Country Presentation
The People’s Republic of China

Item 6: Goods for Processing
China’s Practice in Statistics of Goods for Processing

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IMTS EGM, December 3-6, 2007

China's Trade Development, 1995-2006

China's Trade Development, 1995-2006

General Customs Administration Of The People’s Republic Of China
High Proportion of Inward Processing Trade

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Definition of Inward processing

- The Customs procedure under which certain goods can be brought into China Customs territory for manufacturing or processing with subsequent exportation
- Type I: (Customs Regime 14)
  The imported inputs remain the property of the foreign supplier.
- Type II: (Customs Regime 15)
  The ownership of imported inputs are transferred to Chinese producers, more commonly FIEs

Policy

- Areas:
  - Bonded Areas
  - Export processing Areas
  - Processing factories in other places
- Benefits from duties exemptions (bonded system)
- There is difference in domestic tax administration (VAT) between type I and Type II inward processing
Administration Procedure I

- Enterprise: to apply of processing qualification certificate, from the administration agency of commerce in local city, bonded areas, export processing zones.
- Each processing contract: to get approval from the administration agency of commerce, not category of forbidden products, restriction etc. (valid 1-2 years)

Administration Procedure II

- Customs registration: account book (each contract)
- Bank of China: bank account (guarantee of customs duty)
- Declaration to Customs by filling declaration form, records on the account book, (for each transaction of import/export)
- Check & cancellation (a contract completed): Customs, Bank, foreign currency administration
Simplification Procedure

- Commerce administration: No need approval on each contract, in bonded areas, export processing zones etc.
- Customs:
  - Processing trade network control system in Customs
  - Pre-classification for inward processing goods
  - Check & cancellation periodically (half year) for big enterprises, not by contract
- Bank & Foreign currency administration: Check & cancellation periodically

Records in Trade Statistics

- According to information on declaration forms (enterprise transaction level)
- Special customs regimes (type I and type II)
- Same procedure of data collection and verification in trade statistics
Record in Trade Statistics

Valuation

- Import: CIF
  Type I: cost for the material, parts, components
  Type II: transaction value for the material, parts, components
- Export: FOB
  Type I: cost of material + cost of labor
  Type II: transaction value
Country of origin

• Import goods
  - Preferential Rule of Origin
  - Non-preferential Rule of Origin of China
    -- wholly produced goods
    -- substantial transformation
    (HS4 change, 30% value added)
• Export goods
  - same rules as for import goods
  - Country of origin is not necessarily declared to China Customs
  - Origin certificate is needed when it is required by the importing partner

Other regimes related to Inward processing

• Merchandise statistics
  - import of equipment invested by Foreign invested enterprises (regime 25)
  - import of equipment for processing Trade (regime 20)
• Separate information
  - Processing material, processed products into free circulation
  - Processing material, processed products into 2nd step processing
  - Processing equipment into free circulation, etc.
Outward processing

- The Customs procedure under which goods in free circulation in China Customs territory may be temporarily exported for manufacturing, processing abroad and then re-imported.
- Customs regime 27- outward processing good
- Valuation:
  - export: value of material,
  - import: value of material + processing cost
- Country of origin
- Small proportion in China total trade, 57 million US$ in 2006, 0.003 %
Problems and Difficulties on Inward Processing Statistics

China made products are re-imported

- 55.1 billion US$ in 2005, 8.3% of total imports
- 73.3 billion US$ in 2006, 9.3% of total imports
- 95.2% from Hong Kong
- 70% imported by Guangdong
- 73.5% as inward processing materials
Reasons:

- Geographic and logistic convenience of Guangdong with Hong Kong
- Business management for multinational enterprises, distribution center in Hong Kong
- Inward processing supervision system
- Other reasons

Problems with the data quality

- Poor declaration on final destination of exported good of inward processing – one of the causes for the difference on merchandise trade statistics between China and its trade partners.
- Affiliated trade may have influence on the value of processing goods
- Warehousing trade
• Type I and II inward processing may be mixed up for 2 or more steps of inward processing.
• Domestic material may be mixed with imported material in the final exported products, still under the Customs procedure of inward processing goods.
• May be mixed with goods for repair
• New processing - test
Test Processing

- Merchandise trade or service trade?
- In principle: trade in service
- In practice: may regarded as inward processing of merchandise trade;
- Recommendation: clarify this in the new IMTS.
Thank you!