

# **A Case Study of Trade Facilitation Measures of the China(Shanghai) Pilot Free Trade Zone**

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## **Introduction**

### **Background information of the establishment of the Shanghai FTZ**

29 September, 2013, the China (Shanghai) Pilot Free Trade Zone (Shanghai FTZ) was officially launched, soon after the State Council of the People's Republic of China (hereinafter referred to as the State Council) released *the Framework Plan for the China (Shanghai) Pilot Free Trade Zone*. The Shanghai FTZ enjoys unprecedentedly favorable economic and trade opening-up policies, making it a milestone in the new round of China's reform and opening-up. Taking such a major move fully exhibits China's resolution to filling its commitment to the WTO,especially the forthcoming adoption of the Trade Facilitation Agreement and pushing forward the transformation of the new global economic and trade governance.

It is worth highlighting that the innovative measures adopted in the Shanghai FTZ were “wedged in” by the new trend of international trade governance and the development of the global value chain. During the last few years, Doha negotiations remained stalled, and the WTO was at an impasse. Meanwhile, the world's three largest economic powers, the United States, the EU and Japan, successively launched trade negotiations for global trade and investment rules of higher standards, ie. the TPP (Trans-Pacific Partnership), the TTIP (Transatlantic Trade and Investment Partnership), and the PSA (Plurilateral Services Agreement) talks, all of which China is not yet invited to join. Thus, China determined to actively prepare itself for future challenges.

<sup>1</sup> The author is greatly indebted to Mr.Kai Lang,Chengbo Zhang and Ms Yourong Yao.

Secondly, China's economy development calls for further reforms and providing more incentives. As a populous nation, China has been enjoying benefits from processing trade and trade in labor-intensive products. However, due to the weakening of the "demographic bonus", the problem of aging population stands out in recent years, and China's old comparative advantage in foreign trade gradually begins to disappear. Besides, lately, China's economy suffers from a continual drop of exports, and the problem of overcapacity. All these issues require economic restructuring and reform to invigorate China's economy. At last, the internationalization of China's currency RMB demands the support of a freer financial market. As a result, the aforesaid reasons, among others, contributed to the establishment of the Shanghai FTZ.

It was soon after the launch of Shanghai FTZ, in December 2013, WTO members reached consensus on the Trade Facilitation Agreement<sup>2</sup> (TFA), as part of a wider "Bali Package", at the Bali Ministerial Conference, providing a guidance for China to implement trade facilitation measures in the Shanghai FTZ.

The TFA contains twelve articles on Trade Facilitation and Customs Cooperation in Section I, ten articles regarding special and differential treatment for developing countries and least-developed countries in Section II and two articles about institutional arrangements and final provisions in Section III. This study focuses on the twelve articles on the Section I. This section defines WTO members' substantive obligations in terms of trade facilitation and Customs Cooperation. As it clarifies and improves the relevant articles (V, VIII and X) of the General Agreement on Tariffs and Trade (GATT) 1994 and also develop provisions for customs cooperation, these articles could be divided into four aspects (Table 1.4) .

**Table 1 Articles classified of Section I**

<b>Aspect</b>	<b>Corresponding Articles of GATT 1994</b>	<b>Article of Section I</b>
The publication and application of trade policy	Articles X	Art.1-Art.5
Charges and procedures of import and export	Articles VIII	Art.6,Art.7,Art.9,Art.10
Freedom of transit	Articles V	Art.11
Border agency cooperation and customs cooperation	None	Art.8,Art.12

<sup>2</sup> On 27 November 2014, WTO members adopted a Protocol of Amendment to add TFA into Annex 1A of the WTO Agreement. The TFA will enter into force when two-thirds of members have finished their domestic ratification process.

In June 30, 2014, China notified its plan of implementation of TFA to the WTO, which was earlier a month than the time stipulated by Bali Ministerial Declaration and decisions. China now is actively promoting its domestic ratification process.

## Location of the China (Shanghai) Pilot Free Trade Zone

China (Shanghai) Pilot Free Trade Zone located in Shanghai Pudong district is the first of its kind in China mainland. At the outset, when established on September 29, 2013, Shanghai FTZ covered a total area of 28.78 square kilometers, including four bonded zones -- Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone. The State Council decided on December 28, 2014 to approve the expansion of Shanghai FTZ by incorporating Lujiazui Financial and Trade Zone, Jinqiao Export Processing Zone, and Zhangjiang Hi-Tech Park, enlarging the Shanghai FTZ from 28.78 square kilometers to 120.72 square kilometers to provide more space for reform trials.

