

TABLE OF CONTENTS

	Page
1. Introduction	1
2. Methodology	2
3. Results	
3.1. Sample Group Profile	4
3.2. General questions on WTO principles and Trade Facilitation	7
3.3. Specific questions relating to art. V of the GATT (Freedom of Transit)	10
3.4. Specific questions relating to art. VIII of the GATT (Fees and formalities connected with importation and exportation)	12
3.5. Specific questions relating to art. X of the GATT (Publication and administration of trade regulations)	16
3.6. Elements in WTO agreements relating to Trade Facilitation	18
4. Recommendations	19
5. Notes/Discussion	22

1. INTRODUCTION

A series of trade-related topics were proposed for inclusion at the WTO's Singapore ministerial conference in 1996. These topics, collectively known as otherwise known as the "Singapore Issues" were Trade and Competition, Trade and Investment, Transparency in Government Procurement and Trade Facilitation. WTO members, however, failed to reach consensus on whether or not to launch negotiations on these issues at the Cancun ministerial in 2003, and three of the four issues mentioned in the Doha Ministerial Declaration in paragraphs 20-22, 23-25 and 26, will not form part of the Work Programme, leaving only Trade Facilitation within the WTO during the Doha Round.

Trade Facilitation – streamlining import/export procedures, reducing customs-related fees and increasing transparency of import/export regulations - constitutes an effort to ease the way for trade and reduce transaction costs for companies when trading internationally in goods. In some areas of the world, these transaction costs already exceed the costs incurred by import tariffs.

Elements relating to Trade Facilitation in the WTO are currently embodied in articles 5, 8 and 10 of the General Agreement and Tariffs and Trade (GATT), which deal with a) Freedom of Transit; b) Fees and Formalities connected with Importation and Exportation and c) Publication and Administration of Trade Regulations. Negotiations on the clarification and improvement of these articles are currently underway.

As the world's third largest trading country, China's active involvement in the Trade Facilitation negotiations is vital. The Ministry of Commerce of the PRC has submitted 2 draft proposals on Trade Facilitation to the WTO, and the results of this survey are intended to provide important insights of companies trading from China in order to facilitate the negotiation process.

The EU-China Trade Project would like to thank the participating companies for their valuable input and the local Departments of Commerce who provided assistance in gathering data for the survey.

2. METHODOLOGY

This survey of China-based enterprises both importing and export goods was developed by means of a questionnaire, which was designed in cooperation with a Brussels-based law. The questionnaire was distributed by MOFCOM to a representative sample of companies engaged in international trade and respondents were asked to provide a brief profile of their companies, containing information on company type e.g. State-owned, Foreign-invested etc., and information on trading volumes.

The questionnaire was designed in such a way so as to allow for qualitative and quantitative feedback. The questionnaire consisted of three major parts, with each part following the issues treated by each of the three GATT articles under negotiation. Attention was also paid to the proposals of various WTO members on the three articles during the development of the questionnaire.

Most of the questions themselves were presented as a particular problem a trader is likely to encounter at customs, such as, "Do you lack access to administrative tribunals for correction of customs actions/documents?" Respondents were asked to answer either "Always", "Sometimes" or "Never", and to distinguish between "In China" and "Overseas" where appropriate.

Based on these responses, a Problem Perception Index¹ (PPI) for question n was calculated using weighted averages with the following formula:

$${}_n PPI = 100 \left(\frac{2a + b}{2n} \right)$$

where:

a = Always

b = Sometimes

n = no. of responses for question n

According to the index, a score of value 100 would indicate a 100% "Always" response, while a score of value 0 would indicate a 100% "Never" response, and so on. According to the way the questions are structured, *the closer the score to 100, the greater the perceived problem.*

Respondents were also asked in the final section to choose among a number of policy recommendations so that a sense of priority for China among the existing proposals could be gauged, and secondly, as a control to ensure that the answers in the previous sections

¹ It is important to note the use of the word "perception" in this context, as the responses of the respondents cannot be taken as objective evaluations of the issues/scenarios. Hence the questionnaire itself can only be used to reflect the perceptions of the companies surveyed about customs problems.

were consistent with the recommendations made in the final section. The results for this section are shown as simple percentages of responses.

The different categories of respondents (type of company, trading volume) were used to establish correlations with the PPI, though no strong correlations could be found.

3. RESULTS

3.1 *Sample group profile*

The sample group for the survey consisted of 69 companies, and reflected a variety of companies, including State-owned Enterprises, and Foreign-Invested Enterprises as well other non-state-owned enterprises, as illustrated in table 1. The nature of the sample group ensures that the results are not biased by the nature of the company. While, based on the questionna

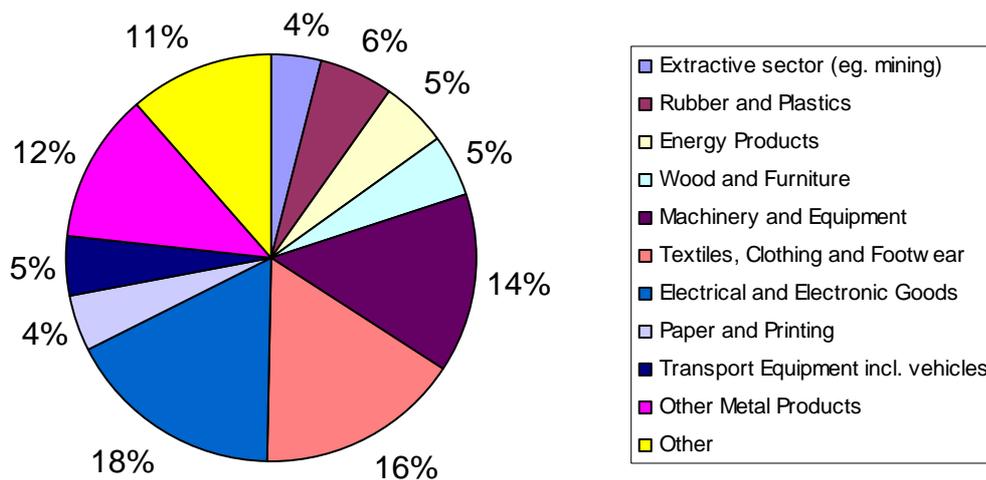
Table 3 lists the top five trading partners of the companies surveyed. The European Union ranks first, with Japan and the US coming in second and third place respectively. If one looks at China's top five trading partners for 2004, there are slight discrepancies to be observed. However, since the companies surveyed represent only a proportion of China's total foreign trade, an allowance for the discrepancies was made.

