

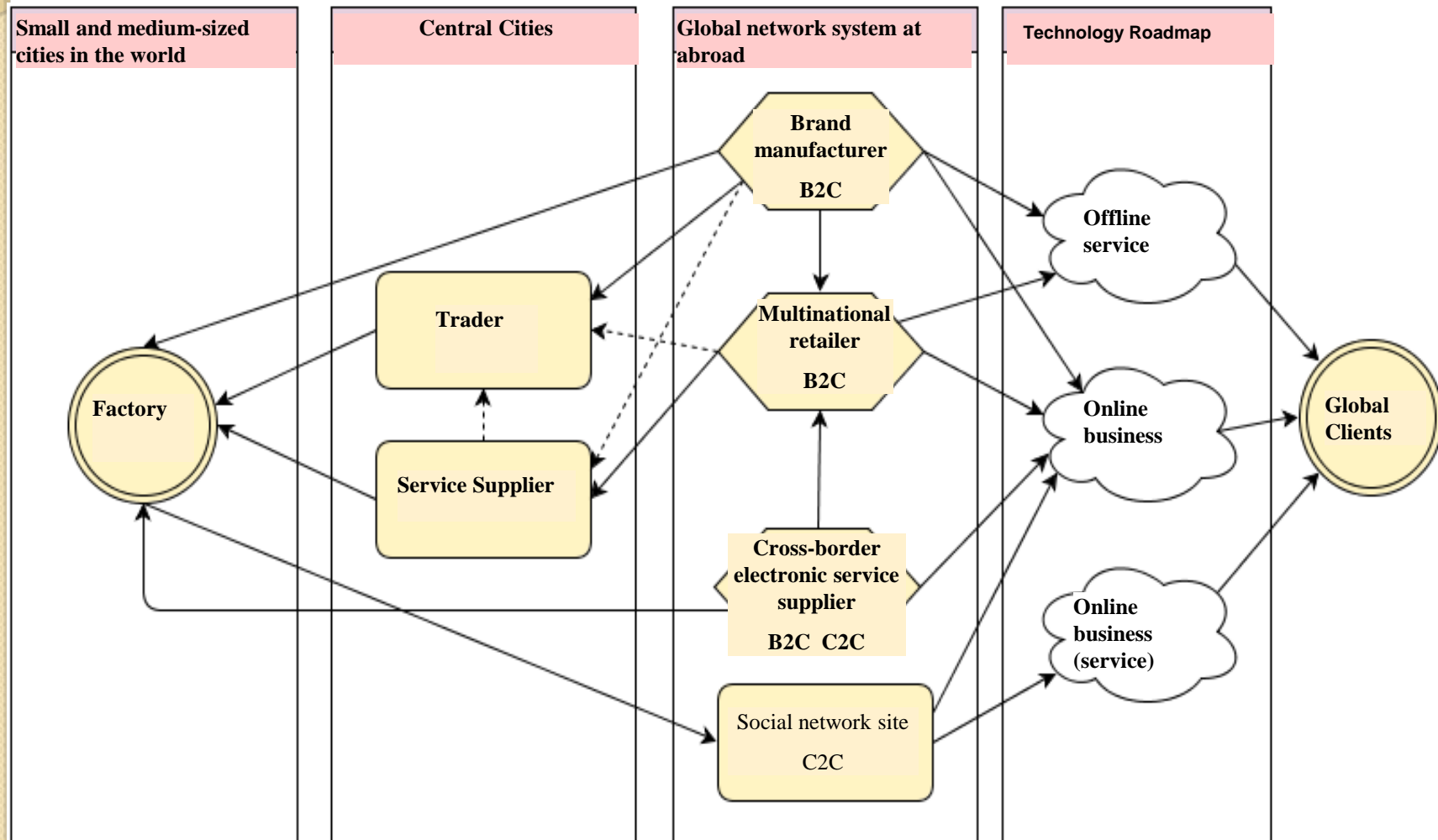
**Function Orientation of Free Trade Zone  
(Customs Special Supervision Areas)  
and Advance of Trade Facilitation under Global  
Value Chain**