- The integrated bonded zones of Shanghai FTZ consists of Waigaoqiao Free Trade Zone, Waigaoqiao Free Trade Logistics Park, Yangshan Free Trade Port Area and Pudong Airport Comprehensive Free Trade Zone. The 10-square-kilometer Waigaoqiao Free Trade Zone, set up in June 1990, was the first bonded zone in China approved by the State Council. It is the biggest special-administered area under Customs in terms of economic output and range of services. The 1.03-square-kilometer Waigaoqiao Free Trade Logistics Park, established in 2004, is the first bonded logistics park in China. It was also the first area in the country to run a pilot project of "interactive development", which allows companies to benefit from the policies and resources of both the bonded zone and the Port of Shanghai. The 14.16-square-kilometer Yangshan Free Trade Port Area, opened in 2005, is the first bonded port area in China. The free trade port is a key cornerstone of Shanghai's goal to become a Comprehensive Experimental Zone for International Shipping. The 3.59-square-kilometer Pudong Airport Free Trade Zone, set up in July 2009, is designed to make the best of its status as an Asian-Pacific and function as an "experimental area for innovative air services".
- Lujiazui Financial Area consists of Lujiazui Finance and Trade Zone and Qiantan Area. It is the core of Shanghai International Financial Center, Shanghai International Shipping Center and Shanghai International Trade Center. Work is under way to establish a financial system that follows international rules and practices, attract the headquarters of multinationals with fine services, and carry out reforms to facilitate foreign investment,

cross-border trade, international financing and market supervision, and create a good legal environment for businesses.

- Established in 1990, Jinqiao Export Processing Zone has become a showcase of advanced manufacturing, production services, emerging industries, and eco-friendly environment. The zone is focusing on administrative and financial reforms, creating good business environment to facilitate trade, and fostering strategic growth industries for sustainable growth and international competition.
- Zhangjiang Hi-Tech Park is a base for innovations as Shanghai implements the national strategy for sustainable growth. It combines the development of Shanghai FTZ and the Zhangjiang National Innovation Demonstration Zone with a focus on enhancing its innovative capabilities and providing a service platform for research, financing, talent recruitment and resources sharing.



Online information of the China(Shanghai) Pilot Free Trade Zone . See <http://en.china-shftz.gov.cn/About-FTZ/Location/>

**Overall objectives:** According to the *Framework Plan for the China (Shanghai) Pilot Free Trade Zone*, during the course of two to three years of piloting reforms, the China (Shanghai) Pilot Free Trade Zone shall:

- expedite the functional transformation of government, expand the opening up of service sectors and promote the reform of the foreign investment administrative system, and develop headquarter economy and new trade forms;
- explore RMB convertibility under capital account items and opening up of financial services;
- explore to improve Customs' supervision efficiency; and
- create a framework to support investment and innovation activities to cultivate an internationalized business environment.

The China (Shanghai) Pilot Free Trade Zone shall pilot a free trade zone, as measured by international standards, with convenient investment and trading procedure, full convertibility of currencies, effective and efficient goods supervision, and investor-friendly regulatory environment. As such, experience hence gained shall serve nationwide with the new ideas and approaches for opening up of the economy and deepen the reform further.

**Major tasks and measures:** Adhering to the strategic requirement of "opening to the whole world and serving the whole country" and the strategic task of building Shanghai into "four centers," the Shanghai FTZ, through pilot programs, risk control, progressive advancement, and gradual improvement, combines the expansion of opening-up with system reform and combine the cultivation of functions with policy innovations, so as to form a framework of fundamental rules compatible with generally accepted international rules for investment and trade.<sup>3</sup> (Table 1.2)

<sup>3</sup> Details please see the *Framework Plan for the China (Shanghai) Pilot Free Trade Zone*.

**Table 2 Major tasks and measures**

<b>Task</b>	<b>Measure</b>
Accelerating the transformation of government functions	A. Deepening the reform of administrative systems.
Expanding the opening-up of investment fields	B. Expanding the opening-up of the service industry. C. Exploring and establishing a "negative list" administrative mode. D. Building an overseas investment promotion system.
Promoting the transformation of trade development modes	E. Promoting the transformation and upgrading of trade. F. Enhancing the level of international shipping services.
Deepening opening-up and innovations in the financial field	G. Accelerating innovation in the financial system. H. Enhancing financial service functions.
Improving rules in the legal system	I. Strengthening protection through regulatory system enhancements.

**Legislative Framework:** Laws and regulations related to the Shanghai FTZ can be classified by the level of the legislative subject into four categories: laws promulgated by the National People's Congress (NPC), administrative regulations by the State Council and relevant ministries, local regulations and rules by the Shanghai local government, and other documents by relevant local authorities.

Among these four categories, laws promulgated by the National People's Congress (NPC) as a whole has the highest authority and yet is relatively scarce. So far, this category involves only one document (where 11 decisions are listed), concerned with the temporary suspension of the application of "Law on Wholly Foreign-Owned Enterprises", "Law on Sino-Foreign Equity Joint Venture Companies", and "Law on Sino-Foreign Cooperative Joint Venture Companies" in the Shanghai FTZ. Such adjustments will be implemented in the next three years started from 1 October 2013. Up to the April 30, 2015, there are 47 administrative regulations by the State Council and relevant ministries, 46 local regulations and rules by the Shanghai local government, and two documents by relevant local authorities. These regulations and rules are mainly on land planning, construction management, environment protection, administration for industry and commerce, quality supervision, taxation, public security, customs, inspection and quarantine, statistics management, and labor security etc..

