



In This Issue

The 22nd issue of our newsletter focuses on special customs supervision zones, such as free trade zones and bonded ports, in China. We also provide information on our Enterprise Europe Network partner in Shanghai and introduce **our brand new website!**

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China Statistics

12 new free trade zones have been approved in principle by the Chinese central government in January 2014.

It takes **60%** less time for foreign-funded enterprises in telecommunication services to complete the approval process in the Shanghai Free Trade Zone since April 2014.

Processing trade made up **33%** of China's imports and exports in 2013, compared to 35% in 2012.

661 foreign-invested enterprises (FIEs) were established in the Shanghai Free Trade Zone as of March 2014.

[Sources: [South China Morning Post](#); [China Daily](#); [Financial Times](#); [China Daily](#)]

Upcoming Highlights

April 22, Online: Webinar [Turnover Taxes for EU SMEs in China](#)

To sign up please click [here](#)

April 23, Beijing: [Establishing a Company Outside Beijing: Challenges and Benefits of 2nd and 3rd Tier Cities](#)

To sign up please click [here](#)

April 24 / 25, Bulgaria: EU SME Centre Bulgaria Road Show – [Sofia](#) and [Plovdiv](#)

April 25, Dalian: [European Companies Day in Dalian](#)

To sign up please click [here](#)

April 25, Brussels: [Doing Business in China - Update on Opportunities, Market Access and Standards](#)

April 29, Online: Webinar [Product Safety for Consumer Products in China – An Introduction for EU SMEs](#)

To sign up please click [here](#)

April 30, Beijing: [Building Your Business in China's Healthcare Industry](#)

For more information, please send an [email](#)

May 8 / 13 / 14, Hungary: EU SME Centre Hungary Road Show – [Budapest](#), [Zalaegerszeg](#) and [Debrecen](#)

May 20 / 21, Poland: EU SME Centre Poland Road Show – [Lodz](#) and [Warsaw](#)

Partner Events

October 21-23, Chengdu: [The 9th EU-China Business & Technology Cooperation Fair](#)

Dragon Star, an EU project facilitating EU-China cooperation in research and technological development, is offering a Travel Grant Scheme in relation to this event. For more information, visit the [website of Dragon Star](#).

What's New on the EU SME Centre Website?



Last week marked the launch of the Centre's new website bringing new and enhanced features to improve the overall user experience.

If you haven't yet checked it out, take a look today and start exploring.

So what's new?

- **Easier navigation** – Easy access to our 90+ reports and guidelines, learning tools, events, webinars
- **Personalised content** – Update your profile to get tailored information, specific to your business needs

- **Enhanced service provider database** – Find and recommend providers
- **Improved search function** – Better filter functions, to find what you're looking for faster
- **SME success stories** – Learn how EU SMEs have succeeded with the help of the Centre
- **Online community** – Post comments and start discussions in our Centre community

To get the most from the Centre website, take a minute to register from the homepage or login with your existing user details if you are a returning visitor. The new web design showcases more clearly all our core services, so you can reach the information you are looking for more efficiently.

Be sure to update your user profile to get the most relevant content for your business in China.

To get started on the new website and update your profile visit www.eusmecentre.org.cn and tell others about our new site on



Market Access News

Bonded Areas and Their Impact on the Supply Chain

Bonded areas are a common element of China's economy. In 2009, bonded processing accounted for 48.2%¹ of China's total export-import volume. This is no wonder because those areas are offering significant customs benefits to companies operating there. After the recent opening of the Shanghai Pilot Free Trade Zone this year, China has approved a dozen new others.

Besides the term 'free trade zones', others commonly used in the context of managing global supply chains include 'export processing zones', 'bonded logistics parks', 'bonded ports', or 'comprehensive bonded zones'. While all of these areas are under the special supervision of the Chinese customs authorities, they each allow different business activities and apply substantially different regulations concerning customs, taxes, and foreign exchange. Each zone is set up in response to specific needs and policies, therefore regulations and benefits vary greatly and need to be researched on a case-by-case basis.

