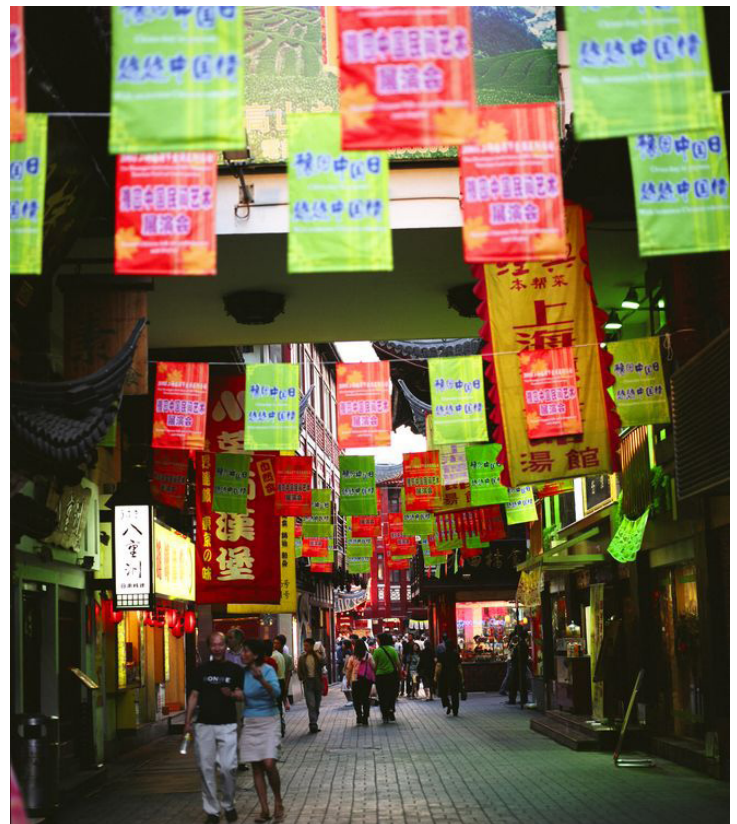


An Investigation into Manufacturing and Agricultural Exports to China

WASHINGTON STATE UNIVERSITY EXTENSION • EM065E



WASHINGTON STATE UNIVERSITY
EXTENSION

An Investigation into Manufacturing and Agricultural Exports to China

Abstract

United States commerce with China has expanded substantially since the Chinese economic reforms of 1978. China is now the third largest export market for the U.S., behind Canada and Mexico. China offers a large potential market for U.S. exports because of its relatively fast growth and large population. Yet there are significant barriers to exporting to China, including language, political, and cultural barriers, as well as traditional trade barriers and economic regulations. This WSU Extension Manual provides Washington State exporters with information on China and the Chinese market, as well as the barriers and regulations exporters may encounter when entering the Chinese market.

Introduction

This manual provides Washington State businesses with an introduction to doing business in China. Our goal is to make exporting to China easier by providing an overview of the Chinese market, including its economic, political, and cultural institutions. We will describe the latest trends in Chinese demographics, economic activities, and trade policy. We will also examine trade regulations and describe the procedures that need to be followed when exporting to China.

The information in this manual complements the information in the China Report (Washington State Small Businesses Development Center 2011). We suggest that readers become familiar with the information in the China Report before reading this manual. Another useful introductory source of information on China is the Country Commercial Guide for U.S. Companies: Doing Business in China (U.S. Commercial Service 2012; Washington State Small Business Development Center (SBDC) 2011). These reports cover the subject more broadly. In contrast, this manual highlights characteristics

important to U.S. exporters and provides insight into entering the Chinese market.

Some of the information in this manual is first-hand from one of the authors who worked as an international trade regulatory specialist in China in the early to mid-2000s. This means we can provide a unique and independent perspective on exporting to China.

Trade and Development in China

The Chinese Communist Party established the People's Republic of China in 1949. From its founding until late 1978, China was a planned economy, and industrial and agricultural production and prices were controlled by a state plan (GOV.cn 2012). Since 1978, China has been developing a unified and open socialist market system that has features of a market system. Not coincidentally, China has experienced relatively strong economic growth. Growth has been particularly strong in urban and coastal areas, resulting in labor migration and urbanization.

Some of the Chinese economic reforms include facilitating international trade. Table 1 presents the annual value of U.S. foreign trade with the world and with China from 2000 to 2011. As the table shows, trade between the United States and China has increased substantially and is now worth more than \$500 billion. Table 1 also shows that not only is U.S. trade expanding with China, China is also becoming increasingly important to the U.S. as a trade partner. From 2000 to 2011, the share of total U.S. trade with China rose from 5% to 14%, although U.S. trade with the rest of the world also increased. China is now the third leading importer of U.S. goods and services, receiving more than \$100 billion or 8% of total U.S. exports. This trend indicates that China, with its large population and high economic growth rate, has significant potential as a market for U.S. exports (Morrison 2012).

Table 1. U.S. International trade with the world and China from 2000-2011 (\$ billions of current prices).

Year	U.S. Trade with the World			U.S. Trade with China		
	U.S. Exports	U.S. Imports	U.S. Balance of Trade	U.S. Exports	U.S. Imports	U.S. Balance of Trade
2000	780	1217	-436	16	100	-84
2001	731	1142	-411	19	102	-83
2002	693	1164	-470	22	125	-103
2003	724	1259	-536	28	152	-124
2004	817	1470	-653	35	197	-162
2005	904	1671	-767	42	243	-202
2006	1037	1855	-818	55	288	-233
2007	1163	1954	-791	65	322	-256
2008	1300	2100	-800	71	338	-266
2009	1057	1558	-501	70	296	-227
2010	1278	1912	-635	92	365	-273
2011	1481	2207	-726	104	399	-295

Source: United States International Trade Commission 2012

The United States is important for Chinese exports as well. The United States now imports more from China than any other country, exceeding imports from both Canada and Mexico. In 2011, the United States purchased \$400 billion worth of goods from China, which accounted for 18% of total U.S. imports. Though U.S. exports to China are increasing, U.S. imports from China are increasing more quickly. Thus, the U.S. trade deficit with China has grown over the last decade, going from \$84 billion in 2000 to \$295 billion in 2011. Over 40% of the U. S. world trade deficit comes from the trade deficit with China.

