Country Paper

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China’s Practice in Statistics of Goods for Processing

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China's Trade Development, 1995-2005

[Graph showing China's trade development from 1995 to 2005, with data points indicating export and import growth rates.]
# High Proportion of Inward Processing Trade

## Proportion of Total Export

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<tbody>
<tr>
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<td>50%</td>
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<tr>
<td>Ordinary Trade</td>
<td>48%</td>
<td>42%</td>
<td>43%</td>
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<td>Other</td>
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## Proportion of Total Import

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<tbody>
<tr>
<td>Processing Trade</td>
<td>44%</td>
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<td>49%</td>
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<td>41%</td>
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<tr>
<td>Ordinary Trade</td>
<td>33%</td>
<td>28%</td>
<td>27%</td>
<td>31%</td>
<td>40%</td>
<td>44%</td>
<td>47%</td>
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<td>42%</td>
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<tr>
<td>Other</td>
<td>23%</td>
<td>27%</td>
<td>23%</td>
<td>20%</td>
<td>15%</td>
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Inward Processing
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
Customs Control

- Bonded Areas
- Export processing Areas
- Processing factories in other places
- Benefits from duties and taxes exemptions
- Processing trade network control system
- Pre-classification for inward processing goods
Record in statistics

Economic Territory

Bonded Area

Export Processing Zone

Processing Factories

Free Circulation

Exp          Imp            Exp            Imp             Exp  Imp
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, 60 million US$ in 2005, 0.004 %
Problems and Difficulties on Inward Processing Statistics
China made products are re-imported

- 55.1 billion US$ in 2005, 8.3% 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
Thank you!