## Literature review

As trade facilitation is not a new concept -- many of the world-renowned ports have adopted trade facilitation measures and have been enjoying the benefits for long -- there are copious of domestic and foreign scholarship on the trade facilitation measures' contribution to the expansion of the existing trade flows and the creation of new trade flows, by means of reducing trade costs. Chinese policies makers may as well draw useful experience from the measures taken by other WTO members of both those of the developed and the developing ones which are proven successful.

Trade facilitation measures' profound influence on the reduction of trade costs has been corroborated by numerous studies and facts. Moise et al. (2011) estimate that there would be a cost reduction of about 10% of overall trade costs if the OECD trade facilitation indicators (TFIs) are taken as trade facilitation measures.

It is out of the reason that trade facilitation measures may bring benefits to trades and, therefore, to the macro-economy of a country, the Chinese government is now devoted to make a reform to the related procedures of customs clearance etc. in the Shanghai FTZ. Empirical evidence has supported the theory that trade flows can be promoted by the lowered costs where trade facilitation measures are taken. Scholarship regarding this matter can be generally classified into two categories: those who provide empirical evidence on the expansion of the existing trade flows, and those on the creation of new trade flows.

It is found by Iwanow and Kirkpatrick (2009) that trade facilitation may indeed promote bilateral exports of manufactured products. A study made by Moise and Sorescu (2013) indicates that under OECD TFIs, bilateral measures of trade facilitation can bring positive effect on bilateral trades. Studies by Hummels and Schaur (2013) and Zaki (2014) corroborate the fact that time is of great significance for import and export, and prolonged time is tantamount to a rise in ad valorem tax. According to Freund and Rocha (2011) and Djankov et al, inland transit delays are even more detrimental to trades than transit, documentation, and ports and customs delays on trade. The intimate relationship between time and costs is found by Hausman et al. (2013), and is exemplified by Volpe Martincus et al. (2013).

The creation of new trade flows is more often than not realized through export diversification. The negative effects of time to the probability of export are analyzed by Nordas et al. (2006) and Dennis and Shepherd (2011) further illustrate the negative impacts on developing countries' export diversification

brought by lack of trade facilitation measures. In a study by Feenstra and Ma (2014), the connection between port efficiency and export variety is analyzed. At last, Persson (2013) find that, compared with the impact on homogeneous products, trade facilitation has a higher impact on differentiated products.

China's local researches regarding trade facilitation measures in the Shanghai FTZ are comparatively limited. An empirical study by Ho and Young (2014) on the trade flow of Shanghai FTZ finds that the level of trade facilitation is the most influential factor for total volume of foreign trade, compared with other factors such as GDP, per capita GDP and population etc.. Lau (2014) made a summary of the trade facilitation measures taken in the free trade zones in Europe and the U.S. and suggests that China could draw experience from them. Wong and Kuo (2014) through analyzing the major trade facilitation measures adopted by large ports in the world conclude that, in order to raise the level of trade facilitation, it is important to use advanced information technology, especially in the field of customs procedures. They then propose suggestions for related authorities regarding the promotion of trade facilitation.

## **Trade facilitation measures adopted by the Shanghai FTZ**

As promoting trade facilitation is one of the major objectives of establishing the China (Shanghai) Pilot Free Trade Zone, the General Administration of Customs and other related regulatory authorities have released many institutional innovation initiatives. Since the establishment of Shanghai FTZ, Shanghai Customs has unveiled 23 innovative measures to cut clearance costs, enhance efficiency of the customs process and diversify customs services in the zone. These measures shave clearance time for imports in the zone by an average 41.3 percent and by 36.8 percent for export clearance, the customs said. The simpler customs process have boosted trade because in the first eight months of this year exports from the zone surged 10.1 percent from a year earlier, and imports rose 8.9 percent.

As this article is supposed to highlight the innovation and reform in the Shanghai FTZ, therefore trade facilitation measures which already exist, although in correspondence with the TFA, will be paid less attention to here.

## **"Release of the First Line and Control over the Second Line" Mode**



As the first free trade zone in China, Shanghai FTZ has many distinguishing features which may differentiate it from other bonded areas. The most prominent of all special customs supervision regimes is the "Release of the First Line and Control over the Second Line" mode. Actually, the said mode is less a concrete measure than a guiding principle for all other trade facilitation measures adopted in the Shanghai FTZ, for it can be found throughout most of the regulatory laws and regulations. In light of this, it is necessary that we go through this key "measure" before understanding other concrete measures.