Along with Chinese economic development has come an urban middle class that demands higher quality products and services. Most American products imported by China are high-technology industrial products and agricultural products. Table 2 lists major U.S. export industries for China during 2000–2011. The top five industries exporting to China in 2011 were waste and scrap, oilseeds and grains, aerospace products and parts, semiconductors and other electronic components, and motor vehicles. Many of these industries have experienced big gains in exports to China. In particular, the aerospace industry has benefited from a developing civil aviation market in China, and exports have increased by double digits (U.S. Commercial Service 2012).

By and large, the United States imports low-cost manufactured intermediate goods and consumer products from China. These imports reduce costs to American consumers directly or indirectly through

the lower cost of components later assembled in the United States. Recently, however, Chinese exports to the United States have been of higher quality and reflect more manufacturing sophistication. Table 3 lists the major products the United States imported from China from 2000–2011. The top five products were computer equipment, communications equipment, miscellaneous manufactured commodities, apparel, and semiconductors and other electronic components.

Chinese Market Overview with a Focus on Import Potential

China has 23 provinces, 5 autonomous regions (Guangxi, Nei Mongol, Ningxia, Xinjiang Uygur, and Xizang), and 4 municipalities (Beijing, Chongqing, Shanghai, and Tianjin). China's population is over 1.34 billion, making it the most populous country in the world (National Bureau of Statistics of China 2011). This large population provides a great deal of trade potential as China becomes more developed and integrated with the rest of the world. Currently, China's population is equally divided between urban and rural areas. Figure 1 shows China's urban and rural populations over time. China's urbanization process has accelerated noticeably since its economic reforms in 1978. Urbanization changes a country's economic structure and consumer demand, thus, it is bringing China closer to the norms in developed countries.

The renminbi is China's official currency; however, it is not the official currency in Hong Kong or Macau, although it is usually accepted there. Renminbi is

Table 2. Top 10 U.S. export industries for China from 2000-2011 (\$ millions of current prices).

Commodity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Waste and Scrap	744	1103	1211	1943	2508	3670	6071	7331	7562	7142	8561	11540
Oilseeds and Grains	1049	1037	920	2869	2829	2339	2593	4145	7316	9376	11208	11500
Aerospace Products and Parts	1771	2609	3624	2711	2111	4535	6309	7447	5471	5344	5766	6392
Semiconductors and Other Electronic Components	1317	1682	2151	2970	3565	4015	6830	7435	7475	6041	7555	5668
Motor Vehicles	41	32	66	149	162	444	628	908	1194	1134	3515	5369
Basic Chemicals	680	598	818	1385	1954	1963	2024	2914	3090	3433	4202	4658
Resin, Synthetic Rubber, Artificial and Synthetic Fibers and Filament	660	771	923	1154	1631	2127	2548	3290	3524	4036	4336	4476
Navigational, Measuring, Electro-medical, and Control Instruments	641	996	1012	1342	1730	1790	2161	2444	2886	2917	3782	4275
Other General Purpose Machinery	631	788	829	994	1570	1505	1750	1885	2273	1890	2445	3113
Other Agricultural Products	68	57	161	789	1470	1424	2147	1558	1786	1008	2328	2825

Source: United States International Trade Commission 2012

Table 3. Top 10 U.S. import industries for China from 2000-2011 (\$ millions of current prices).

Commodity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Computer Equipment	8256	8173	11947	18653	29486	35467	40046	44462	45820	44818	59800	68276
Communications Equipment	2957	3128	4533	5863	9015	14121	17977	23192	26618	26362	33464	39806
Miscellaneous Manufactured Commodities	16297	16500	19471	21776	23712	26449	28888	34827	35835	30668	34168	32672
Apparel	6972	7219	7653	9017	10530	16362	19228	22955	22583	22669	26603	27554
Semiconductors and Other Electronic Components	5993	5383	6282	7438	10269	11718	15032	15353	13645	12363	18263	19835
Footwear	9082	9633	10099	10415	11190	12537	13697	13929	14230	13119	15673	16482
Audio and Visual Equipment	6265	6305	8849	9873	12421	15287	18789	19075	19715	18253	19493	15853
Household and Institutional Furniture and Kitchen Cabinets	3572	4037	5563	6826	8183	9731	11176	11872	11086	9128	11123	11398
Household Appliances and Miscellaneous Machines, Nesoi	3140	3764	4371	5201	6480	7498	8531	8266	8520	7724	9090	9569
Other Fabricated Metal Products	1788	2033	2560	2990	3931	4851	6074	6781	7242	5690	7228	8638

Source: United States International Trade Commission 2012

pronounced [ren-min-bee] and abbreviated RMB. Its name means “people’s currency.” In the commercial world, renminbi is denoted by ¥ and is coded as CNY. The primary unit of account for the renminbi is the yuan [yoo-ahn]. The yuan is also known colloquially as the kuai [kwahy]. Using the 2005 average exchange rate, 8.19 Chinese yuan is worth one U.S. dollar.

An exchange rate is how much foreign currency can be bought for one U.S. dollar. Most countries allow their exchange rate to float, meaning that market forces set the exchange rate. These market forces can be volatile, which is why exchange rates

often change throughout the day. A few countries have a fixed, or pegged, exchange rate in which their government intervenes in the market to make sure the exchange rate remains constant over time. Officially, China has been a floating exchange rate country since 2005. Unofficially, China still largely fixes its exchange rate to the U.S. dollar. Or more specifically, China allows the exchange rate to float but only within narrow limits. Figure 2 shows the exchange rate with China from 1995–2012. The exchange rate has decreased from about 8.4 yuan to the dollar to 6.3 yuan to the dollar. Americans can exchange dollars for RMB with any major bank just as with any other currency.