Table 3 – Main Trading Partners

<i>Exports</i>		<i>Imports</i>	
Rank	Partner	Rank	Partner
1	EU	1	EU
2	Japan	2	Japan
3	US	3	US
4	S Korea	4	S Korea
5	Hong Kong	5	Hong Kong

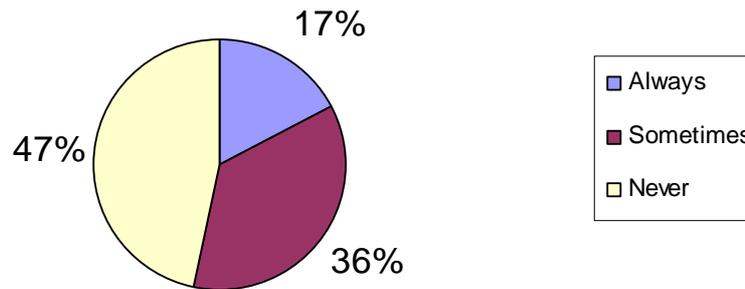
The companies surveyed were involved in trade in a variety of sectors, as table 4 shows, which minimizes the possibility that the data are corrupted by trade in a certain type of good, e.g. goods requiring stringent inspection and hence requiring more onerous customs procedures. The variety of goods also corresponds closely with the profile of goods being imported and exported from/into China – an emphasis on electronic and mechanical goods, textiles, clothing and footwear, and metals.

Table 4 - Type of Goods



Finally, table 5 shows the proportion of the companies surveyed which outsource documentation requirements to a specialized agency, indicating that a relative majority (47%) never use such an agency. Only 17% said they always used agency, while 36% indicated that they sometimes used an agency.

Table 5 - Do you use an agency to prepare your import/export documentation?



3.2 General questions on WTO principles and Trade Facilitation

In the section that follows a series of graphs showing: a) the cumulative response of all the companies surveyed, and b) the Problem Perception Index (PPI), as explained in section 2. The columns, presented in groups of three, indicate the sum of the number of responses in terms of “Always”, “Sometimes” or “Never”, while the points on the line indicate the value of the PPI. PPI values are gauged on the right-hand Y-axis, while the no. of responses is shown on the left-hand Y-axis.

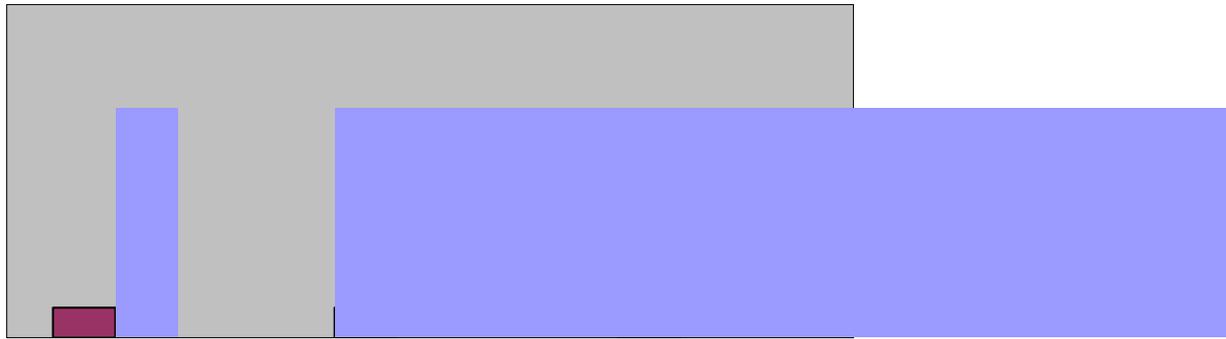
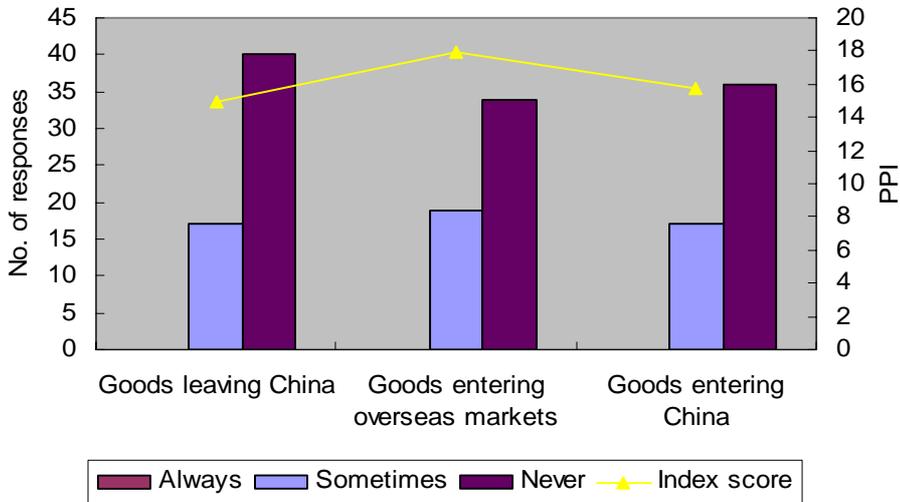
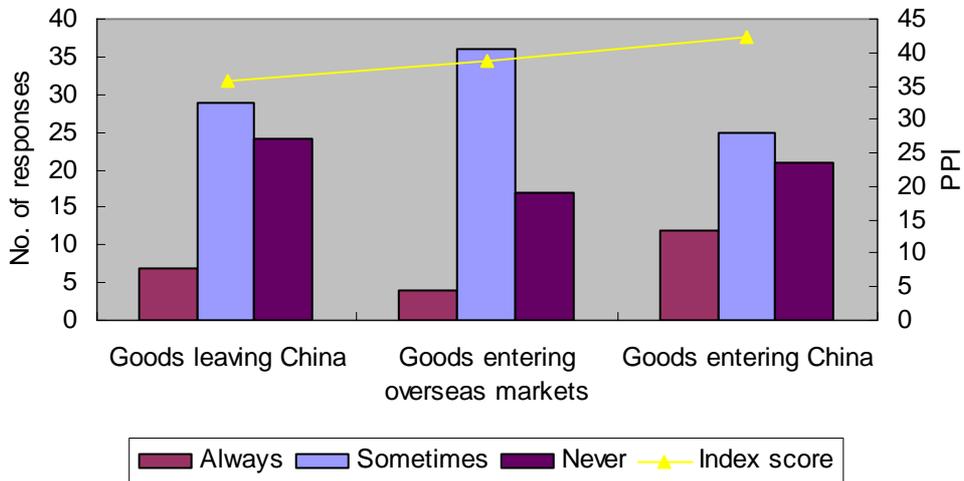


Table 7 - Do you lack access to administrative tribunals for correction of customs actions/documents?