The "first line" refers to entry between the FTZ and abroad, therefore "release of the first line" means foreign goods can be imported into the FTZ freely, without being supervised by the customs; likewise, goods in the FTZ may also be exported to other countries, free from customs supervision. The "second line" refers to the entry between the FTZ and the domestic customs. "Control over the second line" suggests that goods from domestic non-FTZ area entering into the FTZ must be subject to customs supervision and taxation pursuant to relevant domestic laws.

To be more specific, according to *the Framework Plan for the China (Shanghai) Pilot Free Trade Zone*, under the "release of the first line" policy:

- Enterprises shall be allowed to carry goods directly into the FTZ based on import manifests, and then undergo declaration formalities with the competent Customs authority based on the recordation list of imported goods.
- Efforts shall be made to explore the simplification of the entry and exit recordation lists and the entry and exit formalities for international transit, LCL, split shipping, and other business.
- The mode of "entry quarantine and properly relaxed import and export inspection" shall apply, and innovation shall be made in the regulatory techniques and methods.
- The FTZ shall explore the establishment of a relatively independent area for trade in goods focusing on trade facilitation and an area for trade in services focusing on the expansion of opening-up of the service field.
- Conditioned upon ensuring effective regulation, the FTZ shall explore the establishment of a model of categorized regulation according to the status of goods.
- Function expansion shall be further conducted, and bonded exhibition and trading platforms shall be allowed to be set up in particular areas under the

premise of strict implementation of tax policies for import and export of goods.

Under the “safe and efficient control over the second line” policy:

- Efforts shall be made to optimize the administration of checkpoints, enhance the electronic information networking, strengthen regulation through the crosschecking of entry and exit lists, account book management, cargo verification and endorsement at checkpoints, and risk analysis, among others, to promote the connection between the regulatory models for the first and second lines, and apply the inspection and quarantine regulatory model of “easy entry and exit but with strict control of quality and safety risks”.
- The management of electronic account books shall be strengthened to promote the convenient and fast movement of goods in the FTZ between areas under special customs supervision and across different Customs territories.
- Enterprises in the FTZ are generally not subject to geographic restrictions, and may make re-investment or conduct business outside of the FTZ, but shall undergo the relevant formalities as required by any special provisions.
- The connection of the business operation information of enterprises and the regulatory system shall be boosted.
- Effective regulation shall be implemented through risk monitoring, third-party management, and security deposit requirements and the role of the construction of Shanghai’s integrity system shall be maximized, to accelerate the formation of the rules for enterprise business integrity management and exclusive jurisdiction over their business activities.

## The application of trade policies

**Relatively Centralized Administrative Reconsideration Right:** In December 2014, the Shanghai municipal people’s government released *the Measures for the Implementation of Relatively Centralized Administrative Reconsideration Right*. The “administrative reconsideration right” means that where an involved party is dissatisfied with a specific administrative activity of the Committee or the relevant authorities, it may apply for an administrative reconsideration or bring an administrative litigation pursuant to the Administrative Reconsideration Law of the PRC or the Administrative Litigation Law of the PRC.

Since December 2014, the administrative reconsideration right, which was previously wielded by both the competent authorities at higher level and regional governments, is now transferred to the Shanghai municipal government and the Pudong New Area government. Meanwhile, any citizen, corporation or other organization, who dissents from the regulatory documents enacted by the Shanghai FTZ administrative committee, may apply for judicial review to the Shanghai municipal government.

## Charges and procedures of import and export

### Release and clearance of goods

**The “First Entering and then Declaring” policy:** The former operation mode of “Enter after Declaration” from abroad link has been changed in the Shanghai FTZ. Enterprises registered with the customs in the FTZ may now, by presenting the manifest of entering goods and such other information, make brief declaration to the customs first and handle formalities for picking up goods at port and goods entering the zone, and, in the prescribed time limit, handle formal declaration formalities for entering goods with the customs. With the adoption of this policy, declaration can be made directly according to the actual situation only after the goods are sent to the warehouses for cargo handling, which effectively avoids occurrence of such issues as wrong classifications, and over- or short-shipment. It reduces the cost of customs clearance and makes customs clearance process much smoother.

**The “Entry and Exit in Batches” and “Centralized Declaration” policy:** “Entry and Exit in Batches” and “Centralized Declaration” are a kind of clearance mode of customs relying on the customs supervision information-based system of China (Shanghai) Pilot Free Trade Zone.

It means that the goods owned by the enterprises in the Shanghai FTZ, the enterprises in the territory of China yet outside the customs supervision zone (including areas under the customs supervision and the bonded supervision areas of the customs) and the enterprises inside the custom supervision zone are allowed to go through the customs in batches by two steps. First, the enterprises should go through entry and exit formalities of goods by submitting passing form containing the information of vehicles carrying goods and declaration documents which are used to realize the function of comparing, checking, verification of customs inspection control system and are used to clearing the goods and vehicles and record each kinds of test data in customs inspection control system. Second, they should go through the customs

intensely within the prescribed time limit by submitting archival checklists or declaration forms.

