

Logistics and Transportation Management

Master Thesis No 2004:45

TRADE FACILITATION

AN EXPLORATORY RESEARCH OF SWEDISH TRADE WITH CHINA

Anders Mixe and Cui Lianguang

Graduate Business School

School of Economics and Commercial Law

Göteborg University

ISSN 1403-851: 45

Printed by: Elanders Novum AB

Foreword

China's emergence as a major economic power is one of our time's most significant events. Already today China is the world's second biggest economy (in purchasing power adjusted terms) and the third largest trading nation. It ranks as Sweden's most important trade partner in Asia and it is the largest single market for a number of Swedish companies. Going forward, China's role can only grow. Therefore the Embassy attaches the greatest importance to promoting Swedish business in China.

Swedish companies are committed to China. In fact, most large enterprises already have a presence here, in total close to 250 at the present. However, doing business in this market is not always easy. A survey by the Embassy together with the Swedish Chamber of Commerce in China revealed that two thirds of all Swedish companies in China suffered from trade and investment barriers in 2003. One third were negatively affected by obstacles at the border and by intransparent governance. Against this background, China and Sweden agreed in September last year to form a working group to facilitate trade in both directions.

In their thesis **Mr. Anders Mixe** and **Mr. Cui Lianguang**, master students of logistics and transportation management at Handelshögskolan in Gothenburg, shed light on the trade procedures between Sweden and China. On 8 December 2004 they presented their findings at a seminar together with Chinese authorities and Swedish companies at the Embassy. Their study will be most useful for future discussions between Sweden and China on how to improve the conditions for trade.

Beijing, 26 January, 2005



Börje Ljunggren
Ambassador

Abstract

There is no single, commonly accepted definition of **trade facilitation**. In its broadest terms it may be defined as *a measure, or set of measures, that aims to reduce the cost of international trade transactions or all steps that can be taken to smooth and facilitate the flow of trade*. Further, the gains from **trade facilitation** may be defined as the trade related cost that can be avoided through **trade facilitation** measures.

According to current statistics trade accounts for 30% of the world's *Gross Domestic Product (GDP)* and is expected to reach 50% in 2020. One study has estimated the entire trade transaction cost at 7-10 % of the total value of world trade, where **trade facilitation** measures could reduce the costs by one quarter. Another study has estimated the transaction cost to 2-15% of the total transacted values. Further one study point at benefits from **trade facilitation** of **USD 377 billion** globally on annual basis. When the cost of trade exceeds the business societies' profit margins, enterprises are obliged to withdraw from trade. Alternatively, the cost of trade is transferred to the final customer, which reduces business societies' competitive advantage, and hence therefore creates incentives to withdraw from trade. Any efforts to reduce costs of trade are aligned with the concept of **trade facilitation**, and statutes of a prerequisite for increased global trade. The question is not if Swedish enterprises should implement **trade facilitation** measures, but how long they can afford not do it considering the harsh international competition in foreign trade.

Sweden is, and has been for many years, one of the most trade dependent countries in the world, due to being a small economy with a relatively large business society. Modern China is equally trade dependent and was first opened to foreign trade and investments when Mr. **Deng Xiaoping** became chairman of the communist party in 1978. China is today the 5th largest economy in the world and the 8th largest trading nation, accountable for 5% of the world's exports. Swedish trade with China has steadily increased in both substance and importance, during the past decade. In 2003, China became Sweden's most important trading partner in Asia, accounting for 2.14% of Swedish total trade. In adopting **trade facilitation** measures the two nations may increase their competitive advantages and hence increase the trade even further.

Acknowledgements

First of all, the researchers wish to stress their sincere and deepest gratitude to Professor **Arne Jensen**, who has strongly contributed to the outcome of this research. Additionally, the researchers wish to thank Professor **He Mingke** for his support during the conduct of the research in China.

The research would not have been possible without the financial support by **tradEasy**, thus the researchers owe not only this organization but also the people working there Mr. **Mikael von Otter** and Ms. **Maria Leffler**, their utmost appreciation. Furthermore, **Elof Hansson AB** has contributed with financial support which has made this research possible.

The Swedish Embassy in Beijing has, through its cooperation with the researchers, added value to the outcome of this research, in both sharing and making contacts. Thus the researchers wish to emphasize their deepest appreciation to Ambassador **Börje Ljunggren**, Second in Command **Per Ahlberger**, and Second Secretary **Erik Widman**.

Volvo Truck Corporation and **Modul Service AB** and their subsidiaries have to a large extent contributed to the research in sharing both experiences and concerns regarding their operations. The cooperation with these enterprises has helped to provide the researchers with background knowledge in terms of international trade. Among others the researchers wish to, in particular thank Mr. **Dag Ericsson** at **Jinan Hua Wo Truck Corporation** and Mrs. **Marie Jonsson** at **Modul Service AB**.

The researchers also wish to thank all members of Swedish business society in China as well as in Sweden who have participated in this research. Additionally, the researchers owe gratitude to both Swedish and Chinese governmental authorities who have shared their experiences regarding the management of international trade.

And last, the researchers wish to thank their families and friends, who have been to large extent sacrificed during the process of this research.

Abbreviations

3PL *Third Party Logistics*

B/L *Bill of Lading*

BSO *Business Support Offices*

CB *Certificate Body*

CBA *Customs Brokerage Association*

CBU *Completely built up*

CCC *China Compulsory Certificate*

CFO *Chief Financial Officer*

CIF *Cost, Insurance and Freight*

CIP *Cost and Insurance Paid*

CKD *Completely knocked down*

CPDC *Uniform Customs and Practices for Documentary Credits*

CQC *China Quality Certification Centre*

D/A *Documents against Acceptance*

D/C *Documentary Collection*

D/P *Documents against Payment*

EDI *Electronic Data Interchange*

ERP *Enterprise Resource Planning*

ETA *Estimated time for arrival*

ETD *Estimated time for departure*

EU *European Union*

EUCC *European Chamber of Commerce in Beijing*

FCA *Free Carrier*

FCL *Full Container Load*

FDI *Foreign Direct Investment*

FOB *Free On Board*

GDP *Gross Domestic Products*

GPL *Government Procurement Law*

GPS *Global Positioning System*

HK *Hong Kong*

HW *Hua Wo Truck Company*

ICC *International Chamber of Commerce*
IECC *International European Chamber of Commerce*
IMF *International Monetary Fund*
IPR *Intellectual Property Rights*
JIT *Just-in-Time techniques*
JV *Joint Ventures*
L/C *Letter of Credit*
LCL *Less than Container Load*
LP *Logistics Park*
MOFCOM *Ministry of Commerce*
NDRC *National Development and Reform Commission*
OECD *Organization of Economic Development*
PRC *People's Republic of China*
PSI *Pre-shipment inspections*
Ro-Ro *Roll on Roll off*
SAFE *State Administration of Foreign Exchange*
SAIC *State Administration of Industry and Commerce*
SCC *Swedish Chamber of Commerce in Beijing*
SME *Small and Medium Enterprises*
SOBC *State Owned Banks of China*
SOE *State Owned Enterprises*
TRIPS *Trade-Related Aspects of Intellectual Property Rights*
UCPDC *Uniform Customs and Practices for Documentary Credits*
UCR *Unpacking control report*
UN *United Nations*
UNIDO *United Nations Industrial and Development Organization*
VAT *Value Added Tax*
VCIC *Volvo China Investment Co. Ltd*
VLC *Volvo Logistics Company*
VTC *Volvo Truck Corporation*
WCO *World Customs Organization*
WTO *World Trade Organization*

TABLE OF CONTENT

1	INTRODUCTION	1
1.1	BACKGROUND.....	1
1.2	TRADE FACILITATION	3
1.3	THE IMPORTANCE OF TRADE FACILITATION.....	4
1.4	RESEARCH PURPOSE.....	7
1.5	DELIMITATIONS	7
2	RESEARCH DESIGN	9
2.1	RESEARCH QUESTIONS AND INFORMATION NEEDS	9
2.2	DATA SOURCES AND DATA COLLECTION METHODS.....	10
2.3	DESIGN DEVELOPMENT AND CHOSEN METHODS	11
2.3.1	<i>Literature Study</i>	12
2.3.2	<i>Interview Study</i>	13
2.3.2.1	Ethical Issues and the Seven Stages of Interviews	14
2.3.3	<i>Case Study</i>	17
2.3.4	<i>Course of action</i>	18
3	CHINA	21
3.1	INTRODUCTION.....	21
3.1.1	<i>Weak Currency</i>	22
3.1.2	<i>Over-Heating and the Bank Crisis</i>	23
3.1.3	<i>Reformation of State Owned Enterprises</i>	24
3.1.4	<i>Poverty Reduction</i>	24
3.2	CULTURE.....	24
3.2.1	<i>Face</i>	25
3.2.2	<i>Guanxi</i>	26
3.2.3	<i>Corruption</i>	27
3.2.4	<i>Information</i>	28
3.2.5	<i>Labour</i>	30
3.3	LEGAL ISSUES.....	30
4	CASE STUDIES	34
4.1	VOLVO TRUCK CORPORATION	34
4.1.1	<i>Trade Flow CBU</i>	35
4.1.2	<i>Trade Chain CKD</i>	38
4.2	MODUL SERVICE AB	40
5	TRADE ACTIVITIES	43
5.1	THE INTERNATIONAL TRADE CHAIN	43
5.2	PRINCIPLES OF TRADE FACILITATION	45
5.2.1	<i>Transparency</i>	45
5.2.2	<i>Consistency and Predictability</i>	46
5.2.3	<i>Non-Discrimination</i>	46

5.2.4	<i>Simplification</i>	46
5.2.5	<i>Due process</i>	47
5.3	TRADE RELATED COSTS	47
5.3.1	<i>Compliance Cost</i>	48
5.3.2	<i>Opportunity Costs</i>	48
5.3.3	<i>Costs related to Inconsistency and Unpredictability</i>	49
5.4	PRE-ORDER	49
5.4.1	<i>Trade Procedures</i>	49
5.4.1.1	Establishing Business	50
5.4.1.2	Finding Trading Partners and Preventing Poor Quality	51
5.4.1.3	Commercial Contract	53
5.4.1.4	Funding	54
5.4.1.5	Approvals	56
5.4.2	<i>Evaluation</i>	58
5.5	ORDER	59
5.5.1	<i>Trade Procedures</i>	59
5.5.1.1	Producing Documents	59
5.5.2	<i>Evaluation</i>	63
5.6	TRANSPORT	63
5.6.1	<i>Trade Procedures</i>	63
5.6.1.1	Mode of Transportation	64
5.6.1.2	Service Providers	65
5.6.1.3	Costs and Lead Times of Transportation	67
5.6.1.4	Tracking and Communicating	68
5.6.2	<i>Evaluation</i>	69
5.7	CROSS-BORDERING	70
5.7.1	<i>Trade Procedures</i>	70
5.7.1.1	Communication	70
5.7.1.2	Risk Assessment	71
5.7.1.3	Valuation	72
5.7.1.4	Inspection	73
5.7.1.5	Declaration	74
5.7.1.6	VAT Refund	75
5.7.1.7	Customs Appeal Mechanisms	76
5.7.2	<i>Evaluation</i>	76
5.8	PAYMENT	77
5.8.1	<i>Trade Procedures</i>	77
5.8.1.1	Determining Payment Instrument	78
5.8.1.2	Negotiation of Opening the L/C	79
5.8.1.3	Advising of the L/C	80
5.8.1.4	Actual opening of the L/C	81
5.8.1.5	Forwarding to the Seller and the Audit of the L/C	81
5.8.1.6	Shipment of Goods	82
5.8.1.7	The Issuance of Documents	82
5.8.1.8	Presentation of Documents to the Seller's Bank	82

5.8.1.9	Presentation at the Buyer's Bank	83
5.8.1.10	Actual Payment	83
5.8.2	<i>Evaluation</i>	84
5.9	POST SALES	85
5.9.1	<i>Trade Procedures</i>	85
5.9.1.1	Branding	85
5.9.1.2	Repatriation of Profit	86
5.9.2	<i>Evaluation</i>	87
6	PRACTICAL CONCLUSIONS AND SUGGESTIONS	88
7	THEORETICAL DEVELOPMENT	90
7.1	SERIES AND PARALLEL CONDUCT	90
7.2	SEPARATION OF MARKETING AND LOGISTICS CHANNELS.....	96
8	REFERENCES	102
	APPENDIX I.....	108
	APPENDIX II	111

TABLE OF FIGURES

Figure 1	: Research Purpose and Questions.....	10
Figure 2	: Research Designs	11
Figure 3	: The Seven Stages of Conducting an Interview	14
Figure 4	: Sources of Case Study	18
Figure 5	: Course of Action	19
Figure 6	: The International Trade Chain	44
Figure 7	: Flow of Transportation	64
Figure 8	: Balance of Loading Containers 1	65
Figure 9	: Balance of Loading Containers 2	66
Figure 10	: Loading Issue Related to Customs Inspection	74
Figure 11	: Trade Interactions	91
Figure 12	: Trade Interactions with a single window.....	91
Figure 13	: Interactions conducted in series.....	92
Figure 14	: Interactions conducted in parallel	93
Figure 15	: Optimal conduct of interactions	94
Figure 16	: Conventional trade flows.....	96
Figure 17	: Trade flow including currency	97
Figure 18	: Separation of marketing and logistics channels	98
Figure 19	: Activities of the marketing and logistics channels from a time perspective.....	99
Figure 20	: Base stock system	100

TABLE OF TABLES

Table 1	: Example of Document Requirements.....	62
---------	---	----

Table 2 : Comparison of transport activities between the port of Shanghai and the port of Singapore	67
Table 3 : Comparison of costs for transport activities in the port of Shanghai and the port of Singapore	68

TABLE OF FORMULAS

Formula 1 : Series conduct of interactions formula	94
Formula 2 : Parallel conduct of interactions formula	95



1 Introduction

World trade has proven to be an enabler to economic development and hence a source of poverty alleviation and improved living standards throughout the world. According to current statistics, trade accounts for 30% of the world's **GDP** and is expected to reach 50% in 2020¹. Trade as we know it today is based on the exact same principles as when humans first started conducting it. In turning over the possessive right of a product or service, the resources received in return are conceived as value adding. Obviously, the ways through which the trade is conducted have been modified during the years, in particular due to the invention of currency and the practice of globalization. Still, the modifications have not changed the principles of trade, but added additional activities necessary to consider. Recent estimations of trade activities state that they may account for up to 15% of the transacted value in each consignment². This implies, when compared to business societies' profit margins, that it may create incentives to withdraw from trade if the costs of trade activities erase the profit margins. Alternatively, the costs of the trade activities are transferred to the final customer, which may reduce business societies' competitive advantage and hence create incentives to withdraw from trade. Efforts in order to reduce the cost of the trade activities are therefore necessary to increase globalization and world trade.

It is not the trade activities *per se* which are important, but how they are managed. In reducing the cost of the trade activities, benefits may be enjoyed by *business society*, *governments* and *final customers*. The benefits consist of resources which may be relocated to more value adding activities, in order to make the processes more efficient. The key to this positive development to trade is **trade facilitation**.

1.1 Background

Sweden and China's *Ministers of Trade and Industry*, Mr. **Leif Pagrotsky** and Mr. **Shi Guangsheng**, signed and published an article in the *International Herald Tribune* regarding

¹ Keen, M., (2003)

² OECD, (2002)



their concern on **trade facilitation**, on the 25th of January in 2003. Together they stressed the importance and necessity to facilitate trade activities, in terms of both time and cost.

In response to this article regarding **trade facilitation**, the former *Minister of Swedish Industry and Trade*, Mr. **Leif Pagrotsky**, established the organization **tradEasy** in Gothenburg, Sweden. Its main focus was designed to stress the importance of implementing facilitated trade activities, through a close relationship with the *business society, public institutions and administrations, and academic faculties*.

TradEasy's project manager Mr. **Mikael Von Otter** and Professor **Arne Jensen** at the *logistics and transportation department* at **Handelshögskolan** in **Gothenburg** initialized a dialogue regarding a potential research topic. The outcome was a research topic regarding **trade facilitation** in terms of Swedish trade with China. Due to language and cultural skills as well as proven knowledge in logistic and transportation management, the research topic was assigned to two master students at Professor **Jensen's** department, Mr. **Cui Lianguang** and Mr. **Anders Mixe**.

The research has been conducted predominately in China, in the cities of *Beijing, Shanghai, Tianjin, Jinan, and Shenzhen*, but also to smaller extent in *Gothenburg*. More than 100 interviews have been carried out with more than 70 respondents representing *business society, governmental authorities and financial institutions* involved in Swedish trade with China. This research is based on information collected from these interviews, as well as from existing studies and additional sources regarding **trade facilitation**.

Sweden is, and has been for many years, one of the most trade dependent countries in the world, owing to being a small economy with a small home market, combined with a relatively large business society. Swedish trade with China has steadily increased in both substance and importance, during the past decade. In 2003, China became Sweden's most important trading partner in Asia, accounting for 2.14% of Swedish total trade³. As China is becoming one of the world's largest trading nations, the trade between Sweden and China is

³ www.scb.se (2005-01-07)



believed to continue to grow. In adopting **trade facilitation** measures the two nations may increase their competitive advantages and hence increase the trade even further.

1.2 Trade Facilitation

There is no single, commonly accepted definition of **trade facilitation**. In its broadest terms it may be defined as *a measure, or set of measures, that aims to reduce the cost of international trade transactions or all steps that can be taken to smooth and facilitate the flow of trade*⁴. Yet, another slightly different definition is:

“...trade facilitation is the simplification and standardisation of procedures and associated information flows required to move goods internationally from seller to buyer and to pass payment in the other direction”

Raven, J., former President, International European Chamber of Commerce (IECC)

Trade facilitation is a complex area and includes many fields of expertise which all have to contribute in order to reap the benefits from it. **Trade facilitation** is not just a matter of improving one area of trade activities, but targets the growing range of all controls and restrictions being implemented at national borders by governments and their authorities, e.g. *security, licensing, certification, restrictions of payment procedures* etc. The *International Chamber of Commerce (ICC)* states that *modern and efficient border controls do not just facilitate trade but also improve security and increase revenue collection.*

“Trade facilitation focuses on improvements in the efficiency of the processes associated with trading in goods across national borders. This includes the adoption of a comprehensive and integrated approach to simplifying and reducing the cost of international trade transactions, and ensuring that all relevant activities take place in an efficient, transparent and predictable manner, based on internationally accepted norms, standards and best practices.”

ICC definition

⁴ World Bank, (2002)



According to above mentioned definitions **trade facilitation** is *the simplification and harmonisation of international trade activities*, where trade activities are the *activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade*⁵. Regardless of the definition used, the scope of trade facilitation emphasizes that only necessary trade activities are required. **Trade facilitation** thus focuses on the improvements in the efficiency of the activities associated with trading in goods across national borders.

1.3 The Importance of Trade Facilitation

History has proven that dynamic and healthy international trade is a major instrument for the economic growth and sustainable development for all countries. Trade establishes the necessary ingredients for political and social stability, which has contributed to poverty alleviation and employment creation on a worldwide basis. Poverty rates and global income inequality have diminished, as globalization of trade has increased. Studies have shown that the poverty ratio of the richest 20% to the poorest 20% has started to narrow over the last two decades⁶. When weighted by population, the measure of income inequality shows that many developing countries are actually converging towards the richest countries' living standards.

"Nobody should play down the poverty that afflicts so much of the developing world. But it is important to see the whole picture and to realize that global economic integration has brought a substantial narrowing of the gap between rich and poor during the last two decades. The record shows that those developing countries that have most successfully integrated into the global economy have made the most rapid progress."

Kassum, J., *World Trade Analyst*, ICC in Paris

In accordance with above mentioned benefits, greater participation in international trade may be a prerequisite for development. The level of success in integrating into the world

⁵ OECD, (2003c)

⁶ ICC, (2004a)



economy depends on the realization of a series of complex, behind-border measures that fall under the heading of **trade facilitation**. Increased efficiency as a result of **trade facilitation** will enable higher volumes of both imports and exports to be managed with the same or lower level of resources, resulting in higher compliance and lower costs for both governments and business society. According to one recent study, **trade facilitation** would increase exports from transition and developing countries by tens of billions of dollars⁷.

“The conduct of international trade has undergone fundamental changes, as the security emphasis has shifted from threats to trade to threats from trade.”

Livanos-Cattai, M., Secretary General, ICC in Paris

Costs and delays in exporting can deter enterprises from undertaking a transaction and investment decisions are often based on the ability of a country to ensure a reliable, low-cost flow of raw materials and components into and out of a manufacturing facility. This has laid bare the inefficiencies of outdated modes of operation and motivated an essential rethinking of trading activities both at national and international level. Trade in goods as a percentage of **GDP** doubled between 1990 and 2002. Since 1950, all countries have benefited from a 17-fold rise in world trade and a six-fold rise in world output.⁸ The steady increases in trade volumes and added complexity have significantly changed the operating environment for the international business society and involved government authorities. Furthermore, the increased globalization of production, e.g. components may be manufactured in several countries than the one for assembly, along with *Just-in-Time techniques (JIT)*, has made enterprises' supply chains vulnerable. As complexity in the supply chain increases, the delays and costs caused by slow and inefficient trade activities are multiplied.

All countries stand to gain from **trade facilitation**! One study show that **trade facilitation** increases not only international trade, but also enhances competitiveness, reduces over all costs, enhances government revenue collections and increases the attraction of *Foreign Direct Investment (FDI)*⁹. **FDI** allows the transfer of technology which cannot be achieved through financial investments or trade in goods and services. Additionally, it promotes competition

⁷ OECD, (2003b)

⁸ Livanos Cattai, M, (2001)

⁹ OECD, (2003c)



in the domestic input market. Recipients of **FDI** often gain employee training in the course of operating a business, which contributes to human capital development in the host country. Further benefits of **FDI** are¹⁰;

- Increased corporate tax revenues in host country,
- contribution to investment and economic growth,
- and increased level of education in host countries.

“Connecting (or re-connecting) developing countries to globalized trade and investment flows can only be done by helping them to increase productivity.”

Magariños, C., Director General, United Nations Industrial and Development Organization (UNIDO)

Trade liberalization and the resulting reduction or elimination of tariffs has drawn attention to *non-tariff barriers* and practical obstacles to international trade. The global economy contributes directly to promoting supply chain linkages and reducing *non-tariff barriers*, which have strong potentials to save resources and hence encourages development. The definition of *non-tariff barriers* is; “...all means or situations other than common tariffs that may prevent achieving cheaper and faster trade flows”¹¹. Studies have shown that markets protected by trade barriers often fall behind world standards because the goods and services they provide are not tested by international competition. Disguised protectionist trade policies and *non-tariff barriers* enhance conformity costs, which leads to higher deadweight loss of social welfare than the equivalent tariff barriers. The resulting transaction cost may therefore reach the level that practically eliminates potential trade partners, in particular the small vulnerable ones, e.g. *Small and Medium Enterprises (SME)*, from the market. Increasing trade policy transparency and reducing *non-tariff barriers* are therefore essential to the deepening of **trade facilitation**.