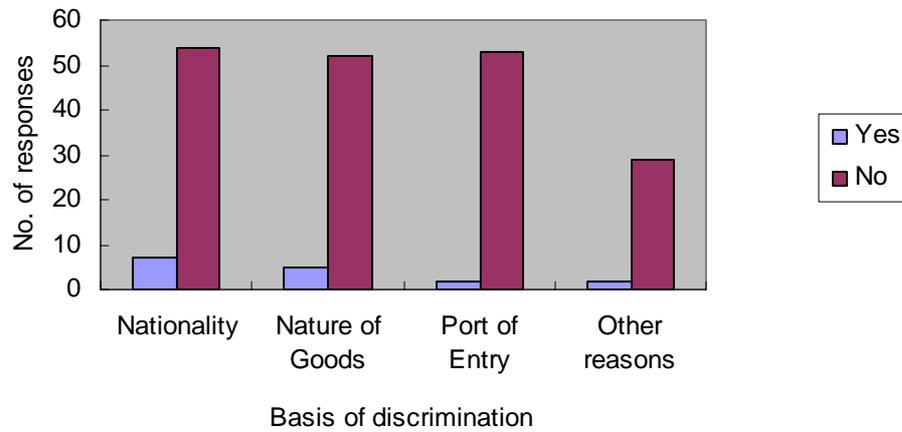
Access to administrative/judicial tribunals, for which the PPI is relatively low at 16.1, remains at acceptable rates. Indeed, as shown in table 7 none of the participants in the survey ticked the “Never” box for this question. “Goods entering overseas markets” has the highest PPI at 17.9, followed by “Goods entering China” (PPI 15.7) and “Goods leaving China” (PPI 14.9).

Table 8 - Do you face excessive and burdensome customs documentation requirements, formalities or procedures?



Average PPI for problems regarding documentation requirements, formalities and procedures is relatively high at 38.9, with the greater focus of the problem lying with “Goods entering China” (PPI 42.2), as indicated in table 8. Further analysis in later sections of this report indicates that excessive documentation requirements in particular are the most burdensome of formalities encountered during importation/exportation.

Table 9 - Perception of discrimination



Perception of discrimination, shown in table 9, at the border also remains relatively low, with only 8.5 % on average of participants answering “Yes” when asked whether they felt they had been subject to discrimination. Discrimination on the basis of nationality remains the strongest perception, with 13 % of participant

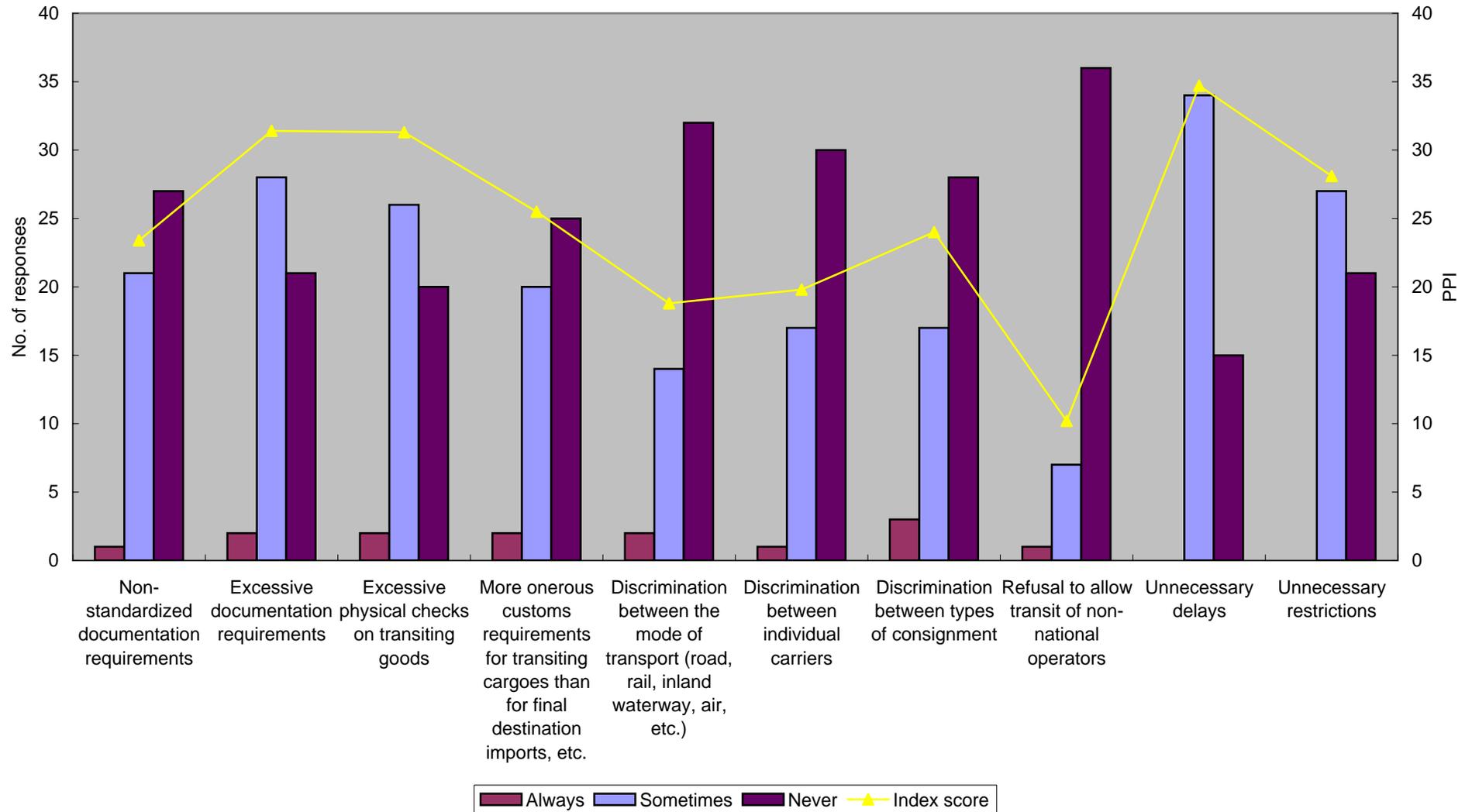


3.3 Specific questions relating to art. V of the GATT (Freedom of Transit)

Table 11 (see overleaf) provides a comprehensive overview of problems encountered with regard to transit in goods. With an average PPI of 24.7, problems in this particular field are moderate, though the data varies substantially. Excessive documentation requirements (PPI 31.4) and physical checks on transiting goods (PPI 31.3) pose the greatest problem, surpassed only by “Unnecessary delays” (PPI 34.7). The category with the lowest PPI value is “Refusal to allow transit of non-national operators” (PPI 10.2).