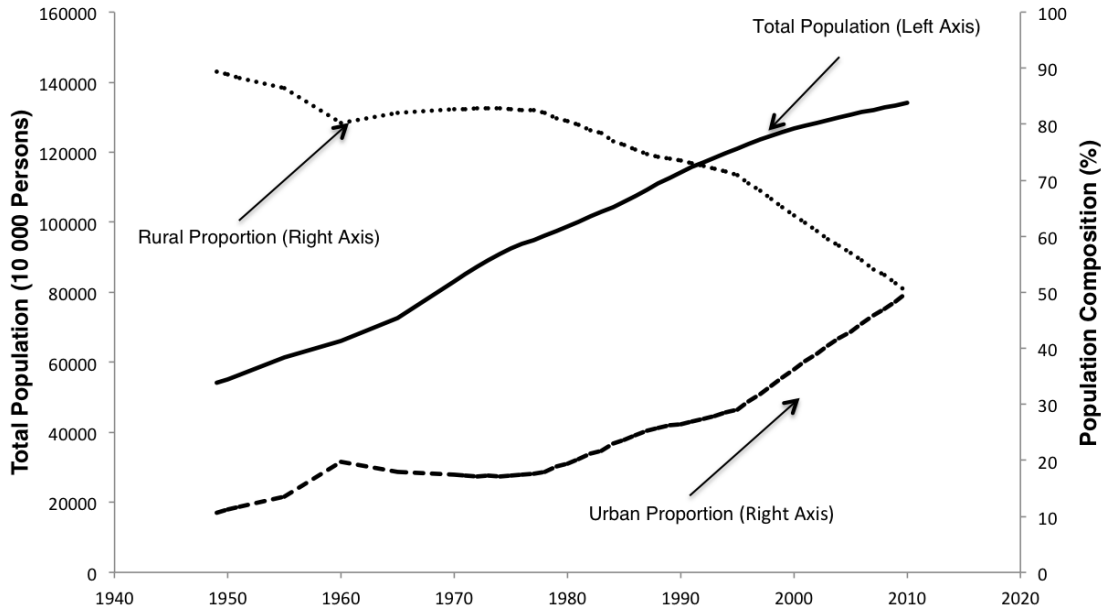


Figure 1. China population and its composition. Source: National Bureau of Statistics of China 2011.

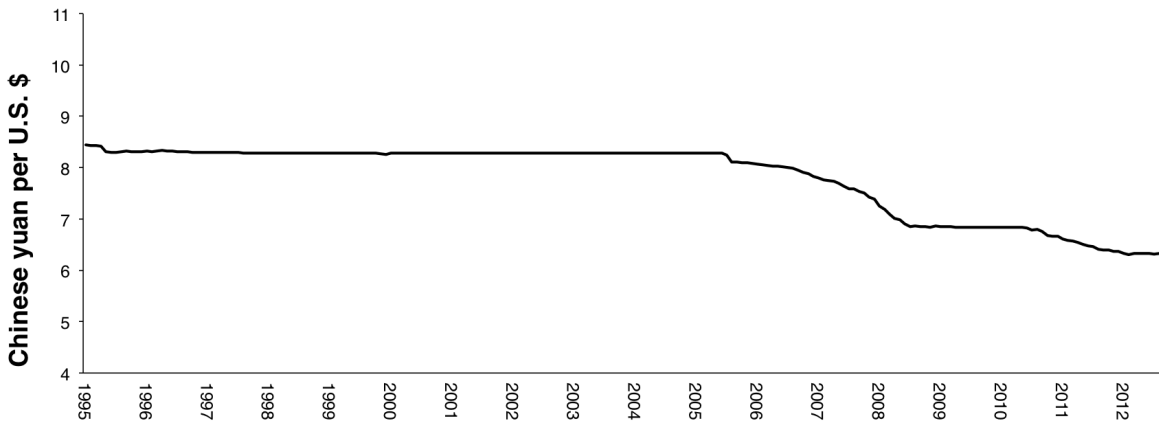


Figure 2. Yuan exchange rate in U.S. dollars. Source: <http://www.oanda.com/currency/average>.

For both exporters and importers, there are advantages and disadvantages to having a fixed exchange rate. The biggest advantage, for both exporters and importers, is that with a fixed exchange rate, there is the certainty that the rate will not change from the time of a sale to the time payment is received by the seller. However, in practical terms, there is nothing preventing China from changing its fixed exchange rate at any moment, which does create some uncertainty. The major disadvantage of a fixed exchange rate is that if a country fixes its currency at a level below what the market would set, then imports into that country become artificially expensive. Though not officially declared an exchange rate manipulator by the United

States, many scholars believe China deliberately, though unofficially, fixes its exchange rate to make U.S. goods more expensive in China than they otherwise would be (Mercurio and Leung 2009).

China is among the world's largest economies in terms of the value of its output. This measure of economic size is known as the Gross Domestic Product (GDP). Though the Chinese economy is large, so is its population, and thus the GDP per capita is not yet at the level of developed countries. China had the 3rd largest GDP in 2009, but was 125th in GDP per capita. The distribution of national economic and social development does not occur evenly across geographic provinces. The eastern provinces accounted for 53.8% of national total

GDP in 2009, the central provinces accounted for 19.3%, the western provinces accounted for 18.3%, and the northeastern provinces accounted for 8.5% (National Bureau of Statistics of China 2011).

Since the economic reforms began in 1978, private enterprises have played an increasing role in the Chinese economy, supplementing the traditional role of large state-owned enterprises. In that time, China's GDP has increased on average 8.80% per year, with rates as high as 11.65% per year. Figure 3 shows that in 2010, China's per capita GDP was worth 23,511 Chinese yuan, which is 2,871 U.S. dollars at 2005 prices (National Bureau of Statistics of China 2011). Though China is usually thought of as an exporting country—it was the largest exporter in the world in 2009¹—it is currently the second largest importer in the world.

The increase in Chinese domestic consumption is one of the major driving forces of economic growth. The largest expenditure for households in 2009 was for food and it accounts for 30%–40% of total expenditures, depending on whether the family is urban or rural (National Bureau of Statistics of China 2011). As living standards improve and food supply is increasingly secure, food demand is changing to reflect preferences for quality, taste, and nutrition. The second largest expenditure was for residence and housing (18%), transportation and communications (10%), and health care and personal articles (8%).

¹China is among the world's largest producers of crude steel, coal, crude petroleum, cereals, meat, tea, and fruits.

Figure 4 shows the average wage for workers in urban areas. The average wage has had an annual double-digit growth rate since 1995, and the average wage in 2010 was 31,897 Chinese yuan (3,895 U.S. dollars at 2005 prices). The increase in the average wage has led to an emerging middle class with a taste for more sophisticated goods. The increasing wage means that China's historical comparative advantage in labor-intensive production in both construction and electronics may be decreasing.

The average wage of urban workers is not evenly distributed across sectors. In 2010, the average wage was 16,717 Chinese yuan for agriculture-related sectors, 30,916 Chinese yuan for the manufacturing sector, 27,529 Chinese yuan for the construction sector, and 64,436 Chinese yuan for the IT sector (equivalent to 2,041; 3,775; 3,362 and 7,868 U.S. dollars at 2005 prices). (National Bureau of Statistics of China 2011). Agriculture-related workers accounted for 2.88% of employed workers in urban areas in 2010, manufacturing industries accounted for 27.87%, construction industries accounted for 9.71%, and IT industries accounted for 1.42% (National Bureau of Statistics of China 2011).