A broad and well-designed **trade facilitation** program may impact positively on **SME** development, which has been found to be the engines of economic development in many transition countries, growing faster, rendering more employment opportunities and making a

¹⁰ STI Working Paper, (2004)

¹¹ ICC, (2002)



substantive contribution to the objective of broad based economic growth¹². At a micro-economic level, **trade facilitation** has a direct impact on total logistics costs, e.g. the sum of time and money involved in moving traded goods. **SME** trade often involve small value consignment which carry disproportionately high cost burdens owing to the fixed costs that have to be paid per consignment. Hence, lack of **trade facilitation** and efficient trade activities have a greater negative effect on these enterprises.

1.4 Research Purpose

The research purpose is (1) to describe the activities in the trade flow between Sweden and China and (2) to specifically detect and identify trade barriers implied and caused by these activities, (3) to locate unnecessary trade barriers which may be eliminated or reduced in a short term perspective, (4) and in conclusion try to develop some theoretical models related to trade facilitation.

The purpose is chronological and interdependent in itself. Based on the activities included in the trade flow between Sweden and China, it is possible to detect and identify the trade barriers and further to argue which ones may be eliminated or reduced in the short term perspective. Based on the practical findings related to the purpose, theoretical models will be developed.

1.5 Delimitations

The factors which have set the delimitations for the research are *time*, *funding*, and *accessibility of information*. The *time horizon* of the research was set to seven months, spanning June to December 2004. This implies that information available after this period has not been addressed. The *funding* in the form of budget has restricted the research in limiting it to specific geographical locations as well as the duration at each location. In terms of *accessibility of information*, the respondents for interviews have been selected in terms of *time* and *interest*. This has meant that respondents from certain sectors, sizes of enterprises, and governmental

¹² World Bank, (2002)



authorities have not been interviewed. Additionally, it has meant that the research does not equally address Swedish export and import. The main focus has been set on Swedish export of goods to China.

The research is based on the information retrieved from both *interviews* and *secondary sources*. Due to factors involved in choosing respondents, and respondents' subjectiveness, the thesis does not intend to generalize trade activities involved in the trade flow between Sweden and China. This implies that the research merely addresses the views and opinions from the chosen respondents, balanced with information retrieved from studies made by governments and international organization and associations, which are assumed to be objective and impartial.



2 Research Design

As mentioned in *chapter 1.2*, the intention of **trade facilitation** is *to improve the efficiency of the activities associated with trade in goods across national borders*. In order to determine how to improve the efficiency of the trade activities, it is important to base the study on a solid research design as methodological framework. Since **trade facilitation** is a new and relatively undeveloped concept, the exploratory and inductive research method will be selected. Inductive research refers to the development of a conceptual and theoretical structure based on empirical observations.

2.1 Research Questions and Information Needs

In order to obtain a more specific research direction to accomplish the research purpose, it is necessary to answer the following four *research questions*;

1. ***What is specific about China in terms of developing trade activities?*** In terms of international trade, each country offers its specifically distinguished features and characteristics. The intention of this question is to obtain a general picture of Chinese trade activities' uniqueness. The answer may be found through a collaboration of secondary data and interviews.
2. ***In what trade activities, can trade barriers be found?*** This question is intended as a first step to detecting and identifying potential trade barriers. Predominately, interviews and case studies will be used in order to answer this question. Additionally, a model will be constructed based on literature addressing the concept of **trade facilitation**.
3. ***What dimensions of trade facilitation are important in order to improve trade activities?*** This question focuses on how to locate potential trade barriers, which may be eliminated or reduced in the short term perspective. The answer will be found in literature studies as well as from information collected from interviews and case studies.

4. *What ideas on theoretical models may be evoked and realized during the process of answering research questions 1-3?* Based on information gathered from answering previous research questions theoretical development will be conducted. Deductive/ inductive methods will be applied to empirical findings.

As illustrated in *Figure 1*, the intention of the *research questions* is to narrow and segment the research purpose, in order to accomplish it. Thus the answers to the *research questions* which are based on the research purpose, serves to accomplish it.

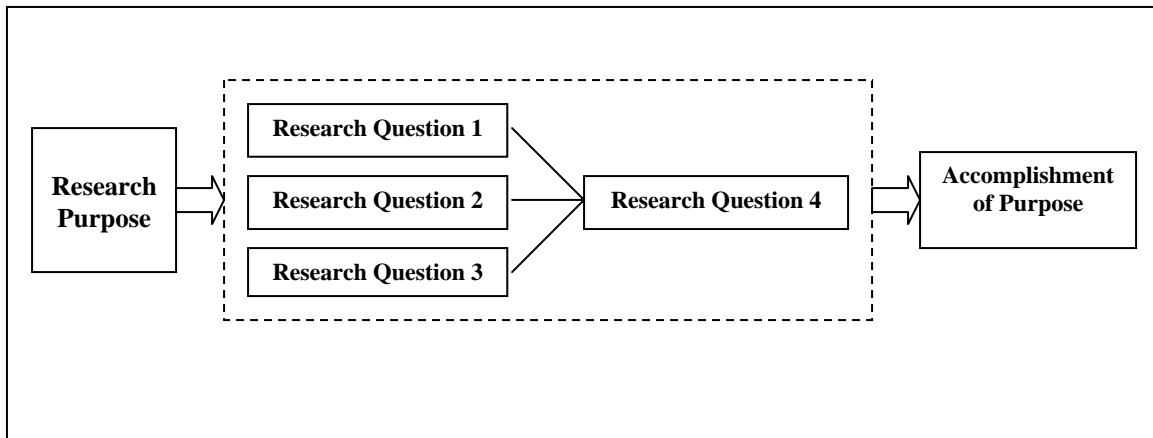


Figure 1 : Research Purpose and Questions

The *research questions* are posed in chronological order, based on their interdependence. The first question provides background knowledge in order to proceed with the following two. The first question is thus a prerequisite in terms of accomplishing the research purpose. Further the answer to the second question provides a platform in order to answer the third one. The fourth question is based on the answers to the previous three.

2.2 Data Sources and Data Collection Methods

The type of research chosen for this thesis is the *exploratory research*. The included data sources and data collection methods are illustrated in *Figure 2*, based on the Green & Tull tree diagram¹³. Furthermore, it is based on both *primary* as well as *secondary data designs*. In terms of the *primary data design*, the *non-experimental design* is favoured over the *experimental design*, due to the delimitations of the research stated under *heading 1.5*. The *non-experimental*

¹³ Green, et al. (1978)

design will be based on information from both *interviews* and *case studies*. *Interviews* will be regarded as a key source of information for this research, due to the fact that it provides first hand experiences and opinions. Additionally, interviews will serve to answer the *research questions* stated under *heading 2.1*. *Case studies* will be important sources of information, since they will provide the researchers with the chance to become familiar with the research topic. Thus, they will be significantly useful in the exploratory phase of the research. Out of the two types of designs in *secondary data design*, both the *external secondary data design* and the *internal secondary data design*, will be used but for different purposes, due to the extent and complexity of the research topic. The *internal secondary data design* will be used as complementary information to both the *interviews* and the *case studies* in the *non-experimental design*. The information used for the *external secondary data design*, will origin from *governments, trade associations and trade press, and periodicals*.

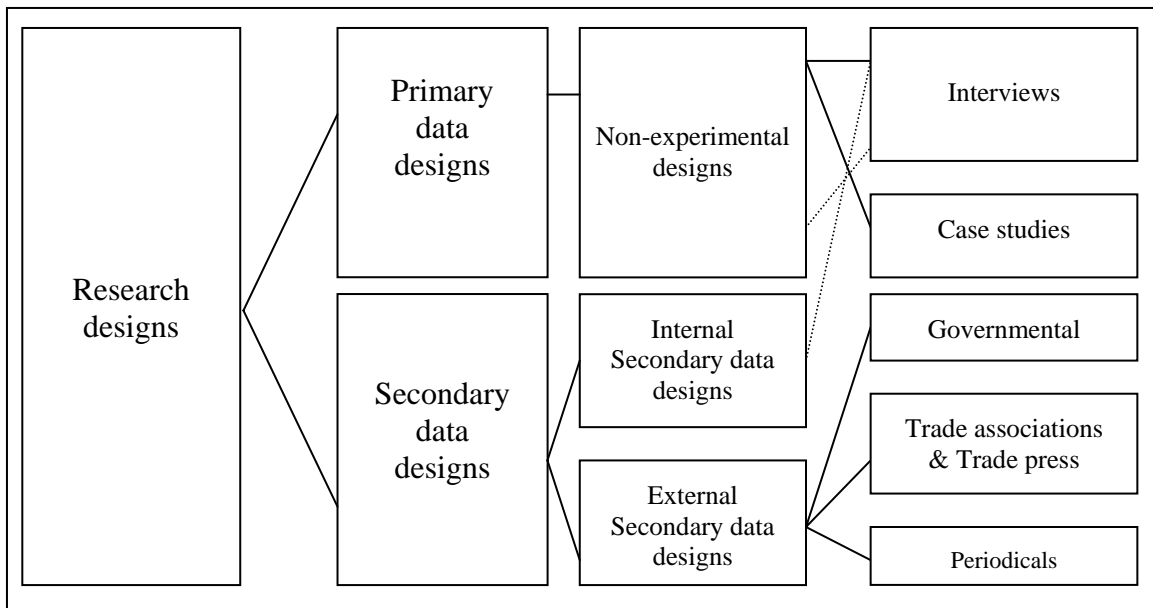


Figure 2 : Research Designs

2.3 Design Development and Chosen Methods

The methods will be selected in accordance with the exploratory research. The research design will additionally, as previously mentioned, be structured as an inductive study. Theoretical sources will be used, along with case studies, predominately in order for the researchers to familiarize themselves with the research topic. At last, theoretical models will



be developed based on the empirical observations. Interviews will be used as key source of information.

2.3.1 Literature Study

Literature study contains secondary data. There are predominately three reasons why it will be used in this research. First, it is a useful source of information in terms of becoming familiar with the research topic. Secondly, the requirements for resources in terms of funds are lower than for primary data collection. Third and last, it contains information which may be used as a complementary instrument in terms of answering the research questions.

Secondary data has its limitations, based on how the original data was obtained and for what purposes, e.g. in terms of statistical data. To a certain extent, secondary data is therefore always doubtful in terms of validity and reliability.

As illustrated in *Figure 2*, secondary data designs, in terms of this research, is categorized into either internal or external secondary data designs. *Internal secondary data* which contains of information collected from enterprises' and authorities' day-to-day operations will be used for the case studies and for the preparation of the interviews. Still, the main focus is on the external secondary data designs, which refers to information collected outside of the enterprises' and governmental authorities' operations. External secondary data, in this research, will serve as background information at the initial phase, and will help to bring up ideas during the on-going process of the research. External secondary data designs, as further illustrated in *figure 2*, is divided into five sub-categories, *government, trade associations and trade press, periodicals, institutions and commercial service*. As mentioned under *heading 2.2*, only the first three sub-categories are important in order to accomplish the purpose of this research. Part of the information sources for the sub-categories are stated below.

- **Governmental**

Swedish Embassy, Swedish National Board of Trade, Swedish customs, United Nations (UN), Chinese Ministry of Commerce (MOFCOM), Chinese Customs etc.

- **Trade Association and Trade Press**



Organization of Economic Development (OECD), World Trade Organization (WTO), International Monetary Fund (IMF), World Bank, Swedish Chamber of Commerce in Beijing (SCC), European Chamber of Commerce in Beijing (EUCC), International Chamber of Commerce in Paris (ICC) etc.

- **Periodicals**

International Herald Tribune, China Daily, Göteborgs Posten, Dagens Industri and Svenska Dagbladet etc.

Additionally, the secondary data from the literature studies will help to construct a model illustrating the trade activities. This model will facilitate the progress of the research.

2.3.2 Interview Study

There are several types of interviews. For this type of research, interviews between two people are preferred. These types of interviews are also the most commonly used, in terms of scientific research. Additional types, group or panel interviews will be disregarded, since when influenced the respondents may become reluctant or unwilling to answer questions to their original intention. Information collected from these types of interviews may thus be biased and hence useless for this research.

Further, interviews between two people are divided into survey and expert interviews¹⁴. Due to the research purpose, only expert interviews will be conducted with respondents dedicated in the daily operations of trade activities. By interviewing these respondents, first hand data and experiences will be obtained, which serves to answer the research questions. In terms of keeping the objectiveness, interviews will be conducted with both members of the business society and governmental authorities. Additionally, expert interviews provide the researchers with ideas on the on-going process of the research, and will result in further interviews with experts known by the respondents. Expert interviews will be especially important when conducting the case studies.

¹⁴ Green, et al. (1978)

Critics of the method of interviews, state that they are undertaken subjectively and hence produce biased results. Yet, the contrary is also argued, claiming that it is possible to collect scientific results from interviews, if they are conducted in a methodologically secured and systematic way. One source states that the interview is a uniquely sensitive and powerful method, in order to obtain experiences and lived meanings of the respondents' day-to-day operations¹⁵. One methodological secured and systematic way of conducting interviews is the *seven stages model*, illustrated in *Figure 3*, on which all interviews in this research will be based.

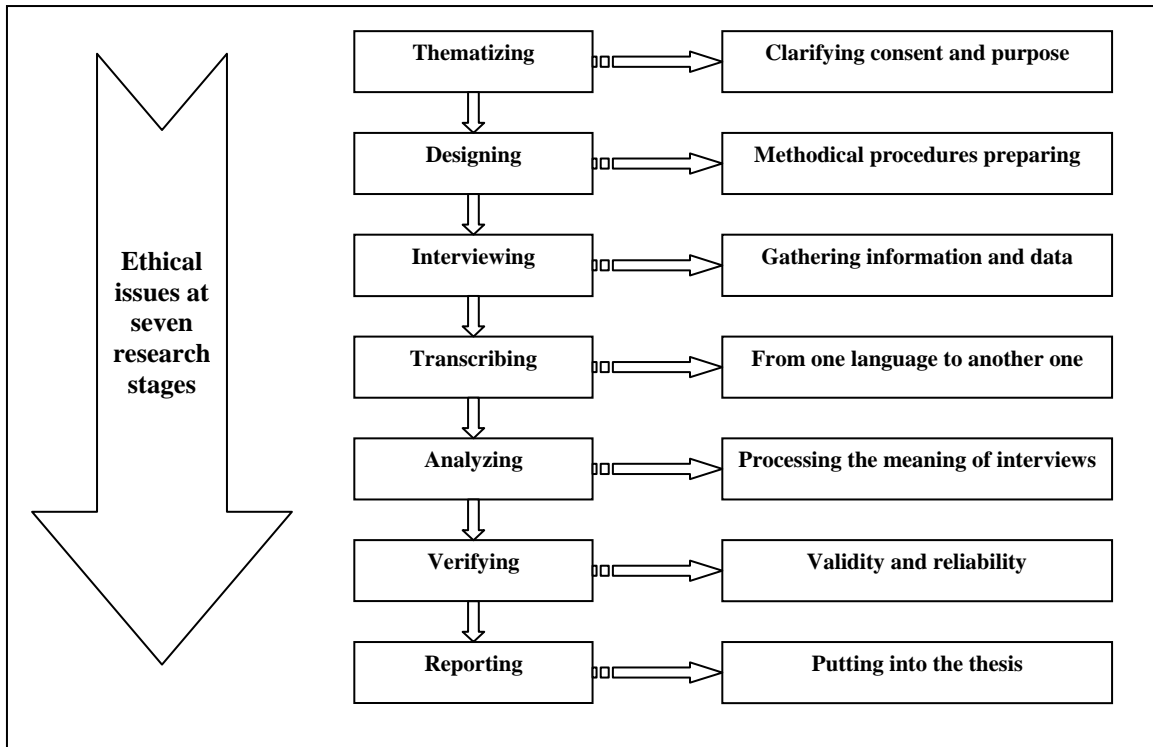


Figure 3 : The Seven Stages of Conducting an Interview

2.3.2.1 Ethical Issues and the Seven Stages of Interviews

Prior to the interviews, respondents will be informed of the content of the research and its overall purpose, which is to investigate trade activities involved in the trade between Sweden and China. Further, the respondents will be presented with a basic design of the research prior to the interview. Any possible risks or benefits in participating in the interviews will be discussed with respondents until understood. The potential benefits to respondents along with the information obtained from the same, should outweigh the risk of harm to the

¹⁵ Kvale, S., (1996)



respondents and thus guarantee to carry out the research. The interviews will be based on voluntary participation, and each respondent thus will have the right to withdraw from the interview at any time, which will counteract potential undue influence and coercion. During interviews respondents will provide information and data which will not be intended for the research, and thus will not be published. Respondents' privacy will be protected by changing their names and identifying features. This is an important issue when reporting the interviews. As previously mentioned, all interviews are based on seven stages illustrated in *figure 3*.

1. Thematizing

Prior to the interviews the researchers will have to make sure that they understand the various parts of the research. Conceptual clarification and theoretical analysis of the research is a prerequisite in order to obtain the right information from the interviews. Additionally before conducting the interviews the researchers will have to be aware of how to obtain information from each specific interview. The majority of the respondents will be selected from either business society or governmental authorities. Specific respondents will be asked questions regarding the research in general, while others will be asked more specific questions. As mentioned, it is important to inform the respondents of the content of the research prior to the interview, i.e. what will be expected from them.

2. Designing

After clarification of what information will be required from the interviews, methodological procedures will be prepared with the intent of obtaining the required information. Various methodological procedures will be used depending on the respondents, e.g. the feature of the questions will depend on each interview's purpose. Additionally, if the intention of an interview will be to understand specific trade activities, the questions of "*how*" will be logically arranged and planned in advance. Alternatively, if the intention of an interview will be to identify trade barriers, questions addressing "*what*" and "*how*" will be prepared in advance in order to actually identify the specific trade barriers. Further, part of the interviews will be difficult to prepare questions for in advance, owing to lack of information etc. In these situations the researchers will be flexible and sensitive in order to come up with questions during the on-going process of the interviews.



3. Interviewing

In order to conduct successful interviews, the researchers will aim at creating an atmosphere in which the respondent will feel safe to speak freely. This process will delicately balance cognitive information seeking and the ethical aspects of emotional human interaction. Issues which will be addressed during the process of interviews are;

- **Changing and Sensitivity**

Due to the research topic being relatively new, both researchers and respondents will be learning from one another during the interviews. This will require the researchers to be sensitive and at the same time active in order to go in depth regarding new information.

- **Specificity**

Researchers' descriptions of specific cases and action sequences will be as elicited as possible.

- **Focused**

Researchers will focus on particular topics during the interviews.

- **Clearance**

When ambiguity occurs in the respondents' statements, researchers will be required to ask for explanations.

4. Transcribing

By transcribing is meant the transformation of one language into another, e.g. oral into written language. Researchers will pay attention to a series of judgements and decisions when translating interviews from Swedish, Mandarin or Cantonese into English. The main intention will be set to keep the information intact, in order to secure the validity and reliability.

5. Analyzing

Information which will not serve to accomplish the research purpose will be excluded from the interview, when analyzing them. This will imply the abridgment of the meanings expressed by the respondents into shorter versions. Each interview will contain different information which may be used in several ways to serve the research purpose. Thus,



interviews will be classified into categories based on the information they contain. Information obtained from interviews is often related to other sources of information, which will enable the detection of gaps in the information obtained. This will lead to future re-interviews. Analyzing the information obtained, implies interpreting it and going beyond the structured and manifests meaning of it into a chain of evidence.

6. Verifying

In order to secure the validity and reliability of the analyzed information obtained from interviews, respondents will be provided with analyzed versions of their statements for confirmation and permission to use it.

7. Reporting

Information obtained from interviews will be used in such a way, that they will serve to accomplish the research purpose.

2.3.3 Case Study

The method which will be used for conducting the case studies is exploratory case studies. As mentioned, the research topic is still in its exploratory phase, thus this method is believed to be the most suitable in order to accomplish the research purpose. The purpose of the case studies which is to become familiar with the research topic and issues related to trade activities will be aligned with the research purpose.

Two enterprises along with their subsidiaries will be selected for the exploratory case studies. Both enterprises will be studied constantly and intensively. The case studies will be conducted over a specific period of time, and are expected to provide valuable information. There are six types of sources, illustrated in *Figure 4*, in terms of case studies; *documentation*, *archival records*, *interviews*, *direct observations*, *participant observations* and *physical artefacts*¹⁶. Due to the nature of the *research questions*, most of the information will be retrieved from interviews, yet archival records and documentation will be used as complementary sources. The additional sources in *Figure 4* are out ruled as unrealistic in terms of this research. Regarding

¹⁶ Yin, R., (1994)



the interviews, they will be conducted in the same manner as mentioned under heading 2.3.2.2. Triangulation, convergence of different sources of information and data, will be used as strategy in order to guarantee the validity of the collected data and information from the case studies.

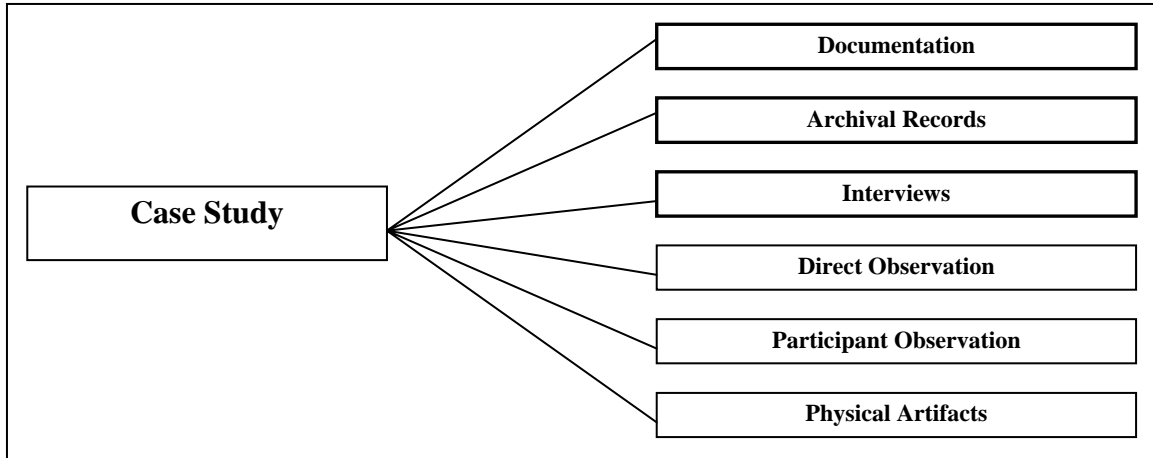


Figure 4 : Sources of Case Study

2.3.4 Course of action

Regardless of research strategy or design, it is important to have a schematic course of action. The course of action serves as a guide for the theoretical and empirical research. Additionally, it will provide an overview of what elements will be covered in the research. The course of action which will be used for this research is illustrated in *figure 5*.

