2.2 General Trade

General trade refers to the import or export of goods by enterprises in China with import-export rights. In China's customs statistics, the scope of general trade covers: imports and exports using loans or aids; the import of materials by FIEs for processing of goods for sale in the domestic market; the export of goods purchased by FIEs or manufactured by processing domestically-produced materials; the import of food and beverages by restaurants and hotels; the supply of domestically-produced fuel, materials, parts and components to foreign vessels or aircraft; the import of goods as payment in kind in lieu of wages in labour service cooperation projects with foreign countries; and the export of equipment and materials by enterprises in China as investment in kind for their investment abroad.

2.2.1 Quota and Licensing Control

As part of its WTO commitments, China has removed import quota licensing control over refined oil products, natural rubber, vehicle tyres, motor vehicles under certain tariff codes and key parts thereof from 1 January 2004. Currently, only five categories of commodities are subject to import quotas and licensing control. At the same time, as WTO members have lifted restrictions on certain Chinese exports (such as textiles), China has also cancelled the quota and licensing requirements on the export products concerned. In addition, China has introduced reforms in the import management of agricultural products. Certain bulk agricultural produce such as wheat, grain and cotton which used to be under absolute quota management are now subject to tariff-rate quota management. In the long run, direct administrative measures such as quota and licensing control will be slashed now that China is a WTO member.

In December 2001, China promulgated a series of new administrative measures for import and export in keeping with its WTO commitments. These include *Regulations of the People's Republic of China on the Administration of the Import and Export of Goods, Measures for the Administration of Import Licensing Control, Provisions for the Administration of Export Licensing Control, Measures for the Administration of the*

Import of Mechanical and Electronic Products, Measures for the Administration of Designated Operators of Certain Imports, Measures for the Administration of Quotas for Export Commodities, Measures for the Administration of Automatic Import Licensing Control, Implementing Rules for the Administration of Import Quotas for Mechanical and Electronic Products, and the *New Foreign Trade Law* amended in April 2004. These rules have formed a new administrative framework for the quota management and licensing control of imports and exports.

(a) Import Quotas and Licensing

According to the *New Foreign Trade Law* amended in April 2004, import goods and technologies are divided into four categories, namely prohibited imports, restricted imports, free imports, and goods under tariff-rate quota management. Among these, import goods under quantitative restrictions are subject to quota management and licensing control while restricted technology imports are under licensing control. In principle, free imports are not subject to any restrictions. However, due to the need to monitor import goods, the foreign trade department under the State Council has introduced the automatic licensing system on certain free import goods and has published a catalogue on them. For the import of technology classified as free imports, registration and contracts filing formalities are required.

For the import of goods and technologies subject to quota and licensing control in general trade, it is necessary to obtain prior approval of the foreign trade department under the State Council or the foreign trade department in conjunction with other relevant departments under the State Council. For the import of commodities subject to automatic import licensing, the consignee should apply for automatic licensing before customs declaration and obtain prior approval of the foreign trade department or their appointed agents.

China has also revised certain documents governing the administration of imports by FIEs in accordance with its WTO commitments. FIEs importing items subject to quota and licensing control for investment purpose or own use, or for manufacturing products for domestic sale, or for domestic sale in China directly, should apply for the required import quota, import licence or automatic import licensing. FIEs importing within their investment limit raw materials, parts and components for investment purpose or own use, or goods subject to automatic licensing, are not required to obtain an Automatic Import Licence. Commodities imported for processing trade subject to licensing control are exempt from import licence, with the exception of refined oil products, classified chemicals, poisonous chemicals and CD-ROM manufacturing equipment.

(b) Export Quotas and Licensing

China imposes restrictions on the export of certain commodities. These include domestic resources that might be depleted and are in short supply or need conservation in China, and goods destined for countries or regions with limited market capacity and whose exports therefore need to be restricted. Goods under export restriction are subject to quota and licensing management while technologies under export restriction are subject to licensing control. For commodities subject to export quota control in general trade, it is necessary to apply for an export licence by presenting the export quota certificate. For the export of commodities subject to export licensing, it is necessary to apply for an export licence by presenting the export contract. However, FIEs exporting items subject to quota management and licensing control must first obtain approval from the Ministry of Commerce before applying to the relevant department for an export licence. For the export of commodities whose export quotas are obtainable through open tender, utilisation with compensation or bidding without compensation, application for the licence should be made after a successful bid has been made and the quota amount confirmed.

2.2.2 Foreign Exchange Control

China practises a foreign exchange settlement system as well as a system of verification and cancellation of foreign exchange payments for imports and receipts from exports. Under normal circumstances, an enterprise should sell its foreign exchange receipts to designated banks and make foreign exchange payments at designated banks by buying foreign exchange or transferring the foreign exchange in its account. FIEs may open foreign currency accounts and retain a portion of their foreign exchange income under the current account.

When importing commodities in general trade, an enterprise may make withdrawals from its foreign currency account or purchase foreign exchange at designated banks to make payment by presenting the import contract, import customs declaration form and other documents. For export, it must complete the verification and cancellation procedures for foreign exchange receipt from export.

2.2.3 Tax Levy and Exemption

(a) Taxes on Imports

China imposes import tariffs and import-related value-added tax (VAT) on goods imported in general trade. Import-related consumption tax is also levied on certain goods.

(b) Taxes on Exports and Tax Rebate/Exemption

- Tariffs. China does not impose levies on exports with the exception of a few types of raw materials and vital resources.
- VAT and consumption tax. China applies a zero tariff rate on exports with the exception of certain restricted or prohibited goods and technologies. In other words, there is no need to pay VAT or consumption tax on exports, and tariffs already paid will be rebated. The State Taxation Administration stipulates that starting from 1 July 2004, goods exported by foreign trade operators with export production capacity are eligible

for export rebate/exemption under the "VAT exemption, deduction and rebate" system; goods exported by foreign trade operators without production capacity are eligible for export rebate/exemption according to existing regulations on export rebate for foreign trade enterprises; while goods exported by foreign trade operators recognised as small-scale VAT taxpayers are exempt from VAT and consumption tax according to existing regulations.

At present, the export rebate policy is applicable to FIEs under the "VAT exemption, deduction and rebate" system.

2.2.4 Customs Management by Enterprise Categorisation

(a) Enterprise categorisation

The Chinese Customs divides import/export enterprises into four categories -- A, B, C and D -- according to their credibility. Category A enterprises are entitled to all kinds of privileges, such as priority in customs declaration, inspection and clearance; "on-site" inspection; release of goods which are allowed to be released on letter of guarantee; exemption from inspection by sampling for goods on customs' catalogue of commodities subject to compulsory inspection; priority in online declaration through EDI; and priority in customs registration. Category B enterprises are subject to normal management. Category C enterprises are subject to special supervision and control. For example, they must pay deposits on goods requiring duty security, their business activities are monitored, most of their imports and exports are inspected, and they cannot make customs declaration in other localities. Category D enterprises are subject to stringent control and all their imports and exports must be inspected. They may be suspended from customs declaration, shipment of customs-monitored goods and bonded warehousing, and may even be disqualified from these activities and fined.

(b) Categorisation Authorities

The local customs are responsible for making the categorisation. Category A enterprises are entitled to Category A status upon application to and approval by the customs authorities.