Prior to reform, customs declaration is mainly based on declaring one by one partially supplemented by centralized declaration. After the reform, the traditional mode of declaring one by one are transformed to centralized declaration allowing enterprises to declare their goods in batches and go through the customs intensely within the prescribed time limit. This system expands the autonomy of enterprises; reduces the number of declaring; speeds up the logistics of enterprises; cuts the cost of declaring effectively and facilitates the imports and exports of enterprises. Besides, it may also facilitate bonded exhibition, bonded maintenance and outward processing business etc., which may greatly improve the competitiveness of enterprises.

**The “Customs AEO Mutual Recognition” policy:** To push forward the trade facilitation of Shanghai FTZ, Shanghai customs is pushing forward the custom AEO mutual recognition in the FTZ. AEO is the abbreviation of “Authorized Economic Operator”. So far, the China customs has signed the agreement of AEO mutual recognition with other WTO members like the Singapore, South Korea and the European Union, etc.,

After the mutual recognition on July 1, 2014, AEOs from the above-mentioned areas can enjoy the top-level clearance facilitation, including:

- The inspection of imports goods documents can be simplified.
- The imports goods can be cleared by customs in priority.
- Boarding officers are been set to coordinate the problem of enterprises in custom clearance.
- In special time, the custom will solve their problem in priority.

The enterprises in the FTZ have been arranged by customs as the first batch of enterprises to enjoy this favorable treatment. The mutual recognition system has been applied on September 16, 2014. With the development of bilateral negotiations between China and other WTO members, the number of the WTO members where enterprises can enjoy the facilitation will be expanded widely. The AA-rated enterprises in FTZ will be the pilot enterprises to get the boarder officers exclusive channel to coordinate with other WTO members regarding the similar issues.

**The “Preliminary Inspection for Imported Goods” policy:** Before the implementation of this policy, inspection is carried out when goods pass the

second-line, thus the time when goods were in warehouses was wasted, which in turn makes the second-line customs clearance relatively slow. When some of the goods failed to pass the first inspection and needed rectification, customs clearance efficiency decreased significantly. After the implementation of preliminary inspection, based on application of the intra-FTZ warehouse goods owner or his agent, the inspection agency can carry out preliminary inspection to the waiting-to-be-imported goods stored in the FTZ. When the goods are actually being imported and passing through the FTZ, they do not need to be inspected again, only need to be released in batches according to the "preliminary inspection verification form". After the implementation of the preliminary inspection verification system, the inspection time for imported food and cosmetic products reduced from 10 workdays to 3 workdays, inspection time for imported alcohol products reduced from 15 workdays to 3 workdays, and export customs clearance time decreased by 40%.

Table 3 Timing saving by virtue of the new FTA measures

Types of products	Prior to the reform	After the reform
Imported food	10 days	3 days
Imported alcohol products	15 days	3 days
Imported cosmetic products	10 days	4 days
Imported industrial products	7-8 days	3-4 days
Total time saving percentage from entering to successful clearance of goods	40%	

Source: Shanghai Entry-Exit Inspection and Quarantine Bureau

**The "Different Inspection and Quarantine Supervision Modes for Different 'Lines'" policy:** The traditional approach fails to clearly define the various lines; as a result, products entering FTZ also need to submit the clearance form. After the implementation of separating line supervision and management mode, inspection and quarantine agencies only carry out quarantine and inspection on sensitive products at the entry and exit of the "first-line"; and carry out goods inspection and supervision mainly at the "second-line". Entry goods which only transfer between intra-FTZ companies and not involving practical usage are exempt from inspection. At the first-line of exit and entry, non-exempt quarantine is implemented, which means all entering vehicles, goods must go through health, plant and animal quarantine; except for waste materials and radioactive detection, other goods are exempt from inspection, to ensure the first-line of FTZ the maximum openness. At the second-line, the design of facilitation systems such as "pre-inspection and

verification” and “registration verification management” helps the FTZ second-line achieve both tight control and fast clearance.

### **Movement of Goods intended for import under customs control**

**The “Transportation under Self-Control” policy:** The “transportation under self-control” policy allows enterprises registered with the Customs in the Pilot Zone may use vehicles registered with the customs to conduct the operation mode of goods transportation under self-control, which means enterprises in the Zone do not need to use vehicles from customs supervision departments any longer. Instead, they can transport by their own vehicles within the FTZ through the information-based system data comparison. With the introduction to this “transportation under self-control” policy, enterprises in the Zone can save about half an hour of waiting for customs supervision vehicles each time, in the meanwhile, the cost of transport can also be saved for the enterprises’ part.

### **Formalities connected with import, export and transit**

**The “Paperless Customs Clearance” system:** This system includes “Simplification of the Attached Documents for Paperless Customs Clearance” system and the “Paperless Reform of Inspection and Quarantine Clearance” policy.