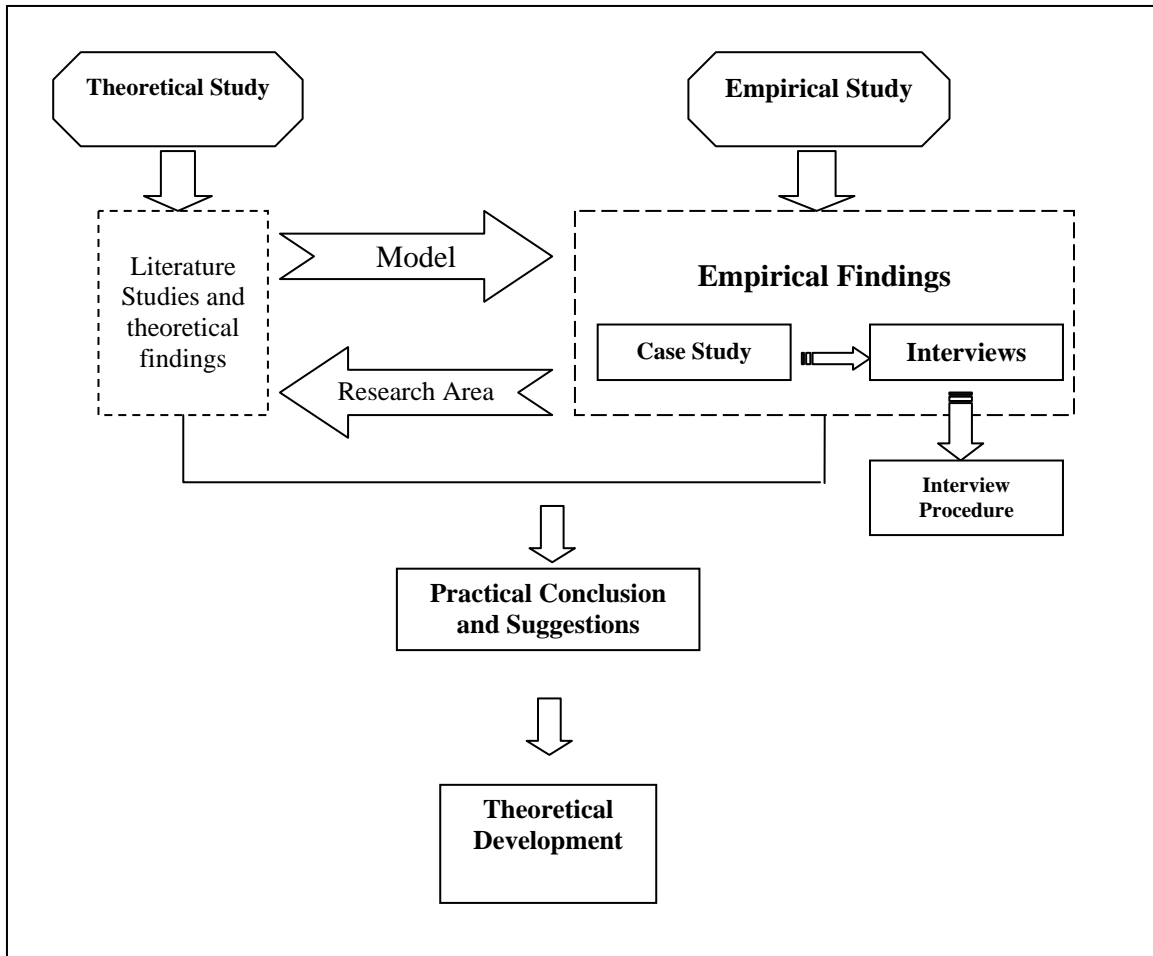


Figure 5 : Course of Action

The research will be initiated by theoretical studies, which will predominately consist of literature studies. The literature studies will be thoroughly conducted prior to initiation of the empirical studies. As mentioned previously, the empirical studies will require models as guidelines in order to be successful. Yet, the theoretical study will not terminate when the empirical study is initiated. Both studies will be conducted simultaneously and act as complementary sources to one another, in terms of obtaining new ideas and research territory.

The empirical studies will begin with case studies, where two enterprises will be researched intensively. This will be followed by expert interviews with members of the business community and governmental authorities. The findings from both the case studies as well as the expert interviews will be categorized and analyzed.



Along with the findings from the theoretical and the empirical studies, general analysis will be conducted in order to answer the research questions and thus accomplish the research purpose. Possible practical conclusion and suggestions will be based on the analysis of the theoretical and empirical studies. Additionally, based on the empirical observations, theoretical models will be developed.



3 China

China offers a number of significant and distinguished features and characteristics which will be addressed in this chapter and thus answers the first *research question* regarding what is specific about China in terms of developing trade activities, seen from a Swedish perspective.

Sweden was the first western nation to acknowledge the *People's Republic of China (PRC)*, by initiating diplomatic relations on the 9th of May in 1950. As previously mentioned, China is currently Sweden's most substantial and important trading partner in Asia. Additionally, more than 250 Swedish enterprises are currently present in China, with more than 400 operating subsidiaries. Unofficial estimations state that 80-85% of these enterprises are profitable.

China's trade is fuelled by **FDI** and is intended to generate funds to increase the standard of living of its citizens. As living standards increase the Chinese consumer market grows stronger. One study states that the Chinese consumer market in the year of 2010, will reach 500 million people¹⁷. This further indicates that Swedish trade with China will continue to increase. As Chinese trade will increase in both substance and importance from a Swedish perspective, incentives are created to look into how trade is conducted and managed, between the two nations. In adopting **trade facilitation** measures, trade may increase even further.

3.1 Introduction

Modern China was first opened to foreign trade and investments when Mr. **Deng Xiaoping** became chairman of the communist party in 1978. The result was an average annual economic growth of 11%, until 2002. The current chairman, Mr. **Hu Jintao**, has continued to *open up* and the goal is to quadruple the nation's **GDP**, during 2000-2020. China is today the 5th largest economy in the world and the 8th largest trading nation, accounting for 5% of the world's exports. The accession to the **WTO** in 2001 has further liberalized the Chinese

¹⁷ Hellvin-Stålgren, L., (2004)



economy in terms of accessibility for foreign trade and investments through reduction of tariffs etc. In 2003, China's total trade accounted for more than 60% of the **GDP**. The *European Union (EU)* is currently China's 3rd most important trading partner and China is the **EU's** 3rd largest import source and the 7th most substantial export destination.¹⁸

Trade has and has had an important role in terms of the country's economic development, and has resulted in *employment creation, labour training, reduced poverty rates, technology transfer, productivity growth, competition, and integration with the world economy*¹⁹. The contemporary issues in terms of the Chinese economy are *weak currency, challenges with economic over-heating and the bank crisis, the reformation of the State Owned Enterprises (SOE), and the growing gaps between rich and poor*, of which all are related to trade.

“One may not navigate an aircraft with wings made of solid steel.”

Rosta, P., Commissioner Counsellor, Swedish Embassy Trade Office in Beijing

According to Swedish enterprises in China, trade with China always consist of a risk, due to Chinese enterprises' *poor payment morale, lack of liquidity and credibility*. An example mentioned by one Swedish enterprise is the malfunction of Chinese accounting practice, e.g. parallel records, which imply that Chinese enterprises are free to claim insolvency at any time they wish and thus refuse to pay for traded goods²⁰. Further, Swedish enterprises operating in China have reported numerous cultural aspects of which all are significant to China. Cultural aspects stipulate states of nature of which all involved participants to trade have to apply to in order to succeed, when trading with China. Enterprises which lack of sensitivity to cultural aspects may thus have less chance to fully grasp the benefits of which the Chinese market offers.

3.1.1 Weak Currency

The Chinese **RMB** is pegged to the **USD** at an exchange rate of 8.28 **RMB/USD**. A weak **USD** will thus affect the Chinese trade in terms of increased export and decreased imports,

¹⁸ www.swedishtrade.se/kina/, (2005-01-07)

¹⁹ Lascoux, J., (2003)

²⁰ Peterson, J., (2004-09-06)



due to reduced purchasing power. China conducts a system of multiple exchange rates to encourage exports and tourism, on one hand, and to control the outflow of currencies for undesirable foreign expenditures, on the other. Additionally, the multiple exchange rates are also used to limit the inflow of currency for speculative purposes, e.g. speculation of revaluation of the **RMB**. A revaluation of the currency is believed to result in increased unemployment and thus the Chinese government has so far been reluctant to conduct such measure. Furthermore, multiple exchange rates imply that all payments in China, with few exceptions mentioned under *heading 3.3*, have to be conducted in the **RMB**, which calls for conversion procedures when trading internationally. The **RMB** is fully convertible in trade transactions yet only limitedly so on the capital account.

3.1.2 Over-Heating and the Bank Crisis

The Chinese economy constantly runs the risk of over-heating due to its rapid economic development. Predominately administrative measures have been taken by the Chinese government in order to prevent this mishap, i.e. *reform regarding the investment system* and *financial restrictions for banks*. The *reform regarding the investment system* intends to decrease governmental authorities' interference in investment decisions, which implies that only financial decisions are targets for approvals by governmental authorities. The *financial restriction on banks* aims to encourage investment in certain sectors. The restrictions imply that financing may only be granted to *good* enterprises and projects. The *State Owned Banks of China (SOBC)*, dominates the banking sector in China, through handling approximately 75% of all financing²¹. In managing the **SOBC**, the Chinese government may control the country's demand through bank policies and hence *cool off* the economy when needed, instead of increasing the interest rate²². One example, of which Swedish enterprises have reported, was in April 2004 when the majority of the financing was denied. This halted the trade flows, which resulted in costs related to *unpredictability*, *compliance* and *lost opportunities*. According to one Swedish enterprise, the only effective measure to create efficiency on the market is to fully separate politics from business.

²¹ Barck-Holst, C., (2004)

²² Villanueva Engström, J., (2004-08-17)



3.1.3 Reformation of State Owned Enterprises

The *National Development and Reform Commission (NDRC)* is responsible for the industry which predominately consists of **SOEs** and is therefore influential in terms of financial decisions made by the government. One study states that a policy of nurturing infant industry can only help to make domestic sectors competitive if there are clear and binding deadlines for the gradual removal of existing restrictions on foreign competition²³. Yet, since the unemployment rate has increased by 30 million as a result of the reformation process of **SOEs**, both the reformation and removal of restrictions to foreign competition has been slower than what would be ideal. One example of a measure taken by the Chinese government is the new *bankruptcy law* which is expected in the beginning of 2005. It will set clear rules regarding strengthening the financiers interests and provide a framework for rules applying in case of bankruptcy restructuring.

3.1.4 Poverty Reduction

Poverty is the root of political instability which has the potential of arousing protectionist sentiments that are self-defeating, which may lead to economic depression. Trade has proven to be a powerful engine of progress in poverty reduction. Integration into the global trading system has resulted in not only economic growth but also higher paid jobs and increased prosperity. The reforms of *opening up*, has so far reduced poverty in China by 200 million people²⁴. Still poverty is high and officially there are 65 million people in China who earn less than 106 **USD** per year. During 2003 the income per capita increased 9% in the cities and 4.3% in the rural areas, which has contributed to widening the gap between rich and poor since poverty may predominately be found in rural areas.²⁵

3.2 Culture

Culture can be reviewed as *consisting of everything that is man made, everything that people have, think, and do as members of their society*. Culture can further be reviewed as *communication, a system of*

²³ ICC, (2004a)

²⁴ Widman, E., (2004b)

²⁵ Livanos Cattai, M, (2001)



shared meanings, the way of life of a group of people, collective programming of the mind, inherited ethical habit, a “tool kit” of habits, skills, and styles from which people construct “strategies of action”. Culture is a mix of categories, norms, roles, and values. It is a set of understandings shared among persons who have been similarly socialized, or a system containing of subsystems such as *kinship, educational, economic, political, religious, association, health, and recreational systems.*²⁶

Chinese people are proud of their culture, and a strong sense of cultural superiority is ingrained in the Chinese mind. Chinese have always held themselves culturally in high esteem, viewing their culture and nation as lying in the centre of human civilization. Confucianism is a fundamental philosophical tradition that has shaped the more than 5,000 year old Chinese culture. It has created and developed the concepts of **face** and **guanxi**. Both concepts play important roles when interacting with Chinese enterprises and governmental authorities, especially in terms of managing *corruption, information and labour*.

3.2.1 Face

All cultures include the concept of **face**, yet it is significantly important in the Chinese culture. **Face** can be described as *the positive social value a person effectively claims for himself by taking a particular contact or an image of self delineated in terms of approved social attributes*. It is about ones dignity, self-respect, and prestige, the most delicate standard by which Chinese social intercourse is regulated.²⁷

“Swedish enterprises have not fully understood the cultural impact of the concept of face. In China one would rather lie than lose face. The consequence of this fact is that decisions may sometimes be based on lies. In Sweden one would rather loses face than lie.”

Lindblad, G., Sales Manager, Elof Hansson AB in Shanghai

Face involves the respect of the group for a person with a good moral reputation and the person’s prestige, and is not only a person’s private affair but also a concern of the person’s

²⁶ Fang, T., (1999)

²⁷ Ibid.



whole family, social network and community at large. The concept of **face** is embedded in the Confucian notions of shame and social harmony. Harmony is only found in the maintenance of an individual's face.

“In order to gain face one first has to give face.”

Ericsson, D., President, **Jinan Hua Wo Trucks**

Persons in subordinate positions can use the fact that their superiors must maintain their face at a high level to exploit an economic advantage without offending moral standards. This implies that **face** can be employed as an influencing tactic in interpersonal relationships. The person who has been given **face** is expected to give **face** in return. Therefore the concept of **face** is inextricably linked to the other Chinese concept of **guanxi**.

3.2.2 Guanxi

The Chinese term for relationship is **guanxi**, one of the most important cultural traits of Chinese people. **Guanxi** can be understood as *reciprocal obligation; special relationship individuals have with each other in which each can make unlimited demands on the other, friendship with implications of a continual exchange of favours, or the establishment of a connection between two independent individuals to enable a bilateral flow of personal or social transactions*. In the Confucian tradition, a person is morally expected to improve the welfare of his less fortunate relatives and friends through his influence and contacts.²⁸ One study states that the **guanxi** is more important in China than laws and regulations, and that many decisions are based on personal rather than commercial values²⁹.

“The loyalty is not with the enterprise but with the personal network.”

Rosta, P., Commissioner Counsellor, **Swedish Embassy Trade Office in Beijing**

Guanxi is usually established among people who share a commonality of certain identities. China is not a free market economy, which makes it difficult to allocate resources through

²⁸ Fang, T., (1999)

²⁹ Barck-Holst, C., (2004)



market mechanisms; therefore, **guanxi** is a major means of resource allocation in contemporary China.

Guanxi pervades the whole Chinese business process and it is helpful for finding out laws and regulations prior to their enforcements which enhance the transparency and predictability. It can also be used when seeking background information about potential Chinese business partners, negotiating prices and terms of payment, and implementing the contract. Doing business in China is not just a matter of price and product. Emotional values such as friendship and personal relationship play a big part, which implies that Swedish enterprises to certain extent have to reevaluate their marketing principles when operating in China. Foreign enterprises have to rely on these emotional values, which often take time and patience to build.

“What the seller sells might not be what the buyer buys!”

Peterson, J. Vice President English First in China, **EF in Shanghai**

Chinese customers, according to Swedish enterprises, are more demanding compared to the west, and hence have other expectations of products. Therefore, the understanding of, and the actual product may not correlate. Negligence in dealing with cultural aspects thus often results in poor-performing investments, which is one of the reasons why the majority of *Joint Ventures (JV)* often fail³⁰. *Without **guanxi** one simply cannot get anything done or gets half the result with twice the effort*³¹.

3.2.3 Corruption

Corruption may undermine the most promising economic development and undermine public and business confidence in the fair and efficient operation of markets and distort competition. One study show that corruption accounts for 6% of world trade³².

³⁰ Peterson, J., (2004-09-06)

³¹ Fang, T., (1999)

³² ICC, (2003)



“...willingness to accept bribes was long regarded as no more than a form of disloyalty to an employer or a threat to fair competition without full recognition of the far-reaching injury to the economic system.”

Eser, A., Professor, Max Planck Institute in Heidelberg

Article 19 in the draft of the *UN Convention Against Corruption* addresses the criminalization of corruption involving a foreign public official. This recognizes the important issue of *solicitation* which needs to be addressed in order to eliminate corrupt behaviours, since undisclosed political contributions may be a source of abuse.

“I might be wrong, but I simply cannot see the possibility of conducting business in China, and at the same time complying with Swedish Law in terms of corruption.”

Lindblad, G., Sales Manager, Elof Hansson AB in Shanghai

In China corruption may be seen as a substitute to **guanxi**, but also as a tool to give **face** in order to gain **guanxi**. Corruption is a problem, yet currently unavoidable due to low salaries, in terms of speeding up processes, e.g. on occasions purchasing managers demand a commission in exchange for signing commercial contracts³³. In order to not lose business, Swedish enterprises thus have to adopt corruption management. Swedish enterprises have reported that they frequently use import agents or similar, as legitimate channels for corruption. China has started to address the issue but it will be difficult to abolish owing to lack of transparency, which also implies that it is difficult to determine the impact and effectiveness of corruption given³⁴.

3.2.4 Information

Communicational barriers cause misunderstandings and consist not only of the difference of language but also of cultural aspects, i.e. the way the communication is conducted. The Chinese communication refers directly to the concept of **face**; hence the Chinese communication is less direct in order to reduce the risk of losing **face**. Additionally, despite

³³ Lindblad, G., (2004-09-10)

³⁴ Johansson, B., (2004-09-22)



knowledge in Mandarin Swedish managers and executives prefer English as the business language in order to maintain face.

“The Chinese communication is less direct compared to the west. The use of hidden messages is more frequent in China.”

Chen, Y., Assistant, Swedish Chamber of Commerce in Beijing

Collecting information in China consists of the single most common cause for misunderstandings. Swedish enterprises have reported that guidelines set by the federal governmental authorities in Beijing are often clear and relatively easy to comply with. The problems are local and provincial interpretations of these guidelines, which creates uncertainty often through dubious messages. Additionally, the interpretation of compliance procedures constantly changes.

“The Chinese bureaucracy is immense, yet not as bad as most Swedish enterprises claim. Information about regulations and restrictions is often presented on the Internet. The problem is that Swedish companies do not know where to look.”

Zhang, R., QA-engineer, IKEA Trading (Hong Kong) Ltd. in Shanghai

Being *up to date* with new laws and regulations is both time-consuming and costly, thus enterprises prefer to *wait and see*. Laws and regulations are thus experienced as sudden, and will levy enterprises with opportunity costs, when they are enforced. The challenge for China is to implement harmonized measures throughout its authorities, and integrate communication at all levels. Enhanced communication between the governmental authorities would increase the transparency and hence also the enterprises' compliance. Additionally, Swedish enterprises have reported that much would be facilitated if the governmental authorities became better at marketing themselves.

Chinese authorities have taken measures to enhance communication with enterprises, e.g. **MOFCOM** has an English version on its website as well as forums for questions. Yet, most governmental authorities still do not offer English versions on their websites, e.g. the general



customs. This implies that Swedish enterprises often have to rely on secondary information, e.g. from **SCC** or **EUCC**, in complying with regulations and restrictions.

“The official transparency is not working in China, yet the unofficial transparency is utmost efficient”

Johansson, B., Area Manager, Volvo Truck & Bus (Thailand) Co., Ltd. in Jinan

By official transparency is meant that laws and regulations are publicly available, prior as well as after enforcement. As mentioned this is not functioning well in China, yet the unofficial transparency which is related to **guanxi** enables enterprises to receive knowledge of laws and regulations well in advance prior to their enforcements.

3.2.5 Labour

Due to relatively well-educated and low-cost labour force, China has become one of the most attractive destinations for **FDI** in the world. According to Swedish enterprises the low-cost labour force, mainly consist of *blue collar* staff. The cost of *white collar* staff often exceeds the expected. The labour turn-over is high in terms of *white collar* staff, which derives from the cultural concept of **face**. In order not to lose **face** Chinese managers will dismiss *white collar* staff, who attain *too* much knowledge and thus threatens them. This calls for training of new *white collar* staff, which is costly. Additionally, Swedish enterprises have reported that it is often difficult to find staff with required experience, due to the fact that the first generation of learners are still learning. In employing Chinese staff with well implemented **guanxi**, enterprises may benefit in several ways, mentioned under *heading* 3.2.2.

3.3 Legal Issues

What is significant about China, is the amount of laws related to the trade flow. Swedish enterprises have reported their lack of trust in the Chinese legal system, stating that it is biased and weak in enforcing its verdicts, but also that it is not harmonized and hence varies between different parts of the country. Lack of harmonization implies that laws and



regulations are often unclear and dubious, which makes compliance difficult. Still, this may create both benefits as well as disadvantages to foreign enterprises, i.e. leaving wider scope for interpretations.

“At one time we sat down to see what laws and regulations were included in our transactions. We then prioritized them in terms of what laws we would have to break first in order to conduct business in China”

Jeppsson, S., Chief Representative, Nordmetal in Shanghai

Freedom can only work within a framework of rules, and the same holds true for markets. In terms of international trade the framework is set by a rules-based multilateral trading system, managed by the **WTO**, and is thus one of the central pillars of international cooperation. It implies that all enterprises should conform to the relevant laws and regulations of the countries in which they are established and in which they operate. In China this has proven difficult for Swedish enterprises, in terms of poor transparency, unequal treatment and dealing with corruption.

“No matter how stupid the laws may seem, obeying them will protect and favour enterprises during disputes.”

Jiang, I., Senior Associate, Boss & Young in Shanghai

With goods and services procured by governments comprising nearly 15% of the world's **GDP**, the conduct of government procurement sets a model for business society throughout each nation's markets³⁵. Accordingly, many governments have established defined rules to ensure fair and open competition, transparency, avoidance of bribery and corruption, and in some cases open trade with other nations. China is not a signatory to the **WTO plurilateral Agreement on Government Procurement**, which implies discriminatory measures to foreign enterprises, e.g. many contracts are often signed prior the bidding process. China's response to the **WTO** law is *The Government Procurement Law (GPL)* which is plurilateral, and enabling foreign enterprises to participate in the bidding process in terms of government

³⁵ ICC, (2004b)



procurement. Yet, due to developing domestic technology, some projects have been excluded from the law³⁶. One example is the *Three Gorges Power Plant*, where only 4 out of 12 power generators are available to foreign enterprises' bids³⁷.

As mentioned China's major challenges are to co-ordinate its authorities in order to enhance cooperation and communication between them. In terms of harmonizing governmental authorities' practice the new *Administration and Trade Laws* were enforced on the 1st of July in 2004, which serve to provide a framework for restricting authorities' jurisdiction in passing laws and to enable open and free, with few exceptions, import of goods. Furthermore, since the accession to the **WTO** in 2001, more than 1,000 trade legislations have been passed. This is welcomed by Swedish enterprises as they have reported that regional laws seldom keep up with the development of the market, increasing the insecurity in compliance.