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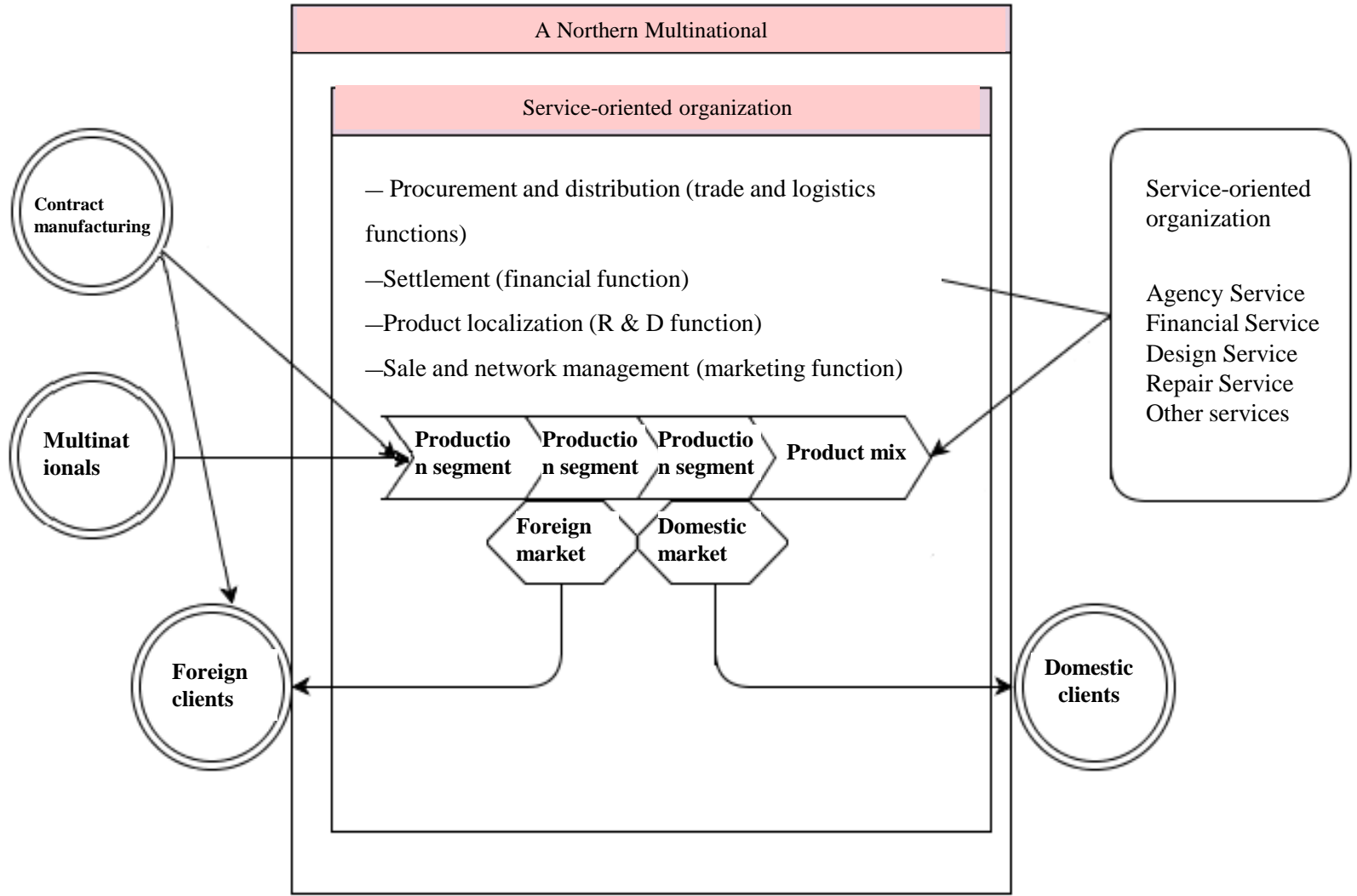
# I. Governance Structure and Dominant Driver of Global Value Chain