The PPI disparity of the two categories relating to documentation requirements is worth noting. While “excessive documentation requirements” scored highly at 31.4, “non-standardized documentation requirements” scored only 23.4. This would indicate that the core of the problem lies mainly with the “excessiveness” of the documentation, and to a lesser extent with the conformity of national documentation requirements with international standards.

Table 11 - Which of the following problems have you encountered with regard to transit of goods?



3.4 Specific questions relating to art. VIII of the GATT (Fees and formalities connected with importation and exportation)

For this section, a distinction was made between those fees and formalities associated with importation and exportation in China, and those in other countries. Table 12 (overleaf) shows the responses for China. Average PPI is moderately low at 22.8, with “Means of paying duties” reaching 28.1, followed by “Documentation requirements” at 26.6.

Table 13 shows the responses for China’s trading partners. At 18.5, average PPI is lower than that for China (22.8). However, for China’s trading partners, “Documentation requirements” (PPI 31.5) and “Registration and certification of goods” (PPI 27.2) are still perceived as being more problematic than the corresponding formalities in China. Table 14 (overleaf) provides an illustrative comparison of the PPIs between China and international standards².

² Insufficient data was available to calculate a valid figure for “Inefficiency of customs officials”

Table 13 - Fees and formalities: Do you face the following problems overseas?

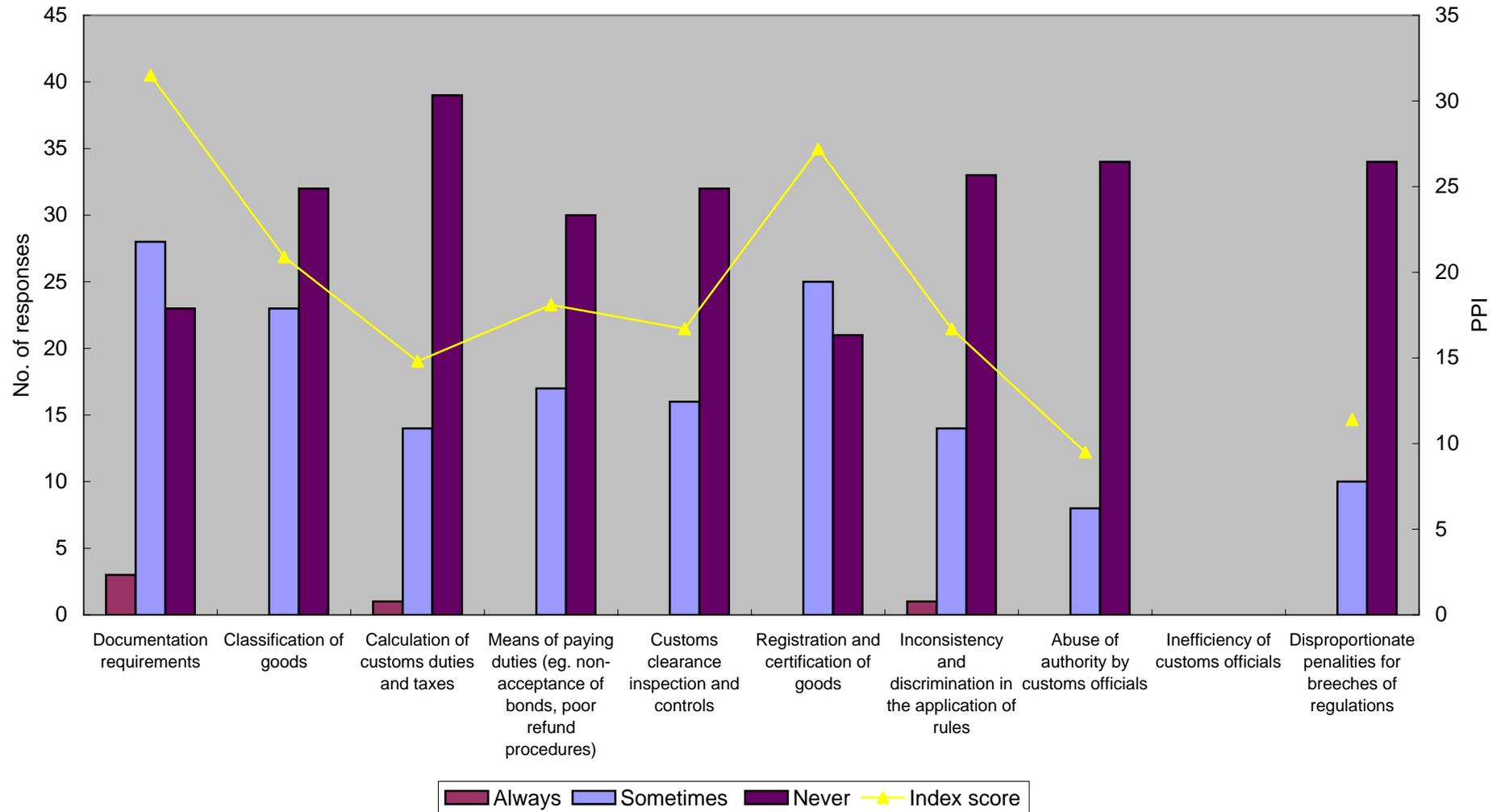


Table 12 - Fees and formalities: Do you face the following problems in China?