The new *Trading and Distribution Law* was enforced on the 11th of December in 2004. It will enable foreign enterprises to import as well as domestically sell imported products. Additionally, the trading activities are not restricted to **RMB**, which will decrease the power of *State Administration of Foreign Exchange (SAFE)*. As new laws always face problems in the implementation phase, it is yet uncertain which substitute measures the Chinese government will take, and thus Swedish enterprises' reluctance to act upon it³⁸. The probable results from the law is that many import and export agents may become insolvent when enterprises try to reduce the number middle men, and also that many **SMEs** may set up pure import enterprises and manages their operations from there³⁹.

China's economic modernisation demands an efficient system of *Intellectual Property Rights (IPR)* to encourage domestic inventions and facilitate the diffusion of foreign technology. This is significantly important now since China, based on its **WTO** commitment, faces the challenge of reforming its **IPR** regime in line with the *Trade-Related Aspects of Intellectual Property Rights (TRIPS)* agreement and seeks to benefit from increased foreign investment

³⁶ Wang, K., (2004-08-27)

³⁷ Chan, P., (2004-08-24)

³⁸ Jiang, L., (2004-09-13, 11-17)

³⁹ Thorén, A., (2004-09-08)



and technology transfer. According to **ICC**, China has made significant progress over the last decade in developing an **IPR** policy and adapting related legislation.

“Protection of IPR encourages research and innovation, international trade and investment, and sound economic growth and development.”

ICC Statement

Lack of **IPR** encourages piracy and counterfeiting and deters innovation, trade and investment, robs the creative community of the rewards of its work, deprives governments of tax revenue, and holds back the development of legitimate economic activities and employment. It may also undermine consumer confidence in the quality assurance of branded products and pose health and safety risks. Still, stolen technology is not of major concern in China since all enterprises, including Swedish ones, conduct it on frequent basis. Yet, **SMEs** may experience this as a major issue since they often rely on one or two products. In combination with entry barriers, lack of market access and discriminatory treatment, stolen technology may affect the **SMEs**' competitive advantage compared to domestic enterprises, which may have stolen their technology.⁴⁰

⁴⁰ Rosta, P., (2004-08-12, 09-24)



4 Case Studies

The following two case studies have been conducted in order to familiarize with the field of study. The case studies consist of trade flows reported by members of **Volvo Truck Corporation** and **Modul Service AB**, including their subsidiaries. Each case study has been studied continuously and intensively during a specific period of time.

4.1 Volvo Truck Corporation

Volvo Truck Corporation (VTC), exports to China through two separate channels. The two channels are separated by the nature of the trucks, i.e. *Completely Built Up (CBU)* and *Completely Knocked Down (CKD)*. In 2003, **VTC** exported around 2000 **CBU** trucks and 300 **CKD** trucks, which implies that China is a relatively small market for **VTC** (2,300/80,000 trucks). *Volvo China Investment Co., Ltd (VCIC)* is a subsidiary of **VTC**, responsible for the sales activities of both types of trucks. The reason for using the two channels derives from the difference in tariff levied on the two products, i.e. 15% for **CBU** and 5% for **CKD**. The small quantities further imply that it is difficult to make a profit, owing to lack of economy of scale and harsh competition. The main challenge derives from culture and consists of convincing Chinese customers of the benefits of the trucks despite the high purchasing price, in terms of *quality, service, reliability, accessibility* and *after-sales services*. The price for a truck from **VTC** is roughly, twice as expensive as the domestic competitors'. Further, not all additional features to the trucks are possible to offer on the Chinese market, i.e. *Global Positioning System (GPS)* based tracking device. The trade related costs, for **VTC** and its hub- and sub-dealers, will be transferred to the sales price offered to the final customer. This contributes to even greater difficulties to sell the trucks in China. Additionally, the sales activities have been significantly restricted, based on a new weight regulation, which stipulates that the gross weight of trucks trafficking Chinese road network, may not exceed 25 tonnes. This implies that **VTC's** trucks are increasingly expensive to final customers, who may not use them as efficiently as possible.



The **CBU** trucks are exported to China through 5 hub-dealers (import agents), and 27 sub-dealers (authorized retailers), based on geographical coverage. The relationship with both the hub- and sub-dealers has so far, with few exceptions, been satisfactory. This implies that performance bonds are seldom included in the commercial contracts, i.e. merely 10 times per year. The hub dealers are not only assigned based on geographical coverage, but also assigned based on quota.

As an attempt to protect the trade mark, **VTC** never export trucks to countries where they may not guarantee after-sales services and maintenance. **VTC** and its subsidiaries aim at being present at each stage of the trade transaction, in a further attempt to protect the trade mark. The problems are the financial regulations in China, restricts **VTC** from providing financing solutions for the final customers.

The **CKD** trucks are exported to China as kits, packed at **VTC's** production unit in Sweden. Once in China, the **CKD** kits are assembled by **VTC's JV**, *Hua Wo Truck Company (HW)* in Jinan. According to regulation, foreign automotive manufacturers may only produce automotive products in China, in the business form of a **JV** with Chinese counterparts. **HW** is mutually owned by **VTC** and China National Heavy Truck Company. The commitments of the two enterprises are stipulated in a mutually signed contract which is re-negotiated each year. **HW** offers several benefits to **VTC**, i.e. sharing China National's local knowledge and implemented *guanxi*. This has resulted in permission to import **CKD** kits through the port of Qingdao combined with tariff rebates and facilitated customs procedures. The main disadvantage as a result of **HW** is that **VTC** is obliged to release part of its control and technology to China National Heavy Truck Company.

4.1.1 Trade Flow CBU

The trade flow starts when the Chinese customers notify either **VCIC** or the sub-dealers of their demands. The commercial contracts are, regardless of to who the Chinese customers notify, handled by **VCIC**, but signed by the market department at **VTC** owing to lack of trading rights in China. The main problem is when Chinese customers withdraw from trade,



which results in trucks being produced without customers which lead to costs in terms of warehousing.

When the commercial contracts have been signed, **VCIC** will place an order to the order department at **VTC**. Upon receipt of the order, the department will either confirm or deny it. If confirmed the order will be scheduled into the production plan, and if denied **VCIC** will have to re-negotiate with the Chinese customer. All orders may be re-negotiated up until three weeks prior to the start of the production. **VTC** uses an **ERP** system **A4D**, in order to track the trucks during production and transport. This increases the transparency of the trade flow, yet requires constant input by all involved participants.

Additionally, after the signing of the commercial contract, the Chinese customers are obliged to open an **L/C** at a Chinese bank, since **VTC** will not ship any trucks without secured payments. The document requirements under the **L/C** are set by Chinese banks, based on requirements from governmental authorities. In order to reduce costs, Chinese customers frequently open the **L/Cs** as late as possible, which leaves little time for **VTC** to comply with them. The **L/C** instrument to secure payment is exclusively used, due to **VTC's** “*zero risk*” policy. Furthermore, all **L/Cs** are required to be both confirmed and negotiable in Sweden. In having the **L/Cs** confirmed the risk is transferred to the bank. The **L/Cs** are open for a maximum of 90 days, yet rarely longer than 30 days. The main advantage of the **L/C**, besides securing payment, is that it also grants faster payments, i.e. within 12 days after banks’ acceptance of presented documents.

When the **L/C** has been issued it is forwarded to a Swedish bank, stipulated by **VTC**, to be reviewed which normally takes 1-2 days. The **L/C** is then forwarded to the financial department at **VTC**, which will determine if compliance with it is possible. If accepted by the financial department, the **L/C** will among others be forwarded to the market and delivery department at **VTC**. The market department is responsible for the consistency between the **L/C** and the commercial contract. Additionally, it will issue commercial invoice instructions, based on the commercial contract and the **L/C**. The responsibilities of the delivery department are to comply with the **L/C** in terms of producing documents. If not



accepted, **VCIC** will be notified in order to renegotiate the terms to the **L/C** with the Chinese customer.

Due to the geographical distance and the nature of the trucks, all transports are conducted by sea, conducted by *NYK*, *Hual* or *Encore*. The delivery terms are **CIF destination**, which means that **VTC's** responsibility ends once the trucks have arrived in China. The insurance cost is fixed during the sea transport, based on the features of the trucks, and handled by *Volvo Logistics Company (VLC)*. Yet, in China insurance enterprises are reluctant to insure the trucks during the inland transport, owing to drivers' lack of driving skills and often poor road conditions.

Once the trucks have been produced and shipped, the delivery department will present the related documents to the banks. If discrepancies are found, the documents are sent back for correction. Discrepancies in the documents imply that **VTC's** bank has no obligation to fulfil its commitment to its confirmation, which results in **VTC** having paid confirmation fees which they may not use. It is therefore important that all documents are properly produced prior to presentation to the banks. When accepted, the documents are sent to the Chinese bank. So far **VTC** has not experienced non-honoured payments, when using the **L/C** instrument.

The hub-dealer is responsible for the customs clearance procedures, often by engaging a customs broker. Furthermore, the hub-dealer is responsible for paying the related costs of the import, i.e. landed tax 6%, tariff 10%, **VAT** 17%, and customs clearance fee 4,000-5,000 **RMB**. The procedure takes 3-7 days, depending on the port of entry. In case of emergency it is possible to reduce this time to 2 days, by pre arrival clearance. As long as the documents are in order, there are no significant impediments in the Chinese customs, i.e. valuation and inspection etc. When problems occur they are usually due to a lack of communication between the hub-dealer and **VCIC**. However, the main problem regarding customs procedures, arise when exporting trucks to the Guangdong province where the majority of the Chinese customers are located. The Shenzhen Huanggang port does not offer *Roll on Roll off (Ro-Ro)* connection, which is why all trucks are imported through *Hong Kong (HK)*. From **HK** the trucks are transported by road to Shenzhen and thereafter distributed to the



final customers. This implies that the customs procedures are duplicative, i.e. declaration of the trucks both in **HK** and Shenzhen and additionally export declaration when leaving **HK**.

4.1.2 Trade Chain CKD

Nearly all parts for **HW**'s production are imported as **CKD** kits from **VTC** in Sweden. Furthermore, all trucks manufactured are sold to **VCIC** in Beijing. **VTC** thus acts as both supplier and customer, which is a measure to secure quality and protect the trade mark. **HW**'s sales prices to **VCIC** are set by **VTC**, in the beginning of each year.

The orders of **CKD** kits are based on **VCIC**'s sales forecasts, which are adjusted each month. Errors in the order information may have consequences in terms of missing parts which will halt the production. Furthermore, it is not possible to predict which parts will be missing, thus it is difficult yield from these impediments through safety stock. Furthermore, what increases the lead times even more is that **VTC** applies **JIT** and hence does not keep with safety stock either. The solution is to fly in the missing parts, which is costly. **VCIC**'s forecasts are put into the *production plan*, by the master planner at **HW**. The communication between **HW** and **VTC** is conducted using *telephones, faxes* and *internet*. Still, the language barrier may create misunderstandings resulting in impediments. Only a limited few individuals at **HW** have knowledge of Swedish and their English may not always be sufficient. The language may hence create a potential bottleneck, when communication in Swedish is limited to a certain few. Upon receipt of the order, the order department at **VTC** will notify whether it may supply and when.

The physical movement of **CKD** kits from Sweden to China is managed by contracted forwarding enterprises. The delivery terms according to the **INCOTERMS** are either *cost, insurance and freight (CIF)* or *cost and insurance paid (CIP) destination*, depending on the mode of transportation. Transportation by sea usually takes around 30 days. The transportation from the ports or airports to the customs is conducted by forwarding companies with bonded trucks.



VTC notifies HW by e-mail regarding shipments, normally one week after the *estimated time for departure (ETD)*. Enclosed in this notification are scanned copies of the transport documents. The original documents are sent to HW through express delivery, which usually takes 4-5 days, around one week prior to *estimated time for arrival (ETA)*. Additionally, the contracted forwarding enterprise will notify both HW and the customs by e-mail, a few days prior to ETA. Upon receipt of the original documents, the logistics department at HW will forward one copy of the commercial invoice to the financial department.

JV's are not restricted to import agents when importing goods into China. However, HW engages a customs broker for the customs procedure which usually takes 1-3 days. Furthermore, in order to import, HW requires an import license, which is applied for at a local subsidiary to MOFCOM. In terms of the HW's imports, the import license is valid for up to six consignments. One problem regarding the import license is that the customs sometimes keep the originals. This implies that HW has to apply for a new one, which is time consuming. However, it is possible to apply for a new one, prior to expiry of the old one. The customs procedure is divided into two steps, based on special policy granted to HW, first to provide information regarding consignments to the customs in Qingdao and secondly to declare the consignments in Jinan. The original documents are forwarded to the customs broker, upon receipt from VTC. Along with the documents, HW will notify the customs broker of basic information regarding the consignment, i.e. *quantity, name of the vessel, weight, delivery terms, ETA and value* etc. Due to the current lack of space for warehousing, HW aims at keeping the CKD kits in the port of Qingdao, as long as possible.

Inspections are obligatory for all HW's imports and have to be conducted prior to the unpacking of the containers. The inspection takes place at the factory in Jinan and fulfils two purposes; first it grants the *certificate of manufacture* which entitles HW to use the imported CKD kits for assembly, and secondly it helps to prove potential claims toward VTC. The main impediment regarding the inspection procedure consists of determining the correct HS codes, and arises if the various parts have been packed randomly. After the inspection the master planner will file an *unpacking control report (UCR)* which, based on the inspection, may include missing parts or damages, etc.



In order to pay **VTC** for the **CKD** kits and other suppliers at a Chinese bank, **HW** needs authorized documents as evidence of the underlying transaction. Authorization by customs usually takes 20-30 days, which will delay the payment. Additionally, when considering the transport time between Sweden and China of 30 days, it is obvious that **HW** cannot meet payment terms of 45 days. Normally, the payment includes currency conversion, since the payments are predominately in foreign currency. The conversion procedure takes around 3 days, and implies conversion fees. The cost of making a payment is based both on fixed and flexible charges, thus it varies. Normally the cost of payment is around 500 **USD**. Furthermore, the **VAT** and additional taxes are paid within the first 10 days of the month following the transaction.

Once the trucks have been produced, the logistics department at **HW** will notify its counterpart at **VCIC**, to plan the deliveries. **VCIC** engages a forwarding enterprise for the transportation of the trucks from the assembly plant to its warehouse in Jinan. Upon receipt of delivery documents, the financial department will invoice **VCIC** for the delivered trucks. The amounts to invoice are provided by the *Chief Financial Officer (CFO)* at **HW** and are based on the prices set by **VTC** in the beginning of each year. The payment terms to **VCIC** are usually 20 days; however payments are often not received until after 3 months. The reason for **VTC** to set the price derives from the enterprise's policy for transfer pricing which aims at keeping as much of the profit as possible in Sweden. The consequence is that the price to the final customer is increased, considering that **VAT** and tariffs are based on the declared price. This may further create difficulties to compete on the Chinese market.

4.2 Modul Service AB

Modul Service AB is a subsidiary to **IKEA**, responsible for sourcing activities, which implies that it supplies the suppliers of **IKEA**. This structure has two purposes; first to secure quality and secondly to share the profit margin of the suppliers. **Modul's** trade with China is managed from the head office in Älmhult, Sweden. Furthermore, the enterprise is represented through a representative office in Shenzhen, where it also has a manufacturing unit, and a trading office in **HK**. The representative office's main function is to coordinate



the suppliers, shippers and forwarders for the production and transport to either the manufacturing unit in Shenzhen or other factories and warehouses in Europe.

The trade transaction starts with collecting demand information from all **IKEA's** suppliers, throughout the world, through an internally integrated system. Based on this information, **Modul** will start to search for potential suppliers in China, predominately in the Guangdong province. All suppliers are required to present product samples to the representative office, based on description and requirements set by the head office. Upon receipt of the samples the representative office will have its technicians to test the quality. All results are registered in the enterprise's internal database. Suppliers of approved samples are asked to present prices, on which the selection of suppliers is based. Chinese suppliers are often selected due to China's relatively low labour costs and abundant resources. **Modul** often enjoy lower prices than local enterprises due to being reliable and standardized. The commercial contract is administered by the representative office, but signed in **HK**. All orders are placed in the internally integrated system, from Sweden to the representative office which will notify the supplier.

The commercial contracts frequently include *Free on Board (FOB)* delivery terms, which imply that the supplier is responsible for the inland transportation and that the responsibilities for both the costs and products are transferred to **Modul** once the products have been delivered to the vessel for transportation. Furthermore, the **FOB** terms stipulate that it is the suppliers' responsibility to declare customs and to pay related fees for unloading procedures at ports. Most suppliers engage customs brokers for the customs procedure which usually takes 3-4 days depending on the declaring party's *guanxi* with the customs officials. China, customs offices are operated as independent profit centres due to the customs bureaucracy, which results in problems regarding transit declarations.

Alternatively to the suppliers, **Modul** on occasions purchases products from traders which serve as contact windows for both **Modul** and the suppliers. To suppliers with insufficient knowledge of international trade, the traders may additionally serve as enablers. To **Modul**, the traders adds value in terms of administering the suppliers and increasing the efficiency of the enterprise's sourcing activities, i.e. notifying **Modul** to increase its orders if there is a



chance of *Full Container Load (FCL)*. The main disadvantages of using traders, is the cost and in case of disputes with suppliers, e.g. the communication flow may not be direct which makes it slower and less effective.

Modul's products are not time sensitive, however price sensitive. Therefore, sea freight is used as the mode of transportation. Only in case of emergency due to high cost, is air freight selected. Furthermore, when using air freight the documents will be delivered after the products, straight to the customer, without using banks as intermediaries. Normally, the shippers will inform the suppliers of optimal receiving time. If suppliers cannot meet this requirement, shippers require instant reply in order to reschedule. Thus the predictability is high. **LCL** consignments will be transported to a consolidation point, in order to create **FCL**. **Modul** constantly faces obstacles when trying to consolidate goods coming from different customs territories. For consignments from suppliers which lack export rights, the goods first have to be transported to Modul's trading office in **HK** for consolidation which increases the costs, i.e. *transportation fee*, **CFS** costs and *document handling fees*, etc. In Europe the goods are first transported to Hamburg for consolidation, and thereafter forwarded by feeders to either Malacky in Slovakia, or Gothenburg or Helsingborg in Sweden. From Gothenburg and Helsingborg, the goods will be transported to Älmhult. Both Malacky and Älmult serve as hubs, and the goods are from there distributed to each respective supplier to **IKEA**.

Due to regulation, representative offices are not allowed to invoice and conduct financial transactions in China. Therefore, the head office in Sweden is responsible for all payments of suppliers. **Modul** faces obstacles in keeping its payment terms because of the impossibility of separating the physical and financial transaction, due to authorization requirements. Furthermore, it is also difficult to be paid by customers within conceivable time horizon. Electronic communication is not effective in terms of speeding up payments from its suppliers, owing to its impersonal mode. Due to the fact that **Modul's** customers often are suppliers to **IKEA**, *netting* is possible which implies that **Modul** will deduct its invoiced amount from the amount **IKEA** pays to its suppliers. However, owing to lack of trading rights in China, *netting* may only be operated from **HK**, which requires customers to have accounts there.



5 Trade Activities

This chapter serves to answer *research questions* 2 and 3. Initially, the chapter addresses the *international trade chain*, through which all consignments for foreign trade have to undergo. This is followed by a brief introduction of the principles of **trade facilitation**, which are important to grasp in order to fully understand the benefits it may bring. The empirical findings have been categorized according to the *international trade chain* and evaluated by the principles of **trade facilitation**.

5.1 The International Trade Chain

In simplified terms, based on widely used models among international trade organizations, a foreign trade transaction may be described as displayed in *Figure 6*. The *international trade chain* as used by international trade organizations starts when the order is placed by the buyer and received by the seller and ends when the buyer receives the consignment and the seller receives payment. This covers the phases of *order*, *transport*, *customs* and *payment*. Based on comments from Professor **Arne Jensen**, the *international trade chain* used for this research has been slightly modified, by adding the phases of *pre-order* and *post-sales*. Additionally, the phase of *customs* have been changed to *cross-bordering*, in order to more accurately describe the activities taking place at the borders, in which *customs* activities play a mega role. Furthermore, the *international trade chain* has been modified from linear which is used by most international trade organizations, into a circular shape. By this, the researchers wish to demonstrate that the *international trade chain* is indeed a continuous process. The arrow connecting post-sales with order as illustrated in *figure 6*, indicates that the activities under pre-order, to a large extent, merely take place once in the trade transaction. All stages of the trade *international trade chain* are interdependent, thus *figure 6* may be illustrated differently, displaying the stages in another chronological order etc.

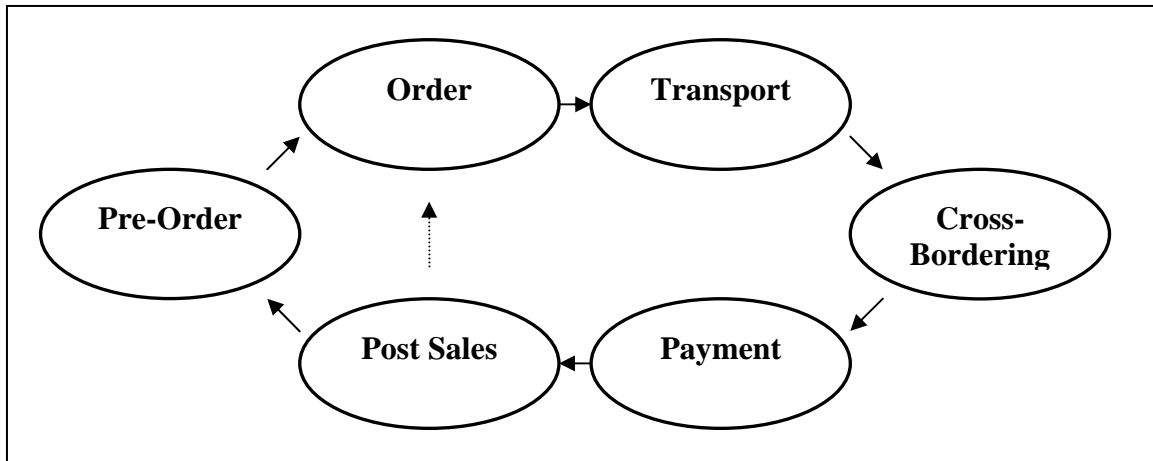


Figure 6 : The International Trade Chain

- **Pre-Order** consists of all activities which are necessary to apply to, in order to make the rest of the transaction possible, e.g. establishing an operation, homologation, finding business partners, signing contracts, etc. To a large extent, as mentioned above, this stage only takes place once in the international trade chain.
- **Order** consists of preparing the underlying administrative and procedural requirements for the transaction, e.g. issuing documents, verifications, authorizations, etc. This stage is related to the stages of *transport*, *cross-bordering*, and *payment*.
- **Transport** consists of the physical movement of the consignment from the seller to the buyer, and involves activities such as port management, loading, stewing, etc.
- **Cross-Bordering** consists of controls and protectionist measures taken by countries at their borders. This stage involves predominately governmental authorities, e.g. **MOFCOM**, customs, tax bureaus, inspections offices, etc.
- **Payment** consists of the financial flow involved in the transaction, which fuels the continuous process of the *international trade chain*.
- **Post-Sales** consists of the activities taking place after the buyer has received its consignment and the seller its payment, e.g. after-sales service, securing the trade mark etc.