The rising purchasing power within Chinese households is a positive development for U.S. businesses interested in the Chinese market. However, this purchasing power is reduced because of support for dependents. The systemic dependency of children and the elderly reduces some of the value of rising wages. Figure 4 also shows the youth and elderly dependency ratios, which are respectively

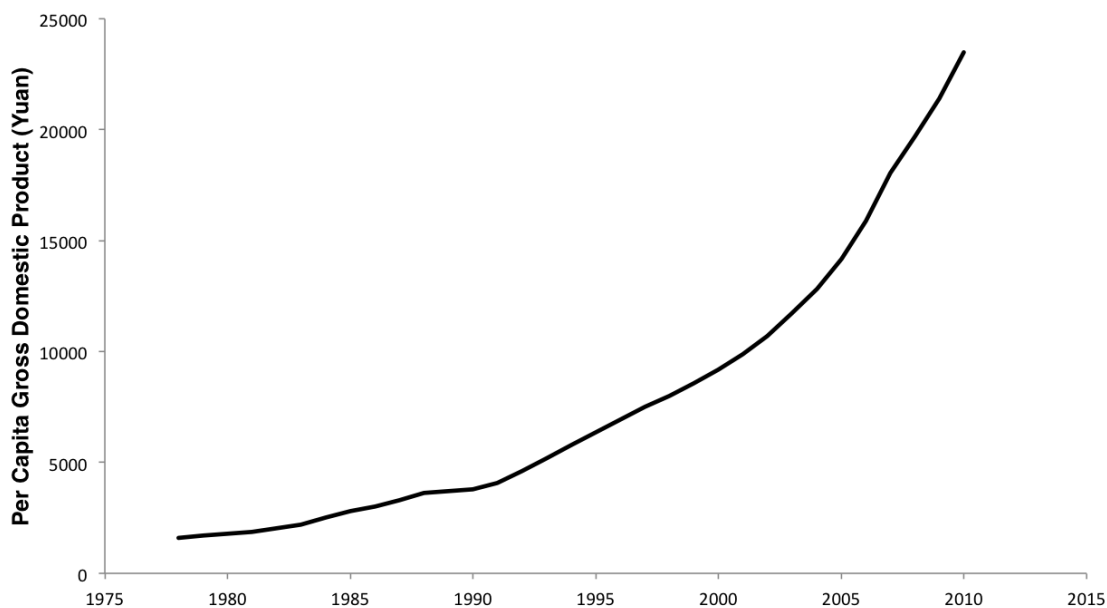


Figure 3. China per capita gross domestic product (2005 prices). Source: National Bureau of Statistics of China 2011.

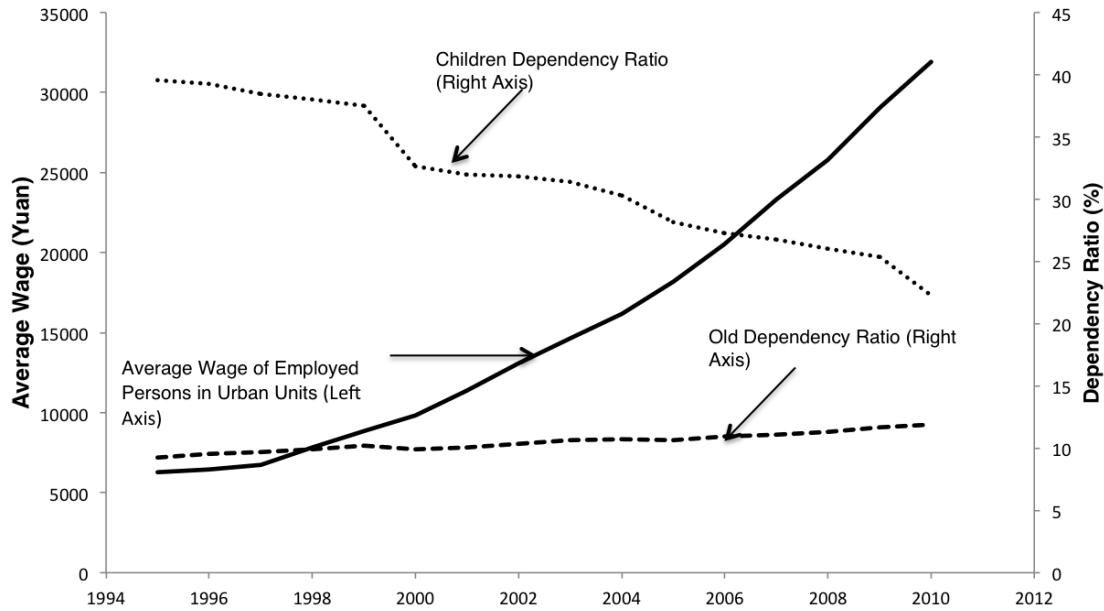


Figure 4. Average wage of employed person in urban units and dependency ratio in China (2005 prices). Source: National Bureau of Statistics of China 2011.

defined as the ratio of the number of dependent people to the number of people in the labor force. China is facing increasingly serious issues with an aging population and an undeveloped social security system. However, the children-dependency ratio is declining, partially due to China's policy of birth planning. Currently, most Chinese households include multiple generations.

The rising wage for Chinese households provides an important opportunity for U.S. businesses to enhance their success in China. However, this rising purchasing power is also eroded by rising housing prices. There has been a significant increase in the proportion of household expenditure that goes to residence and housing. This increase is closely related to the reform of housing policies in China. In 1998, China abolished policies providing housing based on a planned economy and implemented policies providing housing based on a market economy. The Chinese real estate industry gradually changed to a market-oriented industry, but it is still under stringent regulation. Figure 5 shows the amount of floor space found in newly built residential buildings in rural and urban areas and the average annual selling price from 1998 to 2010. The housing market is an important sector because it accounts for a large proportion of household expenditure. In addition, it has a large impact on such things as building materials, metals, machinery, chemicals, forestry, interior decor, and the household appliances industry.

With urbanization and increasing household

incomes, as well as the decreasing cost of passenger vehicles, cars are currently in high demand in China. China is now one of the world's largest consumers of passenger vehicles and increasingly a producer as well. Figure 6 shows that in 1990 there were 240,000 private passenger vehicles. At the time, motorized vehicles were viewed as inputs in production, not consumer products. In 2010, there were almost 50 million private passenger vehicles. The increase in car ownership reached 30% per year from 2005 to 2010.