## 1. Governance Mode of Global Value Chain for Low-technology Products (non-equity control mode)

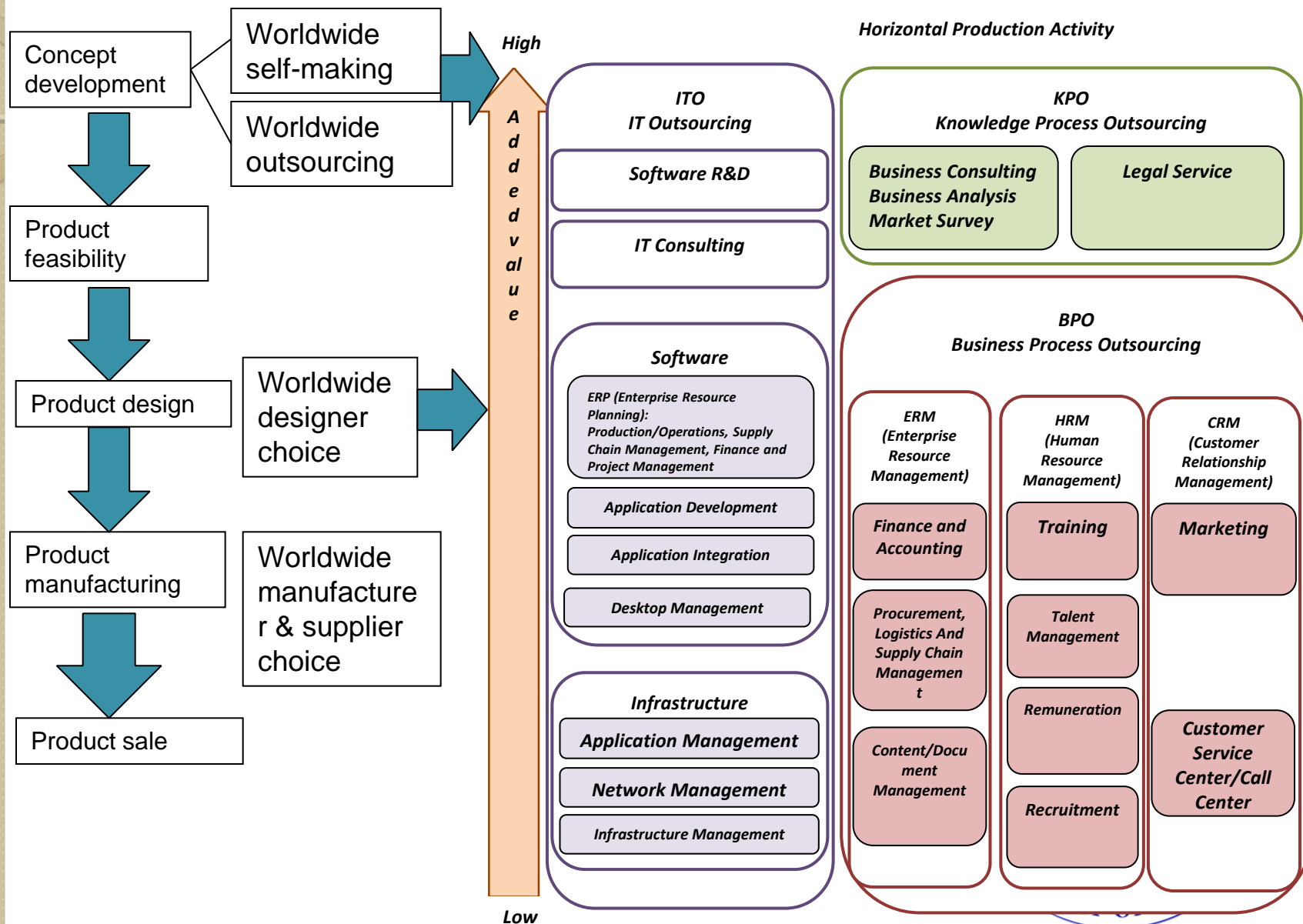


# 2. Governance Mode of Global Value Chain for Medium-technology Products

Product lifecycle transforms from gradient transfer mode to simultaneous global manufacturing and sales mode



# 3. Governance Mode of Global Value Chain for High-technology Products (Global R & D system mode)



## II. China has been integrated into Global Value Chain Specialization System

### Countries engaged in Global Value Chain at Different Technological Complexity and Their Added Value Levels in 2010

Country	Export according to the technological complexity (%)				
	Resource-based	Low-tech manufacturing	Medium-tech manufacturing	High-tech complex manufacturing	Knowledge-based service
Brazil	60%	5%	15%	5%	10%
China	10%	25%	20%	30%	5%
Costa Rica	20%	5%	5%	35%	15%
India	35%	15%	10%	5%	25%
Lesotho	30%	60%	0%	5%	0%
Malaysia	30%	10%	15%	30%	5%
Russian Federation	75%	5%	10%	0%	5%
Singapore	20%	5%	15%	35%	15%
South Africa	55%	5%	25%	0%	5%

Source: *World Investment Report 2013* of the United Nations Conference on Trade and Development (UNCTAD), Page 173  
[http://unctad.org/en/PublicationsLibrary/wir2013\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf)



