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*Country Presentation*  
**The People's Republic of China**

*Item 6: Goods for Processing*

# China's Practice in Statistics of Goods for Processing

By Hongman JIN & Feng GU  
Statistics Department  
General Customs Administration  
The People's Republic of China

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## China's Trade Development, 1995-2006



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## High Proportion of Inward Processing Trade

Proportion of Total Export												
Customs Regimes	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Processing Trade	50%	56%	55%	57%	57%	55%	55%	55%	55%	55%	55.00%	52.70%
Ordinary Trade	48%	42%	43%	40%	41%	42%	42%	42%	42%	41%	41%	42.10%
Other	2%	3%	3%	3%	3%	3%	3%	3%	3%	4%	4%	5.20%
Proportion of Total Import												
Customs Regimes	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Processing Trade	44%	45%	49%	49%	44%	41%	39%	41%	39%	40%	42%	40.60%
Ordinary Trade	33%	28%	27%	31%	40%	44%	47%	44%	45%	44%	42%	42.10%
Other	23%	27%	23%	20%	15%	14%	15%	15%	15%	16%	16%	17.30%



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## Inward Processing



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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



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## 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



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## 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)



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## 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



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## 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



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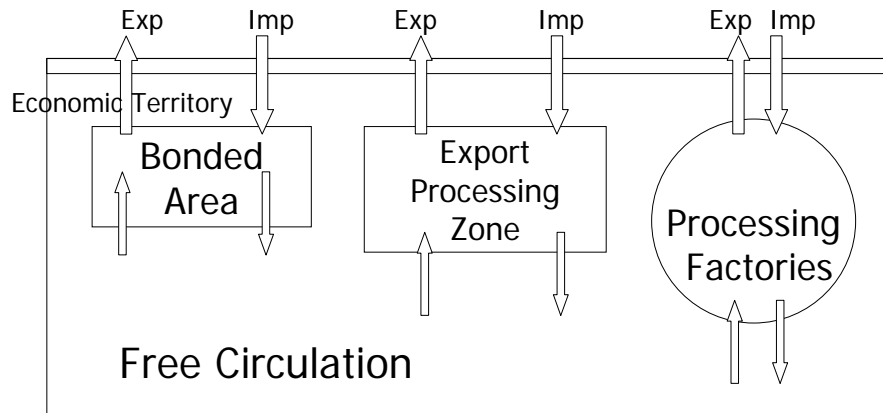
## Records in Trade Statistics

- 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



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## Record in Trade Statistics



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## 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



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## 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



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## 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.



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## Outward processing



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- 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 %



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## Problems and Difficulties on Inward Processing Statistics



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### 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



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## 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



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## 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



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- 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

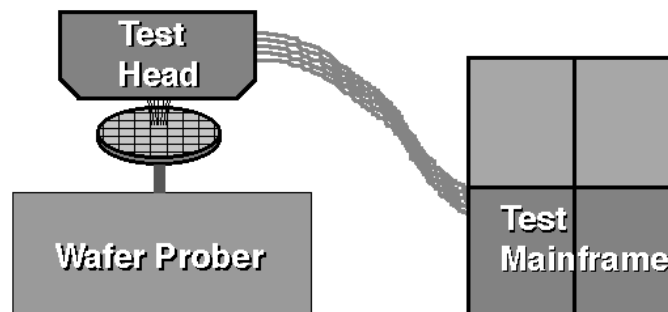


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## Wafer Probe or Test

[www.infras.com](http://www.infras.com)



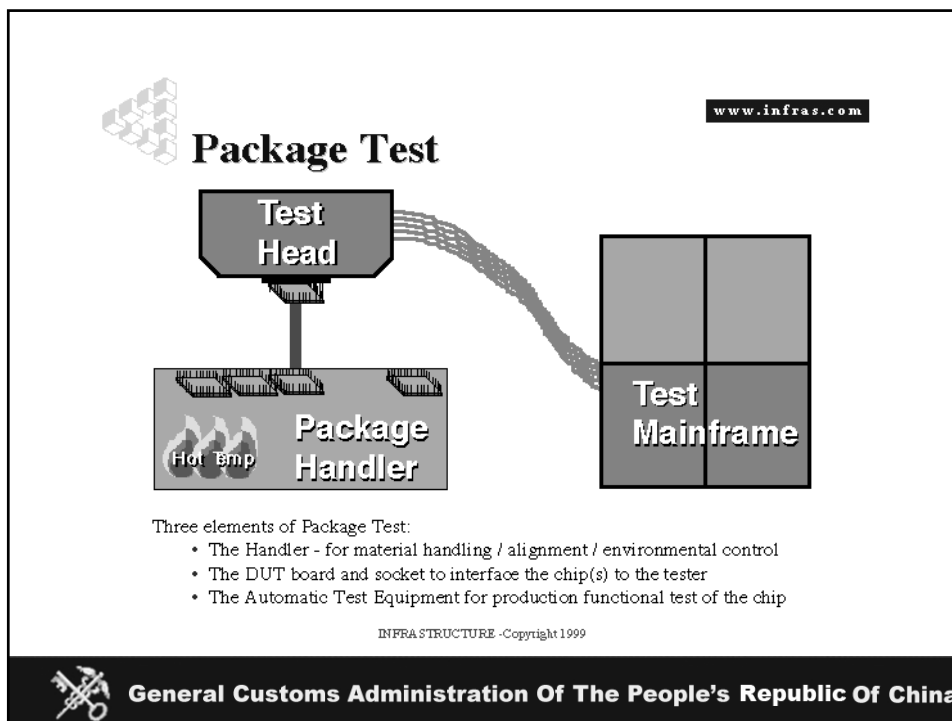
Three elements of Wafer Probe:

- The Prober - for material handling / alignment / environmental control
- The Probe Card to interface the die(s) to the tester
- The Automatic Test Equipment for production functional test of the chip

INFRA STRUCTURE - Copyright 1999




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## 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.

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Thank you !



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