Like developed countries, China's expenditure on health care is increasing. The major players in the medical sector are public medical institutions, but diverse forms of ownership coexist with them. These institutions are increasingly driven by market goals rather than strictly public goals, as in the past. High quality medical resources are predominately available at large hospitals in urban areas, but high medical costs are a common complaint (Yu 2012). Figure 7 shows that out-of-pocket health expenditures in 2009 added up to 587.5 billion Chinese yuan (71.7 billion U.S. dollars at 2005 prices), an annual increase of 12%.

Chinese Business Practices and Background

The Communist Party of China is the ruling political party. Government involvement is a part of doing legal business in China to a much greater extent than in the United States. However,

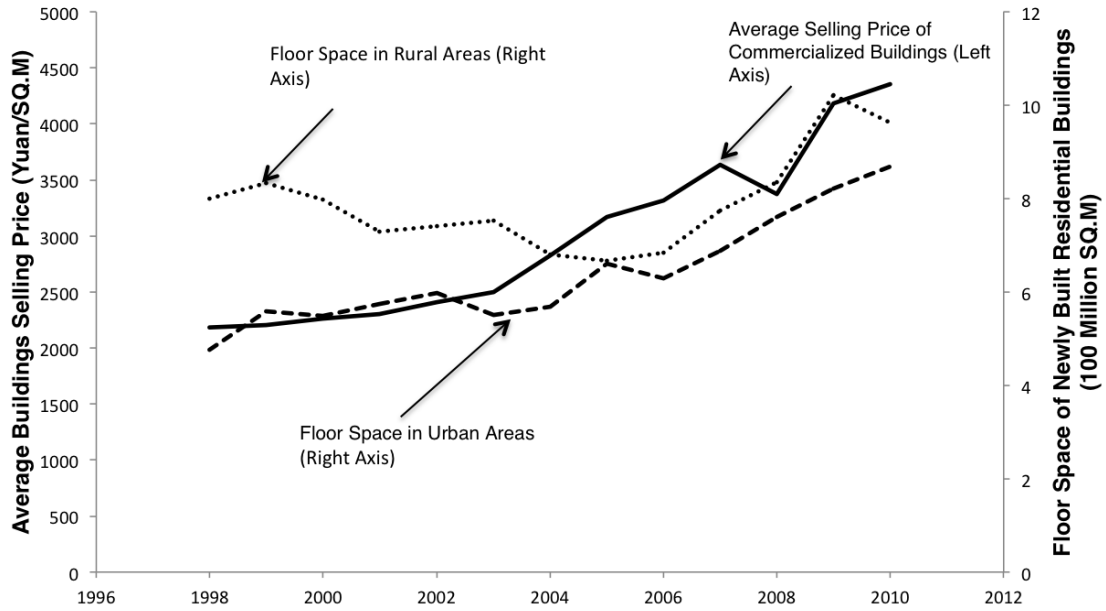


Figure 5. Newly built residential buildings and average selling price in China (2005 prices). Source: National Bureau of Statistics of China 2011.

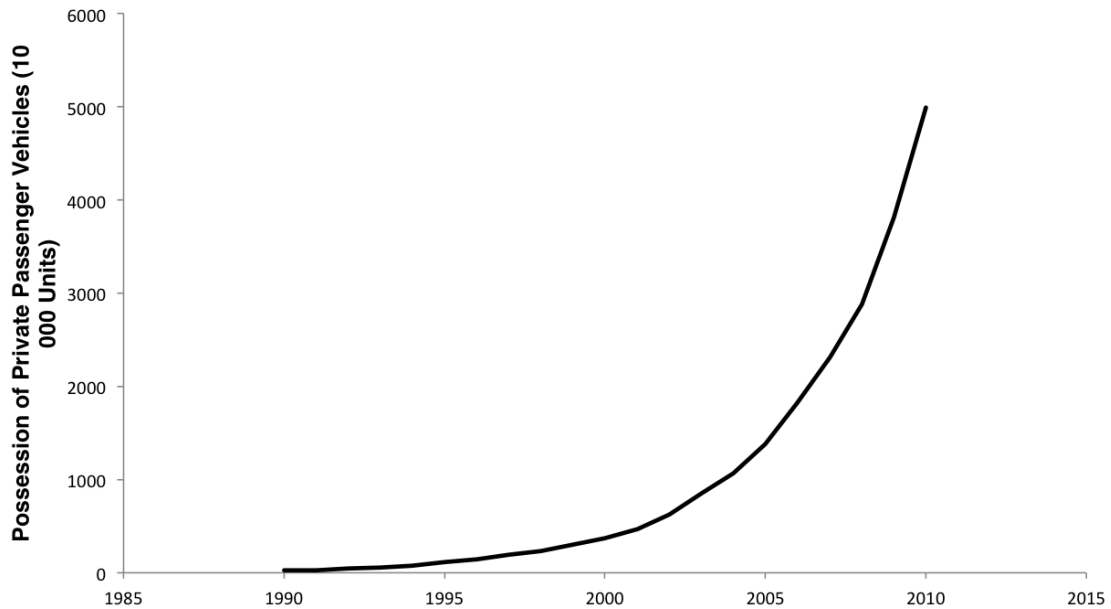


Figure 6. Possession of private passenger vehicles in China. Source: National Bureau of Statistics of China 2011.

government involvement is not always benign. Furthermore, U.S. exporters sometimes engage in practices that are illegal in both the U.S. and China. For example, the Securities and Exchange Commission announced on Thursday, December 20, 2012, that it is charging drug maker Eli Lilly with making illegal payments to government officials and associates using the company's foreign subsidiaries (CNN Money 2012). In 2010, China was in the 32nd percentile among all countries being rated on

corruption control, compared to the United States at the 85th percentile (The World Bank Group 2012).²

²Furthermore, Chinese domestic regulation is comparatively strict on freedom of expression, freedom of association, and a free media, as well as citizens' abilities to participate in selecting a government. In 2010, China was in the 5th percentile among all countries compared with the United States at 87th percentile in freedom according to The World Bank Group, 2012. www.govindicators.org, *The Worldwide Governance Indicators (WGI) Project*.