- **Simplification of the Attached Documents for Paperless Customs Clearance:** “Simplification of the Attached Documents for Paperless Customs Clearance” means to cancel a part of the requirement of the attached documents and simplify the customs clearance formalities for first-line entry and exit archival checklists and second-line non-tax declaration forms. But the customs reserves the right to ask enterprises to provide the attached documents in needed time. During the declaration, enterprises needn’t submit the attached documents to customs if the customs don’t ask them to do. Enterprises should appoint a person responsible for the filing, conservation, consulting and safety of the archival checklists or declaration forms to confirm the authenticity, integrity and security of documents. Prior to the reform, enterprises need to submit the attached documents such as the bill of lading, the contract, the invoice and the packing list. The declarable contents are considerably tedious. The new system has simplified the customs clearance formalities; improved the level of automation of customs clearance of enterprises; promoted the efficiency of customs clearance and also supported the environmental causes.
- **Inspection and quarantine clearance paperless reform:** Prior to the introduction of the new system, when enterprises want to make payment,

they must go to the inspection and quarantine agencies and wait for their turns; if inspection departments want to check certificates and goods, they must collect paper materials, and the inspection result must be input manually, thus created a long queue, and a lot of time wasted. After the paperless reform, qualified intra-FTZ companies can enjoy inspection documents simplification, check and release synchronization, quick check and release, thorough report and release, and many other conveniences, achieving paperless operation for the entire process which includes reporting, fee calculation, inspection, visa clearance and some other segments.

**The “Simplification and Unification of Import and Export Archival checklists” system:** Prior to the reform, there were 36 items to be declared as required by the archival checklists of the Waigaoqiao Free Trade Zone and the bonded logistics park, and 42 items required by the Yangshan Free Trade Port Area and the Pudong airport free trade zone. After the reform, the *“imports and exports archival checklists of the customs the People's Republic of China”*, which applied to Yangshan Free Trade Port Area and Pudong airport free trade zone and the *“imports and exports archival checklists of the customs bonded zone of the People's Republic of China”*, which applied to the Waigaoqiao Free Trade Zone and bonded logistics park has been abolished. The customs has simplified and unified the format of the archival checklists. There are now only 30 items in the new archival checklists. This reform will help to realize the quick and easy declaration in special customs controlling zone, lighten the burdens on enterprises, improve the first-line imports and exports clearance efficiency, and promote the regional integration of special customs surveillance zone. This reform also changes the inconformity of the imports and exports archival checklists of different special customs surveillance zones, which promotes the clearance facilitation of imports and exports goods in special areas. This system has been implemented on August 18,2014.

**The “Intelligent Customs Administration at Checkpoints” system:** The intra-FTZ enterprises should fill in the passing form to declare the vehicle’s cargo information. The passing form recorded in the related system on the internet is automatically generated by the customs supervision information system. First, the customs reads the regulatory data such as the electronic license number, containers’ number, the weight of the vehicles, the intelligent security lock by intelligent equipment. Then, the customs compares them to the passing form containing the information of vehicles carrying goods, declaration documents which are used to realize the function of comparing, checking, verification of customs inspection control system and are used to clearing the goods and vehicles to complete the checkpoints intelligent management such as the disposition of release order, the inspection of goods and the automatic verification of the GPS running track of the vehicles, which realize the

separation of vehicles and the automatic release. Before the reform, the passing in and out of vehicles and goods needed people to go through the formalities. After the reform, the new system has simplified the operation procedure in checkpoints and transformed the equipment in checkpoints. The reform has realized the automatic comparison, discrimination and release, which has shortened the passing time of vehicles and improved the efficiency of clearance. This system has been implemented on August 18, 2014.

**The “Recognition of the Test Results Provided by the Third-Party” policy:** Traditionally, the inspection and supervision of import and export commodities have adopted a way of batch management, that is every batch of goods within the category of statutory inspection must first pass inspection to be released, and this inspection must be carried out by inspection and quarantine bureau. Limited resources of inspection and quarantine system resulted in low efficiency of product inspection and supervision. After the third-party test results are admissible, during the process of quality and safety supervision, inspection and quarantine agencies can carry out directly the assessment to the products based on the quality and safety conformity statements submitted by the companies, or inspection certificates or reports issued by the third-party inspection agency , which have greatly increased the supervision efficiency. This system is going to be applied to more industrial products. It has been applied to the inspections of many trial products including imported automobiles, refined oil, liquid chemicals and other commodities.

