

International Trade Operations

Seminar Work – Sino-EU Trade

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Abstract, Key Words

This seminar work analyses the basic principles for Sino-EU trade. In the first two parts it covers territorial and commodity structure. In the third part it describes import conditions and documents such as examples of trade barriers and the tariff regime.

Key words

EU, trade, China, territorial, commodity, tariff regime, trade barriers

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1 Territorial structure – the Sino-EU position

Regarding the territorial structure of foreign trade of China (PRC), PRC exports a large part through Hong Kong, which is reported in the statistics of the PRC separately so then it leads to a distortion of the actual Chinese exports - for example to Europe. According to published statistics, the turnover with Hong Kong (Chinese) reached the level of 341.5 billion USD, while exports accounted for USD 323.5 billion and imports only 18 billion USD (i.e. balance of 305.5 billion USD). This issue is reflected in the statistics of foreign trade with the Czech Republic.

The following table shows the data for the whole year 2012 for China's most important trading partners and selected countries (ranked by turnover):

PRC Foreign trade by country in billions of USD, 2012				
	Turnover	Exports	Imports	Balance
EU Total	546,1	334,0	212,1	121,9
USA	484,7	351,8	132,9	218,9
ASEAN	400,1	204,3	195,8	8,5
Hong Kong (Chinese)	341,5	323,5	18,0	305,5
Japan	329,4	151,6	177,8	-26,2
Korea	256,3	87,7	168,6	-80,9
Taiwan	169,0	36,8	132,2	-95,4
Russia	88,2	44,1	44,1	0
India	66,5	47,7	18,8	28,9

Source: Chinese Customs Statistics

As can you can see from the table, the PRC's largest trading partners are the European Union, the U.S. and ASEAN. The largest positive balance of the PRC is held with the U.S. and the European Union (excluding Hong Kong). The value of exports to Hong Kong is also high, but

the goods are often transported from Hong Kong to other countries, so the actual flow of goods to the U.S. and EU is higher than the published figures.

The biggest importers of Chinese goods are the U.S., European Union, Hong Kong, ASEAN countries and Japan, while the largest suppliers to the PRC are the European Union, ASEAN countries, Japan, South Korea, Taiwan and the USA.

The largest importers of Chinese goods (2012, bil. USD)		
Country	Exports from PRC	Increase in %
USA	351,8	+8,4
EU	334,0	-6,2
Hong Kong (Chinese)	323,5	+20,7
ASEAN	204,3	+20,1
Japan	151,6	+2,3

Source: Chinese Customs Statistics

The largest exporters to China (2012, bil. USD)		
Country	Imports to PRC	Increase in %
EU	212,1	+0,4
ASEAN	195,8	+1,5
Japan	177,8	-8,6
Korea	168,6	+3,7
USA	132,9	+8,8
Taiwan	132,2	+5,8

Source: Chinese Customs Statistics

EU is with the value of trade 546.1 billion (a decrease of 3.7% compared to 2011) the largest trading partner of the PRC (PRC is the 2nd largest trade partner of the EU) despite the decline in 2012. Commodity structure of foreign trade between China and EU is very wide from products with low added value (raw materials, textiles, agricultural products) to the electrical and hi-tech products. China's exports of hi-tech products to the EU significantly increased (main export items include computers and computer parts, electrical products, telecommunications equipment and its parts).

2 Commodity structure

Since the PRC became the member of WTO the share of finished products in total exports rose to 95% and most of them consisted of mechanical and electronical equipment (in 2012 57.6% of total exports, +8.7% increase year on year), which in accordance with Chinese efforts to achieve a larger share of higher value-added exports led to the amount of hi-tech and "new" products over 51% (+9.6% year-on-year). Most of these products are produced by foreign companies in export processing zones, which shows that China has become an integral part of the production chain of IT products, however a key technology still remains outside the PRC. China is also a major world supplier of clothes, linen and textile industries, as well as iron and steel and industrial machinery and equipment, which is registering a growth trend once again after the slump in 2009.