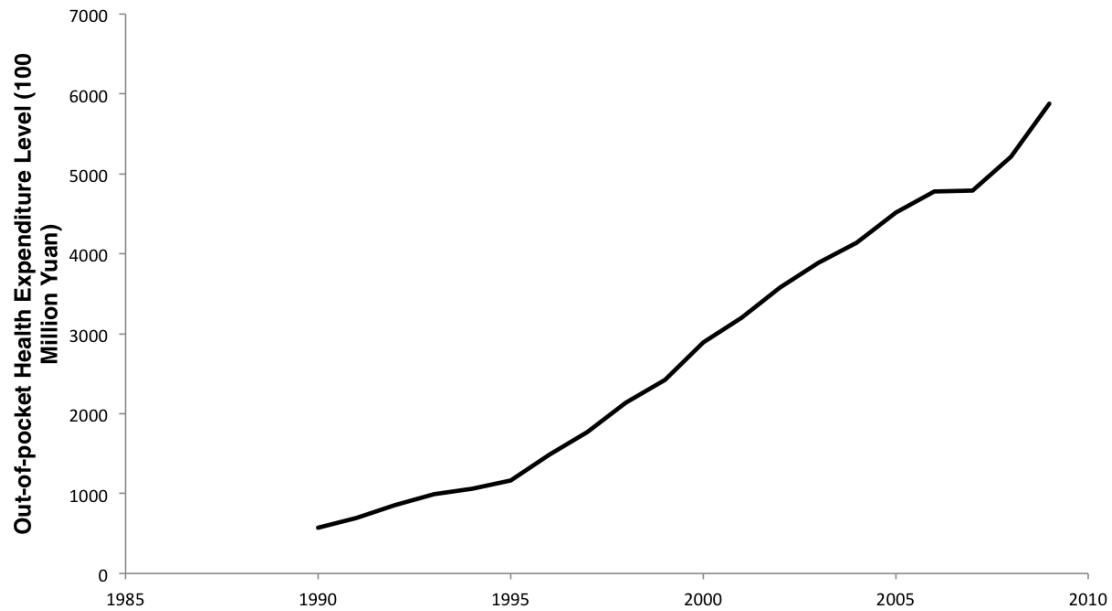


Figure 7. Out-of-pocket health expenditure in China (2005 prices). Source: National Bureau of Statistics of China 2011.

Newhouse and Hamilton (2012) provide examples of problems U.S. exporters have encountered in doing business in China. In one case, weed seed exporters estimated a large increase in export value as long as China maintained consistent and transparent import regulations. But the absence of a transparent national control program for weed seeds led to reduced exports to China. In recent years, China has detained shipments of imported processed potatoes for highly questionable reasons and then destroyed the potato products before the situation was resolved. In 2006 and 2008, the Trade Policy Review criticized China for its lack of transparency and accountability in foreign trade and intellectual property protection. They further criticized Chinese statistics relating to trade and bank stability as being unreliable (Aaronson 2010, 41).

There are 56 ethnic groups in China. Han is the largest group, accounting for 91.6% of the population. Mandarin is the official language of China and it is commonly spoken throughout the country. Mandarin is a tone language, meaning that different words may be pronounced the same way except with a different pitch. There are also many dialects, the largest being Wu, Cantonese, and Min. Chinese culture, customs, and traditions vary greatly among towns, cities, and provinces. Many different customs and traditions coexist in China in terms of food, clothing, and etiquette, in response to varying environmental, social, and economic conditions.

In Chinese business culture, *guanxi* ['gwan-shi] is a social concept meaning personal connections and relations, which apply to extended family, school friends, and professional contacts. Neither “connections” nor “relations” sufficiently reflect the cultural implications embedded in *guanxi*. *Guanxi* is more important than written rules and, in some cases, more important than laws. At its most basic, having *guanxi* with important people allows one to receive special consideration in business (Langenberg 2007; So and Walker 2006; The New York Times 2011; Wong and Leung 2001). The boundary between business and social life in China is sometimes ambiguous as people rely heavily on *guanxi*, super connections, or relations.³

Taiwan and Tibet are extremely controversial topics in China. Any suggestion or casual remark about the statehood of Taiwan and Tibet will almost surely offend a Chinese buyer. Offense could be taken if there is even a hint that a U.S. exporter is considering business dealings with Taiwan.

Though Buddhism, Catholic and Protestant Christianity, and Islam are practiced in various regions of China, most people are atheists. There is generally religious liberty, but religion is not encouraged by the Communist Party of China, and some religious people prefer to worship secretly to

³Source: Author's work and life experience involved networking with business people and government officials in China.

avoid possible interference from the government (www.chinaaid.org 2012).

Large Markets, Ports, and Special Economic Zones

China has more than 118 cities with a population greater than 1 million (Pan, Niu, and Wei 2009). Many large cities are located on the coast, and there are more than 100 ports open to foreign ships. The largest ports are in Shanghai, Shenzhen, Qingdao, Tianjin, and Guangzhou, and they have the necessary infrastructure and facilities for inland distribution.

Shanghai is one of the four province-level municipalities and with a population of more than 20 million, it is the most populous city in China. It is located in the middle of the eastern seaboard, on the East China Sea. The city has easy accesses to a vast hinterland. Shanghai is the commercial and financial center of China and is one of the main industrial centers as well. In 2010, the average annual disposable income for Shanghai residents was 27794 Chinese yuan (3394 U.S. dollars at 2005 prices).

The Port of Shanghai is the largest comprehensive port in China and is among the world's busiest container ports. This port reached a cargo throughput of 561 million tons in 2007. The main distribution channels lead to many regions, including Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, and Sichuan provinces, as well as Chongqing municipality.

Tianjin, one of the four municipalities in China, is on the Yellow Sea, about 150 kilometers southeast of Beijing, the capital of China. At present, Tianjin has a population of more than 10 million and is an economic center for northern China. The Port of Tianjin is the largest port in northern China and is the second largest general port in China after Shanghai. This port is the main maritime gateway to Beijing and the interior northern regions of Hebei, Shan'xi, Shanxi, Gansu, and Qinghai provinces, Inner Mongolia, Xinjiang Uger and Ningxia Autonomous Regions, and Tibet.

Guangzhou, situated close to Hong Kong and Macao, is the capital of Guangdong province in southern China. Guangzhou is the third most populous city in China. In 2010, per capita disposable income for urban residents was 26764 Chinese yuan (3268 U.S. dollars at 2005 prices). The Port of Guangzhou has historically been a leading commercial port in China. It serves the neighboring provinces of Guangxi, Yunnan, Guizhou, Sichuan, Hunan, Hubei, and

Jiangxi. In 2011, it reached throughput tonnage of over 431 million, and its handling capacity exceeded 14 million TEU by container throughput.