Table 4 Fees saving under the Third-Party recognition policy

Types of products	Batch	Quantity	Value (billion USD)	Saving (thousand RMB)
Imported vehicles	16,000	444,400	194	48,280
Imported natural gas and refined oil	57	137,900 tones	6.2	940

(From March 2014 to December 2014)

Source: Shanghai Entry-Exit Inspection and Quarantine Bureau

**The Inspection and Release system:** The Inspection and Release system rolled out by Shanghai Entry-Exit Inspection and Quarantine Bureau ranked Top 10 APP for Smart Shanghai 2014. Since its debut on 26th September last year, the system has been applied in 23,300 inspection and quarantine service cases, involving 43,600 TEU of goods. Combined with radio frequency identification (RFID) technology, the system is likely to allow the consumers to inquire



information of the whole logistics process of import goods. The Inspection & Release system has wonderfully connected the CIQ2000 system, the core working system of China's Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), and Shanghai E-port electronic platform, which allows data-sharing on manifests among different check points. The routine work of Customs staff including order receiving, registration, and filing can be done under any one of these systems, and then the real-time information on the other systems will be updated with the data-sharing mechanism, ensuring the release instructions to be sent simultaneously. The Inspection and Release system can be operated through hand-held devices, cutting "red tape" of the clearance procedures greatly and enhancing the capacity of clearance services. Each procedure of the routine work can also be tracked to ensure accuracy and avoid risks. Gone are the days when the clearance services require greater human resources and cost of time.

**The "Centralized and Consolidated Tax Payment" mode:** The traditional customs-dominant tax collection mode is transformed to the enterprise-initiative tax collection mode. Under the precondition of effective guarantee, enterprises are allowed to pay taxes for goods after clearance in autonomous centralized enterprise-initiative manner, in prescribed tax payment period. Real-time customs examination is changed to intensive follow-up audit and tax audit, simplifying the procedure of tax collection to improve customs clearance efficiency and reduce cost for enterprises. Based on effective guarantee, "Centralized and Consolidated Tax Payment" policy is implemented via "Release First, Tax After", which is conducive to the efficient customs clearance of the cargos. It relieves the companies' tax burdens, and reduces the cost of tax payment.

**The "Single Window" policy:** "Single window" is one of the most representative trade facilitation measures taken in the Shanghai FTZ. As part of China's national strategic information system, it is also a fundamental and crucial infrastructure project for the realization of trade facilitation: it provides a "single" public platform for trade-related information exchange between traders and the government or between governments, so as to achieve the simplification, coordination and efficiency of government regulation. Presently, "single window" is a prevalent practice found in major trading countries, and China has always been accustoming herself to this advanced practice. In June 2014, China decided to launch a pilot project of "single window" in the Shanghai FTZ.

After the introduction of "single window", traders can submit documentation and/or data requirements for import, export or transit to related authorities via the single window. Upon the approval of the submitted documentation and/or data, the applicants will be informed of the results through this single window.

In practice, the whole procedure takes only half a day. First, the traders may log in the "single window" platform on the Internet and fill in the forms on line. At a click of the button "submit" for customs inspection, the application enters the stage of commodity inspection, and will soon be replied with a release sheet. Then, the customs clearance procedure begins. Click on "customs clearance" and a warehouse receipt will soon be served. Now, all that is needed is to submit related contracts and receipts etc. in PDF to the "single window" website, and within a few minutes, the customs will send a conclusion sheet back. At this point, customs has finished examining the documents. It takes less than half an hour. After taxes are duly paid, the trader will receive a customs delivery note. Having the note printed and sealed, the customs procedure has been gone through completely.

### **Border agency cooperation and customs cooperation**

China customs has been focusing on regulatory innovations, including making overall human resource reallocation, integrating supervisory resources, setting up efficient and unified customhouses stationed in the FTZ, in order to give full play to the efficiency of intensive management.

In accordance with *the Framework Plan for the China (Shanghai) Pilot Free Trade Zone*, collaboration between relevant departments and the Shanghai Municipal People's Government shall be strengthened under the principle of effectively safeguarding national security and fair market competition to improve the service guarantee for maintaining economic and social security. The FTZ shall assist the relevant departments of the State Council in strictly implementing anti-monopoly examination regarding business concentration. Cooperation with the administrative departments of Customs, quality inspection, industry and commerce, taxation, and foreign exchange, among others, shall be strengthened. The improvement of the integrated regulatory model shall be accelerated, and the establishment of a unified and efficient port regulation institution shall be boosted. The FTZ shall explore unified electronic fence management, and establish a Customs supervision mechanism with controllable risks.

**The Regional Customs Clearance Integration Reform (not restricted to the Shanghai FTZ):** The Regional Customs Clearance Integration Reform of the Yangtze River Economic Belt launched in September 22, 2014 involving the five customs of Shanghai, Nanjing, Hangzhou, Ningbo and Hefei in the Yangtze River Delta region. Through the establishment of Customs Clearance Integration system, China aims to build up a unified platform for customs declaration, risk prevention and control, documents examination, and field work. The whole procedure of customs clearance covering the Yangtze River Economic

Belt features unified management mechanism and operational mode, setting up a “foreseeable, low-cost, efficient, and convenient ” environment for customs clearance in the region. For customs internal management, the reform helps to integrate supervisory resources, highlight the regulatory focus, to improve risk prevention and control, and to enhance the uniformity of law enforcement. For the enterprises’ part, time costs are substantially cut down due to the simplified customs clearance procedures. Under the integration mode, goods can be released by the customs on the spot on that very day where the supervision areas of the customs is connected to the customs data. Enterprises need not go through another customs formalities at the customs port.