The main commodities in foreign trade of the PRC in 2012		
2012	Exports from PRC	
	bil. USD	Change, %
Electrical appliances and "home" electronics	240,2	+10,3
Telecommunication Equipment and Components	235,4	+8,6
Office machines and data processing apparatus	222,1	+5,6
Clothes	159,6	+3,8
Textile yarn, fabrics and haberdashery	95,5	+1,1
Industrial goods	86,5	+8,3
Metals	73,1	+10,4
Road vehicles	62,0	+4,1
Scientific instruments and equipment	58,7	+20,5
Furniture	56,2	+25,5
2012	Import to PRC	
	bil. USD	Change, %
Electrical appliances and "home" electronics	307,7	+7,1
Oil and petroleum products	263,6	+10,7
Iron ore and scrap	158,7	-10,7
Scientific instruments and equipment	87,3	+6,0
Road vehicles	70,4	+8,0
Office machines and data processing apparatus	63,7	+10,9
Telecommunication Equipment and Components	62,9	+22,1
Organic chemicals	61,4	-3,3

The main commodities in foreign trade of the PRC in 2012		
2012	Exports from PRC	
No-Ferrous Metals	55,1	-2,0
Plastics in primary form	52,6	-1,4

Source: Chinese Customs Statistics

3 Import conditions and documents (to EU)

3.1 Documents required for the import

The current list of import and export goods, which falls under the control of the quality of AQSIQ (List of Import and Export Commodities Subject to Inspection Legal), was published at the beginning of 2012 (containing 5401 items). Goods which are not subject of this control or have an exception are defined as follows:

- All items listed AQSIQ with a history of adequate levels of quality,
- samples, gifts, goods for exhibitions and other products which are not intended for sale, unless otherwise specified by the Chinese government, or in commercial contracts,
- listed items which were checked through a joint venture for quality control, recognized AQSIQ,
- listed items that were verified through authorized foreign organization in one of the countries which the PRC has entered into a mutual recognition agreement with.

When entering goods from abroad into the Chinese port or other point of entry, the Chinese beneficiary (usually freight forwarder or customs broker) has to submit the following documents:

- Bill of Lading

- Invoices
- Waybill
- trade pact
- Certificate import quota (if applicable)
- Certificate CCC (China Compulsory Certification, if applicable)
- import license (if applicable)
- insurance
- Customs Declaration

State Administration for Quality Control, Inspection and Quarantine (AQSIQ) then checks the goods will assess whether the quality meets the standards laid down in the Treaty of Commerce, which must be at least as demanding as national standards. If the selected sample is examined, AQSIQ will issue a certificate of inspection. If the item does not meet the standards, it does not necessarily mean that it will not be released into circulation on the territory of the PRC, but the recipient of the goods may see it as a reason for refusing payment for goods. The current database of all documents required for clearance of specific goods, includes the Market Access Database, led by EU (<http://madb.europa.eu>). The goods must also pass a health inspection at the entrance to the PRC. Inspections are carried out either at the quarantine department at the border or in the provincial quarantine office, depending on the type of product and destination. As to the imports of food and animal quality requirements must be specified in the Treaty of Commerce and must meet at least the Chinese national standard.

3.2 The tariff regime and non-tariff trade barriers

There are several institutions, which are responsible for application of customs legislation in the PRC. Following institutions are:

- General Administration of Customs (General Administration of Customs) - controls the export and import of goods, collects duties and fees, compiles statistics of foreign trade, fights against smuggling;

- Ministry of Commerce (MOFCOM) - manages the license system of foreign trade and the quota system and is responsible for the agenda of the WTO;
- State Council's Customs Tariff Commission - sets the export and import tariffs, is managed by the Minister of Finance and includes the Director of the Customs Administration and MOFCOM Deputy;
- AQSIQ – checks the procedures, oversees quarantine and compliance with technical standards of goods for import and export. Within the AQSIQ also operates China National Regulatory Commission for Certification and Accreditation (CNCA), which is responsible for the unification of the administration, supervision and coordination of certification and accreditation process and also for the development of national standards of PRC in accordance with WTO rules.

