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# **An Evaluation of the Need and Cost of Selected Trade Facilitation Measures in China -- Implications for the WTO Negotiations on Trade Facilitation**

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## ***Executive Summary***

In 2004, China became the third largest trading economy in the world. Although official overall average import tariff rate was reduced to 9.9% as of January 2005, actual tariff rates are likely much lower. Although further tariff reductions may lead to renewed and expanded global trade growth, trade facilitation will play an increasingly important role in promoting global trade.

The Chinese government has made great efforts in trade facilitation and huge investments in related infrastructure, mainly as part of its “Fast Customs Clearance System”. However, some areas still require improvement. Nearly 40% of Chinese enterprises surveyed in this study identified “technical or sanitary requirements” as the most problematic trade facilitation related issue, 25% chose “customs valuation” and “payment of fees and penalties”, and 12.5% chose “obtaining an import license”.

Based on private sector needs and China’s actual achievements, the following issues should be at the top of the trade facilitation measures considered for inclusion in the WTO trade facilitation agreement: improvement of coordination between relevant agencies; timely and comprehensive publication and dissemination of trade rules and regulations; reduction and simplification of the documentation requirements for import and export procedures; and improvement in customs inspection and control procedures.

Costs associated with implementation of trade facilitation measures may be classified into four categories: new regulations, institutional changes, training, and equipment and infrastructure. The study was generally not able to determine costs of specific trade facilitation measures in China. However, Customs and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) are the two government departments that are most deeply involved in trade facilitation, and a review of their expenditures in this field provides useful information on equipment/infrastructure costs that may be associated with implementing modern trade facilitation systems. The Customs and AQSIQ inputs in computerization in 2005/06 are estimated to be RMB 1420 million (about USD 176 million) and RMB 510 million (about USD 63 million), respectively. Major information projects conducted by Customs and AQSIQ in 2005/06 are estimated, respectively, to be RMB 5.888 million (about USD 731 thousand) and RMB 4.386 million (about USD 544 thousand).

Several Chinese trade facilitation reforms are linked to the Asia-Pacific Economic Cooperation (APEC) trade facilitation framework. Under this framework, when setting the APEC Bogor Goals of trade liberalization and trade facilitation, the APEC leaders agreed to two separate timetables, 2010 for developed members and 2020 for developing members. In 2001, the APEC leaders agreed to lower transaction costs by 5% within 5 years. In trade facilitation negotiation and implementation within the WTO framework, the study recommends that APEC methods may be considered by the trade facilitation negotiating group in order to lay a foundation for the smooth implementation of multilaterally agreed upon trade facilitation measures.

## ***I. Introduction***

With the rapid development and increasing openness of the Chinese economy, China's trade volume has grown at a very rapid pace. In 2004, China ranked as the third largest trading economy in the world. Voluntarily lowering its tariff rate and implementing its World Trade Organization (WTO) commitments, China's overall level of import duty was lowered to 9.9% as of January 1, 2005. The import duty on agricultural products was lowered to 15.3% and that of the industrial products to 9.0%. Actual tariff rates are likely to be lower than the nominal 9.9% due to the use of various preferential policies on import duties in different enterprises. As a trade-oriented economy, China's economic growth relies to a large extent on its exports growth; yet, as an emerging economy, China demands significant imports. Although further tariff reductions may lead to renewed global trade growth, the scope for such reduction is limited, leaving trade facilitation to play an increasingly important role in promoting global trade.

Thus, trade facilitation has emerged as a critical element of multilateral as well as regional cooperation. An efficient trade facilitation mechanism holds the potential to further reduce and eliminate barriers limiting the free flow of production factors across borders and lower transaction costs. China's active involvement in trade facilitation stems from its commitments under the APEC cooperation framework, leading the country to significant accomplishments in this field. Nevertheless, as a developing country with burdensome capital and capacity constraints, China still has further to achieve regarding implementation of trade facilitation measures. Effectively responding to and solving this problem will help promote China's trade growth. And given China's economic characteristics, the benefits gained from trade growth will have spillover effects on the overall economy.

## ***II. Trade facilitation in China***

### **1. Review of literature**

Although a relative new comer to the WTO, China has been an APEC member for over a decade, with a demonstrated history implementing trade facilitation measures (one of the three pillars of APEC). Most of the existing literature on China's progress in trade facilitation focuses on the achievements made under the APEC trade facilitation framework such as the Individual Action Plan.

