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## AN ANALYSIS OF IMPORT-EXPORT PROCEDURES AND PROCESSES IN CHINA

*By*

*Bala Ramasamy\**

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\* Professor, China Europe International Business School (CEIBS), Shanghai, China. This work was carried out with the aid of a grant from IDRC, Canada and is part of an ARTNeT Trade Facilitation Study on Improving Regional Trade Procedures and Process (see [www.artnetontrade.org](http://www.artnetontrade.org) for details). The technical support of the United Nations Economic and Social Commission for Asia and the Pacific is gratefully acknowledged. The opinion figures and estimates are the responsibility of the author and should not be considered as reflecting the views or carrying the approval of the United Nations, ARTNeT and the CEIBS. This paper benefited from comments received from participants during the ARTNeT Trade Facilitation Research Team Meeting on Improving Regional Trade Procedures and Process and Asia-Pacific Trade Facilitation Forum, 4-6 October 2010, Kuala Lumpur, Malaysia. Any errors are the responsibility of the author, who can be contacted at [bramasamy@ceibs.edu](mailto:bramasamy@ceibs.edu)

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## *Executive Summary*

Recent research by various international organizations including the World Bank, OECD, ADB and UNCTAD suggest that customs and administrative procedures have substantial effects on trade flows between countries. These procedures and practices can act as significant barriers to international trade and it is not surprising that these have become the focus of attention, now that tariff and other quantitative barriers have and continue to be reduced. Since becoming a full fledged member of the WTO, China has made significant progress in the trade liberalization process. Recognizing trade facilitation as an important effort to spur further trade, China has made significant improvements in the procedures behind-the-border. The World Bank Doing Business 2010 rank China at number 47 in Trading Across Borders. It takes between 21 and 24 days to export/import involving 6-7 documents at a cost of USD500-545. While days to trade and number of documents are close to the East Asia average, the cost in China is about 55% of the average East Asia mark.

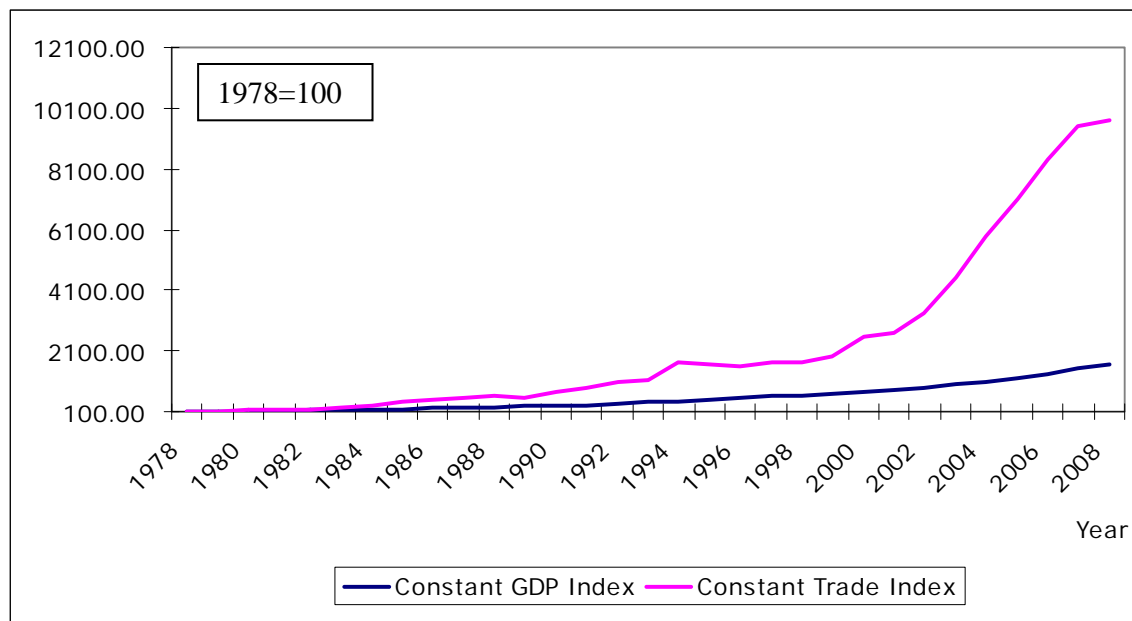
Previous research on trade facilitation in China has taken a macro and/or a survey based approach. The objective of this study is to drop one level lower to evaluate in detail the processes involved in the export and import of goods. We use the Business Process Analysis (BPA) methodology such that we are able to trace all the steps and procedures involved in the process and consider the time and cost involved in each one of these steps. We identified 4 products and two countries for the in-depth analysis. To map export procedures, the project focused on garment and electronic exports to Japan and Thailand, while for imports, textiles and automobile parts from Japan has been the focus of analysis.

