were exported legally and under tariff. In 1934 Chinese authorities cut off the legal trade, and in 1985 declared marijuana illegal. One can understand the government’s decision in light of the British Empire’s exploitation of their opium, as well as the fear of drug abusers and effects on the society. Today, China owns close to 50 percent of the global land used for growing hemp. Traditionally, the minorities based in Yunnan Province have used and grown cannabis for centuries, and also decorated their traditional clothes with the plant.

In recent years, several countries, including Uruguay, the United States, Israel, and Thailand, have legalized both growing and exporting the plant. In early February 2019, the Israeli government approved exportation of cannabis grown for medical purposes. The country’s chief economist estimated annual state income between \$500 million and 1 billion dollars from medical marijuana export. According to ArcView, an industry research company, in 2018 global legal consumption of cannabis reached \$12.3 billion, and they estimated potential growth of close to 40 percent in 2019.

The Israeli tech sector paved the way for cannabis technologies and, according to the Israeli Hi-Tech and Venture Capital Research center (IVC), between 2013 and 2017, sixty-eight medical cannabis start-up companies raised close to \$80 million in venture capital. They claim the numbers will grow as the sector continues to open up, and the need for technological solutions will be a game changer. Since then, several ad hoc VC funds have been raised. One example is OurCrowd, which in 2019 announced \$30 million in new funding for the sector; another example is the number of active companies trading on the stock exchanges for hundreds of millions of dollars.

Hainan-based cannabis cultivation could be a great source of income, supplying

visitors, export needs, and the health sector. Farm visits, innovation funds, and the new, cannabis-related sectors that will open up could potentially attract talent, investors, and tourists, and in return upgrade quality of labor, increase government income, and build sustainable growth.

(6) Hospitals and Medical Tourism – The provincial government of Hainan made it its top priority to turn the province into a medical tourism zone. They designated and targeted an area of close to 80 sq. km near the town of Bo’ao, located on the south end of the island, to become a special medical economic zone. There, the leadership planned to set up new hospitals, healthcare centers, and retirement homes, inviting tourists to the area both from around China and globally. Unfortunately, as mentioned above, the market in Hainan is quite small. With close to 10 million residents with income lower than the rest of China, there are only two major cities with between one and two million residents, and no strong academic institutions. Some companies and hospitals expressed their interest, but the project has still not launched as there are no actual, realizable benefits to setting up an enterprise of this sort in a rural area located in a third-tier province.

As the island transforms into a world-class international tourism island, becoming the first free trade port, the government must find better ways to attract potential investors in the health sector. Just like the incentives suggested for individuals, they could offer meaningful grants to hospitals setting up on the island and support the doctors and their families with salary benefits while increasing service awareness. Currently, Hainan cannot compete with the big cities, domestically or internationally. Instead, it could focus on Chinese medicine, plastic surgery, or other unique services demanded by the market. Thailand’s Bumrungrad International Hospital welcomes visitors from around the globe, offers multilingual support, quick and efficient service, and top doctors, all at competitive prices. The hospital is considered a one-stop center for medical services and it has won multiple awards both in Thailand and internationally. It is regarded as a major medical tourism destination; the hospital served about half a

million patients from 190 countries in 2012.

The Grand View Research Institute estimated that the global medical tourism market could reach \$180 billion by 2026. Israel's Ministry of Health reported that in 2014, the country welcomed sixty thousand medical tourists to the country, which generated approximately 1 billion shekels (\$300 million). This revenue generation stream allows hospitals to purchase new advanced equipment, hire more staff, and build and expand research labs.

(7) Focus on SMEs – As discussed previously in this paper, Hainan should study and apply the success stories of Singapore and Israel to their markets. The leadership should shift its focus to nurturing, assisting, and selecting ideas, technologies, and SMEs that could incubate in Hainan. China has a sizeable market and great potential, but the focus is on the top-tier cities. Packages offering cash incentives and venture capital to start-up companies would promote opportunities.

Knowing that the province might be a launch pad for a certain period, the government could provide a soft-landing package, venture capital, clients, and other necessary means to guarantee the success of these new ventures. At the same time, the leadership should set up incubators, accelerators, and government-matched, early-stage funds to mitigate risk and build confidence, rather than only request or invite companies to set-up regional headquarters. Such initiatives should be actioned in one or two sectors, and once prosperous, be extended to other industries. The government should hire and invite experts to invest time, efforts, and resources to assist in building Hainan to meet the nation's aspirations.

(8) Education and Academic Institutions – This is a critical sector for developing a quality labor force, shaping entrepreneurial thinking, and attracting and creating talent. Currently in China, the top ten schools include Beijing University, Tsinghua University, Fudan University, USTC, Zhejiang University, Jiaotong University, Nanjing University, Sun Yat-Sen University, Wuhan University, and the Harbin Institute of Technology. Hainan and its universities are ranked worldwide

between 100 and 200.