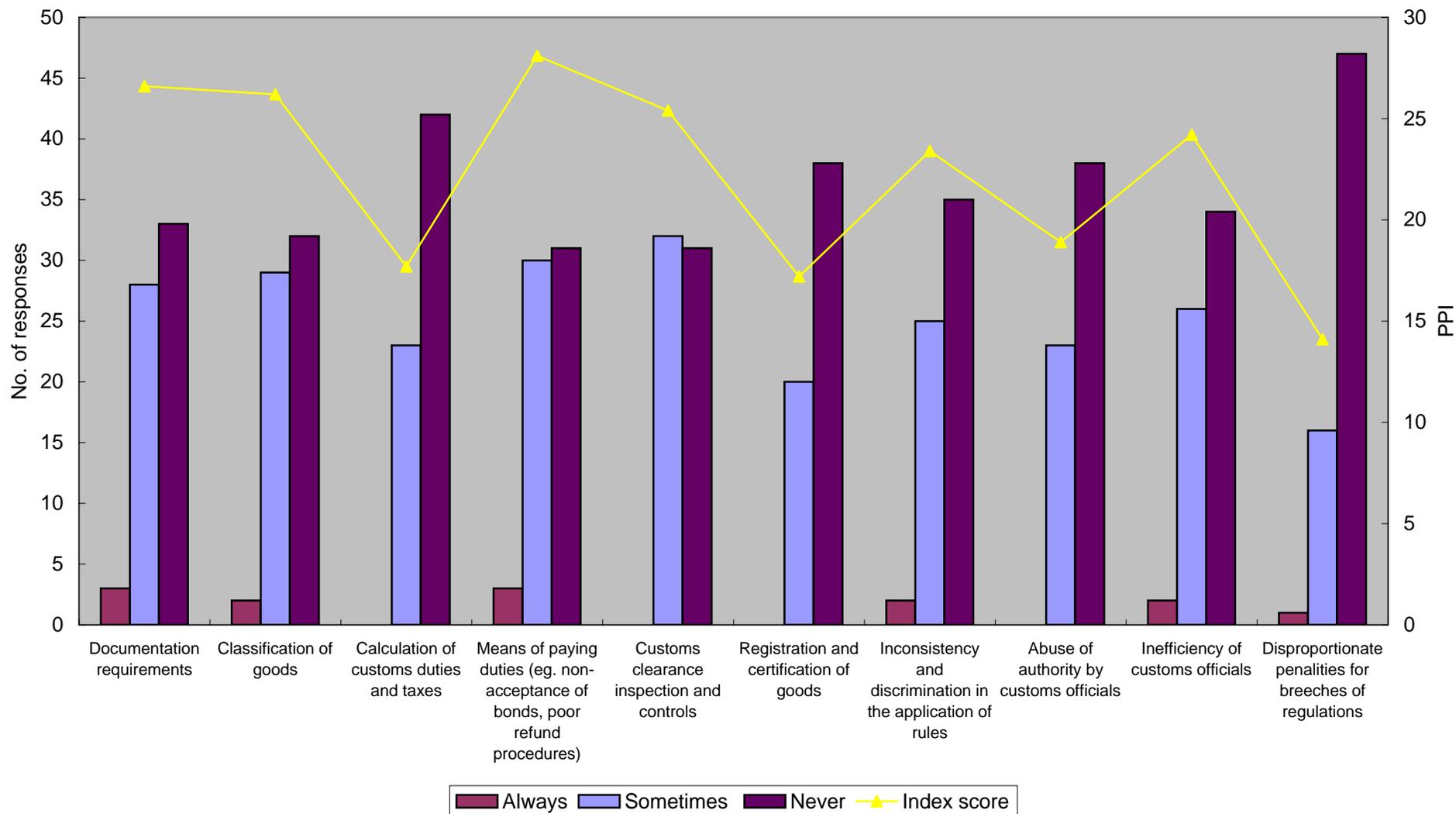
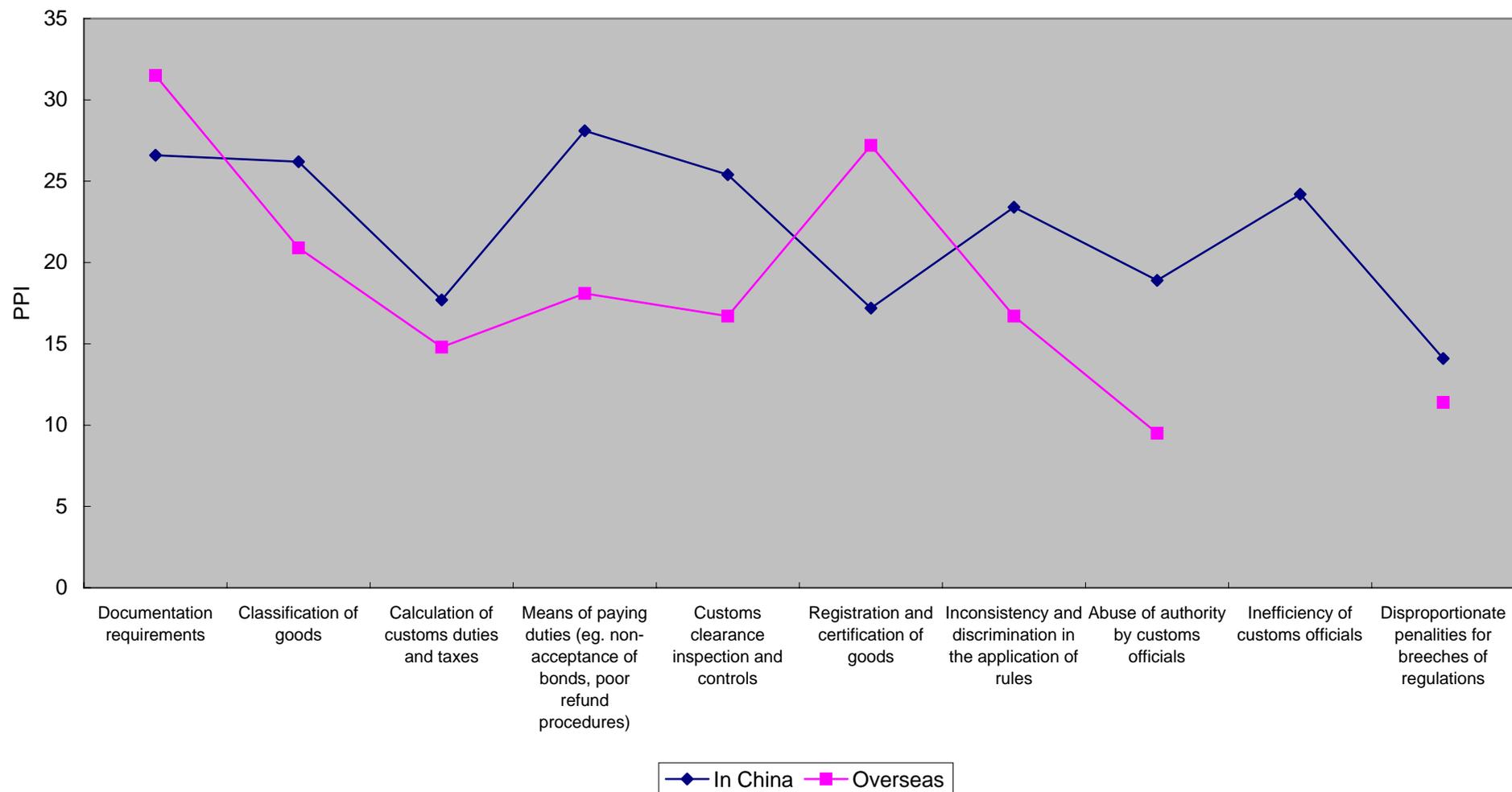
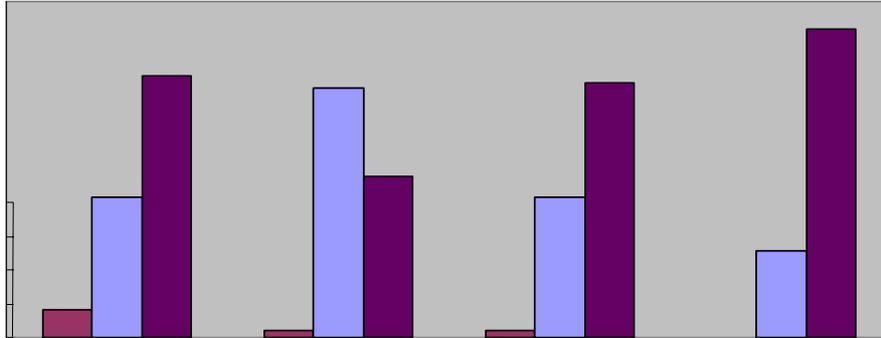