In China's trade facilitation menu of actions and measures submitted to APEC, 66 actions and measures are included (about 68% of all the 97 actions and measures in the APEC trade facilitation menu), covering all 4 categories of trade facilitation: movement of goods, standards, business mobility, and electronic commerce. Elements of the APEC Trade Facilitation Action Plan correspond to but also go beyond the three GATT articles on trade facilitation. If judged by the provisions of the three GATT articles, the category of "movement of goods" might fall into the GATT Articles VIII and X, but no specific measures or actions match that of GATT Article V. "Movement of goods" consists of 11

aspects with a total of 60 items, as follows:

1. Public Availability of Information on Customs and Other Trade-related Laws and Regulations.
2. Appropriate, Transparent and Predictable Trade-related Procedures.
3. Harmonization of Tariff Structure with the HS Convention.
4. Simplification and Harmonization on the Basis of the Kyoto Convention.
5. Paperless and/or Automation of Trade-related Procedures.
6. Adoption of Standard Electronic Format and Harmonized Data Elements.
7. Adoption of the Principles of the WTO Valuation Agreement.
8. Clear Appeals Provision.
9. Risk Management.
10. Guidelines for Express Consignments Clearance.
11. Provisions for Temporary Importation, e.g. Acceding to the A.T.A. Convention or the Istanbul Convention.

Accordingly, many trade facilitation measures connected with GATT articles VIII and X have already been implemented in China, although full implementation in some cases remains. In the category of movement of goods, 45 of the total 60 items have been implemented by China, accounting for three-fourth of the total.

## **2. Major on-going capacity building projects**

Recent measures have been developed to increase the efficiency of port management, accelerate the speed of goods clearance, and facilitate trade, such as China's General Administration of Customs (GAC). Together with other concerned Ministries, the GAC seeks to establish a modern customs system with reforms in clearance handling as a chief priority.

In 1998, China's GAC initiated establishment of a modern customs system with a two-part timeline: to establish by 2002 the basic modern customs framework across the nation, and to realize by 2010 the second-phase strategic objective of modern customs system construction. Seven basic principles were developed:

- Establish the working guidance as "to administer according to the laws, to protect the country's border, and to serve economic development".
- Strengthen legal construction, and enhance the predictability and transparency of customs policies.
- Promote risk management and law abiding enterprises.
- Combat illegal smuggling, protect national interests and create a favorable administrative environment.
- Promote the application of information technology in order to accelerate customs clearance procedures, and enhance management efficacy.
- Strengthen customs staff training and expertise.
- Develop interactive relations with enterprises.

Following these principles, the Chinese Customs implemented extensive customs clearance reforms and innovations. Breakthrough developments have been made in customs clearance reforms including completion of a new management modality, and increased uniformity and standardization of procedures. The following summarizes the key developments in customs clearance:

- Adoption of information technology to transfer customs clearance-related legal, regulatory, systematic and operational procedures into computer instructions or variables, so as to formalize bill inspection;
- Screening of various ports, supervision and administration authorities,, standardization of goods transportation enterprises management and transportation vehicles, and use of advanced-technology equipment in some key ports customs;
- Near completion of fast customs clearance in ports, minimizing time spent in customs supervision and administration, and accelerating the movement of goods;
- Nationwide use of fast customs-transfer operation, and incorporation of the “one-stop, single-window” approach to customs-transfer between inland and ports or between different customs;
- Joint selection by China’s General Administration of Customs and Ministry of Commerce of “facilitative customs”, strongly supporting the export of large-scale high-technology enterprises;
- Piloting of a “paperless customs clearance” project;
- Implementing of the “E-customs Project” network connecting national customs, increasing customs administration effectiveness;
- Provision via the “E-ports Project” of data-exchange and networked joint inspection between different government departments and different regions, enhancing overall performance in ports administration and the efficiency of import and export procedures for enterprises.

The implementation of the above measures helped Chinese customs to preliminarily achieve the first-phase strategic objective of modern customs system construction. In 2003, Chinese Customs initiated implementation of the Second-Phase Development Strategic Planning of the Modern Customs System to be undertaken between 2004 and 2010. This phase aims to establish a “smart” Customs based on risk management best practices, to build the customs into a scientifically managed, highly efficient and uncorrupted modern system.

The following are three key aspects of China’s efforts to conform to regulations in this area.

#### **(1) Adoption of the WTO valuation agreement principles**

Starting January 1, 2002, the Chinese Customs began full implementation of the WTO valuation agreement. To conform to the regulations of the agreement and to enhance the professional level of the Customs staff, China has carried out a training series of Customs officials at all levels. New Customs valuation and rules of origin regulations are revised and published accordingly with international practices and China’s real circumstances. In order to better implement these regulations, the internal division of duties and operational procedures within Customs are accordingly readjusted. Adoption of these principles makes China’s customs valuation and rules of origin procedures

consistent with the WTO rules.