This is one of the reasons why most manufacturing companies operating their supply chain on a global level still find it challenging to move their goods and materials in and out of China; particularly when bonded processing zones, in which goods are allowed temporary import for repairs or slight modifications on a duty-free basis, are part of the process.

Technically, all machinery, equipment, building materials, parts and components, and raw materials may enter bonded zones duty-free. Customs clearance for these goods is relatively fast; they are, however, subject to inspection. It is also permissible to transfer goods from one bonded area to another without paying duties or VAT.

In China, processing in bonded areas can be divided into two broad categories:

- **Import processing:** a firm imports and retains ownership of bonded materials with the intention of manufacturing finished items that will be exported or sold domestically for profit in foreign currency.
- **Inward processing:** a firm receives bonded materials (without ownership) with the intention of manufacturing finished items that will be exported. The firm earns processing fees, but does not directly earn profits realised by sales.

Applying for a new legal entity for bonded processing, as well as linking bonded processing regulations to existing supply chain operations, is often a challenge for European companies however. Applying for a new entity requires you to register with the Ministry of Commerce (MOFCOM) and undergo inspections regarding capability and capacity to conduct bonded processing as specified in a contract. After registration and approval, compliance with strict regulations on the flow of goods and the necessity for meticulous reporting can become a significant burden, especially for companies with little experience in dealing with Chinese authorities.

¹ https://www.jpmorgan.com/cm/ContentServer?cid=1288219789294&pagename=jpmorgan%2Fts%2Fts_Content%2FGeneral

A Concise Overview of Special Customs Supervision Zones

In recent months, there has been quite a lot of media coverage on the China (Shanghai) Pilot Free Trade Zone (SFTZ), and the EU SME Centre has dedicated [a webinar](#) to explaining its implications for European small and medium companies on April 8th. While the SFTZ offers tax exemptions for some transactions just as most other FTZs, one has to keep in mind that it was specifically set up to boost the development of China's service sector, with a special focus on finance and banking. Many of the reforms therefore concern easier investment in services and a relaxation of regulations on interest rates and foreign exchange control. While this is certainly beneficial to many foreign as well as domestic companies, European SMEs producing or trading goods might find better, and cheaper, solutions for their business elsewhere in the country. China boasts more than 100 special economic zones, each featuring unique regulations and offering different benefits. To get a glimpse of the possibilities, take a look at our concise overview below.



Free Trade Zones (FTZs): FTZs in China are defined as 'territories outside the customs territory and inside the borders of the country', meaning the flow of foreign goods is exempt from customs duty and value-added tax. Note that in the original Chinese, FTZs are actually called 'bonded zones'. Bonded warehousing, international trade, simple export processing and product display are basic functions of FTZs in China.

Export Processing Zones (EPZs): As the name says, EPZs were established in China to encourage export processing and house the export processing enterprises previously located in FTZs. Therefore, main features of EPZs are export processing, assembling and warehousing-related activities, whereas retailing, general trade and any other business are not allowed. In the early days, the sale of goods from EPZs into Mainland China was strictly controlled, but this has since become normal practice.

Bonded Logistics Parks (BLPs): Although most FTZs and EPZs are located near ports, the ports are not a part of them. To facilitate logistics between ports and FTZs/EPZs, BLPs were introduced in 2003. Bonded warehousing, cargo handling and transportation are the main activities within BLPs.

Bonded Ports (BPs) and Comprehensive Bonded Zones (CBZs): BPs and CBZs can be regarded as the most advanced version of China's SCSZs, as they integrate all the advantages of FTZs, EPZs and BLPs. Whereas BPs are located at an international port, CBZs are located inland.