NYU, Duke University, and the University of California Berkeley are some of the most prominent American institutions of higher learning that have established campuses in China. UC Berkeley reported that in the year 2016, close to twenty thousand students from China enrolled in the university – almost ten times more than in 2000.

The education market in China is the world's largest and fastest-growing sector. Academia facilitates innovation, just as it did in San Francisco, Singapore, and Israel. The provincial government of Hainan could potentially issue a tender for three to five universities in the top one hundred to set up satellite campuses on the island. Relevant programs offered could be in the tourism, advanced agriculture, medical equipment, and marine-related technologies sectors. The government would both grant a specific amount of funding to academic institutions from abroad that partner with local universities, as well as require both domestic and international management and faculty members.

Another option is to focus on faculties and researchers in relevant fields crucial to Hainan, with funding or research scopes that would making it easier for the authorities to attract them. This has already been implemented on the mainland: China's Shantou University and The Technion–Israel Institute of Technology recently set up an international campus for approximately \$300 million, with funds from the provincial government of Guangdong and Hong Kong business magnate Li Ka-Shing. The institution aims to focus on research and innovation in engineering and life sciences. Hainan, too, would do well to explore this option. Working together with successful local entrepreneurs and academic institutions would unite all stakeholders toward common goals of building a better education system, a productive and innovative community, and a better quality of life in the province.

(9) Outsourcing Professional Services – At the moment, the services provided in Hainan for company registration, banking, tourism, and healthcare are insufficient.

Deficiencies include lack of multilingual support, services, and procedures; communication with local departments; application processes; and services offered in public institutions. The local authorities should consider outsourcing tasks to professional service companies to handle procedures officially and on behalf of the companies and the government, like external visa offices.

As staff training takes time, the authorities should also consider setting up a 24/7 multilingual support hotline similar to those used in Shanghai during the 2010 Expo and in subsequent years. The support line was established to assist foreigners visiting the city with their questions about restaurants, entertainment, bookings, and communication, as well as to provide quick translations with taxi drivers. Another recommendation is to relax the visa and permit regulations for workers from neighboring countries in the service and tourism industries. This would help improve service quality. Thailand, the Philippines, Malaysia, and Indonesia have a trained and experienced labor force in these sectors that understands customer demands; some can even speak Chinese. Introducing these initiatives will attest to visitors that Hainan is paving its way to becoming a world-class business and tourist destination by accommodating the needs of its clients and residents.

(10) Easy Access – Transportation on and to the island must be impeccable. It is essential that the local air carrier provide world-class, quality service, and that the airports provide easy and efficient in-and-out services just like in Singapore or San Jose, California (Silicon Valley). The local carrier should also receive grants, support, and preferential policies to ensure it will remain private and become a world leader in air services, with convenient routes. Special visa policies that are clear, straightforward, and understood by foreign airlines and tour agents should be published and promoted. Train ticket bookings should be available in English and automatic ticket machines accessible for both Chinese and foreigners (which is currently not the case). Staff at train stations, the airport, and tourist information centers should be able to speak or provide services in multiple languages (also currently not the case). Airport customs

and immigration queues in China are frequently one or two hours long. The process should be optimized, automated, and populated with biometric e-channels for frequent visitors and residents.

All these initial steps will make travel planning, protocols, and preparations in and out of Hainan convenient, smooth, and user-friendly. Together, they will build a trusted, well-known brand that will carry the Hainan name globally.

(11) Museums, Festivals, and Cultural Events – Currently, there are few venues for tourists to enjoy on the island except for food, beaches, and luxury hotels. Product offerings in the tourism and entertainment industries are quite limited. The provincial museum is quite impressive, but does not offer many unique exhibits or experiences. There are also music festivals, as well as cultural and international events, which take place annually; but mostly during the hot season in China – winter. As suggested in Chapter 4, which mentioned electronic dance music festivals, the great weather, number of visitors, and empty hotel rooms in the summer would be much more conducive to hosting dozens of festivals. The government should invite big international brands such as Ultra Music Festival, Tomorrowland, and other major events, which will bring crowds, DJs, international exposure, and real revenue to the economy in their wake.

The provincial department of culture and tourism might also consider a significant investment into a globally recognized museum brand such as the Tate, the Guggenheim, MOMA, or any number of domestic ones that could set up a local presence. Institutions of such status would attract higher quality and frequently returning visitors to the island. An analysis conducted by *The Art Newspaper* in 2018 reported that the Louvre in Paris and the National Art Museum of China in Beijing both welcomed close to 8 million visitors in 2017, while New York City’s Metropolitan Museum hosted 6.7 million. The market exists in China but is not being tapped in Hainan.