Table 14 - Fees and formalities: Do you face the following problems with regard to import/export fees and formalities?

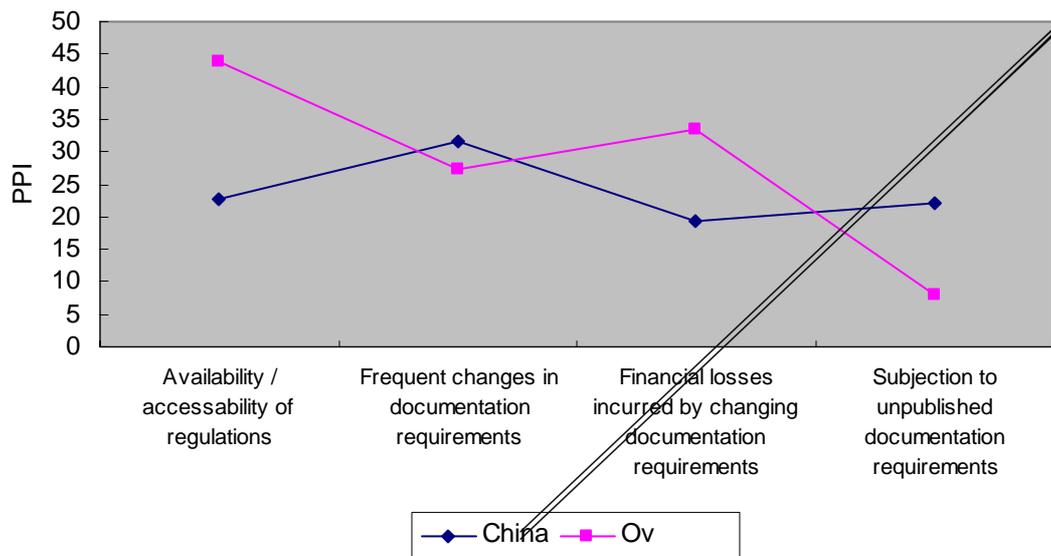


3.5 Specific questions relating to art. X of the GATT (Publication and administration of trade regulations)



correspond with the frequency of change in documentation requirements, which is also higher in China than in overseas countries. However, one should also not that “Financial losses incurred by changing documentation requirements” are higher for overseas countries (PPI 33.3) than for China (PPI 19.2). Possible explanations for this may be that the changes in overseas countries are more substantial than in China, or that the monetary penalties for breaches of regulations are higher among China’s trading partners than in China.

Table 17 - Publication and administration of regulations: Do you face any of the following problems?



3.6 Elements in WTO agreements relating to Trade Facilitation

Table 18 - Elements in WTO agreements relating to Trade Facilitation: Do you face the following problems?

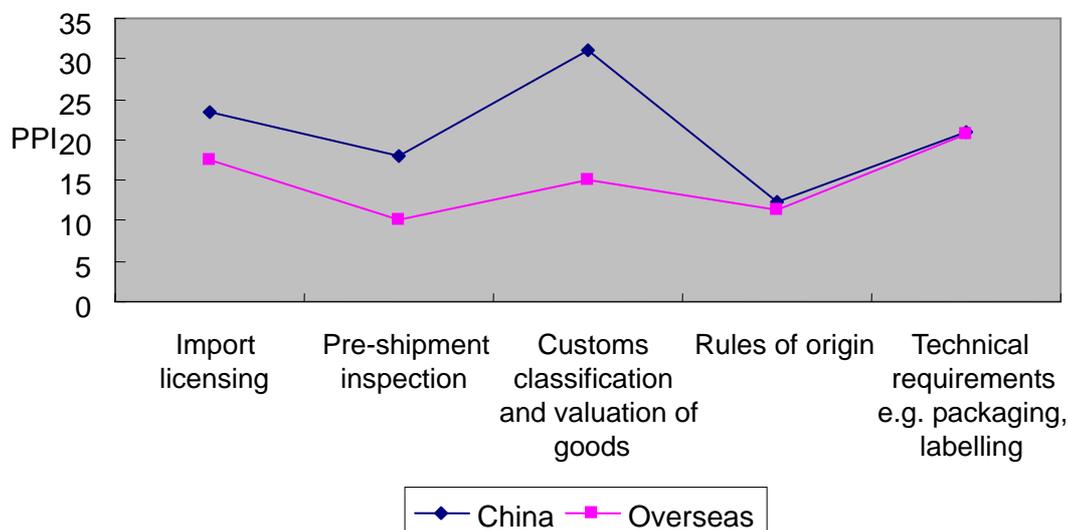


Table 18 provides a comparison between the PPI values for China and its trading partners with regard to various elements in WTO agreements (other than GATT) which refer to Trade Facilitation. China's average PPI is 21.1 compared to 14.9 for overseas countries.

We see that in China, "Customs classification and valuation of goods" scores the highest at 31. If we look back to table 12, we can identify this problem as relating more to classification than valuation. For overseas countries, the highest scoring problem is "Technical requirements" (PPI 20.7), which may relate to the high technical standards or sanitary requirements imposed on goods entering certain markets. "Import licensing" is scores the second highest PPI of all the categories, with China scoring 23.5 compared to 17.5 for overseas countries.