Our findings are somewhat different from those of the World Bank. The number of days for the export and import processes is markedly lower than the WB study. Our respondents claim that the process takes between 9 to 14 days. However, the number of documents involved in the process is much higher than the WB study, as many as 17 compared to only 7 reported in the WB study. We also found the costs to be marginally lower than claimed by the WB. We attribute this partly to the nature of our respondents who have long term relationships with the buyers/sellers, as well because of the use of freight forwarders and customs brokers who are very familiar with the various processes and customs officials. Compared to effect of electronic documents, the role of customs brokers in facilitating trade seems more effective in China. Using more Information Technology in trade facilitation will only be effective when the approval system is automatic rather than on a case-by-case basis.

## I. Introduction

In the 4<sup>th</sup> Quarter of 2009, the Chinese economy grew at an enviable pace of 10.7% and clocked an annual growth rate of 8.7% for the whole of 2009. In sharp contrast, the World Bank has predicted that the Japanese economy would shrink by 5.4% in the same year, thus putting China on a comfortable path towards becoming the second largest economy in the world in the very near term. International trade – which had been an engine of growth of the Chinese economy since the beginning of the economic reforms in 1979 – was significantly slower in 2009 (exports and imports decreased 16% and 11.2%, respectively)<sup>1</sup> – but by November 2009, growth was already at hand. In December 2009, trade increased more than 30%. This comes as no surprise as China's trade historically has grown faster than output. See Figure 1.

**Figure 1: China: Growth in Output and Trade**



Source: *China Statistical Yearbook*, various years

Despite a focus on the domestic economy by choice and under pressure from developed economies, international trade will continue to be an important driver of the Chinese economy. The removal of trade restrictions in the 1980s and further liberalization of the trade sector in the 1990's culminated with the WTO membership in 2001. A quick look at the rate at which China has decreased its tariff barrier (Table 1) is a sign of China's commitment to its policy of openness. From as high as 42.9% in the 1980s and early 1990s, it is now less than 10%. This is lower than any other large developing economy (BRIC). In terms of non-tariff barriers (NTBs), significant efforts

<sup>1</sup> National Bureau of Statistics,  
[http://www.stats.gov.cn/english/newsandcomingevents/t20100121\\_402615502.htm](http://www.stats.gov.cn/english/newsandcomingevents/t20100121_402615502.htm)

were made to liberalize trading rights and removing quotas, licenses, specific tendering arrangements and price controls, such that its border barriers were reduced to Southeast Asian levels.<sup>2</sup>

No observer can deny the speed and depth of the trade liberalization process that China has been engaged in over the last 40 years. Nevertheless, opportunities for further improvements remain. As the volume and number of players in the trading scene increase, so will the complexity of transactions. To ensure the trade engine is functioning smoothly, trade facilitation, with its “... focus on rationalizing procedures ... (and) ... a need for policy makers to look beyond at-the-border trade procedures and into regulations affecting existing and potential importers and exporters within the broader domestic business environment”<sup>3</sup> becomes imperative.