Above we list only the five most well-known categories of special economic zones in China. In-depths research is necessary to find out which one (if any) of these in which location is most suitable for your business. For general information on processing trade in China, please see [our guideline on the topic](#). For more information on the different types of SCSZs as well as transaction examples in different scenarios, please see the article [Chinese Bonded Areas: Choosing the Right Location](#), published by Ernst & Young in 2011. Should you have any questions concerning China's Special Customs Supervision Zones, please [contact our business development team](#).

Legal Update

Utilising Special Customs Supervision Zones in China for Trade Transactions

Is it possible for a foreign company to buy products from a Chinese supplier and sell them on to Chinese buyers without shipping them out of China? Or that a foreign company ships materials to China, buys other materials from a Chinese supplier, combines them into finished goods in China and then sells these to Chinese customers?

Many foreign exporters, including EU SMEs, have such commercial needs in their trade with Chinese partners. Due to a comparatively strict administration for payment (foreign exchange) as well as concerns from a tax cost and customs clearance perspective, implementing the business strategies described above within Mainland China was difficult in the past. In practice, many exporters chose to ship their goods out of Mainland China to Hong Kong and then re-import them into the country, resulting in additional shipment costs and lost time on route. However, special customs supervision zones (SCSZ) now make these transactions easier.

There are different types of SCSZs in Mainland China, including bonded logistics parks, export processing zones, bonded ports, comprehensive bonded zones, free trade zones, and more. They have much in common, but each also has its own characteristics. Regulations concerning value-added taxes tend to be the same in almost all zones: under most circumstances goods entering the SCSZs from other areas of China are considered as export and the Chinese supplier can claim VAT refund, and goods entering from SCSZs into other areas of China are considered as import and the Chinese buyer, if it is a general VAT payer, can use the paid import VAT as input VAT to credit against its output VAT. However, each zone has been established to serve a specific purpose, so choosing the right one is essential. As, for example, export processing zones are mainly intended for the processing of goods for export purposes and are strictly supervised by the authorities, they would not be suitable for our examples above. Bonded logistics parks on the other hand allow only simple processing and the provision of value-added services and would therefore not be suitable for in-depth processing either. The most likely choice in our example would therefore be a comprehensive bonded zone,

but even then close attention needs to be paid to the details of the regulations in place.

To achieve the above purposes without setting up its own subsidiary in an SCSZ, a foreign company will also need to work with one or more partners that can provide logistics, trade agency, distribution or customs broker services (logistics companies can often provide all of these services under one roof), and manufacturing companies (if production is involved). It is advised to clearly define the rights and obligations of all parties in the transaction in properly drafted contracts in order to avoid misunderstandings and protect your rights.

For detailed information about utilising SCSZs in trade transactions with Chinese partners, please refer to the [recording of a recent webinar](#) on the topic.

Enterprise Europe Network Contact Points in China

Shanghai Technology Transfer and Exchange



Shanghai Technology Transfer and Exchange (STTE), the first state-level permanent technology market in China, was jointly founded by the Ministry of Science and Technology of China and the Shanghai Municipal Government in December 1993. STTE is one of the first national demonstration organisations for technology transfer dedicated to providing tailored services to SMEs, including the provision of information, R&D support as well as industrialisation and domestic and international technology trade services. As an Enterprise Europe Network (EEN) East China Consortium organisation, STTE is closely linked with all members of the network to share knowledge and source technologies and business partners across all network countries.

STTE provides services to clients throughout the Yangtze River Delta, the largest economic region in China. As the economic hub of the delta, Shanghai, a city of 20 million, boasts one of the highest GDPs in the country and is a national centre for transportation, technology, finance, trade, and exhibitions. The Shanghai government currently focuses on nine key industries, out of which life sciences, new materials, electronic information manufacturing and clean technology are major business areas for STTE.