5.2 Principles of Trade Facilitation

As mentioned under *heading* 1.3, there are numerous gains and benefits for adopting **trade facilitation** to both governments and business society. In broad terms the gains and benefits can be described as the cost that can be avoided through **trade facilitation** measures. Yet, it is important to make a distinction between benefits and costs, since there are transaction costs which may not be possible to eliminate nor reduce through **trade facilitation**, which is addressed further under *heading* 5.3. In order to fully understand the concept of **trade facilitation**, five principles need to be reviewed, *transparency, consistency and predictability, non-discrimination, simplification and due process*⁴¹. The aim of **trade facilitation** should be to change the trade activities so that they increasingly fulfil the requirements implied by the above mentioned five principles. In this research, trade activities will be evaluated to see whether they fulfil the requirements of the five principles and, if possible, to suggest improvements.

5.2.1 Transparency

Transparency underpins the ability of market participants and stakeholders to fully understand the conditions and constraints for entering and operating in a market, to gain an accurate picture of the costs and returns of their involvement, to have the time and flexibility needed to meet requirements and adjust to potential changes, and to be equipped to deal with any discrimination or arbitrary treatment. **Transparency** is achieved by revealing the costs and benefits of policy decisions and administrative practices and ensuring that their purpose is clear and appropriately implemented. *Transparency in the sense of trade facilitation implies the systematic availability and ready accessibility of information on the applicable border requirements and procedures to all interested actors*⁴². **Transparency** of the overall framework should thus include:

- **Operational aspects**, e.g. standard practices and processes in the operation of governmental authorities.
- **Administrative implementation guidelines**, e.g. indication of how requirements should be interpreted and enforced.

⁴¹ OECD, (2002)

⁴² Ibid.



- **Notification of special procedures**, e.g. including simplified clearance procedures, so as to make sure that all potentially concerned traders are aware of them.
- **Motives**, e.g. behind administrative decisions or actions, the public availability of which is a necessary condition for appeal procedures to operate efficiently.

5.2.2 Consistency and Predictability

Consistency and predictability imply the adoption of non-discretionary and uniform administration of applicable requirements, which allows participant in the trade to know what to expect in their day-to-day encounter with governmental authorities and to make informed decisions about their operations. Further, they imply requirements of clear and precise procedural guidance based upon standard policies and operating procedures, which guarantee the efficiency and integrity in administration shielding from attempts to obtain illegal advantages.

5.2.3 Non-Discrimination

Non-discrimination is about ensuring the impartial and uniform application of all trade-related regulations, procedures and practices. In particular it calls for effective equality of administration where the same circumstances apply. **Non-discrimination** in trade is about equal treatment of all shipments *irrespective of the flag of the vessels, the place of origin, entry, exit or destination, circumstances relating to the ownership of consignments, vessels or other means of transport.* **Non-discrimination** is also about equal treatment in governmental authorities' trade related formalities and about charges and regulations.

5.2.4 Simplification

Simplification is about ensuring that the implementation process is in proportion to the desired result, and includes doing away with unnecessary or outdated requirements, such as requesting information that is already available to the authorities, or requesting the same information more than once for different recipients. The importance of **simplification**



through international harmonisation and standardisation of trade-related requirements relates to the fact that even simple requirements at one border crossing become burdensome when they have to be repeated in a different form and content at every side of the border and grow into a major expense for the trader when diverging demands have to be faced accordingly to the destination of the goods. **Simplification** is important to all involved parties who aim at enhancing productivity and efficiency.

5.2.5 Due process

The **due process** involves the availability of appropriate mechanisms for reviewing and correcting administrative actions. It is an important complement to regulatory transparency in ensuring the efficient operation of trade activities. Further it includes the possibility to *appeal against administrative rulings, actions and interpretation of applicable regulations* as well as *the general procedures to be followed*. The process is judged by its accessibility, its impartiality and its efficiency in offering redress in accordance with the legislation of the country.

5.3 Trade Related Costs

The total transaction cost, consists of both direct and indirect costs. The direct costs may be described as expenses related to supplying information, transportation costs, insurance, securing payments, inspection fees, **VAT** and other related taxes, etc. The indirect costs are related to the principles of **trade facilitation** and consist of interdependent costs related to *compliance, opportunity, and costs related to inconsistency and unpredictability*. Thus, **trade facilitation** focuses predominately on reducing the indirect costs, which are difficult to quantify. Regardless of the sum of the transaction cost, eventually it will be levied on the final customer through higher prices which will serve to decrease enterprises' competitive advantages.

It is difficult to quantify the impact of **trade facilitation** due to the complexity and nature of the indirect costs. Additionally, the transaction costs depend on which countries are involved in the trade, how trade is conducted and the goods included in the consignments. One study



has estimated the entire trade transaction costs at around 7-10 % of the total value of world trade, where **trade facilitation** measures could reduce the costs by one-quarter⁴³. Another study has estimated the transaction costs to 2-15% of the total transacted values⁴⁴. Further, one study points at benefits from **trade facilitation** of 377 billion **USD** globally on an annual basis⁴⁵.

5.3.1 Compliance Cost

Compliance costs are those required to collect, produce, transmit and process required information and documents⁴⁶. The *indirect* cost arises from procedural delays in the trade activities, which may be caused by, e.g. *under-staffing, lack of automation, low productivity of officials, discrepancies in documents or deliberate stoppage*. Delays, which increase the **opportunity cost**, may be costly to time-sensitive commodities such as live stock or agricultural products, perishable and high value products, in terms of capital and time-based insurance costs. Even a minor error in the compliance may halt the trade transaction, and thus multiply the **compliance cost** owing to duplicative error corrections, re-keying, and re-filing. Additional costs may arise, which may be added to the **compliance costs**, owing to cost-increasing factors such as regulations restricting *market access, licensing, pricing, competition, and infrastructure access* etc.

The *direct compliance costs* consist of outsourcing of supporting services: e.g. cross border banking, international transportation, trade insurance, cargo handling, measurement, port-management, etc. Further, delays may impede road haulage and cause stagnation of goods in the warehouse, which in turn, raises the **cost related to inconsistency and unpredictability**.

5.3.2 Opportunity Costs

Opportunity costs in terms of **trade facilitation** are indirect and consist of the value lost from not being able to conduct trade as planned, and arises predominately from delays

⁴³ UNCTAD, (1994)

⁴⁴ OECD, (2003a)

⁴⁵ World Bank, (2002)

⁴⁶ OECD, (2002)



caused by lack of compliance. This implies that enterprises may lose business and hence value, owing to delays in the trade chain. Costs caused by a delay may force, especially **SMEs**, to deter from trade. Further, for enterprises applying **JIT** with low or no inventory international networks, a delay in one country may cause stagnation in the entire global production chain, with potentially lost business⁴⁷.

5.3.3 Costs related to Inconsistency and Unpredictability

Costs related to inconsistency and unpredictability, cover the costs of *warehousing, transportation, insurance fees* and *financing charges*, as a participant in trade needs to yield against the risk of potential disruptions in their production and logistics channels. As mentioned under *heading 5.2.2*, non-discretionary and uniform administration of applicable requirements allow participant to the trade to know what to expect in their day-to-day encounter with governmental authorities and to make informed decisions about their operations. The opposite along with the interpretation of regulations, contractual terms and references, may lead to both *direct* and *indirect* costs caused by *personal misinterpretation, communication gaps, poor competencies* or *incentives to corruption*, etc. Further, the administrative procedure related to the due process may lead to **costs related to inconsistency and unpredictability**.

5.4 Pre-Order

In accordance with the explanation of pre-order under *heading 5.1*, in the context of Swedish trade with China it addresses the trade activities, enabling the continued progress of the trade transaction.

5.4.1 Trade Procedures

Part of the trade activities included in the trade between Sweden and China, are *one time* activities, e.g. *establishing business* and *obtaining trade related approvals*. Additional trade activities

⁴⁷ OECD, (2002)



may be necessary to apply to in each trade transaction, e.g. *finding trading partners, securing quality, signing commercial contracts and dealing with financing issues.*

5.4.1.1 Establishing Business

Many Swedish enterprises have started their Chinese operations as *Business Support Offices (BSO)*, at the Swedish Embassy Trade Office, due to the opportunities of best practice and cooperation. Alternatively, Swedish enterprises may start their operations as representative offices, branches or **JVs**. **BSOs** and representative offices are restricted to promotional activities, while branches and **JVs** have full rights to operate on the Chinese market. The capital requirement for initial investment in order to open up a branch is high and thus excludes predominately **SMEs** from doing so. The difference between the **BSO** and the representative office forms is that the latter require business license. The business license implies that the holder has permission to conduct business in China, i.e. open bank accounts and permission to invoice. Enterprises which lack of permission to invoice, e.g. **BSOs** and representative offices, may either invoice from Sweden or through engaging a Chinese agent which charge 7-10% of the invoiced value⁴⁸. The new *Trading and Distribution Law* mentioned under heading 3.3, permits foreign enterprises to establish trading enterprises in China, yet that the capital requirement for initial investment is high.

Prior to applying for a business license enterprises are required to predict the risks of the operation in terms environmental impact, e.g. predicted amount of waste and pollution. Enterprises not located in industrialized areas, are required to hire professional experts for this procedure, which takes 1 month.

Besides prediction of risks in terms of environmental impact, the application procedure includes, a presentation of outlines of the potential operation and a market research stating the potentials of the operation, and additionally introduction of managing staff of the operation to the *State Administration of Industry and Commerce (SAIC)*. The size of the initial investment determines which ministry will process the application, the length of the

⁴⁸ Ba, J., (2004-08-20)



application procedure, and how much land the operation will have at its disposal⁴⁹. According to Swedish enterprises, the procedure takes 7-15 days, yet there have been exceptions, with application times of up to 3 months. After approval, holders of business licenses have one month to register accounts at related tax bureaus, customs, **SAFE** and **SAIC**.

5.4.1.1 Business Scope

All enterprises operating in China are restricted to their *business scope* and must be ran as independent legal entities. The *business scope* sets a framework for what business an enterprise is allowed to conduct, since the issuance of import and export licenses are based on it. This implies that subsidiaries of an enterprise may not cooperate in terms of trade. Still, enterprises are free to change their *business scope*, however owing to excessive and time-consuming document administration, many enterprises are reluctant to do so. Therefore, it is important for enterprises to stipulate its terms carefully and include all subsidiaries and operations the enterprise wish to operate in, currently as well as in the future. Furthermore, it is a measure to ensure the tax bureau to collect the right tax. **SAIC** is responsible for the supervision of the *business scope*. In case of disobedience, enterprises may be punished.

5.4.1.2 Finding Trading Partners and Preventing Poor Quality

According to one Swedish enterprise the assessments used for contracting suppliers are geographic location, policies, homologation certificates and service levels. Additionally, those suppliers which are localized in industrialized areas are preferred due to easier benchmarking⁵⁰.

“In China one never gets what one expects, one gets what one inspects.”

Johansson, B., Area Manager, Volvo Truck & Bus (Thailand) Co., Ltd. in Jinan

⁴⁹ Jiang, I., (2004-09-13, 11-17)

⁵⁰ Tang, Q., (2004-09-13)



The majority of the Swedish enterprises have reported that they constantly experience *poor quality* when trading with Chinese suppliers. *Poor quality* results in increased costs due to the fact that the rate of *poor quality* and the cost of unnecessary transportation may exceed the profit margins. Thus, preventing poor quality is a major issue for Swedish enterprises in China. In order to avoid the risk of *poor quality*, Swedish enterprises conduct a two step measure.

- Communicating the required quality
- Supervision and inspection of the quality received

However, in securing quality the landed cost for these two procedures often erases the profit margins of the products. One example of the consequences of *poor quality* was when an enterprise was supplied with passed date products. This implies that the enterprise had to offer a discount which erased its profit margin, in order to be able to sell the products at all. Furthermore, there is little a Swedish enterprise may do, when being provided with *poor quality*, other than avoid from future trade with that specific supplier, since there are no functioning means for dispute settlement in China.

5.4.1.2.1 Measures to Prevent Poor Quality

As well as the measure mentioned under the previous heading, there are several additional ones to prevent poor quality. These measures predominately consist of terms stipulated in the commercial contract, e.g. *bid*, *performance* and *warranty bonds*. The bonds imply that the buyer will hold part of payment until quality and functionality have been secured, and that the seller issues bank guarantees with the buyer as beneficiary in its bank. In case the quality does not meet the terms of the commercial contract, the buyer is entitled to collect the bank guarantees in its bank. One Swedish enterprise has reported that its bonds appear as follows⁵¹;

- The *bid bond*, which accounts for 3-5% of the transacted value, is a time-based offer guarantee.

⁵¹ Stenberg, O., (2004-12-02)



- In case the offer results in an order, the *bid bond* is automatically transferred into a *performance bond*, which accounts for 5-10% of the transacted value.
- Once quality is secured and accepted the *performance bond* transfers into a *warranty bond*, which serves to secure the functionality of the product during an agreed period, normally 1-2 years.

A substitute to the *performance bond* is “*payment at acceptance*”, which implies that the buyer will honour part of the payment after accepting the quality, by issuing an *acceptance certificate* which entitles the seller to collect the additional part of the payment at its bank. The problem with this procedure is the period of time it takes to receive the certificate and to define who has the authority to issue it. No matter what measures are taken, it is still up to the seller’s good faith, when settling disputes related to *poor quality*⁵².

5.4.1.3 Commercial Contract

Every trade transaction is based on a *commercial contract* between the buyer and the seller, stipulating the rights and responsibilities of each participant. If any conflict arises later on between the two, reference is generally made to the *commercial contract*, in an effort to resolve the misunderstanding. Through signing the contract the seller and the buyer have mutually committed themselves to the trade transaction. In terms of trade between Sweden and China, many *commercial contracts* are written in both English and Mandarin, which require formal knowledge in both these languages in order to avoid potential hidden messages and pitfalls⁵³. Frauds, e.g. poor quality mentioned under *heading* 5.4.1.2, are common when trading with China, which may imply that the seller may not ship what has been agreed to in the *commercial contract*. This may be avoided through the implementation of standard contracts, which also may increase the trust between actors on the market.

⁵² Peterson, J., (2004-09-06)

⁵³ Lindblad, G., (2004-09-10)



5.4.1.4 Funding

In order to trade, the buyer usually requires funding from its bank. One common practice in terms of funding is the *credit line* which is a transactional funding in which a limit is agreed between the buyer and its bank. The type of security is usually linked to the transaction to be funded. The credit line covers all types of credit business, e.g. loans and guarantees. According to Swedish banks in China, the practice of granting *credit lines* is commercially based in the urban areas, yet controlled by political and private interests in rural areas. The assessments by which the *credit lines* are granted depend on *size, reputation, market potential, financial credibility* and *ownership structure*, which implies that **SMEs** are frequently denied *credit lines*. Due to regulation *credit lines* are granted only after approval by special credit committees at the Chinese banks. The application procedure takes about 3 months the first time and around 2-4 weeks when extending it⁵⁴. As mentioned under heading 3.1.2, the Chinese government levels the country's demand through its control over the **SOBC**. To **SMEs** this further implies obstacles in obtaining funding.

“Name and reputation play a big role when applying for credit lines”

Wang, J., Chief Representative, Svenska Handelsbanken in Beijing

Swedish banks in Sweden have reported that they have experienced problems regarding Chinese banks' funding practices, which creates impediments to the trade flow. When the *credit lines* are full and the extension is denied, enterprises are obliged to open *credit lines* in other banks. The main problem arises if the new financing bank either does not have contact with Swedish banks or is not accepted by these owing to previously poor practice. Additionally, the new funding bank may consist of such a risk, that it will deter Swedish enterprises from the trade transaction owing to high costs of securing the payment. This could be avoided if Chinese banks were to use good performance as assessment, when extending the *credit lines*.

⁵⁴ Liu, M., (2004-09-07)



5.4.1.4.1 *Unsecured Credit Lines*

A large part of the trade between Sweden and China is funded through unsecured *credit lines* that enterprises have available at their banks. For enterprises with solid credit standing, banks are usually willing to make credit available without specific collateral. An authorized official of the enterprise merely signs a promissory note that is delivered to the bank as evidence of the debt. When the note is due, it may be repaid, or the credit may be extended. In the latter case, the authorized official at the enterprise delivers a new note to the bank for the extended period.⁵⁵

5.4.1.4.2 *Secured Credit Lines*

Many situations arise when a buyer's financial credibility is not strong enough to induce Chinese Banks to grant unsecured *credit lines*. This implies that in order to be granted financing, some kind of collateral is required. The intention of the collateral is to provide enough security to the credit. Chinese banks are free to set their own requirements for collaterals. The most common collateral required from **SMEs** is to deposit 100% of the value of the credit line in cash⁵⁶. To **SMEs** with often poor liquidities, the requirement of collateral forces them to deter from trade transactions.

5.4.1.4.3 *Pre-Export Financing*

Pre-export financing is often required in terms of trade between Sweden and China, predominately due to two reasons. First, the seller may require funding at the manufacturing stage in order to produce the related products and secondly, advanced payments may serve to prevent poor quality.

Due to difficulties in obtaining financing, mentioned under *heading* 5.4.1.4, Chinese enterprises frequently require advanced payments from Swedish buyers, which are used as collateral for financing. The advanced payment may be paid either against an *advanced payment guarantee* or against a receipt. The *advanced payment guarantee* serves to guarantee the advanced

⁵⁵ Venedikian, et al., (2000)

⁵⁶ Chen, E., (2004-08-12)



payment, in case the seller does not comply with the terms in the commercial contract. The *advanced payment guarantee* is issued by the seller at its bank, with the buyer as beneficiary.

5.4.1.5 Approvals

China manages its foreign trade through its monopoly over the issuance of certificates and licenses in terms of trade, e.g. *certificate to invoice*, *certificate to sell products* and *licenses to import*. Approvals are used with intent to protect the domestic market both in terms of trade and security. However, one study has showed that this approach offers scope for extortion and bribery⁵⁷. Which industrial licenses required for enterprises are determined by the business scope. According to one Swedish enterprise, some approvals are, if not impossible, very difficult to obtain, e.g. approvals to sell products for children⁵⁸. Further one example of an approval is the *Hospital Registration Certificate for Medical Device* which is required in order to be allowed to supply Chinese hospitals with products. Approvals are frequently combined with product tests, where enterprises constantly run the risk of *stolen technology*.

5.4.1.5.1 Invoice Certificate Permission

Invoice certificates are issued by local tax bureaus and grant permission to holders to invoice. The application forms are only in Mandarin, and include several predefined requirements. Upon approval the holder will be provided with blank invoices, specific printer for invoicing and related software. The *invoice certificate* stipulates authorized officials at the enterprise who are permitted to invoice. This implies that only the stipulated officials may visit the tax bureau and the banks on account of the enterprise.

5.4.1.5.2 China Compulsory Certificate

The *China Compulsory Certificate (CCC)* system is equivalent to the *CE marking* system used in the EU, and is a statutory compulsory safety certification system. It serves to safeguard the consumers' rights and interests and protect personal and property safety. It is supervised and managed by *China Quality Certification Centre (CQC)*.

⁵⁷ OECD, (2003a)

⁵⁸ Smedberg, U., (2004-09-10)



"There is no mutual recognition of the standardisation certificate between the EU and China. It is not yet at the stage for compatibility".

Fel, L., Analytic Officer, European Commission Beijing

Swedish enterprises have reported that the **CCC** regulation procedure for homologation is to a large extent duplicative and unnecessary. The products exported to China have already been tested once in Sweden according to *European, North American, and Japanese* conventions. The homologation and certification procedure may thus be conceived as measures to develop an independent system accepted by other nations⁵⁹. Despite lack of mutual recognition of homologation certificates between the **EU** and China, some products are compatible, e.g. predominately products approved by the *Certificate Body* Shengen (**CB**). Further, tests are frequently conducted by engaged authorized agencies, in both the **EU** and China. Often the authorities responsible for the **CE** marking engage its counterpart in China and vice versa, for the tests. Thus, the lack of compatibility between the **CCC** and the **CE** marking is not justified.

One Swedish enterprise has reported that owing to the **CCC** regulation it has only been able to offer 65% of its product range on the Chinese market⁶⁰. Despite the risk of punishment, another Swedish enterprise has reported that it sells its products without the **CCC** approval, however excludes clients from governmental authorities.

The application includes three parts, full product tests, factory inspections and parts tests, and usually takes 3 months to process. Each part includes excessive and detailed documentation. Additionally, most information regarding the **CCC** regulation may be found on the internet, yet most websites do not offer English versions. The main problem with the application procedure is defining which products to include in the application. Additionally, the factory inspections have implied problems, related to **VISA** issues. Many, supplying countries impose **VISA** restrictions on Chinese citizens, which have delayed the inspection undertaken by Chinese inspection officers. This may, to a certain extent, be amended

⁵⁹ Ericson, H., (2004-08-17)

⁶⁰ Smedberg, U., (2004-09-10)



through engaging inspection officers from **HK**. However, this is not a sustainable solution, due to under-staffing.

5.4.1.5.3 Import Licenses

China manages the procedure of *import licensing* to prevent undesirable imports, particular luxury goods or products that would compete with infant domestic industries. Only desirable imports are licensed in unlimited amounts. Less desirable goods may be limited by quantity restrictions or excluded altogether. Additionally, it provides the Chinese government with a tool to control its foreign exchange reserve. One Swedish enterprise has reported that the procedure of obtaining an *import license* takes 15-23 days and includes several procedures and steps⁶¹.

5.4.2 Evaluation

The pre-order phase involves several activities which lack of trade facilitation measures. In order to establish business in China, enterprises are required to undertake several interactions with numerous governmental authorities, which may be simplified through enhanced communication between involved governmental authorities. Additionally, the capital requirement for entering the Chinese market excludes many **SMEs**. Enterprises which may not meet the capital requirements are restricted to either **BSO** or representative offices and thus not allowed to invoice which results in increased compliance costs, when forced to engage Chinese agents for invoicing procedures. Furthermore, **SMEs** are frequently discriminated against, in terms of funding, i.e. high collaterals in order to be granted credit lines, which force many of these enterprises to deter from trade.

The application procedures for approvals are to a large extent excessive and time consuming, especially in terms of documentation. Much of it could be simplified through enhanced communication between governmental authorities and international mutual recognition. Furthermore, the application procedures are not uniform, which increases the costs related

⁶¹ Chen, M., (2004-08-25, 09-20)



to consistency and unpredictability. Some approvals are also impossible for foreign enterprises to achieve.