(12) Tourism Development and Promotion – In Chapter 4, we addressed issues that were found by a team of tourism “quality hunters” who conducted an assessment of urgent problems in the Hainan tourism sector. In their report, submitted to the

government, the team came up with numerous useful suggestions, some of which were highlighted in this dissertation. They also mentioned the excellent job the authorities had done on infrastructure, including airports, highways, roads, and bullet trains, and they commended the government for allowing many leading hotel chains and golf courses to open on the island.

The report pointed out, however, that although many resorts in other countries offer similar hotels with worse infrastructure, they also offer better quality service, lower pricing, and broader product options. The Chinese government needs to understand that people will travel from the other side of the world to remote locations for unique experiences. They'll take three connecting flights, hire a rickshaw, and rely on a dictionary to reach to their destination – as long as they believe the dream. A positive emotional process at a foreign venue will lead to word-of-mouth promotion, online exposure, and good feedback.

(13) Government Reforms – The Chinese government and its officials frequently visit Singapore to learn from that government's leadership, management, and law enforcement skills. Just like Singapore, Just like Singapore, the Chinese government is actively involved in the economy, namely, in government-owned companies, but their interests sometimes lie deep in company DNA – specifically, in issues relating to management, subsidies, directions, and a local party cell within the company if the company is large enough.

For generations in China, it has been considered an honor to become a member of the Communist Party, a government official, or a leader in one of the local, provincial, or state-owned companies. In addition to experienced, excellent leaders at the top, China needs to nurture a new generation of mid-level decision-makers who are efficient and well-trained. Even more than that, as the government aspires to build a new generation of the leadership, they should also consider awarding higher-than-market salaries which will attract new talent into the system. Jobs would become competitive, and KPIs would be high and clear – with risks and benefits just like those in the free

market, but in policy making and new initiatives rather than in business. As Hainan aspires to become an international center of excellence, a place to experiment with new policies and openness, and a global tourist destination, it is perfectly positioned as the right place to start new initiatives within the government.

(14) All Roads Lead to Wealth – In the early 1980s, a local party official in the province of Sichuan named Xu Qibin came up with a phrase which is still famous nationwide: 要想富要修路 – “To become wealthy, a road must be built.” His phrase has proven to be valid in light of economic theories on the geographies of globalization currently being taught: Building roads and railways, establishing ports, and opening new air routes boost a country’s growth pace.

Singapore and Hong Kong are two great examples of city-sized countries and provinces that positioned themselves as global logistics hubs by building state-of-the-art airports, seaports, connections, and supporting industries. The World Bank reported that in 2016, the logistics industry in Singapore accounted for 7.7 percent of the country’s GDP; 8 percent of the country’s labor force was employed in the sector. With over 60 percent concentration in the region of the world’s GDP, Singapore is an optimal hub in the region for leading players in the transport and logistics space such as DHL, Kuehne + Nagel, Fedex and Kerry.

The Singaporean government planned ahead, focusing on the global transformation of the e-commerce industry and the role of the country in that process. Their initiatives included subsidies for start-ups in the sector, the nurturing of local talent, investment in big data analytics, building a convenient one-stop window for customs clearance, and support for global players setting up their regional headquarters in the country.

Hong Kong has always been a strong competitor of Singapore’s in the logistics industry due to its strategic location next to mainland China, low taxation, and efficient procedures. The World Bank reported that in 2016, logistics accounted for 21.7 percent of the province’s GDP. Li & Fung and Kerry Logistics are two examples of small

companies that began operating in the region and became behemoth players, with \$5.85 billion and \$4.84 billion turnovers, respectively, in 2018.

The author recently conducted a research study which included informal conversations with tourism industry experts and government officials. One insight gleaned from the meetings is that *access* is the missing factor in the development of Hainan. This includes large airports with sufficient runways and flight slots; large-scale trade; and cruise ports, bridges, and in-and-out island highways connected to both local destinations and mainland China.

The current airports in Sanya and Haikou are far too small for the demand of Chinese tourism as well as international routes. The runways and airport size are too limited, which leads to frequent rejection of requests for launching new air routes. The author believes Miami International Airport should be the model for airports in Hainan (Sanya, Haikou, and Bo'ao). *The Miami Herald* reported that in 2018, the Miami port handled close to 5.6 million cruise ships, with 50 percent of passengers choosing to arrive via Miami airport.

Florida is similar to Hainan in several ways, including climate conditions, beautiful beaches, real estate investment, and an aging retired population. Unlike Hainan, Florida has a long history of business and trade, but if Hainan would launch its free-trade port plans, expand the existing airports or build them anew, and connect the cities with Guangdong Province, it could potentially become the Chinese version of Florida. Moreover, with easy access, the aging wealthy domestic population can attract to Hainan most of the necessary supporting sectors such as medical care, entertainment, and services, as mentioned in this paper.

By opening up connective infrastructure, launching new services, introducing targeted tourism products, and creating open-minded and efficient government policy making, Hainan has the potential to become the happiest place to live and visit in China.

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