To date, STTE is cooperating with 47 countries and regions and has successively managed over 30,000 projects on technology supply and demand, organised and held over 900 technology trade fairs and dealt with over 600 international consulting cases on multiple technology projects. Successful examples include a technology licence case involving allergen detection technology from the UK, a Chinese-Hungarian joint venture in the solar energy industry, cooperation on the distribution of solid lubricants from Austria and the transfer of clean air technology from Denmark.

With twenty years of experience, STTE is a competitive service provider with in-depth knowledge of its clients' strengths and needs. Staying abreast of policies and regulations and keeping in close contact with partners at home and abroad, STTE is determined to extend its services and further promote the economic cooperation between Europe, Shanghai and the Yangtze River Delta. For further information, please [contact Cathy Zheng](#) at STTE.

Entrepreneurs' Column

China really is changing. It has always been standard practice, if you have a problem with a Government Department, like the Tax Bureau or Ministry of Commerce, to go and see the head of the local office of the department. Usually, this would be an ageing guy living off tea and cigarettes in a squat office out of the way somewhere. After some friendly banter, he would always be willing to help, and the problem would get solved. Show some respect, manage the relationship regularly, and issues would get taken care of.

But there has been a big drive in the past few years to centralise. Decision making is increasingly held at city, provincial, or even national level. Information is stored and controlled in central IT systems that local offices have no power to make changes in. For example, our finance team made an error in issuing a fapiao last month that led to a tax bill that should not have occurred. The local office still want to help, but there's simply nothing they can do. I am hearing the answer “真的没办法” (really nothing can be done) more and more.

This is having several effects on business. It significantly drives up the difficulty of fixing problematic issues. Unless you have the clout to make a case at a senior level of government, hands are tied. It also reduces the value (and therefore the cost) of relationship building at a local level. You can feel the sense of loss for 'the good old days' from the staff in these offices. Ultimately, it means that things internally do need to be run more by the book, as shortcuts just aren't what they used to be.

Contributed by LNP China – Member of the China-Britain Business Council

If you would like to share your experiences while doing business in China with fellow SMEs, please [send us an email](#).

Recent and Upcoming Publications

Reports

[Marketing for EU SMEs in China](#) – Our BD team takes a look at the differences in marketing between Europe and China and how SMEs can promote their products effectively.

Guidelines

Upcoming: Funding Foreign Investment in China – This guideline tackles one of the most pressing issues for many SMEs entering the Chinese market – access to funding.

Case Studies

Upcoming: Marketing for EU SMEs in China – A series of case studies on European SMEs and how they manage their marketing efforts in China.

Webinar recordings

All of the Centre's webinars are recorded and available on our [website](#) and our [YouTube](#) page.

Recent webinar recordings include:

[Using Free Trade Zones When Importing to China](#)

[Regional Cities in China – Opportunities for EU SMEs in Changsha](#)

[Using Third Jurisdictions Like Hong Kong When Investing in or Exporting to Mainland China](#)

Trade Fairs

[Heat Metering International 2014](#)

April 16-18, Huiquan Dynasty Hotel, Qingdao

[The 71st China International Medical Equipment Fair Spring 2014](#)

April 17-20, Shenzhen Convention & Exhibition Centre, Shenzhen

[The 19th China Beauty Expo](#)

May 7-9, Shanghai New International Expo Centre, Shanghai

[China Packtech & Foodtech 2014](#)

May 13-15, Shanghai New International Expo Centre, Shanghai

[China Import Expo Kunshan 2014](#)

May 14-17, Huaqiao Exhibition Hall, Kunshan

[IE Expo 2014](#)

May 20-22, Shanghai New International Expo Centre, Shanghai

[Metering China 2014](#)

May 28-30, Shanghai Everbright Convention & Exhibition Centre International Hotel, Shanghai

For more upcoming trade fairs in China, please see our online [exhibitions database](#), searchable by sector or date.

The views expressed in this publication do not necessarily reflect the views of the European Commission.

To contact us, please write to info@eusmecentre.org.cn or visit www.eusmecentre.org.cn



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