# Changes in China's import and export structure of different products (in 2000 and 2013)

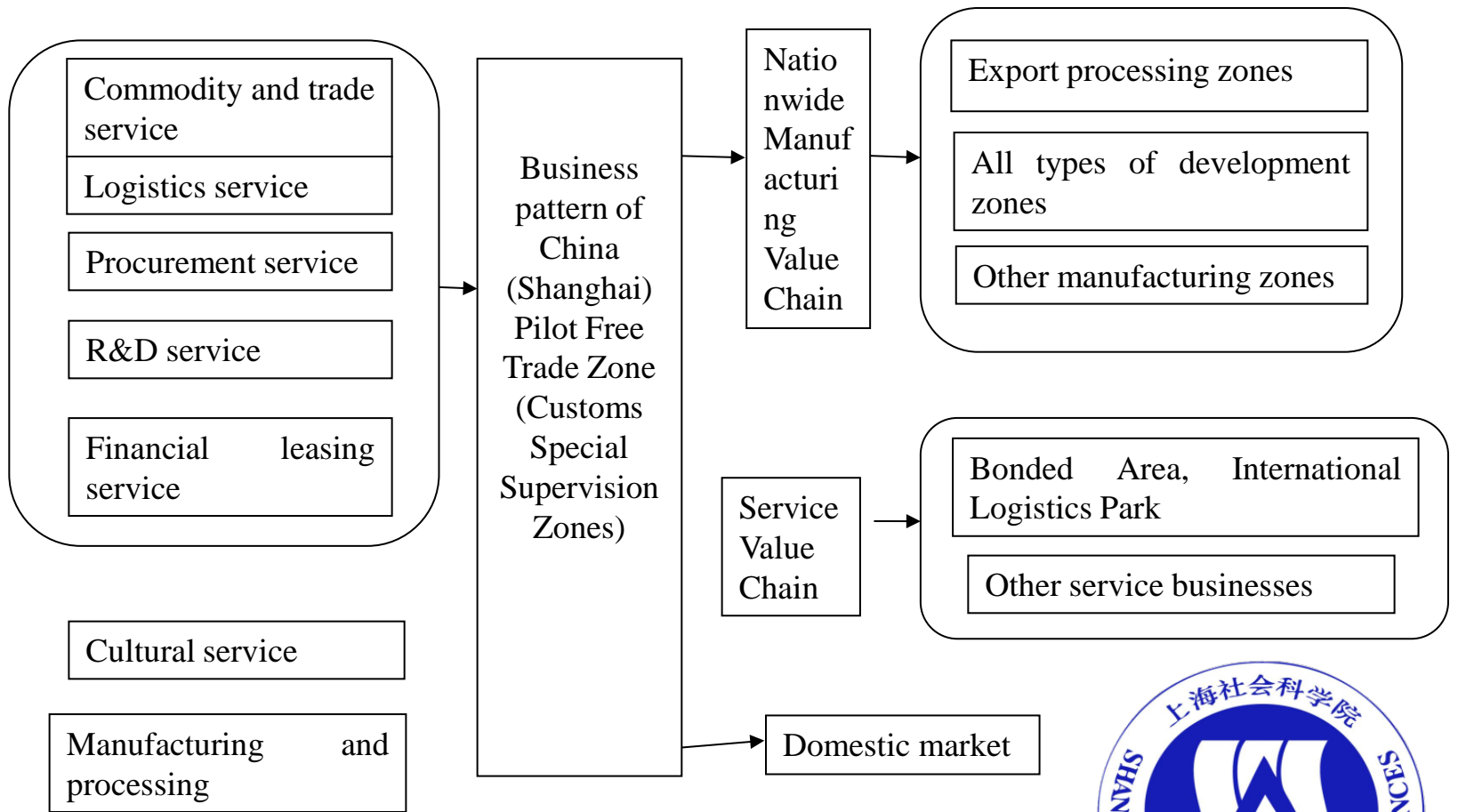
Unit: %

Indicator Product Type		Export Structure		Import Structure	
		2000	2013	2000	2013
<b>Primary products</b>		<b>14.99</b>	<b>8.69</b>	<b>29.12</b>	<b>38.25</b>
<b>Capital goods</b>	<b>Low-technology</b>	<b>11.08</b>	<b>2.42</b>	<b>0.31</b>	<b>0.32</b>
	<b>Medium-technology</b>	<b>2.13</b>	<b>5.61</b>	<b>7.13</b>	<b>3.51</b>
	<b>High-technology</b>	<b>4.79</b>	<b>20.29</b>	<b>9.15</b>	<b>7.15</b>
	<b>Sub-total</b>	<b>18</b>	<b>28.32</b>	<b>16.59</b>	<b>10.98</b>
<b>Consumption goods</b>	<b>Low-technology</b>	<b>30.63</b>	<b>20.53</b>	<b>1.94</b>	<b>1.28</b>
	<b>Medium-technology</b>	<b>4.97</b>	<b>4.40</b>	<b>2.36</b>	<b>3.29</b>
	<b>High-technology</b>	<b>1.71</b>	<b>1.49</b>	<b>0.40</b>	<b>0.17</b>
	<b>Sub-total</b>	<b>37.31</b>	<b>26.42</b>	<b>4.7</b>	<b>4.74</b>
<b>Intermediate products</b>	<b>Low-technology</b>	<b>9.06</b>	<b>8.40</b>	<b>9.34</b>	<b>3.15</b>
	<b>Medium-technology</b>	<b>10.80</b>	<b>14.33</b>	<b>23.40</b>	<b>16.85</b>
	<b>High-technology</b>	<b>9.84</b>	<b>13.84</b>	<b>16.85</b>	<b>26.03</b>
	<b>Sub-total</b>	<b>29.7</b>	<b>36.57</b>	<b>49.59</b>	<b>46.03</b>

Calculated according to product classification method put forward by Lall (2000).  
Source: trade data provided by the United Nations Conference on Trade and Development (UNCTAD)



### III. Roles of Shanghai Customs Special Supervision Zones in China's Participation in Global Value Chain



# China (Shanghai) Pilot Free Trade Zone (Customs Special Supervision Zones) plays a leading role

In 2014, various types of Customs Special Supervision Zones totaled 122. Among them, there were 12 bonded areas, five bonded logistics parks, 45 export processing zone, 44 bonded port and comprehensive bonded zones and a cross-border industrial park, which covered 470.3 square kilometers.