Shenzhen is a major coastal city in Guangdong province in the south of China, bordering Hong Kong and located on the South China Sea. Its population is approximately 14 million. The city is a major financial center and high-tech and manufacturing hub for southern China. It is 138 kilometers southeast of Guangzhou. The Port of Shenzhen is also one of the busiest container ports in China and is the world's fourth busiest container port. This port reached cargo throughput of 135 million tons in 2004.

Qingdao is a major city in Shandong province, facing the Republic of Korea and Japan across the Yellow Sea. Qingdao had a population of over 8 million in 2010, and per-capita disposable income for urban residents reached 17865 Chinese yuan, or 2181 U.S. dollars at 2005 prices. In 2011, the port handled more than 372 million tons of cargo, ranking it as the world's seventh largest port.

Special Economic Zones

Special Economic Zones are geographic areas in China that have relaxed laws on employment, investment, and trade in order to encourage direct foreign investment, increased technological transfer into China, and to promote Chinese exports. Chinese firms in these zones operate under more relaxed regulations for international trade and loosened market regulations (Murray 2010). In 1980, China established four Special Economic Zones: Shenzhen, Shantou, Zhuhai, and Xiamen. These zones are credited with China's export-driven growth (Leong 2012), although they are not particularly relevant to small- or medium-sized firms exporting to China because their main goal is to develop direct foreign investment and exports from China to the rest of the world. Compared to the rest of China, these zones are more attractive in terms of foreign investment because they offer a more conducive environment for foreign ownership and taxes.

Trade Regulations

To import, Chinese companies need to apply to the authorities and obtain the right to conduct foreign trade. Without permission, Chinese companies are not allowed to import goods; however, they may entrust their foreign trade business to a company that has the right to conduct foreign trade. Though this is a regulation imposed on Chinese companies, it has an important implication for U.S. export

companies because U.S. businesses cannot search the Internet and contact a company to arrange a contract.

The Chinese Ministry of Commerce (<http://www.mofcom.gov.cn/>) is the governmental agency in charge of foreign trade registration. Chinese companies that are interested in importing goods to China need to register with the Ministry of Commerce or agencies commissioned by the Ministry of Commerce, such as local administrative departments authorized by the State Administration for Industry and Commerce. Chinese Customs will not grant customs clearance to foreign trade companies that fail to register. The time it takes to clear customs varies greatly depending on the type of product or the simple randomness of the process. However, the average time is approximately 2 days (Farole and Akinci 2011).

The Foreign Trade Law (<http://www.lawinfochina.com/>) and the regulation for administration of the import and export of goods (<http://www.lawinfochina.com/>) are two regulations that a U.S. firm exporting to China is likely to encounter. These regulations prohibit some goods from being imported: publications, photographs, videos, computer storage media, and other items deemed harmful to China's political, economic, cultural, and moral environment. Animals, plants and products with dangerous bacteria, insects, and other pests, as well as food, drugs, or other items deemed to negatively affect human and animal health are also prohibited. Other imports are not banned but are limited to a set quota, an import license, or other kinds of certificates and documents provided by government administrative departments.⁴

China maintains quotas and taxes on some agricultural exports. The tariff and quota regulations are known as the Interim Measures for the Administration of Import Tariff Quotas of Agricultural Products (<http://www.lawinfochina.com/>). The categories of agricultural goods subject to the administration of import tariff quotas are wheat products, corn products, rice products, bean oil, colza oil, palm oil, sugar, cotton, wool, and wool tops. Quotas permit a specified quantity of agricultural products to enter China at a specified tax rate. Imports of agricultural products in excess of the quota limit may be subject to a higher duty under the relevant regulations for import and export duties (<http://www.lawinfochina.com/>). Import businesses should present certificates of tariff quotas (issued

⁴There are quantitative limits on some imported products. For example, crude oil is subject to the administration of import quotas, and in 2012 import quotas were 2,910 million tons for a non-state-owned enterprise.

by the administrative departments) to customs for handling declaration and examination of products within tariff quotas.

Many imported products that are restricted require an import license. This is also a requirement imposed on Chinese importers, but it has important implications for U.S. exporters because U.S. exporters may need to provide documents, certifications, and other related information so importers can secure a license. This requirement may place U.S. exporters at a disadvantage due to higher custom duties. To import restricted products, Chinese importers file an application with the Quota and License Administrative Bureau, Ministry of Commerce. The administrative departments will decide whether to grant a license (within 30 days of receiving the application). The product categories included under import permits in 2012 were lifting and transportation equipment, textile machinery, electricity and electrical equipment, agricultural machinery, paper machinery, metal smelting equipment, printing machinery, engineering machinery, food processing and packaging equipment, and chemical equipment. The Chinese importer presents an import license to the customs office for handling customs declaration and examination. More information can be obtained at the Ministry of Commerce, People's Republic of China (<http://english.mofcom.gov.cn/>) and its Quota & License Administrative Bureau (<http://www.licence.org.cn/>).

Unless stated in laws, regulations, or elsewhere, China allows free import of products without quantity limits. However, for some of these unrestricted products, administrative departments may put up another barrier called automatic import licensing, in order to monitor the importation of products at an aggregate level. The major product categories administered under automatic import permits in 2012 were food, machinery, aircraft, iron ore and steel, pork and by-product, beef, automotive products, vegetable oil, and medical equipment. An import business should present its permissions to the customs office for handling customs declaration and examination. More information can be obtained in the Measures for the Administration of Automatic Import License for Goods (<http://www.lawinfochina.com/>).

Regulations for Agricultural Products

The Law of the People's Republic of China on the Entry and Exit Animal and Plant Quarantine regulates imports of animals, animal products, plant seeds, and plant products. This is a regulation applied

to Chinese importers, but actual responsibility may fall to U.S. exporters. As with other imported goods, a Chinese buyer must submit an application in advance for examination and quarantine inspection. To perform a quarantine inspection and collect samples, a port animal and plant quarantine officer may board a ship, enter a seaport, or enter a site where quarantined objects are stored. The quarantine department may decide to move import products to a designated place and conduct a quarantine inspection there. After import products pass quarantine inspection, products are allowed to enter China. More information is available at the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (<http://english.aqsiq.gov.cn/>).