Due to culture, commercial contracts are not standardized and often contain hidden messages, which may result in increased compliance costs when previously not intended procedures are required and opportunity costs when deliveries are unperformed. Furthermore, foreign enterprises are often excluded from the information flow, owing to a lack of information in English. Poor quality is an important issue for Swedish enterprises trading with China, since it increases not only costs related to consistency and predictability but also opportunity costs. Frequently this derives from enterprises lack of information regarding suppliers' performance records. Additionally, when provided with poor quality, China lacks a means for dispute settlement.

5.5 Order

The order stage starts when the commercial contract has been signed. In accordance with the explanation provided under *heading* 5.1, this section covers the preparation of underlying administrative and procedural requirements for the transaction.

5.5.1 Trade Procedures

The trade procedures in the order stage consist predominately of compliance with the terms in the commercial contract through preparing and producing related documents.

5.5.1.1 Producing Documents

Documents are needed to spell out the contractual rights and commitments of the participants in the trade, and it is the seller's responsibility that the information is authentic. In terms of trade between Sweden and China each transaction requires underlying documentation for different purposes, e.g. *to secure payment, to grant access for consignments on vessels, to declare goods at customs, to provide information, to inspections office, to enable payment at Chinese*



banks, and for *enterprise achieves*, etc. Thus, to a large extent, the whole trade transaction is dependent on proper documentation. The main obstacles in terms of producing documents derive from their features, e.g. *authorizations by stamping or signing, producing originals and copies, endorsements*, etc.

Authorization by stamping may create an impediment for compliance, e.g. if only blue stamps are accepted and the enterprise's system may only provides black. These documents are thus obliged to be issued manually, which is time-consuming. According to article 20 in the *Uniform Customs and Practices for Documentary Credits (UCPDC)* 500, documents may be signed in *handwriting*, by *facsimile signature*, by *perforated signature*, by *stamp*, by *symbol* or by any other is *mechanical* or *electronic method* of *authentication*. Furthermore, by copies is meant documents which are either marked as copies or not marked as originals.

A discrepancy in the documents is anything that does not comply with the terms and conditions of the commercial contract or payment instrument, i.e. information in the documents submitted that is inconsistent with other documents submitted or do not meet the requirements of the **UCPDC**⁶².

5.5.1.1.1 Document Requirements

What is significant, regarding document requirements in terms of trade between Sweden and China, is its excessive nature when securing payment. Chinese banks frequently demand additional enclosed photo copies of entire sets of documents, which implies that each set of documents seldom contains less than 100 pages.

“The more documents required, the greater the risk of discrepancies. Hence the greater risk for refused or delayed payment.”

Chen, E., Assistant Representative, Skandinaviska Enskilda Banken in Beijing

The document requirements depend on the buyer and the commodity, and according to Swedish enterprises, it takes 15-30 days, in order to fully comply with all the document

⁶² Swiss Banking Corporation, 2001, UCPDC Art. 14



requirements. When documents intend to securing payment, one Swedish enterprise has reported that the document requirements are not justified. Two buyers of equal size, who are buying the same product, may have significantly different document requirements⁶³. According to one Swedish bank in China, the document requirements are based on which governmental authorities, e.g. **SAFE**, customs and the inspection bureau, etc., are included in the transaction. Yet, no respondent in this research has been able to provide an answer with certainty on exactly what the documents requirements are based on. What is known is that the document requirements are based on the lack of trust between the participants in the trade. When the buyer and the seller know one another and having a trusting relationship, documents are reduced to a minimum.

“When dealing with Chinese governmental bodies extra documents are required. It is hence more time consuming.”

Lindblad, G., Sales Manager, **Elof Hansson AB** in Shanghai

The revised implementation of the Kyoto Convention aims to reduce the document requirements to a minimum in international trade. Yet, exactly what minimum requirements consist of, is uncertain.

⁶³ Sorqvist, M., (2004-12-02)



Table 1 : Example of Document Requirements

Documents Required by Banks		Product A		Product B		Documents	Customs	Bank	Inspection	Shipper	Archive	Other
Originals	Copies	Originals	Copies	Originals	Copies							
3	3	3	3	3	0	B/L	X	X		X	X	
5	5	3	3	3	0	Invoice	X	X			X	
5	5	3	3	3	0	Packing List	X				X	X
1	1	1	0	1	0	No Wood Certificate	X					
1	1	1	1	1	1	Insurance Policy					X	X
1	2	1	1	0	0	Certificate of Origin	X				X	
3	3	1	1	0	0	Certificate of Quality			X		X	
3	3	1	1	0	0	Certificate of Quantity and Weight			X		X	
22	23	14	13	11	1		5	2	2	1	7	2

Table 1, presents a comparison of the documents required by various participants in trade. The right column displays the document requirements, set by one Chinese bank with intent to secure payment for trade with product A. The number of documents displayed under product A, consist of the actual need reported by the buyer of product A. Product B displays an enterprise in the same sector as product A, with internal trade transactions that thus does not a securing payment, which is thus assumed to be based on minimum requirements, $(11+1)=12$ documents. The deviation between the bank's requirements and the minimum requirement is $(22+23)-12=33$ documents. This may thus be assumed to be the amount of documents required to secure payment. The deviation when comparing the buyer for product B and the bank's requirements is $45-27=18$ documents. It may be assumed that this amount of documents is excessive, since it serves no purpose. Considering that Chinese banks additionally frequently require one or two sets of photocopies of all documents, it makes the requirements even further excessive adding up to 36-54 documents. Thus, in this example, the excessive documents may exceed the minimum requirements by 300-450%, when intending to secure payment.



5.5.2 Evaluation

Significant about trading with China is the excessive document requirements which derive from the lack of trust between participants to trade. Enhanced communication between the participants to trade would increase the understanding for one another's operations and measures, which ought to increase trust and thus reduce document requirements. Enhanced communication would further, serve as an attempt to resolve potential mishaps, i.e. discrepancies in documents or providing additional copies of documents etc. One alternative to reducing the document requirements is to simplify the way they are produced, which would decrease the cost of compliance to trading enterprises.

Discrepancies in documents halt the trade flow. Therefore all participants to trade should aim at keeping them at a low or non-existing level. Further, the constant requirements of authorization of documents by governmental authorities serve to decrease the pace of the document flow, which will have complications for the product flow in terms of costs related to consistency and predictability.

5.6 Transport

Transport is understood to mean the physical movement of consignments from seller to buyer, and the procedures which take place during the process in terms of inland and international transportation.

5.6.1 Trade Procedures

The nature of the trade procedures involved in physically moving goods internationally depends on the participants in the trade, the commodity transported, and between which locations they are conducted. Thus, it is impossible to generalize about the procedures. The trade procedures may be divided into three headings, *engaging mode of transportation and service providers, cost and lead times of transportation, and tracking and communicating.*

5.6.1.1 Mode of Transportation

The mode and responsibility of transportation is stipulated by **INCOTERMS** in the commercial contract, signed by the buyer and the seller. **INCOTERMS** is a standardized measure developed by **ICC**, in terms of enhancing the understanding between the participants in the trade. In total, there are 13 **INCOTERMS**, in the new edition **INCOTERMS 2000**, yet only two are commonly used in terms of trade between Sweden and China. *Cost, Insurance and Freight (CIF) destination*, is the most commonly used term, when transport is conducted by sea, and *Cost and Insurance Paid (CIP) destination* for airfreight. Both terms state that it is the responsibility of the seller to arrange the insurance and transportation, and that the seller's responsibility ends once the consignments have been forwarded to the carrier intended for the transport. Furthermore, both terms state that the costs, which are not stipulated otherwise in the commercial contract, are transferred to the buyer.

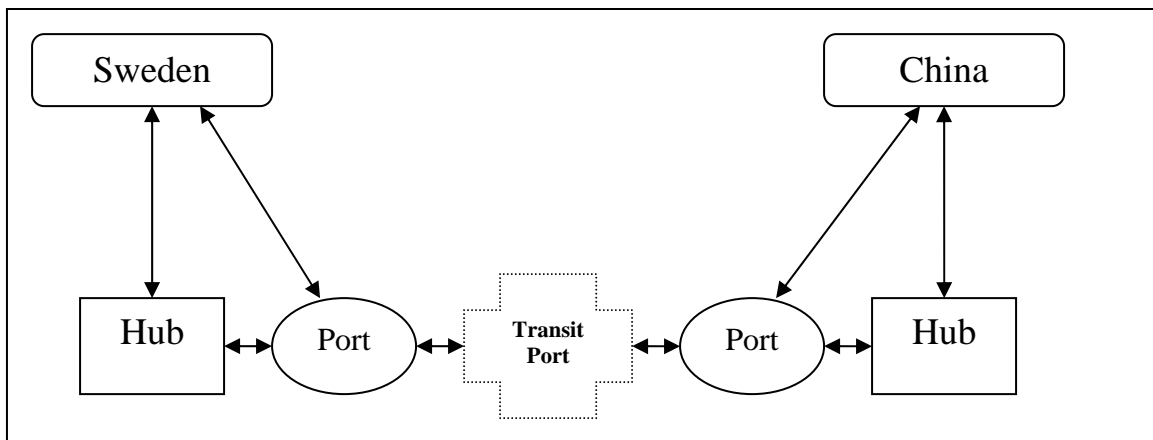


Figure 7 : Flow of Transportation

In simplified terms, the physical movement, regardless of the mode of transportation may look like the diagram in *Figure 7*. There are two modes of transportation used for the physical movement between Sweden and China, *sea freight* and *air freight*. Due to the geographical distance between the two nations, sea freight is the most commonly used mode of transportation. Goods are predominately shipped from the port of Gothenburg and transferred in the port of Hamburg. Air freight is mainly shipped from the airport in Copenhagen in Denmark, and predominately used for perishable and time-sensitive products, and for emergency consignments. Destination ports and airports in China depend on the



geographical location of the buyer and the products included in the consignment. The main sea ports in China are *Hong Kong, Shanghai, Tianjin, Ningbo, Dalian* and *Shenzhen*, and the main airports are *Hong Kong, Shanghai* and *Beijing*. Inland transportation in China is conducted by either truck or train, depending on the distance to the destination.

5.6.1.2 Service Providers

Both in China and Sweden the inland transportation is conducted by forwarding enterprises. In Sweden, forwarding enterprises are often engaged through *Third Party Logistics (3PL)* enterprises, yet in China the common practice is to engage the forwarding enterprises directly. In Sweden, the **3PL** enterprises are powerful in terms of economy of scale, which may lead to reduced service to their clients, in case of conflicts with shipping enterprises and agents. Additionally, heavy containers, e.g. 30 tonnes, require side loader trucks with cranes which are short in supply. This will delay the transport time.

The train mode is in short supply and transports will not start until trains are fully loaded, which makes lead-times unpredictable. Competition between forwarding enterprises in China, implies that over loading is common. Further, forwarding enterprises often *co-load* consignments from several clients, in order to increase the efficiency. This derives from the fact that many enterprises' consignments are **LCL**. The concept of *co-load* is based on the ability to perform all transports on time. Therefore, if the delivery is halted to one client, the deliveries to the rest of the clients will be delayed, which may result in missing a connecting mode of transportation. *Co-load* further implies the necessity of balanced loading of containers. In *Figure 8*, consignments A, B and C have been *co-loaded*.

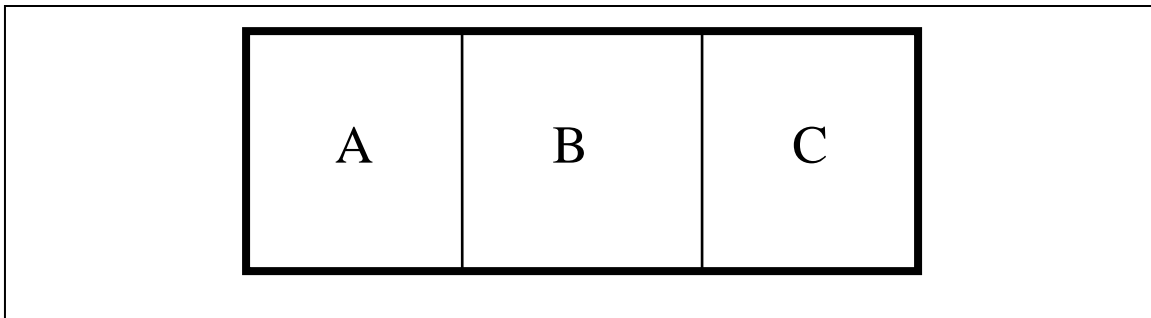


Figure 8 : Balance of Loading Containers 1



In assuming that the consignments differ in weight and that **consignment A** outweighs both the other consignments, the container displayed in *Figure 8* will be imbalanced, which may result in potential damage of pallets and cartons during the transport. One solution, displayed in *figures 9*, may be to load **consignment A** in the bottom and the other consignments on top of it.

Standardization of logistics, including standardization of logistics terms and logistics facility, is crucial in China.

He, M., Professor, Beijing Technology and Business University

Efficient loading procedures depend on standardized pallets, which China lacks of. Loading no-standardized pallets into containers, constantly results in waste of space.

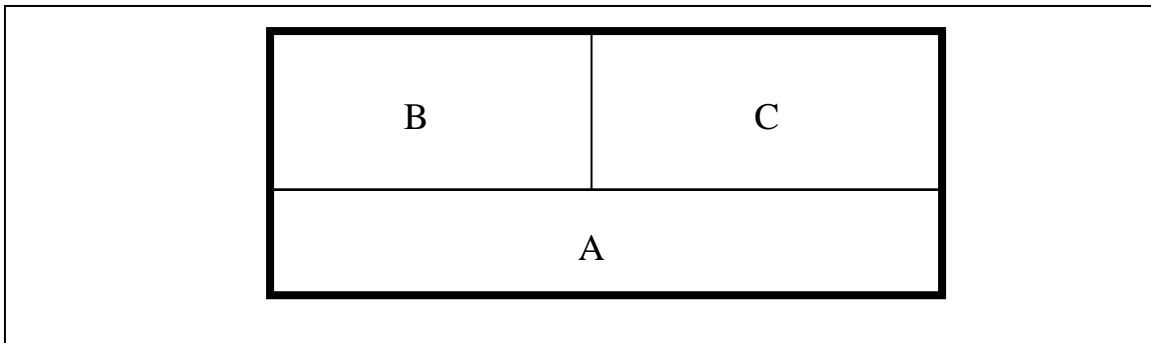


Figure 9 : Balance of Loading Containers 2

The shipping agent is the representative of the shipping enterprise, and their purpose is to fill the latter's vessels with consignments and to arrange transports with feeder enterprise's vessels. The feeder enterprise transports the consignments from areas with insufficient quantity, to consolidating destinations. Swedish enterprises have reported that shipping agents frequently overbook the shipping enterprise's vessels in order to secure a full load. This creates problems in cases where there are no cancellations. The result is that consignments will not be transported with their assigned vessels. The consequences from this may be that terms in the commercial contracts will not be met and that documents may have to be re-produced, i.e. the *Bill of Lading (B/L)* if it has been issued prior to departure of the vessel. In case of no cancellations, it is predominately the heavy consignments which are



excluded from the transport, owing to transportation fees which are based on volume and not weight.

5.6.1.3 Costs and Lead Times of Transportation

In China, port authorities have a monopoly on all port activities, which implies their freedom to set service fees and charges. What is significant in terms of Chinese port authorities are the amount of costs levied and the lack of harmonization between ports. Except for a few ports, e.g. Shanghai, Ningbo and Shenzhen etc, the others are under developed and hence offer non-sufficient capacities which may result in halted trade flows. Despite being considered the most efficient port in China, Shanghai falls behind international standards, when compared to the port of Singapore in *table 2*.

Table 2 : Comparison of transport activities between the port of Shanghai and the port of Singapore⁶⁴

• Activity		• Time consumed (Minutes)	
		• Shanghai	• Singapore
• Arrival to the port		10	14
• From the port to LP	• LP=Logistics Park	30	65
• Storage in LP		90	65
• Pickup within LP	• Inspection without opening the Container	480	190
	• Inspection with opening the container	1920	
• Total	• Inspection (Not open)	10H 10 M (92%)	
	• Inspection (Open)	34 H 10 M (8%)	5 H 34 M

As displayed in *table 2*, the port of Shanghai may at best offer half the level of efficiency compared to Singapore. The deviation of efficiency between the two ports derives from Shanghai’s lack of automated inspections. Considering that Shanghai is the most efficient port in China, the time spent in ports is even further time consuming in other ports. The

⁶⁴ Yu, Q., (2004)



service costs do not reflect the lack of efficiency in Shanghai compared to Singapore as displayed in *table 3*.

Table 3 : Comparison of costs for activities in the port of Shanghai and the port of Singapore (USD per shipment)⁶⁵

• Shanghai		• Singapore	
• Port Construction Fee	• 10227	• Port Construction Fee	• 2000
• Port affair Fee	• 3815	• Port affair Fee	• 240
• Towage Fee	• 1500	• Towage Fee	• 720
• Harbour Fee	• 2431	• Harbour Fee	• 15500
• Total	• 17973	• Total	• 18460

The difference of the total cost for port authorities’ services between Shanghai and Singapore is only 2.6%, despite the fact that the labour cost is lower in Shanghai. The harbour fee which reflects the labour cost, is 84% lower (USD 2,431/15,500) in Shanghai. Yet, the port construction fee, which reflects the administration fee related to port authorities, is significantly lower in Singapore.

Additional transport costs may be derived from the oligopoly of feeder enterprises conducting the transport from the port of Gothenburg to the transfer port of Hamburg. This means that the costs are unproportionally high for this leg of the transport⁶⁶. High costs due to lack of efficiency in *Logistics Parks (LPs)* and distribution centres in China, are difficult for **SMEs** to cope with⁶⁷. The new weight regulation in China, which states that the total weight of a truck trafficking Chinese roads may not exceed 25 tonnes has added to the transport prices since trucks may not be fully loaded.

5.6.1.4 Tracking and Communicating

Advanced *Information Technology (IT)*, e.g. *Electronic Data Interchange (EDI)* and *Enterprise Resource Planning (ERP)*, result in higher efficiency and more transparent and predictable

⁶⁵ Yu, Q., (2004)

⁶⁶ Eriksen, E., (2004-04-26)

⁶⁷ Yang, S., (2004-08-02)



transportations, in terms of tracking and communicating information regarding consignments. In China the majority of the transport service providers, lack of **IT** due to the costs of implementing it. Instead the majority of the tracking and communication procedures are conducted over mobile phones. Furthermore problems may arise if the transport is conducted out of office hours, which means that the consignment will be halted until offices open and the mishaps straightened out. The lack of **IT** results in manual processing of information which increases the risk of discrepancies in it. Discrepancies in the information may result in consignments not being loaded on to transportation units which may cause a domino effect.

One example of the lack of communication in Sweden is when the forwarding enterprises do not notify Swedish customs of the consignor's customs declaration status, i.e. the **Q** status which implies that a consignor has the right to export declare consignments two weeks after departure. The result is that the consignments are halted at Swedish customs.

5.6.2 Evaluation

Significant regarding the transportation flow when trading with China, is the lack of predictability. It does not only include several modes of transportation, due to the geographical distance, but also deviates in terms of efficient logistics activities between service providers predominately in China due to lack of harmonized measures. Furthermore, not only the service providers lack of harmonized measures but the facilities and equipment do as well. Additionally, the frequent lack of **IT** service among logistics service providers in China serves to complicate the tracking of consignment and distorts communication. All the above mentioned issues result in costs related to consistency and predictability, compliance and opportunity.

Chinese port authorities are in absolute monopoly and may thus exclusively levy costs for services. Occasionally, the port authorities use this power to discriminate certain trading participants. Further, the frequent conduct of overbooking of transportation units as an attempt to yield from the risk of cancellations in combination with the fact that prices are



based on volume instead of weight will result in discriminatory measures taken against predominately “heavy” consignments.

5.7 Cross-Bordering

Cross-bordering consists of controls and measures taken by countries at their borders. One study shows that 2 out of 3 Swedish enterprises are burdened by cumbersome customs procedures in China⁶⁸. However, according to Swedish enterprises interviewed in this research, they are either satisfied with the customs procedures or admit their own shortcomings in terms of complying with Chinese customs.

5.7.1 Trade Procedures

The trade procedures involved in the Cross-bordering activities are predominately related to customs. Customs procedures in terms of this research are divided into five different areas; communication, risk assessments, valuation, inspection and declaration. Customs not only interact with declaring parties but also the business community and other governmental authorities.

5.7.1.1 Communication

According to one customs official, the transparency topic has been discussed for a long time, yet few of the measures implemented have been successful. The general customs website constantly updates information regarding regulations and compliance issues. Further, the website provides forums for business society to both pose questions and find answers. Additionally, each customs office provides reception days when members of the business community may meet customs officials, in order to resolve compliance issues. The customs consultant phone is open 24 hours per day, 365 days per year. Yet, the improved channels of information are not sufficient due to the language barrier, i.e. the website does not provide an English version. In order to overcome the language barrier, foreign enterprises are urged to localize their labour force. Furthermore, the *Customs Brokerage Association (CBA)* in China

⁶⁸ Widman, E., (2004a)



works as a bridge between the customs and the business society i.e. arranges training programs for the business community in an attempt to improve the understanding of customs procedures.

As traded products are becoming increasingly time sensitive, customs are required to adapt to the business community's operational requirements. According to Swedish enterprises, the customs office hours are not flexible, which results in wasted time when consignments arrive out of office hours. *World Customs Organization (WCO)* guidelines recommend that customs should attempt to adapt their office hours to operational requirements in order to provide increased convenience to the business community. As response to this recommendation, Shenzhen customs has provided the business community with the possibility to book time in non-office hours. Still, this depends on a company's ability to exactly predict the arrival of consignments.

5.7.1.2 Risk Assessment

The Chinese customs risk assessments are divided into two procedures, i.e. *assessments related to documents* and *assessments related to inspection*. Both procedures are undertaken by the risk evaluation centre at the customs office. Documents are classified according to three risk levels, i.e. *low*, *medium* and *high risk*. *Low risk* documents which imply no requirements of duties and licenses, take less than 1 minute to process electronically. Rejection of documents is predominately based on discrepancies. According to Chinese customs more than 80% of all discrepancies are caused by the declaring parties⁶⁹. *Medium* and *high risk* documents are manually transferred to the check-up centre at the customs office, which consist of experts on related industries. In order for these documents to be approved by customs, declaring parties are required to present copies of both the commercial contract and the commercial invoice as evidence of authenticity.

The risk assessment regarding inspection is similar to the Swedish customs' stairway. Declaring parties are risk assessed based on historical records and volume, and classified into

⁶⁹ Huang, L., (2004-09-12)



one of the following seven categories, **red list**, **AA**, **A**, **B**, **C**, **D** and **black list**⁷⁰. The declaring parties in the red list category enjoy highest priority and green aisles which imply that the consignments will seldom be inspected. Additionally, customs will assign dedicated officials to these parties, which increase both understanding and communication. Opposite treatment is experienced by the declaring parties in the black list category. Due to requirements of volume in the risk assessment, only major declaring parties may be put in the red list category, i.e. **SMEs** may at best acquire **AA** status.