On November 23, 2003, the State Council issued the Import and Export Duty Statute of the People's Republic of China, effective as of January 1, 2004, in order to readjust and improve the customs valuation system. China's Customs will continue to review the current valuation procedures and modify the current regulations on tariffs in order to meet the WTO valuation codes. Significant efforts in capacity building are also being undertaken to make the Customs and private sectors effectively and consistently implement the statute. A series of related documents have been translated and published in Chinese including the Customs Valuation Agreement and other important publications by the WTO and the World Customs Organization (WCO). Training courses targeting officials from major local Customs offices have been organized by the General Administration of Customs to further familiarize staff with the Agreement and to ensure uniform implementation of domestic regulations. A series of seminars with similar aims has also been held. As a result the publicity campaign and training for enterprises and customs declarers have strengthened. The best international customs management practices have been studied and introduced to guarantee the levy of duty and taxation as well as the effective and smooth enforcement of anti-fraud laws.

## **(2) The utilization of automation and information technology in Customs clearance**

Supported by the Chinese government, the Chinese Customs has increased the use of technology for administrative management and customs clearance supervision. Three key projects have been developed and put into practice: "Electronic Customs", "Electronic General Administration of Customs" and "Electronic Ports". Through these three projects, customs implemented the network-connected-application of computers, and the "electronic execution system in ports".

(a) The H2000 Customs Clearance Management System has been widely utilized across the nation since 2004, having excellent functionality and operational convenience. The H2000 specifically adds risk management and operational data analysis functions, increasing the effectiveness of customs management and standardizing execution. The integrated H2000 database contains all relevant information for enterprises such as registered information and examination records, contract materials, license, customs clearance forms, shipping bills, tax reduction or exemption forms and risk information. The database thus saves unnecessary data transmission and reporting between different regions. Enterprises can complete the customs procedures over the internet including declaration for customs clearance, submission for examination, verification and writing off of settlement and sales of exchange, and export refund. Today, 90% of the export declarations for customs clearance can be completed within 1 day, and 80% of the import declarations for customs clearance can be completed within 2 days.

(b) The General Administration of Customs has established 41 electronic port data branch centers in its directly subordinated customs. The number of enterprises joining the electronic port system exceeds 200,000, and the number of daily electronic bills transactions 500,000. The portal website boasts a daily click rate of over 4.3 million. A total of 30 application projects have been completed or are currently under development. Among these 30 projects, 24 have already been developed and put into use, including nationwide projects. These provide

networked connection for many systems including the following: import exchange payment verification, export exchange receipt verification, import value-added taxes verification, declaration forms, export tax refund, customs clearance form, and on-the-web taxation payment.

Also included are regional projects such as the fast customs clearance system in the Shenzhen land port and the verification system of the CEPA<sup>1</sup> certification of origin. Four projects have already been developed and will soon be put into use, while two more projects remain in early stages of development. Three additional projects are under consultation with other related ministries. Among the 12 initiated Ministries for electronic ports systems, 8 have completed the networked application. Those joining the electronic ports system include: the China Council for the Promotion of International Trade (CCPIT), Hong Kong Trade and Industry Department, Macao Economic Bureau and 13 commercial banks including the Bank of China, Industrial and Commercial Bank of China, China Agriculture Bank, China Bank of Communication, and the China Merchants Bank. In 2004, the “electronic ports” processed a total of RMB 21.1 billion duties and taxes paid on the website<sup>2</sup>, 15 million bills of declaration for imported and exported goods customs clearance, and a daily average rate of 22,000 export refund bills. The time for transmission of electronic data from customs to taxation departments has also been reduced from 1 month to 24 hours.

(c) Paperless clearance was first carried out on trial in Shanghai Customs beginning in February 1, 2001. The paperless clearance procedures have been very successful and have been expanded to most Customs Districts of the General Administration of Customs. The minimum time spent for exported goods is 5 minutes, and the maximum is 2.85 hours, while the minimum time spent for imported goods is 3 hours with a maximum of 32.25 hours. The paperless process greatly increased the speed of customs clearance.

(d) In January 1, 2005, the computer operation platform of China’s inspection and quarantine, the CIQ 2000 system, was updated to version 2.4. One important feature of this updated version is in the statistical system: the statistical recording time has been changed from the time of information gathering to the time when the quarantine and inspection has been completed.

The CIQ 2000 system is the first nationally integrated quarantine and inspection

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