## Free Trade Accounts in Shanghai FTZ

The “free trade account” is a special financial institution account introduced by China’s central bank, say the People’s Bank of China (PBOC) in May 2014 to separate cross-border transactions carried out in the Shanghai FTZ from those onshore. Banks are required to connect their FT account systems with the People’s Bank of China, which can then monitor all transactions as required under risk management rules. The free trade account for Shanghai FTZ is a part of the efforts to pilot financial reforms in a risk-controlled environment.

According to the *Opinions of the People’s Bank of China on Financial Support for the Construction of the China (Shanghai) Pilot Free Trade Zone* released by the People’s Bank of China on December 2, 2013, residents in the FTZ may achieve separate accounting management by opening RMB and foreign currency free trade accounts (hereinafter referred to as the Resident Free Trade Accounts) and carry out innovative investment and financing activities; non-residents may open non-resident RMB and foreign currency free trade accounts (hereinafter referred to as the Non-Resident Free Trade Accounts) with the banks in the FTZ, and enjoy relevant financial services in the principle of pre-access national treatment.

To be more specific, the funds can be freely transferred between a Resident Free Trade Account and any offshore account, domestic and off-FTZ non-resident account, Non-Resident Free Trade Account, and other Resident Free Trade Account. Fund transfer may be conducted between a Resident Free Trade Account with the same non-financial institution and any other bank settlement account to meet the requirements of the current account business, repayment of loans, industrial investments, and other cross-border transactions under relevant regulations. Funds flowing between a Resident Free Trade Account and any domestic and off-FTZ bank settlement account will be managed as cross-border business.

On July 16, 2014, the first batch of lenders, including 7 Chinese Banks, launched the service of free trade account. Later, three more banks, as the second batch of institutions, passed regulatory scrutiny and connected their free trade account system to the central bank's system. On January 21, 2015, the Shanghai branches of NCB and HSBC, as the foreign banks in the Shanghai FTZ, have been authorized to provide this service. As reforms expand further, non-banking financial institutions, such as securities companies, trust firms and insurance companies, etc. are now allowed to operate free trade accounts in Shanghai's pilot free trade zone.

On April 27, 2015, Banks were allowed to offer foreign currency services with special accounts operating in the Shanghai FTZ. Companies with the free trade accounts will now be able to manage their RMB and foreign currencies under a unified system, which could facilitate foreign and local exchange conversion, lower the conversion costs, and better manage foreign exchange rate risks. Based on the free trade account, Shanghai FTZ will explore investment and financing exchange facilities and the interest rate market steadily, expand RMB cross-border use and deepen the reform of the foreign exchange management.

## Summary and Suggestions

Trade facilitation measures of the Shanghai FTZ proved to be successful in simplifying import and export procedures and promoting foreign trade and investment. As Shanghai Customs reports, import via Shanghai FTZ surged to a record due to easier customs procedures as reforms continued in the zone. Consumer goods imported via the zone were valued at 114.26 billion yuan (US\$18.2 billion) in 2014, up 21.4 percent from a year earlier. That was 10.7 percentage points faster than the growth in 2013.

According to a survey conducted by PricewaterhouseCoopers<sup>4</sup>, trade facilitation measures adopted by the Shanghai FTZ have been well-received by the importers and exporters. The "First Entering and then Declaring" policy which allows goods to enter the FTZ before going through customs declaration procedures is considered as the most influential measure with 34 percent of respondents currently benefiting from it. The "Centralized and Consolidated Tax Payment" mode that enables enterprises to make customs clearance declaration on a monthly basis wins favorable comments from 25 percent of the respondents. Some 19 percent of the respondents favored the "Transportation under Self-Control" policy, which enables companies to transport goods within the zone with their own registered vehicles and helps to lower costs.

<sup>4</sup> As is reported and published on the official website of the Shanghai FTZ. The survey involved 500 companies registered in China in the first quarter of 2015, with participants coming from a number of different industries including industrial products, automotive, chemical, technology, retail and consumer and life sciences.

Indeed, many of the facilitation measures taken in the Shanghai FTZ are reflected of other WTO members existing and mature experiences. In order to perfect the legal and administrative system of Shanghai FTZ, China may as well continue to test many of the WTO TFA consistent measures in the FTZ, and find out how these measures really benefit developing members like China, and can benefit China' s foreign trade and economy and the welfare as a whole. Many facilitation measures still await to be explored and tested in the Shanghai FTZ and other three China FTZs, and it is suggested that by experimenting these measures China would improve its trade facilitation level and the full implementation of the FTA ,as committed,in the nearest future.

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