**Basic Data of Special Customs Supervision Zone (2014)**

	China	Shanghai	Shanghai's percentage (%)
<b>Commodity sales amount (RMB 100 mn)</b>	25195.1	13879.4	55.1
<b>Import and export amount (USD 100 mn)</b>	6958.8	1240.2	17.8
<b>Attracted total investment (USD 100 mn)</b>	1126.2	770.1	68.4
<b>Revenue of tax authorities (RMB 100 mn)</b>	1001.7	576.4	57.5
<b>Period-end jobholders (10,000 persons)</b>	195.6	29.6	15.1

Source: Economic Development Statistics Bulletin of Bonded Area in China (Shanghai) Pilot Free Trade Zone, Page 162



# Main Patterns of China (Shanghai) Pilot Free Trade Zone (Customs Special Supervision Zones)

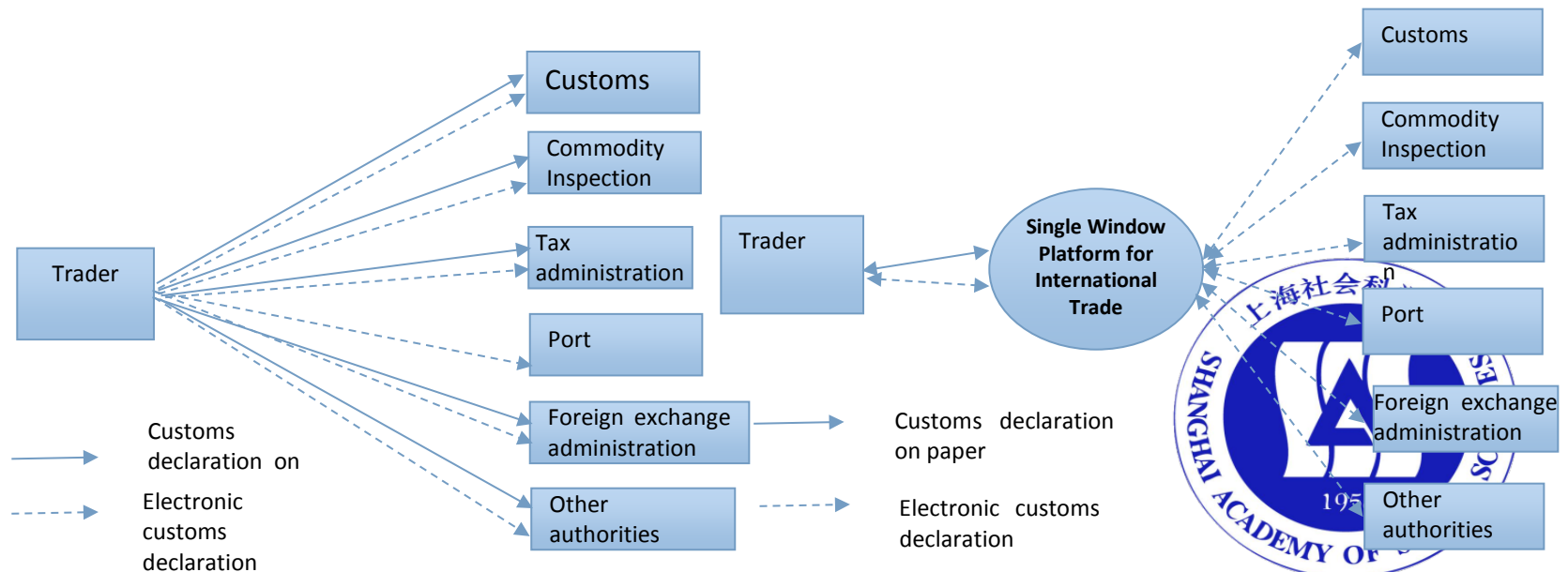
- (1) 203 operation centers of multinationals
- (2) More than 6,000 trade procurement companies
- (3) Eight domestic and overseas financial leasing parent companies and 50 SPV project companies

project companies

## Required Trade Supervision System and Trade Facilitation

Goods Trade Status Classification Management (eight companies under pilot)