Customs tariffs, the conditions under which they apply, and other customs regulations are contained in the publication "Customs Official Guide", prepared by the PRC General Administration of Customs. It is necessary to draw attention to the specialties of customs regulations applicable to special economic zones, cities and a free trade zones.

Customs duties are divided basically into two categories, general and contracting (preference), the general fees are charged on goods from countries which the PRC has no customs formalities on a contractual basis with (makes them favored-nation treatment, for countries that are not members of the WTO). It should also be noted that tariff there is a third category, with reduced rates, and that relates to products from countries that participate in some of the preferential agreements with the PRC (ASEAN, Pakistan, Chile). Lower tariffs should also be applicable for some African countries. Customs fees are collected by the General Administration of Customs together with value added tax, which amounts to 17% (in the case of certain agricultural products and other goods of necessary needs, the rate of VAT is 13%), otherwise the participant of customs procedures is bothered by a fine of 0.1% of the declared price per day. Some descriptions of the Customs Tariff has changed since January 1, 2005 and the number of items has increased from 7,475 in 2004 to 7 550.

On January 1, 2007 PRC (in conformity with its WTO obligations) reduced the tariffs again. According to the Ministry of Finance of the PRC general tariff level has dropped from 9.9 % to 9.8 %. More than 900 products have been completely stripped of duties. On January 1, 2010 import duties for six commodities were reduced - including fresh strawberries in accordance with the PRC's WTO commitments. The Ministry of Finance announced in early 2011 a temporary tariff reduction of 4.5 % for 637 commodities in order to stimulate domestic demand. In 2012, the duty was reduced by 4.4 % for 730 products, affecting mainly parts and components for the production of high value-added, IT, alternative fuel vehicles and various agricultural materials. At the beginning of 2013 the PRC announced new tariff rates, which temporarily reduce import duties on 784 products (e.g. spices, pacemakers, infant milk powder, kaolin, robotic machines for the automotive industry, etc.). The reason for the reduction of custom duties is to boost domestic consumption and help supply to better meet demand.

In more details, we can note that the average import duty:

- for agricultural products is 15.2 %;
- for industrial products is 8.95 %;
- for selected items is: 6.9 % for chemicals, 8.0 % for machinery, 9.1 % for electronic products, 11.4 % for textile products, 25 % for cars (along with the value added tax and excise taxes is a load of about 65%, but in 2009 the case with the U.S., EU and Canada was lost in WTO).

The customs value of goods is determined on a CIF basis. If the customs officer doubts about the accuracy of prices submitted by the declarant, it may be rejected and a new price will be applied (the price of the same or similar goods imported from the same country or region). This procedure is quite common and it is a subject to a number of complaints from international traders.

Imports into the PRC are associated with a number of non-tariff trade measures, which include quotas and import and other licenses. Another measure hindering the import is the inspection certificate required f.e. for u-rolled steel, steel ingots, non ferrous metals, plastics, cosmetics, paper and fruit.

Number of licenses and quotas gradually decreases. In 2012, quotas were in effect for:

- Some kinds of agricultural products (wheat - 9.6 million tons, corn - 7.2 million tons, 5.3 million tons of rice, cotton, 3.7 million tons);
- Three kinds of chemical fertilizers (urea and concerns of those who contain phosphates and phosphorus).

Special measures apply to the import of goods which may contain materials that pose a health risk. The process of import of this kind of goods is governed by the newly revised "Measures for the Administration on Pollution Control of Electronic Information Products".

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*all the data of this seminar work were used from the statistics above