5.7.1.3 Valuation

Despite Swedish enterprises concern regarding customs valuation procedure, only 5% of all consignments processed by the Chinese customs are targets for valuation procedures⁷¹. According to one study, almost half of the Swedish enterprises related problems of customs procedures to the levying of tariffs which have a negative effect on their business⁷². The dutiable value of a consignment provides a platform on which *Value Added Tax (VAT)*, duty and related taxes are based, and it thus derives from the customs' intention to prevent tax evasion and fraud related to foreign exchange. On the contrary, one study states that the Chinese customs acknowledge that duties are mainly aimed at regulating trade and providing protection to local industries, while revenue is merely a secondary concern⁷³.

The valuation procedure will be initiated if customs are provided with information of transaction prices, which are believed *too* low. As a first measure, in accordance with the *WTO valuation agreement*, to resolve the matter, declaring parties are required to motivate the reported transaction prices which imply presentation of *commercial contract*, *commercial invoice*, *certificate of origin* etc. If information provided is not satisfactory, customs will use reference pricing, i.e. similar product's value, to set the dutiable value of the consignment and its products. Otherwise the dutiable value is set as equivalent to the transaction price.

⁷⁰ www.customs.gov.cn, (2005-01-07)

⁷¹ Huo, (2004-11-15)

⁷² Widman, E., (2004)

⁷³ European Commission, (2004)



Swedish enterprises have reported that customs' valuation assessments are not only malfunctioning, i.e. in defining similar products, but also that the assessments are excessive in terms of time, which contribute to *too* high dutiable values and costs related to halted trade flows. Chinese customs claim to use accurate reference prices and therefore this practice will continue and thus may hinder imports into China. One study states that valuation procedures are not harmonized and that *the same product may not only be subject to different rates of duty depending on the port of entry, but also to arbitrary determination of the customs value*⁷⁴. One measure to prevent undervaluation according to *WCO guidelines* is the implementation of *pre-shipment inspections (PSI)*. This measure has to some extent been adopted by the Chinese customs; yet excessive valuation assessment times have counteracted this measure.

5.7.1.4 Inspection

Based on enterprises' sector and declaration information, customs will determine if consignments are required to undergo inspection. According to Chinese customs website, Chinese customs conduct two measures for the inspection, i.e. manual inspection which takes about 4 hours or automated inspection which takes 30 minutes. Both measures are handled by the inspections department, within the customs office. The automated inspection may take place both during the processing time at the customs or before.

According to the *WCO guidelines*, an important method to increase customs efficiency is to increase the use of non-instructive inspections measures. The automated inspection systems include, x-ray inspection instruments, **EDI** systems and electronic ground scales. Yet, due to costs of implementation not many customs offices apply the new systems, which may explain their excessive processing times and low efficiency.

⁷⁴ The American Chambers of Commerce in PRC, (2003)

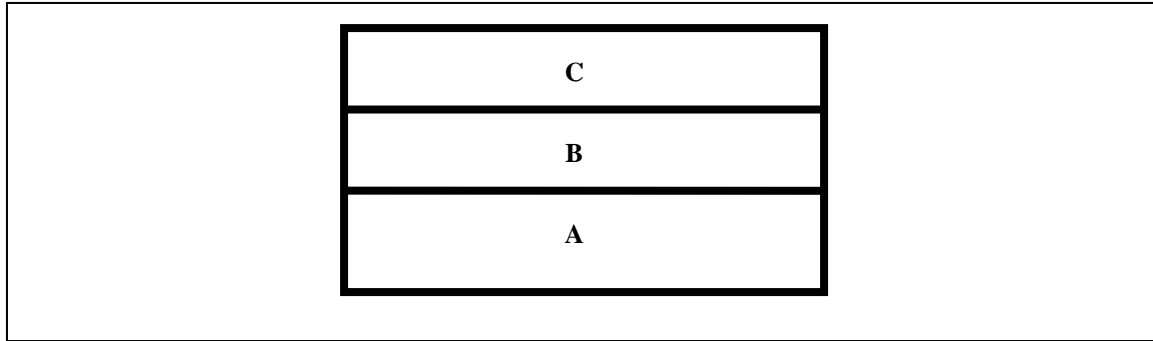


Figure 10 : Loading Issue Related to Customs Inspection

One consequence of customs inspections reported by Swedish enterprises is displayed in *figure 10*, where **containers A, B** and **C** have been unloaded and stacked on top of one another. In case customs wish to inspect **container A**, the others are obliged to be removed which may be both time-consuming and costly. In notifying forwarding enterprises beforehand of which containers are required to undergo inspection, the unloading procedure may be enhanced.

5.7.1.5 Declaration

Chinese customs procedures lack of harmonization, and thus differ between different customs offices. This implies unpredictability in terms of lead-times and lead-time variations, which create problems for enterprises conducting **JIT**. As an attempt to harmonize the customs procedures, the general customs in China has set maximum time limits for various customs related procedures. Yet, due to a lack of resources only a few customs offices manage to comply with them. Further, the cooperation between customs offices is malfunctioning, especially between neighbouring offices. The reluctance toward cooperation derives from the fact that each customs office's commissions are based on total annual revenue of declared consignments. Additionally, **VAT** and duties are paid provincially. This generates difficulties in transit, i.e. to postpone the declaration of consignments until final destination. Customs declaration procedures are dependent on *guanxi*, which explains why enterprises wish to declare consignments in specific customs offices.

The declaration procedures start with declaring parties supplying customs with required brief information related to the consignments. This procedure may be handled in three ways, i.e.



physically at the customs declaration hall, through the declaring parties' **EDI** systems, or through the engagement of agents. Upon receipt of declaration information, the customs check for errors and the declaring parties' authority. If containing errors, the declaring parties are obliged to correct them and re-start the declaration process. After approval, the declaring parties are required to present the printed documents to the customs document acceptance office. They will there be checked for consistency with previously provided information and exchanged for the tax bill. Upon receipt of the tax bill, declaring parties have 15 days to pay related duties and **VAT**. When paid, the tax bill will be authorized by the bank and used in order to receive the customs declaration sheet. As long as the declaration procedures has occurred without mishaps, the customs officers will stamp the **B/L** with "declared" which entitles the declaring party to claim possession of the consignment. Alternatively, the declaring parties have, to a certain extent, the option of post-declaration. Customs may handle part of the information regarding consignments, after departure. The intent of post clearance is to separate specific activities from the customs clearance procedures, in order to shorten lead-times.

5.7.1.6 VAT Refund

When exporting goods from China, enterprises are required to settle credit lines with **SAFE**. Due to regulations, all enterprises are required to sell all foreign currency to **SAFE**, which has been obtained from trade. The size of the enterprise will set the level of credit line at **SAFE**, which means that **SMEs** have fewer opportunities to accumulate foreign exchange balances compared to larger enterprises. Customs will issue a release certificate once the goods have been approved for export. This certificate is required in order to collect payments in Chinese banks. Upon receipt of payment for exported goods in foreign exchange, the bank will immediately convert the foreign currency into **RMB**, and issue a receipt of the conversion. The receipt is required in order to renew credit lines at **SAFE**. Once the credit lines are renewed **SAFE** will issue a certificate which is used in order to collect **VAT** refund at the tax bureau.



5.7.1.7 Customs Appeal Mechanisms

According to the *Customs Law of the People's Republic of China*, *the administrative enforcement of laws by the Customs and its officers shall be subject to supervision by the supervisory authority in accordance with law...*⁷⁵. Yet, due to the customs elevated status in the Chinese government, such measures are seldom applied. Additionally, *any entity and individual shall have the right to accuse and report the violations of laws and rules of discipline committed by the customs or its staff members*⁷⁶. Still, this only works in theory. Swedish enterprises have reported that the Chinese customs do not even comply with rules they have stipulated for themselves.

5.7.2 Evaluation

The Chinese customs is a powerful governmental authority. Despite laws regarding its conduct, there is no due-process involved in Customs activities. The Chinese customs have taken several measures in order to increase both communication and accessibility for declaring enterprises. Yet, most measures taken have overlooked the language barrier, i.e. regulations and compliance measures are explained in detail on the authority's website, yet not in English. Lack of flexible office hours increases lead-times and related costs.

The impediments regarding Customs activities are not only created by customs but also by business society. It is therefore recommended that business society autonomously educate itself regarding various activities in customs. Chinese customs' risk evaluation is based on preferential treatment predominately in terms of inspections, which implies that **SME's** may never obtain the most favoured treatment, regardless of spotless performance record. The preferential treatment implies access to specifically assigned customs officers, which may increase communication, understanding and thus compliance.

Chinese customs' activities are not harmonized in China, which implies that predictability is low regarding lead-times. Guanxi is often a factor which will determine the length and complexity of the activities. Automated customs procedures have decreased the processing time of various activities and have enabled pre-shipment inspections and post-entry

⁷⁵ Art. 75

⁷⁶ Art. 80



clearance. Yet, there are still several activities which are in need of simplified compliance and procedures, i.e. **VAT** refund and currency conversion. Both these procedures would be facilitated by assigning one intermediary handling all involved information and documents between participants to trade.

5.8 Payment

In any business transaction, it is the seller's main concern to receive payment for the goods supplied and avoid delays or losses of payment due to financial problems on the part of the buyer. On the other hand, the buyer's main concern is the quality of the goods received and whether they are funded at the most advantageous terms possible. The ideal payment procedure grants a balanced security to both the seller and the buyer.

5.8.1 Trade Procedures

According to Swedish enterprises, the following payment instruments are frequently used to secure payment in terms of Swedish trade with China, *Documentary Collection (D/C)* including *Documents against Acceptance (D/A)* and *Documents against Payment (D/P)*, *full prepayment*, *open account*, and *Letter of Credit (L/C)*. The role of the banks is to manage associated risks and to fund trade.

The risks may be divided into *political*, *transfer*, *transaction* and *credit risks*. The *political risk* implies extraordinary measures of foreign countries and political events abroad which make it impossible for the buyer to comply with the commercial contract. The *transfer risk* consists of currency measures of foreign governments which make it impossible for the buyer to allocate and transfer foreign exchange abroad. The *transaction risk* implies having the goods produced and shipped on time and producing the documents in time and in accordance with the terms of the commercial contract. The *credit risk* includes both the buyer's inability and unwillingness to pay. Payment may be refused based on a small inadvertent infraction in the commercial contract; while the real reason is that between the time the order was placed and



the goods received there has been a significant drop in market prices⁷⁷. The consequence for the seller is that the goods are stuck in a foreign port, probably incurring heavy storage charges.

5.8.1.1 Determining Payment Instrument

The value of a transaction as well as the trust shared by the seller and the buyer in one another's business operations, determines which payment instrument used. In terms of Swedish trade with China, the most common payment instruments are **L/C** and **D/C**, where **L/C** is used for 30-40% of all transactions⁷⁸. *Full prepayment* or *open account* is not commonly practiced.

For both **L/C** and **D/C** banks are used as intermediaries for the document flow, yet with different commitments. When using **D/C** the banks assume no obligations to pay the seller, in case of non-honoured payments by the buyer as they may when using **L/C**. Therefore the costs for using the **L/C** are higher than when using **D/C**.

The opinion of the **D/C** differs among Swedish enterprises. Despite being less costly than the **L/C**, many Swedish enterprises have reported their reluctance to use it. In terms of Swedish trade with China, it is difficult to combine the **D/C** with credit insurances, and if possible they will only cover up to 90% of the transaction's value⁷⁹. In case of non-honoured payment, Swedish enterprises with profit margins below 10% thus make losses. Further, one Swedish enterprise has reported that it has experienced waiting times of up to 6 months, in order to collect credit insurances⁸⁰. From the buyers perspective **D/C** does not secure deliveries. However, Swedish enterprises which have reported that they do use **D/C**, say that they combine it with advanced payment, and that it is well functioning.

Due to the relatively high costs of the **L/C** it is mainly used for high value transactions. According to Swedish enterprises there are additional three reasons for using this instrument,

⁷⁷ Venedikian, et al, (2000)

⁷⁸ Villanueva-Engström, J., (2004-08-17)

⁷⁹ Johansson, M., (2004-12-02)

⁸⁰ Ibid.



securing faster payments, facilitated arbitrary measures in case of non-honoured payments, and last the constant lack of trust in Chinese counterparts and the Chinese legal system. This research focuses on the L/C, due to its frequent use and features.

5.8.1.2 Negotiation of Opening the L/C

After solving the funding issue, addressed under heading 5.4.1.4, the buyer asks its bank to issue an L/C in favour of the seller. In issuing an L/C, the buyer's bank guarantees the seller payment, when the terms of the L/C have been complied with. At the same time the right to the underlying goods in the L/C, switches from the buyer to the bank. The buyer's bank takes over the buyer's liability for performance, when opening the L/C. The opening procedure of the L/C takes between 1-7 days depending on the bank and the buyer.

“The financial reliability of Chinese enterprises is poor, due to the fact that they often suffer from poor liquidity. This calls for added security for the seller.”

Peterson, J. Vice President, English First in China

With the L/C application the buyer is obliged to enclose information on the underlying transaction, i.e. *contract number, applicant's name, shipping schedule* and the *documents required* from the seller. The bank will, based on this information, determine which documents will be required for presentation under the L/C. According to Swedish enterprises, Chinese banks provide pre-filled applications to the buyers, where document requirements have already been determined. Further the buyer is required to present the commercial contract and related licenses to its bank, as evidence of the underlying transaction.

The buyer's cost for having the L/C issued is fixed and based on the transaction's value. According to Swedish enterprises the cost consists of 0.15% as flat rate for opening the L/C and payment commission of 0.1-0.125%, and additionally 0.1% for each month the L/C is open. The total cost is hence, 0.55-0.575% of the transaction's value, for L/Cs open for 90 days.



5.8.1.3 Advising of the L/C

Usually, the **L/C** is conducted by the buyer's bank through the seller's bank. According to Swedish banks it takes 2-3 days to receive the **L/C** from Chinese banks. Upon receipt the seller's bank is required to take reasonable care to check the apparent authenticity of the **L/C**⁸¹. Thus the seller's bank will review the **L/C** prior to forwarding it to the seller. In case of questions the seller's bank will seek clarification from the buyer's bank.

Confirmation implies that another bank than the buyer's bank will take on the responsibility to honour the seller payment. Chinese banks never provide confirmation instructions for Swedish banks, thus the conduct of "silent confirmation". In adding its silent confirmation the seller's bank makes its own, independent payment commitment, which implies that the seller no longer needs to rely on the willingness or capability of the buyer to make payment⁸². By having the credit confirmed, the seller thus avoids the *credit risk* that the buyer's bank should refuse to honour the payment, as well as the *political risks* that may be inherent in the transaction. In order to add its silent confirmation to the **L/C**, the seller's bank requires the assignment of all the rights of the seller under the **L/C**. In case the seller's bank has confirmed the **L/C**, payment is received no later than 14 days after presentation of compliant documents⁸³. If reimbursing parties are included in the **L/C**, payment is received in a matter of 2-3 days after approval of presented documents⁸⁴.

Swedish banks charge 0.15-1% of the transactions value for adding its confirmation to the **L/C**⁸⁵. The charge depends on which bank the buyer has assigned to open the **L/C** and on the seller's bargaining power. Additional common costs to the **L/C** are *advising fee*, *payment commission* and *costs related to reimbursing parties*. These fees and commissions are charged, independently of how long the **L/C** is open for. If the landed cost of the **L/C** is *too* high, many enterprises with low profit margins will be obliged to deter from trade. According to one Swedish enterprise, the minimum cost of an **L/C** is 2,000-3,000 **SEK**⁸⁶.

⁸¹ Swiss Banking Corporation, 2001, UCPDC Art. 7

⁸² Venedikian, et al., (2000)

⁸³ Uusmann, R., (2004-11-30)

⁸⁴ Ibid.

⁸⁵ Villanueva Engström, J., (2004-08-17)

⁸⁶ Stenberg, O., (2004-12-02)



5.8.1.4 Actual opening of the L/C

When the seller's bank has approved the L/C, the buyer's bank opens it and forwards it to the seller's bank. An L/C opened at the time a commercial contract is signed, may give complete protection during the manufacturing period. The seller is thus assured by the buyer's bank that if goods are manufactured and shipped within the time period stipulated in the commercial contract and follows other terms stipulated in the L/C, that payment will be honoured. Alternatively according to Swedish enterprises the production of the goods will not be initiated prior to receipt of the L/C.

5.8.1.5 Forwarding to the Seller and the Audit of the L/C

Upon receipt of the L/C the seller's bank will forward it to the seller. It is then up to the seller to carefully examine L/C. According to one Swedish enterprise, the process of producing the required documents under the L/C takes between 10 – 15 days⁸⁷. Depending on the goods and mode of transportation, common practice is that the L/C is open for 2-3 months, in terms of Swedish trade with China. In not being able to comply with the L/C or parts of it, the seller will contact the buyer for amendments, which implies that the procedure starts over again.

“The secret of successful L/C practice is to thoroughly examine it, prior to agreeing to anything”

Lindblad, G., Sales Manager, Elof Hansson AB in Shanghai

The L/Cs must indicate how they are available, which means how they should be paid and the payment terms should be set based on the commercial terms of the contract⁸⁸. In terms of Swedish trade with China the L/C are usually available “at sight”, which implies immediate payment. Yet, some Swedish enterprises give the buyers credits, deferred payment, which may be expressed as payment a certain number of days after shipment or after presentation of the documents. Furthermore the L/C may be available through acceptance

⁸⁷ Lindblad, G., (2004-09-10)

⁸⁸ Swiss Banking Corporation, 2001, UCPDC Art. 9



of a draft which is presented along with the other documents by the buyer's bank, and the payment thereof at maturity.

5.8.1.6 Shipment of Goods

This event takes place when the seller has accepted the terms of the **L/C** and checked that it can fully comply with them. The seller ships the goods to the buyer and has the documents produced that are required under the **L/C**.

5.8.1.7 The Issuance of Documents

In order to comply with the **L/C**, the seller is obliged to produce a number of documents, which have been addressed under the *heading* 5.5.1.1.1.

5.8.1.8 Presentation of Documents to the Seller's Bank

When the documents have been produced and it has been verified that they conform with the terms and conditions of the **L/C**, the seller presents them to its bank. This implies that the seller ascertains that the documents include the correct number of originals and copies, that the description of goods in the commercial invoice and the **L/C** are consistent, that the right quantity of goods has been shipped, that no information in the documents is contradictory, and that all documents have been properly authorized.

The deadline for presenting a complete set of documents under an **L/C**, if nothing else is agreed, is in within 21 days from the date of issuance of the transport documents. However, this time may be shorter in order to meet the validity date of the **L/C**⁸⁹. The seller's bank examines all stipulated documents with reasonable care to determine whether or not they appear "on their face" to be in compliance with the terms and conditions of the **L/C**⁹⁰. According to Swedish banks the examination takes 4-5 days for regular clients, and 1-2 days for priority clients. If the documents comply with the terms of the **L/C**, and the **L/C** is

⁸⁹ Swiss Banking Corporation, 2001, UCPDC Art. 43

⁹⁰ Swiss Banking Corporation, 2001, UCDPC Art. 13



confirmed the seller's bank ensures and assumes responsibility for payment on the maturity date in accordance with the terms of the **L/C**. Yet, if the documents contain discrepancies neither the buyer's nor the seller's bank are obliged to pay, regardless of confirmation⁹¹. The seller has the right to correct or replace documents found to contain discrepancies by its bank within the period of validity of the **L/C**, or within the period for presentation and to present the documents to the seller's bank. If not possible to correct, it is up to the seller to decide whether the documents nevertheless should be sent to the buyer's bank for approval under the **L/C**. This is referred to as "*payment under reserve*" which means that the seller's bank reserves the right of recourse against the seller if the buyer's bank refuses to accept the documents and does not provide cover due to the discrepancies. Yet, the seller has the right to challenge the banks' assessments and the banks always have to specify what they have based their rejections on.

5.8.1.9 Presentation at the Buyer's Bank

After the seller's bank has approved the documents they are forwarded to the buyer's bank, which has a reasonable amount of time, i.e. 7 bank working days following the day of receipt of the documents, to examine them⁹². However, according to one Swedish bank in China the examination seldom take less than 14 days⁹³. Furthermore, another Swedish bank in China, claim that the most common cause of delay in the examination is related to discrepancies which are addressed under *heading* 5.5.1.1⁹⁴.

5.8.1.10 Actual Payment

When the documents are approved, the buyer's bank is unconditionally liable to pay in accordance with the terms of the **L/C**. The documents are then handed over to the buyer, in exchange for payment. Buyers with credit lines, addressed under *heading* 5.4.1.4, will be charged the transacted amount. According to Swedish enterprises the following documents are required for making a payment in a Chinese bank; *a copy of the commercial contract, a copy of*

⁹¹ Swiss Banking Corporation, 2001, UCDPC Art. 13

⁹² Ibid.

⁹³ Villanueva Engström, J., (2004-08-17)

⁹⁴ Wang, J., (2004-08-26)



the commercial invoice, a customs declaration sheet, and a tax bill. All documents require authorization by related governmental authorities. Chinese banks work on commission when handling payments, which implies that low value payments may thus have low priority. According to Swedish enterprises, such practice is frequent which means long waiting times before receiving payments. Disputes regarding payment may at a first level be mediated by the banks or by further negotiation between the buyer and the seller. At a second level the disputes may be solved in either Chinese or international courts.

As mentioned, under *heading 3.1.1*, the **RMB** is fully convertible in trade transactions yet only partially convertible on the capital account. Therefore, payments in terms of international trade are required to be converted. The conversion procedure includes notifying **SAFE** about the purpose of the conversion and providing the bank with the following documents, *bank conversion application, commercial contract, customs declaration sheet and commercial invoice.* After presentation of documents the amount will be deducted from the buyer's credit line and converted into foreign exchange and transferred to the seller's bank account in Sweden. The conversion procedure is to a large extent similar to the payment procedure, and is thus duplicative. In order to facilitate this procedure, most Swedish enterprises maintain foreign exchange accounts.

5.8.2 Evaluation

Lack of trust between trading enterprises in Sweden and China increases the risk of non-honoured payments, and thus calls for added security for financial transactions. The lack of trust derives from cultural aspects, geographical distance and lack of communication. Additionally, the lack of trust derives from trading enterprises' lack of trust in the Chinese legal system to protect them, in case of non-honoured payments. Disputes may firstly be solved between the buyer and the seller, secondly between the banks involved, and thirdly in Chinese courts.

In order to reduce risks involved in the financial transaction, the **L/C** payment instrument is predominately used. It serves to increase consistency and predictability, i.e. payment will be received when the terms and requirements of under the **L/C** have been met. According to



international rules regarding the **L/C**, banks may always explain their assessments when examining presented documents. Further, the **L/C** grants quicker payment and serves to secure the manufacturing phase, if being issued prior to the start of the production. Furthermore, it also serves to increase the compliance cost, due to often complicated and difficult terms. The costs, i.e. compliance cost and bank fees, of the **L/C** will additionally, multiply since the costs are levied both the seller and the buyer. Attempts to reduce the compliance cost may be to reduce the terms under the **L/C** to a minimum, i.e. aiming at excluding document requirements or to separate documents from the **L/C**.