## Single Window for International Trade



# **IV. Reform of Goods Supervision System in Free Trade Zone**

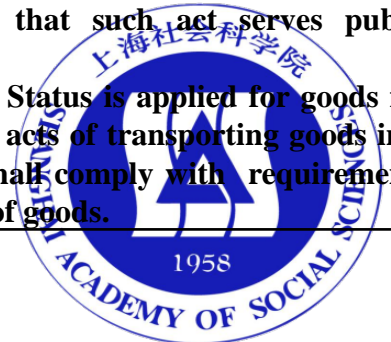
## **4.1 Promoting goods trade status classification management**

- (1) International re-export trade and offshore trade are important trade modes, which mainly serve scattered factories of the multinationals all over the world.**
  
- (2) Trade Facilitation Modes of Hong Kong and Singapore are not applicable, and the main reason is that only concept of “international goods” exists rather than concept of “domestically-produced goods”.**



# The US experience in goods status classification management is worth learning

No.	Goods Status	Description	Supervision Modes and Procedures
1	Domestic Status	<p>The following goods can be identified as Goods with Domestic Status:</p> <ol style="list-style-type: none"> <li>1. Goods which are grown, produced and manufactured in the US, for which domestic taxes have been paid;</li> <li>2. Commodities for which customs duties and related taxes have been paid at the time of importation;</li> <li>3. Previously-imported goods exempt from customs duties and related taxes</li> </ol>	<ol style="list-style-type: none"> <li>(1) Goods with Domestic Status (including domestic goods for domestic packaging and maintenance supplies) can be transported into free trade zone without the need of approval or application, unless otherwise instructed by Customs Commissioner.</li> <li>(2) For goods with Domestic Status, processing, manufacturing, display, destruction or transfer to the customs territory don't require application or approval, unless they mix with other goods with Zone-restricted status or otherwise instructed by Customs Commissioner.</li> </ol>
2	Zone-restricted status	<p>Any goods which are transported into free trade zone from the customs territory only for the purpose of exportation, damage (excluding spirits, wines and fermented malt liquor) or storage, should be regarded as the exports. Upon application, such goods can be identified as goods with Zone-restricted status.</p>	<ol style="list-style-type: none"> <li>(1)As long as the goods are located in foreign trade zone, Zone-restricted status can be applied for them at any time. But once Zone-restricted status is granted, it cannot be arbitrarily cancelled;</li> <li>(2)Goods with Zone-restricted Status shall not be transported back to the US Customs territory for the purpose of domestic consumption, unless the Committee believes that such act serves public interest;</li> <li>(3)If Zone-restricted Status is applied for goods for final exportation, all acts of transporting goods into foreign trade zone shall comply with requirements for real exportation of goods.</li> </ol>



3	Privileged foreign status	<p>When foreign goods are not processed or manufactured and subsequently lead to changes in tax classification, for which Privileged Foreign Status can be applied from the Customs.</p>	<p>When applicants submit applications for permitting goods transport into free trade zone, they shall submit applications for Privileged Foreign Status to port customs. or at any time after goods are transported into foreign trade zone without affecting tariff classification or manufacturing. Such applications shall be accompanied by invoices indicating applicable tariff rates and identification numbers under HS (The Harmonized Commodity Description and Coding System) of such goods with Privileged Foreign Status</p>
4	Nonprivileged foreign status	<p>Under the following circumstance, Nonprivileged Foreign Status can be applied:</p> <p>(1) Foreign trade zone does not enjoy Privileged Foreign Status or foreign goods with Zone-restricted Status;</p> <p>(2) After goods with Privileged Foreign Status or Nonprivileged Foreign Status are processed or manufactured, they produce recyclable wastes;</p> <p>(3) specific domestic goods, namely, domestic goods which lose Domestic Status in foreign trade zone (because they do not comply with the laws).</p>	<p>For goods with Nonprivileged Foreign Status, tariffs are classified in accordance with the actual nature of goods when goods are transported into the customs territory.</p>



No.	Supervision Policy	Benchmark: Experience of the US Free Trade Zones	Current Practice of China (Shanghai) Pilot Free Trade Zone
1	Goods Status Classification Supervision	Goods with different status are allowed to co-exist in free trade zones. According to different sources and different whereabouts, goods identified into four status, namely: Domestic Status, Zone-restricted Status, Privileged Foreign Status and Nonprivileged Foreign Status. Goods are supervised according to goods status classification.	Goods Status Classification Supervision Mode is being constructed and not formed as yet
2	Flexible Setting of Main Areas and Sub-areas	As long as the appropriate conditions are met, sub-areas are allowed for establishment in other zones (even those zones far from the harbors). Enterprises of sub-areas also enjoy relevant policies of free trade zones.	Establishment of sub-areas is not allowed, with merely bonded extension function
3	Integrated Multi-body Supervision	Emphasis is placed on self-discipline of enterprises. Free trade zone operators assume the specific supervision for production and business activities of goods in free trade zones to some extent. Customs mainly conducts electronic audit and verification (supplemented by on-site supervision). This reverses supervision approach on single-bill and single-invoice basis.	Customs plays primary role in supervision
4	Attractive Tax Break Policy	Reverse tariffs, delaying tax payment, export tax exemption, tax refund exemption, VAT savings, etc	Delaying tax payment, etc
5	Policy for Convenient Weekly Customs Clearance	Importers can intensively make customs declaration during some time within a week instead of customs declaration for every batch of goods.	Policy of centralized customs clearance