Food products are regulated by the Food Safety Law of the People's Republic of China. In September 2011, the Administrative Measures on the Safety of Import and Export Foods was issued by the General Administration of Quality Supervision, Inspection and Quarantine in China. These regulations are applicable to Chinese importers, but the ultimate responsibility lies with the U.S. exporter. According to these regulations, a Chinese importer should be registered at the Entry Inspection and Quarantine Department. The imported food product is subject to an inspection. The Chinese importer should provide relevant documents, such as contracts, invoices, packing lists, and bills of lading in order to apply for inspection. After passing inspection, the entry inspection and quarantine institution will issue a clearance certificate, and customs offices will release the shipment.

In June 2012, the Administrative Measures on the Inspection and Supervision of Imported and Exported Pre-Packed Food Labels was issued. One important feature of these Administrative Measures is that imported pre-packed food should have labels and instructions in Chinese. The labels and instructions should state the place of origin, as well as the Chinese agent's name, address, and contact information. Food importers should provide label-related information and documents to entry inspection and quarantine departments. The label format and contents will be inspected. If pre-packed food is not labeled or does not have the required instructions, it may not be allowed into China. However, an importer may apply for an exemption from label inspection for non-trade products, such as products displayed in exhibitions or similar activities, and product samples.

A complete list of the tariff and non-tariff barriers U.S. firms face when exporting particular products

to China may be found at <http://agtradebarriers.wsu.edu>.

Customs Clearance

The Customs Law and Regulations of the People's Republic of China on Import and Export Duties govern customs. The governmental organization responsible for supervision and control over products entering China is the Customs of the People's Republic of China (<http://english.customs.gov.cn/>). China Customs exercises control over products entering China, manages products entering China, and collects customs duties, excise duties, value-added taxes, and other indirect taxes and fees on imported products.

Imported products must follow customs clearance procedures, namely, the declaration of imported goods and the payment of duties and taxes. These requirements may be met by importers, or an importer may use a customs-clearing agent who has been approved by China Customs. Without the registration and qualification of the Chinese buyer, customs declarations are not accepted or allowed. When an importer entrusts customs clearance to a customs-clearing agent, this agent bears the same legal liability as the importer in customs clearance. For making customs declarations, licensing documents and relevant papers need to be submitted to customs. In the absence of import-licensing documents, goods subject to import restrictions will not be released by customs. More information is available at the General Administration of Customs of the People's Republic of China (<http://english.customs.gov.cn/>).

China Customs levies import duties on goods allowed into China. Within 14 days of declaration of entry of transportation vehicles, the Chinese buyer of the imports must declare the shipment to customs. Importers should provide documentation identifying the customs value, commodities categorization, and place of origin. In addition, importers should categorize the goods in line with the Customs tariffs. Importers should pay duties to designated banks within 15 days of receiving the letter of duty payment, which is issued by customs offices. The customs value in dollars will be converted to Chinese yuan based on the foreign exchange rate. The date used to determine the foreign exchange rate is specified by China Customs. After the payment of duties and taxes, import goods will be released.

Customs duties may be levied based on the import's value or as a specific fee. The duty payable based on

value is equal to the customs value multiplied by the tariff rate. The customs valuation of imported goods is determined by China Customs, and includes the value of the goods or product price, cost of transportation, charges associated with transport of the goods, and the cost of insurance incurred before the goods are unloaded in China.⁵ The following items are not included in the customs value of the goods, even when such items are clearly specified in the price of goods for importation: cost of transportation, charges associated with transport of goods, and the insurance incurred after the goods are unloaded in China, as well as import duties and domestic taxes. In addition, goods with a customs duty of less than 50 Chinese yuan, advertisement materials, and product samples without commercial value are exempted. Customs allows temporary entry of some goods duty free if the goods will be transported out of China within 6 months, for example, goods displayed in exhibitions, fairs, and conferences, as well as product samples.

The Law of the People's Republic of China on Import and Export Commodity Inspection describes the goods inspected by Chinese authorities in customs before they enter the country. In 2012, a total of 4,379 products were listed for inspection. Goods include animals and animal products, vegetable products, foodstuffs, wood and wood products, machinery and electrical products, and transportation products. Inspections are carried out by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (<http://www.aqsiq.gov.cn/>).

China has been a member of the World Trade Organization (WTO) since December 11, 2001. In principal, China has agreed to conduct inspections in compliance with WTO agreements, including the Agreement on Technical Barriers to Trade, the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Pre-Shipment Inspection, and the Agreement on Rules of Origin. Before China joined the WTO, they agreed to modified laws, regulations, administrative rules, and product standards that are inconsistent with WTO agreements. Also, China agreed to be monitored by the WTO from 2001 to 2011. Since 2004, 28 WTO complaints have been lodged against China on 17 matters (World Trade Organization 2012). Besides the seven complaints still pending, all but one complaint has been settled. The only exception is China's refusal to import cultural and media goods from some countries.

⁵Prior to an export arriving in China, product price is negotiated between the U.S. exporting firm and the Chinese importer. Generally, the Chinese authorities do not regulate the price.

For products subject to compulsory inspection, a Chinese importer or his agent should report to the commodity inspection authorities. U.S. exporters may need to provide documentation, certification, and other required information. Inspections fall under one of several categories, including animal and plant quarantine, import food hygiene inspection, and product certification. After a shipment is released by customs, inspectors determine if the shipment meets regulations. The inspection authorities determine whether commodities comply with requirements on safety, sanitation, health, and environmental protection, and they also inspect product quality, quantity, and weight, as well as other relevant items. Customs will handle customs clearance after inspection authorities issue a customs clearance form. The imported products are not allowed to be sold until an inspection has been completed. In addition, inspection authorities will make a random inspection of import commodities that are not subject to compulsory inspection. Shipments that fail inspection may be destroyed or returned.

Summary

China is the among the most populous countries in the world. It is also growing economically much faster than countries in the developing world. Though poor compared to Western standards, China is increasingly urbanized and is developing a middle class. Because of this, many U.S. firms consider China to be a potentially lucrative export destination.

But beginning to export to China is expensive because of the difficulties in obtaining information about its culture, government, and business environment. We hope this WSU publication has given potential exporters useful information on the administration, policies, operating practices, and trade barriers they may encounter as they import goods to China.

This WSU manual discusses the specific issues attached to importing goods to China, but a more general WSU manual, Agricultural Export Toolkit, discusses important issues that pertain to exporting in general. This manual is available at <http://extecon.wsu.edu/pages/Toolkit>.

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