We also see that "Rules of origin" (PPI China 12.3, Overseas 11.4) poses a relatively minor problem both in China and overseas, as does "Pre-shipment inspection", though this is more problematic in China (PPI 17.9) than overseas (PPI 10).

4. RECOMMENDATIONS

Participants were given three sets of policy recommendations, based on existing proposals made by other WTO members, and asked to select three from each set. The results are shown below in table 19, 20 and 21 for articles V, VIII and X of the GATT respectively. Results are shown according to the percentage of responses.

Table 19 - Article V - Recommendations

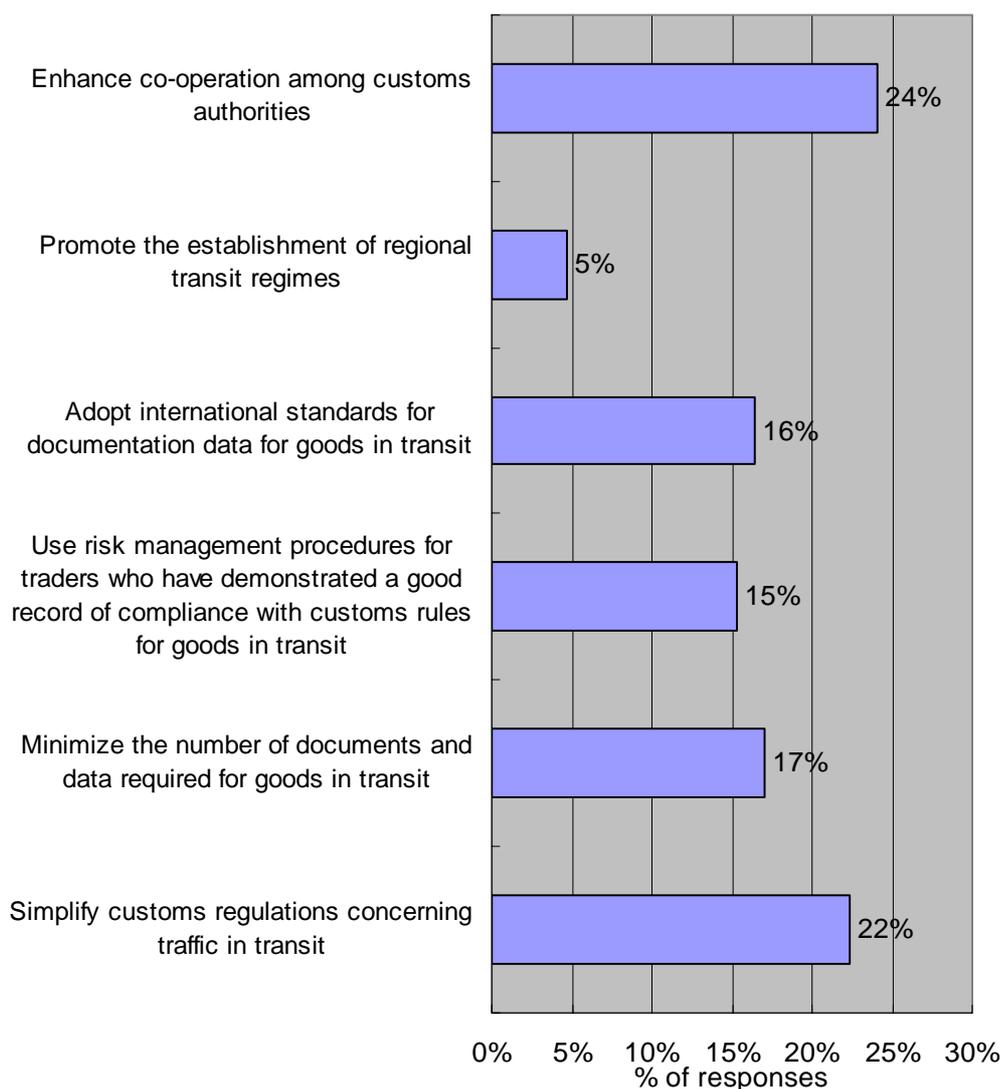


Table 19 shows the recommendations made for clarification and improvement of art. V, which deals with Transit in Goods. 24% of responses, the highest relative percentage, supported enhancement of co-operation among customs authorities, followed by 22% for simplifying regulations on traffic in transit. Documentation requirements are the third highest scoring item at 17%.