## 4.2 Trade Facilitation Policies

### 4.2.1 Trade Facilitation in Broad Sense

**Definition:** Through a series of measures such as simplification of procedures, enhancement of transparency, unification of standards, improvement of specifications and fewer restrictions, reducing transaction costs of international trade, and contributing to the free flow of goods and services.

**Indicators:** Market Access; Border Administration; Transport and Communications Infrastructure; Business Environment.

**Publication:** *The Global Enabling Trade Report*, World Economic Forum (WEF)



Index  Country (region)	Aggregate Index	Market Access			Border Management Sub- Index	Infrastructure				Operat ion Environ ment Sub- Index
		Marke t Access Sub- Index	Foreig n Market Access	Domes tic Market Access		Transport and Communic ations Infrastruct ure Sub-Index	Suppl y and Transp ort Service Qualit y	Supply and Use of Information and Communicati ons Technologies	Supply and Transpor t Infrastru cture Quality	
Singapore	5.9 (1)	5.5 (2)	3.9 (13)	7.0 (3)	6.3 (1)	6.1 (1)	5.7 (1)	6.2 (8)	6.5 (2)	5.8 (2)
Hong Kong	5.5 (2)	4.1 (37)	1.2 (135)	7.0 (1)	5.8 (11)	6.0 (2)	5.7 (5)	6.0 (11)	6.5 (3)	5.8 (1)
Brazil	5.1 (8)	5.5 (1)	5.1 (2)	5.9(9)	5.6 (26)	4.4 (44)	4.6 (43)	5.0(36)	3.5(64)	5.0 (25)
US	5.0 (15)	3.5 (70)	1.7 (128)	5.3(27)	5.7 (21)	5.8 (8)	5.5 (11)	5.9(13)	6.0(8)	5.0 (24)
Taiwan	4.9 (24)	3.0 (121)	1.1 (137)	5.0(40)	5.7 (18)	5.5 (15)	5.5 (12)	5.7 (19)	5.4(13)	5.2 (18)
South Korea	4.7 (30)	3.1 (120)	2.0 (93)	4.1(104)	19 (5.7)	5.8 (7)	5.4 (18)	6.4 (6)	5.7(11)	4.3 (55)
China	4.3 (54)	3.1 (119)	1.9 (125)	4.2(98)	48 (4.9)	4.6 (36)	4.8 (31)	3.7(82)	5.1(16)	4.6 (37)

Source: Margareta Drzeniek Hanouz, Thierry Geiger, Sean Doherty (2014) *The Global Enabling Trade Report 2014*

[http://www3.weforum.org/docs/WEF\\_GlobalEnablingTrade\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf)  
PP10-15.



## 4.2.2 Trade Facilitation in Narrow Sense

1. **Definition:** The facilitation of procedures and formalities involved with import and export trade.
2. **Indicators:** There are six indicators, i.e., Number of Export Documents; Export Duration; Export Cost; Number of Import Documents; Import Duration; Import Cost.
3. **Publication:** *Doing Business Report* (World Bank)

### 4. The role of indicators

- (1) At the national level: Many countries regard their scores of "Cross-border Trade" and changes in international ranking as important reference indicators for evaluating overall level of Trade Facilitation and progress in Trade Facilitation.
- (2) At the enterprise level: Many multinationals regard such indicator as an important reference for their own strategic decisions on investment and trade in host countries.



<b>Quantitative Indicator</b>	<b>Indicator Weight</b>	<b>Indicator Description</b>
<b>Export Document (Number)</b>	<b>1/6</b>	<b>Total number of documents required for every batch of exports. All documents required for approvals from governmental ministries, customs authorities, port and container terminal authorities, health and technical control authorities and banks are taken into account.</b>
<b>Export Duration (Days)</b>	<b>1/6</b>	<b>The time required for handling all necessary procedures of exports. If a certain procedure can be expedited, the most efficient legal formalities are selected.</b>
<b>Export Cost (USD/Container )</b>	<b>1/6</b>	<b>Cost involved with all procedures of exports, including document preparation cost, administration expense for customs approval and technical control, customs intermediary expense, port and terminal handling charges and inland transport expense.</b>