**Table 1. China: Simple Applied Average Tariffs (%)**

	All products	Agricultural	Industrial
<b>1992</b>	42.9	36.2	44.9
<b>1993</b>	39.9	33.3	41.8
<b>1994</b>	36.3	32.1	37.6
<b>1996</b>	23.6	25.4	23.1
<b>1997</b>	17.6	17.9	17.5
<b>1998</b>	17.5	17.9	17.4
<b>2001</b>	15.6	23.2	14.3
<b>2002</b>	12.2	17.9	11.1
<b>2003</b>	11.1	16.3	10.1
<b>2004</b>	10.2	15	9.3
<b>2005</b>	9.7	14.6	8.9
<b>2007</b>	9.7	14.5	8.8

*Source: lanchovichina and Martin, 2001; Trade Policy Review, 2006, 2008*

## *II. Trade Facilitation in China*

Trade facilitation is defined by the WTO as “the simplification and harmonization of international trade procedures” covering the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade”.<sup>4</sup> In an age of international production

<sup>2</sup> Erixon, et. al. 2008

<sup>3</sup> Duvall and Utoktham (2009), p.2.

<sup>4</sup> OECD (2005), p. 2

networks and the globalization of markets, the behind-the-border (BtB) activities could increase the cost of goods between 2 and 15%.<sup>5</sup> On the other hand, Duval and Utoktham (2009) found that a 5% decrease in the cost of imports in the importing country can increase bilateral import by 1.5% while a similar reduction in the cost of exporting can increase bilateral exports by 4.2%. Wilson (2007) found that a 10% reduction in the time at the border of the importer can increase trade by 6.3%, while a 10% reduction in the number of documents required by the importer could generate an 11.1% increase in trade. Similar studies by others further confirm this relationship.<sup>6</sup> More generally, the benefit of reforms in trade facilitation has outweighed the cost and is often characterized by a relatively short term payback period (Engman, 2005).

Reducing and streamlining the BtB activities need not be similar across countries, as specific circumstances, needs and capacities of individual implementing countries should be taken into account. Nevertheless, simplifying and standardizing border procedures, assessing and managing the risks of border control violation more efficiently, and closer co-operation among Customs authorities are considered to be trade facilitation measures that can result in significant reduction in the cost of doing international trade.

Trade facilitation in China is not as severe as some of the other large emerging economies. A snap-shot of China's position in the World Bank's Doing Business 2010 ranking is testimony to this fact. In 2010, China moved 5 positions up to 44 in the Trading Across Borders category. More specifically, the documents involved, time and costs in most cases were better or equivalent to the East Asia & Pacific average. See Table 2. Comparing the relative time and costs over the period of the World Bank study seem to indicate that China has reached a saturation level i.e. number of documents and time to import and export has remained stagnant since 2007.<sup>7</sup> See Table 3. However, a comparison with the leader of the rankings (Singapore) shows the potential for improvements, particularly in the time involved in BtB activities.

Another World Bank study that provides some indications of TF in China (and worldwide) is the Logistical Performance Index (LPI). This index is based on surveys conducted among logistics professionals and "provides a comprehensive picture of supply chain performance—from customs procedures, logistics costs, and infrastructure quality to the ability to track and trace shipments, timeliness in reaching destination, and the competence of the domestic logistics industry".<sup>8</sup>

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<sup>5</sup> Ibid

<sup>6</sup> See Appendix 1 for other studies and key findings.

<sup>7</sup> Although the cost to export and import show an upward trend, this may be due to the general increase in price levels rather than an increase in costs.