Table 20 - Article VIII - Recommendations

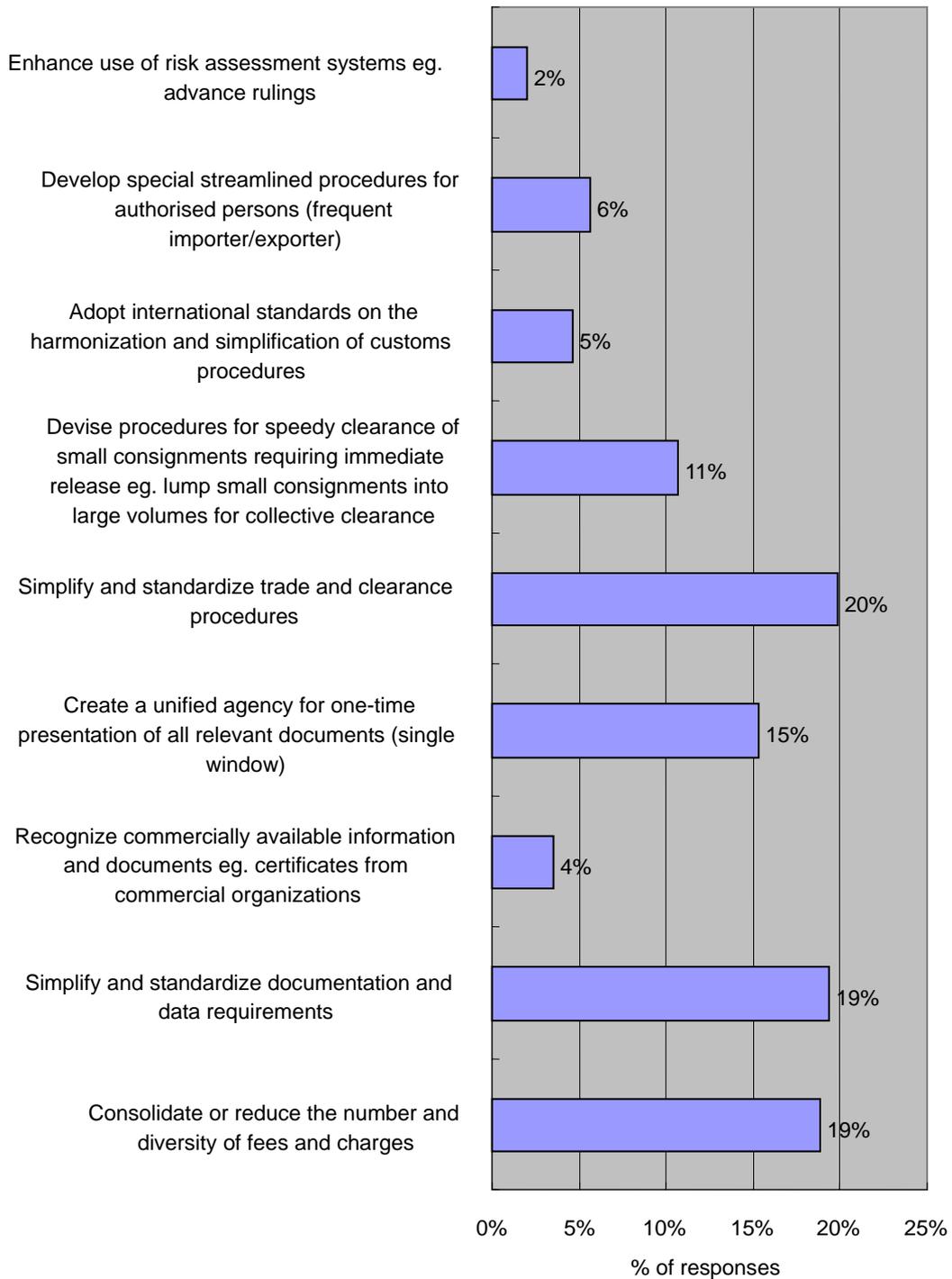


Table 20 shows participants' responses regarding recommendations for article VIII of the GATT, which concerns fees and formalities connected with importation/exportation. "Simplify and standardize trade and clearance procedures" received the highest support with 20%, followed by "Simplify and standardize documentation and data requirements" and "Consolidate or reduce the number and diversity of fees and charges", both with 19%.

Table 21 - Article X - Recommendations

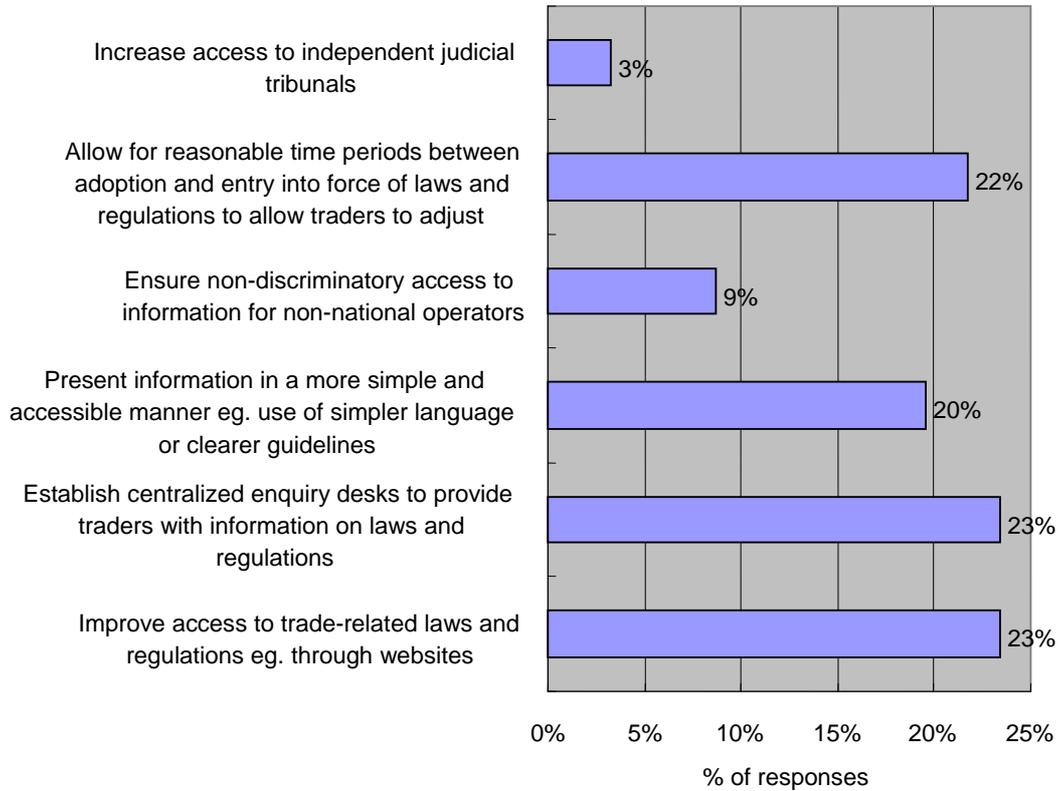


Table 21 shows participants' recommendation regarding article X of the GATT, which concerns the publication and administration of trade regulations. Availability of regulations here is the most problematic issue. Participants' top two recommendations with 23% each are to establish enquiry desks to provide information regarding laws and regulations, and to promote the use of tools such as websites to improve access to laws and regulations. Furthermore, participants recommend longer "grace periods" between the adoption of new laws and regulations and their implementation, so as to allow traders time to adjust.

5. NOTES/DISCUSSION

It would be useful at this point to clarify the boundaries of what this survey *can* and *cannot* show. It shows what procedures and requirements enterprises *perceive* to be a problem when carrying out import/export transactions – not necessarily what they *actually are*. Nonetheless, the results provide an accurate measure of the needs and priorities of the sample group as regards Trade Facilitation initiatives under the WTO.

It is also important to note that since all of the questions are derived from various WTO members' proposals on trade facilitation, the results presented are essentially *reactive*, and do not propose new initiatives. Therefore the results are mostly useful in order to assess the various initiatives already taken in the WTO negotiations. However, they may also be useful as background information, which can be taken into account as China develops new initiatives or proposals at the WTO.

Furthermore, the sample group consists mainly of large enterprises (61 % export over USD 100 million annually). While this is the best way to achieve a sample representative of a large proportion of China's trading volume, it excludes feedback from Small and Medium Enterprises (SMEs), which often lack the resources to navigate regulatory and operational inefficiencies at the customs level. Larger companies, on the other hand, may be able to employ the services of a 3rd party logistics or import/export agency to facilitate import/export transactions. A further survey focusing on the needs of SMEs would therefore be valuable to gain a more comprehensive picture of enterprises' trade facilitation needs.