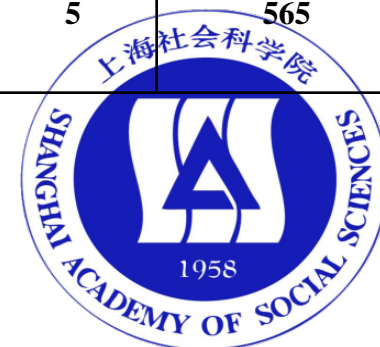


<p><b>Import Document (Number)</b></p>	<p><b>1/6</b></p>	<p><b>Total number of documents required for every batch of imports. All documents required for approvals from governmental ministries, customs authorities, port and container terminal authorities, health and technical control authorities and banks are taken into account.</b></p>
<p><b>Import Duration (Days)</b></p>	<p><b>1/6</b></p>	<p><b>The time required for handling all necessary procedures of imports. If a certain procedure can be expedited, the most efficient legal formalities are selected.</b></p>
<p><b>Import Cost (USD/Container )</b></p>	<p><b>1/6</b></p>	<p><b>Cost involved with all procedures of imports, including document preparation cost, administration expense for customs approval and technical control, customs intermediary expense, port and terminal handling charges and inland transport expense.</b></p>



## 4.2.3 International Comparison for Trade Facilitation

Economy	Ranking	Export Document (Number)	Export Duration (Days)	Export Cost (USD/Container)	Import Document ((Number)	Import Duration (Days)	Import Cost (USD/Container)
Germany	18	4	9	1015	4	7	1050
France	10	2	10	1335	2	11	1445
South Korea	3	3	8	670	3	7	695
The Netherlands	13	4	7	915	4	6	975
Canada	23	3	8	1680	3	10	1680
US	16	3	6	1224	5	5.4	1289
Japan	20	3	11	829.3	5	11	1021
Singapore	1	3	6	460	3	4	440
India	126	7	17.1	1332	10	21.1	1462
UK	15	4	8	1005	4	6	1050
China	98	8	21	823	5	24	800
Hong Kong Special Administrative Region	2	3	6	590	3	5	565



## 4.2.4 Pilot for Trade Facilitation of China (Shanghai) Pilot Free Trade Zone

Trade Supervision Goal	Representative Measure	Implementation Authority	Description of Innovative Measures	Conditions for Replication and Spread
First-line liberalization	Customs Declaration before entry into free trade zone	Customs	For first-line imported goods, relying on information systems, allowing enterprises to firstly take delivery of goods with presence of manifest information imported goods; making customs declaration before goods enter into free trade zone.	Yes
Second-line Control	First-line Quarantine and Second-line Inspection	Commodity Inspection Authority	No exemption for quarantine in exit and entry first-line; goods other than sensitive products are exempt from inspection; strict second-line inspection.	Yes
Supervision Cooperation	Single Window for International Trade	Shanghai Municipal Office for Port Service, etc	Declaration and result feedback for general trade imports and online release for ships out of port undergo pilots on the single window platform	No



# Comparison for Construction of Single Window for International Trade in China (Shanghai) Pilot Free Trade Zone and Major Countries

<b>Implementer Contents</b>	<b>China (Shanghai) Pilot Free Trade Zone</b>	<b>Singapore</b>	<b>US</b>	<b>Sweden</b>
<b>Construction Mode</b>	Not available	Single Information Automatic-Processing System Mode	Single Automatic System Mode	Single Organization Mode
<b>Leading Authorities</b>	Shanghai Municipal Office for Port Service	Ministry of Trade and Industry Singapore	The US Customs and Border Protection	National Customs
<b>Participating Authorities</b>	Customs, commodity inspection, maritime affairs, frontier inspection (at present)	Over 30 authorities including customs	Competent authorities related to trade supervision	Competent authorities related to trade supervision
<b>Main Functions</b>	Two pilot projects for declaration for general trade imports and online release for ships out of port	Import, export and re-export	Import, export and re-export	Import, export and re-export
<b>Legal Protection</b>	Not available	<i>Evidence Act of Singapore (1996), Electronic Trade Law of Singapore (1998) and other laws are formulated</i>	The US Customs and Border Protection sets up a special team dedicated to legislation review	New laws concerning electronic signatures and other aspects are formulated
<b>Data Element Standards</b>	Not available	WCO DATA MODEL and dedicated authorities in charge of data element standardization	WCO DATA MODEL and dedicated authorities in charge of data element standardization	WCO DATA MODEL and dedicated authorities in charge of data element standardization



# Idea of Promoting Single Window for International Trade

- (1) Single Window Framework: expansion on the basis of port office
- (2) Single Window Interface System Mode selection: single automated system
- (3) Data element standardization: integrated work of various authorities



**Thank You!**

**Your Valuable Comments Are Highly  
Appreciated!**