<sup>8</sup> World Bank (2010), *Connecting to Compete 2010: Trade Logistics in the Global Economy*, [www.worldbank.org](http://www.worldbank.org)

**Table 2. Trading Across Borders 2010: China**

Indicator	China	East Asia & Pacific	OECD Average
Documents to export(number)	7	6.7	4.3
Time to export(days)	21	23.1	10.5
Cost to export(US\$ per container)	500	909.3	1,089.70
Documents to import(number)	5	7.1	4.9
Time to import(days)	24	24.3	11
Cost to import(US\$ per container)	545	952.8	1,145.90

Source: World Bank (2010), *Doing Business 2010*, [www.worldbank.org](http://www.worldbank.org).

**Table 3: Trading across Borders, 2006-2010**

Year		2006	2007	2008	2009	2010
<b>Ease of Doing Business Rank</b>					86	89
<b>Trading Across Border</b>	Rank				49	44
	Documents to export(number)	6	7	7	7	7
	Time to Export(days)	18	21	21	21	21
	Cost to export(US\$ per container)	335	390	390	460	500
	Documents to import(number)	11	6	6	6	6
	Time to import(days)	24	24	24	24	24
	Cost to import (US\$ per container)	375	430	430	545	545

Source: World Bank (2010), *Doing Business 2010*, [www.worldbank.org](http://www.worldbank.org).

Table 4 reports the performance of China vis-à-vis other selected countries. On the whole, China's performance is below the regional average (3.31 compared to 2.58) with the worst performance in customs procedures. The scores are not significantly different from Malaysia and Thailand but marginally better than other large emerging economies like India and Indonesia. Previous surveys of LPI (2007) as shown in Table 5 provide further confirmation that the bottleneck seems to be in customs procedures. In particular, respondents raised issues concerning the transparency of customs clearance where only about a third agreed that such activities are transparent. In addition, the quality of service provided by customs brokers, transport associations and shipping agencies are also considered low. However, a majority of those surveyed agreed that improvements have been made since 2005 with regards to the clearance procedures of the China Customs.

**Table 4: Logistics Performance Index (LPI)**

Country	LPI	Customs	Infrastructure	International shipment	Logistics quality & competence	Tracking& tracing	Timeliness
Malaysia	3.44	3.11	3.5	3.5	3.34	3.32	3.86
Thailand	3.29	3.02	3.16	3.27	3.16	3.41	3.73
China	3.49	3.16	3.54	3.31	3.49	3.55	3.91
Vietnam	2.96	2.68	2.56	3.04	2.89	3.1	3.44
Indonesia	2.76	2.43	2.54	2.82	2.47	2.77	3.46
India	3.12	2.7	2.91	3.13	3.16	3.14	3.61
Sri Lanka	2.29	1.96	1.88	2.48	2.09	2.23	2.98
Cambodia	2.37	2.28	2.12	2.19	2.29	2.5	2.84
Bangladesh	2.74	2.33	2.49	2.99	2.44	2.64	3.46
Nepal	2.2	2.07	1.8	2.21	2.07	2.26	2.74
<i>Note: 1-very low; 5-very high</i>							
<i>Source: World Bank (2010), connecting to compete 2010: Trade Logistics in the Global Economy</i>							

In an earlier Artnet study by Chen and Li (2006) on trade facilitation in China, the private sector listed three most important areas for improvement, namely: 1) the elimination of bribery and other corrupt practices of officials involved at the clearance and release of imported goods; 2) the completion of clearance of goods before they have arrived physically in the Customs territory; and 3) the improvement of coordination between relevant agencies, particularly on document requirements. The problems faced behind-the-border differs in some way between foreign firms and local firms. Greene and Tsai (2008) found that clear and transparent rules for customs procedures, predictable and impartial procedures as well as pressures for illegal payments were more of an issue for foreign (OECD) firms than their local counterparts.

On the part of China Customs, there have been continuous improvements in clearance procedures as well as pilot projects on the use of ICT to speed up and standardize the relevant procedures. These include a paperless customs clearance; one declaration, one inspection and one clearance process to facilitate the movement of goods between inland cities and ports; a customs which facilitates networking among national

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