Chinese banks discriminate upon **SMEs** in terms of conducting payments, due to the fact that their commissions are based on the transacted value but require the same amount of time. Further, the payment procedure is complex since it requires several authorizations by various governmental authorities. Furthermore, payments in foreign exchange call for currency conversion which is to large extent duplicative to the payment procedure.

5.9 Post Sales

As, mentioned under *heading* 5.1, post sales takes place after that the trade has been terminated, i.e. when the buyer has received its goods and the seller has received payment.

5.9.1 Trade Procedures

The procedures of post sales mainly intend to maintain the enterprises good reputation, which may facilitate both the pre-order and order activities in the continuous trade flow and to repatriate potential profits from China.

5.9.1.1 Branding

Swedish enterprises have reported that Chinese counterparts frequently wish to exclude after-sales services and guarantees, in exchange for discounts on the contracted price. In agreeing to this Swedish enterprises running the risk of *bad will* and damaged *trade marks*. The



Chinese cultural aspects imply that Chinese enterprises purchase products which they expected to last forever, and hence do not calculate with potential service costs. According to one Swedish enterprise, some enterprises are therefore reluctant to use their own trade marks when operating in China⁹⁵.

Additionally, related to Chinese cultural aspects there is often no previous recognition of known performance of foreign trade marks at their original markets, among Chinese enterprises. This implies that Swedish enterprises have to start their Chinese operations with no brand recognition and zero *good will*. The challenge for Swedish enterprises is hence to define how much it is worth to have equally good brand recognition in China compared to the rest of the world. If estimated costs for after-sales services are *too* high, most Swedish enterprises will operate using a generic name in order to minimize the future risk of *bad will*. One approach, in order to provide after-sales services and at the same time minimize costs and risk, is to restrict Chinese customers geographically. Additionally, Swedish enterprises may require that its workshops exclusively use authorized spare parts, for after-sales services of its products.

5.9.1.2 Repatriation of Profit

The regulations for repatriation of profit serve to protect China from fraud relating to its currency. Swedish enterprises have reported that they are allowed to repatriate taxed profits out of China and that the procedure is regulated by the enterprises' article of association. The procedure is processed by **SAFE** and usually takes 3 weeks, and includes several compulsory fees. Yet, enterprises may face obstacles when repatriating untaxed profits, i.e. through internal transfer price management. This procedure is carefully supervised by the Chinese tax bureaus and, as mentioned under *heading* 5.7.1.3, may create impediments in the customs procedures. Enterprises which present losses after the first years of operation may be targets for tax audits. This implies that enterprises' transfer price management has to be intended for the long-term.

⁹⁵ Peterson, J., (2004-09-06)



Transfer price management may imply that enterprises set transfer prices lower than market prices, in order to reduce taxes and duties. Yet, this may be an issue for customs valuation procedure. High transfer prices result in escalated prices offered to the final customer, which will damage the enterprises' competitive advantages. Pricing management is therefore a delicate matter for Swedish enterprises when trading with China⁹⁶.

5.9.2 Evaluation

Chinese culture makes it difficult to predict the actual cost of protecting Swedish enterprises' trade marks, due to the fact that Chinese enterprise frequently aim at excluding after-sales services and guarantees in exchange for discounts. In order to increase the predictability of this cost, Swedish enterprises discriminates Chinese customer, by restricting them geographically. Lack of communication further implies that Swedish enterprises often have to start with no brand recognition and zero good will.

In order to increase their competitive advantages in terms of predicting prices offered to final customers, Swedish enterprises conducts transfer price management. In terms of reducing costs in terms of **VAT** and duties, transaction prices are often set lower than actual. Yet, this may have complications in terms of customs valuation procedure.

⁹⁶ Ba, J., (2004-08-20)



6 Practical Conclusions and Suggestions

Trade between Sweden and China is in a dynamic phase and thus is expected to continue to increase. Trading with China requires participants to consider a number of cultural aspects, of which all have influence on the outcome of the trade. The majority of these cultural aspects derive from either one or both of the concepts of *face* and *guanxi*.

The trade transactions, in terms of Swedish trade with China, may be divided into the following six phases of the international trade chain, *pre-order*, *order*, *transport*, *cross-bordering*, *payment* and *post-sales*. In terms of Swedish trade with China, trade barriers can predominately be understood as activities which may be eliminated, reduced or conducted differently. Further, trade barrier may be found in each one of the above mentioned six phases. The activities which may be conducted differently, and do not involve interaction with governmental authorities, are the trade barriers which may be facilitated in the short-term perspective. It is hence the business society which may reap the greatest benefits of trade facilitation in the short-term perspective.

Trade facilitation is based on five principles, *transparency*, *consistency and predictability*, *non-discrimination*, *simplification*, and *due-process*. In each principle lies benefits to both business society and governmental authorities, and eventually also the final customer. All participants to trade should consider each principle, in their day-to-day business operations in order to grasp the benefits from trade facilitation. Based on the evaluation of empirical findings according to the five principles of trade facilitation, the following three issues are in need of acknowledgement by predominately business societies;

- **Lack of Trust**

Lack of trust between participants to trade is the origin of several burdensome restrictions, regulations and measures experienced by both governmental authorities and business society. Trust is increased through enhanced and continuous communication between all involved participants to trade, which will increase the understanding of motives behind above mentioned burdensome restrictions, regulations and measures,



which may in the extension result in improvements and positive development, i.e. document requirements may be reduced if the parties which sets them understands the consequence of them for parties dealing with them.

- **Trade Interactions**

The trade transaction becomes increasingly vulnerable as the involved interactions between participants increase. The aim should hence be to reduce these interactions to a minimum, which requires thorough evaluation of them. All non-value added interactions should thus be excluded from trade transactions. However, part of the interactions may not be excluded and therefore the participants to trade should especially evaluate their own internal interactions.

- **Cultural Aspects**

China offers a specific set of cultural framework of which many Swedish enterprises are not familiar with. In acknowledging the impact of the cultural aspects on the outcome of trade transactions, Swedish enterprises would have greater opportunities of succeeding in their trade related operations. In China, knowledge and willingness to adapt to culture, may serve as substitute to China's lack of market mechanisms to deal with trade. Business society may do this either by educating themselves of Chinese culture or to employ domestic labour which already possesses cultural knowledge.



7 Theoretical Development

This chapter serves to answer the fourth research question. As mentioned under heading 1.2, trade facilitation focuses on improvements in the efficiency of the processes associated with trading in goods across national borders. International trade, stressed in chapter 5, includes not only numerous procedures and activities but also numerous participants to trade. The research has been conducted as an exploratory and inductive study; therefore the fourth research question is placed in the end of the research. This chapter is an additional value added product to the empirical study.

7.1 Series and Parallel Conduct

In simplified terms international trade may be illustrated as in *figure 11*, where trade activities are symbolized by interactions between **participants C₁, C₂, and C₃** on one side and **participants A₁, A₂, A₃, A₄, and A₅** on the other, in trade transactions. **Participants C₁-C₃** are understood as trading enterprises, and **participants A₁-A₅** are understood as governmental authorities. If each interaction is conducted once the total amount of transactions is 15. As further mentioned in *chapter 5*, part of the interactions in international trade transactions are duplicative, which will multiply the total amount of interactions. One example is, as addressed under *heading 5.4.1.1*, when establishing business in China. Not only is an enterprise required to apply for a business license, but also to register the enterprise at various governmental authorities.

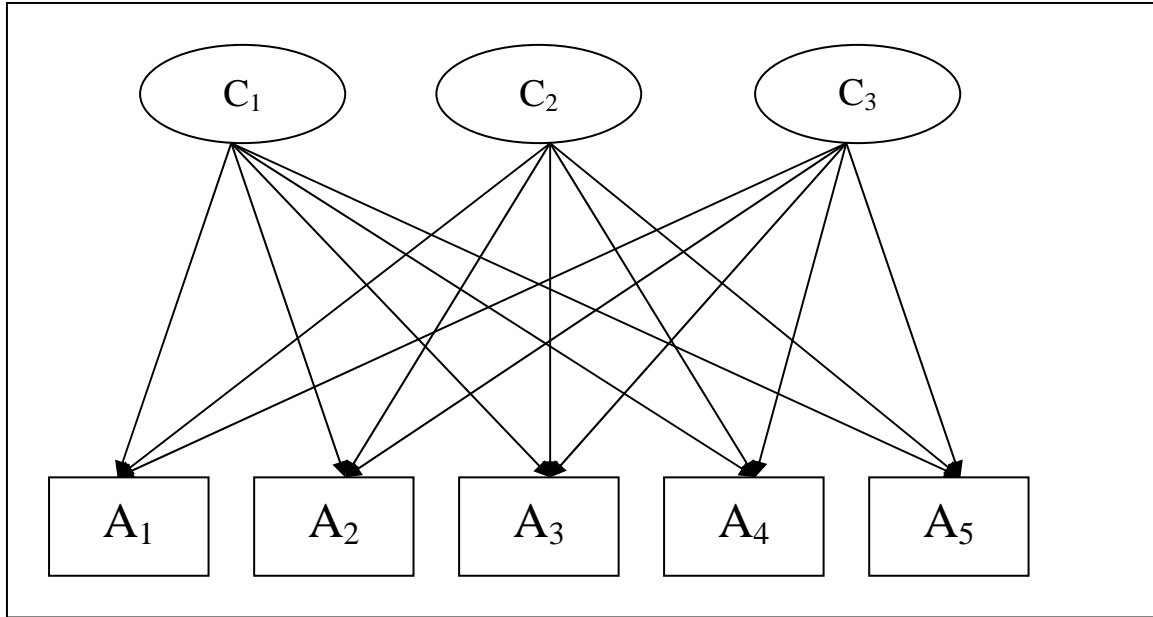


Figure 11 : Trade Interactions

Trade facilitation involves the improvements in efficiency of the interactions displayed in *figure 11*. Thus all measures which intend to reduce the interactions are in line with the concept of **trade facilitation**. The single window approach, further addressed in *appendix I*, is one measure which may be taken to achieve such results. It implies that all information is submitted once involving only one entry point. Simplified, the *single window* approach may be illustrated accordingly to *figure 12*.

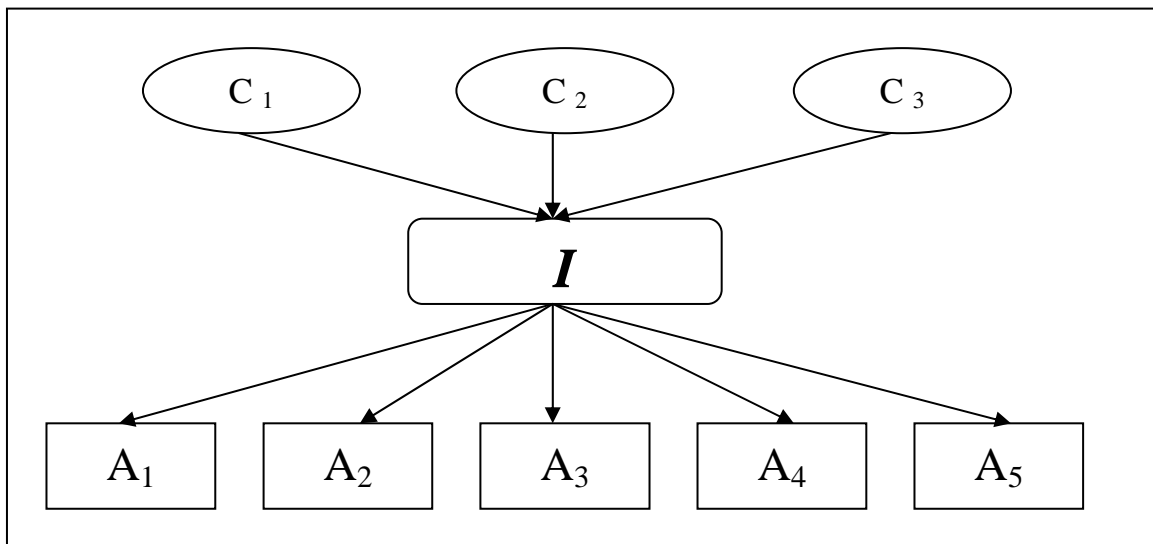


Figure 12 : Trade Interactions with a single window



In implementing a single window the interactions between the same participants as in *figure 11* may be significantly reduced as illustrated in *figure 12*. In assigning an intermediary to handle the interactions, they are almost reduced by half, including eight interactions. As mentioned in *chapter 5* there are far more participants to trade than five as illustrated in both *figures 11* and *12*, which imply that the interactions in practice are greater in numbers as well as more complex. One example of single window in China today is the customs brokers who act as intermediaries, when declaring customs for enterprises. Assuming that there are $C_1, C_2 \dots C_i$ enterprises and $A_1, A_2, A_3 \dots A_n$ governmental authorities involved in a trade transaction. In such transactions the *single window* approach would serve to save least $i \times n - (i + n)$ interactions.

Considering the time perspective of the interactions involved in *Figure 11* and *12*, some interactions are obliged to be managed in series, displayed in *Figure 13*. The total consumed time of the interactions is the sum of the time spent with each interaction. Additionally, the time consumed by each participant is not standardized and thus differs, which implies that it is difficult to predict the exact total consumed time for all the interactions. In using the same example as before, when establishing business in China, each governmental authority requires authorization by the previous one, which increases the total consumed time.

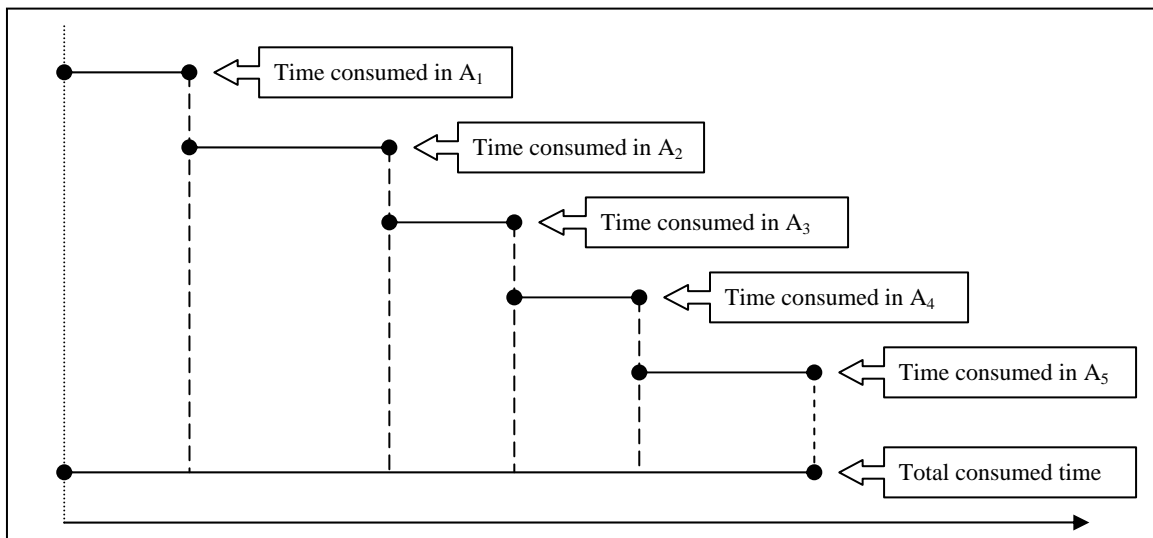


Figure 13 : Interactions conducted in series



The total consumed time may be shortened either by excluding interactions or reducing the time spent on each interaction. If all participants are necessary to the outcome of the trade transaction, any attempt to reduce the total consumed time for each interaction, may only be reduced by reducing the time consumed for each interaction. Therefore, as illustrated in *Figure 14*, the aim should be to handle the interactions not in series but in parallel. Chinese customs offer several opportunities to conduct parallel interactions, i.e. pre-shipment inspections, valuation of declared prices prior to arrival, risk assessment of documents prior to arrival, etc.

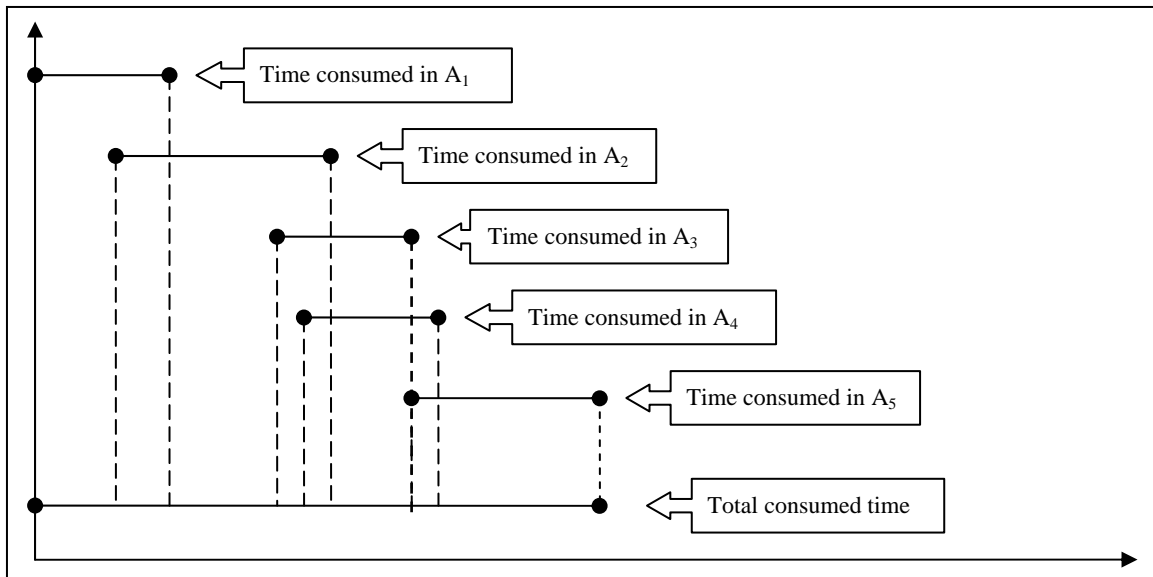


Figure 14 : Interactions conducted in parallel

In order to avoid handling the interactions in series, the parallel approach implies that one interaction may start prior to the termination of the previous one. The result is that the total consumed time is shortened and that resources may be relocated for other value adding activities. However, it requires the independence of each interaction and implemented communication channels. What is optimal is if all interactions can start simultaneously without time wasted in waiting. As shown in *Figure 15*, such a scenario would shorten the total consumed time dramatically since the total time consumed will be equal to the longest time consumed by one participant. In combination with a *single window*, displayed in *Figure 12*, this approach may be implemented through providing the intermediary with all the necessary information, which may be distributed to the participants simultaneously. This, in the extension, enables participants to start processing the interactions immediately upon receipt



of information. Additionally, it may also decrease the deviation which would enhance the predictability, potentially doing away with some expenses. In practice, such a scenario is extremely rare, due to difficulties in separating interactions from the underlying goods.

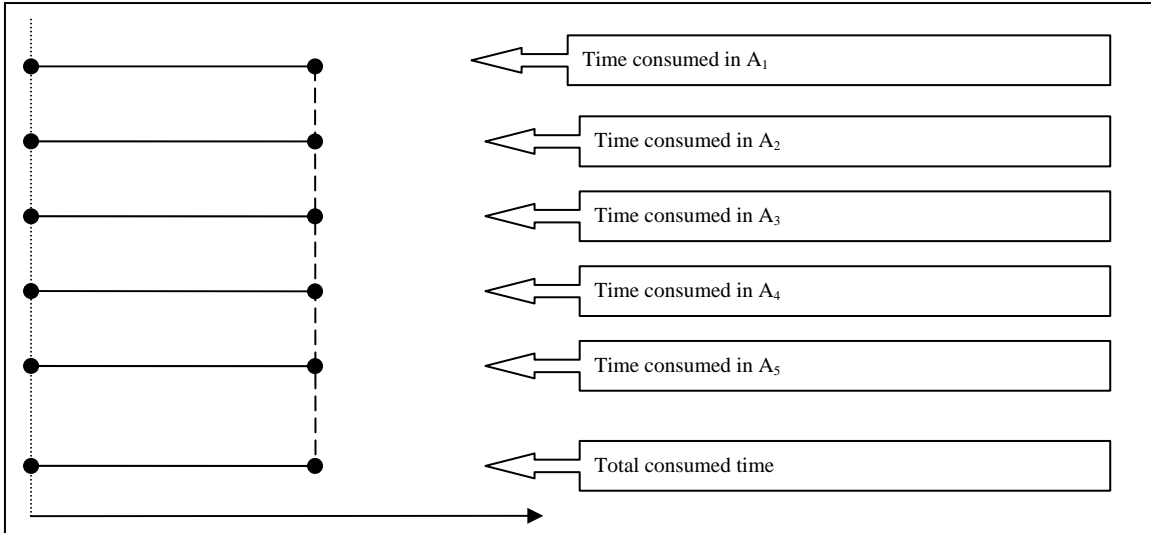


Figure 15 : Optimal conduct of interactions

Not only time may be reduced from conducting interactions in parallel instead of series, but also costs. In theory when operating the interactions in series, each participant will have the burden of costs and added profit margins, from the previous ones, displayed in *formula 1*. This implies that the total cost will exponentially increase by the number of participants conducting interactions. *A practical example of this may be when enterprises are required to present certificate of origin. The cost of this documents and cost of potential implications of obtaining it as well as the enterprise’s profit margin, will be transferred to the receiver of the document, e.g. import agents or customs brokers etc. The receivers’ costs added with the costs or the issuing enterprises, will eventually be transferred to the final customer along with the receivers’ profit margins.* The assumptions in *formula 1* are **(n)** = the number of participants in the transaction, **(z)** = the average level of profit margin added by the participants, **(x)** = the average direct cost of the activities conducted by the participants, **(y)** = the average indirect cost of the activities in the transaction.

$$\sum_{k=0}^{n-1} (1+z)^{n-k} (x+y) = (1+z)^n (x+y) + (1+z)^{n-1} (x+y) \dots (1+z)(x+y)$$

Formula 1 : Series conduct of interactions formula



The average profit margin level will multiply by itself for each participant added to the transaction. In assuming that there are ten participants in a transaction and that the average level of profit margin is 2%, and that the direct cost is 75 **SEK** and indirect cost is 25 **SEK**. This implies that the original cost will be increased by more than 11 times, when it leaves the tenth participant, based on calculations in *appendix II*. The costs will be reduced if conducted in parallel, based on *formula 2*. Parallel conduct implies that each interaction is independent, and that the costs are thus not based on the costs for other participants. According to calculations in *appendix II*, based on the same assumptions as for *formula 1*, the costs would decrease by 8.7%. The cost savings to enterprises are three times the profit margins. *In using the same practical example as mentioned above, parallel conduct would imply that the document is issued in China and directly distributed to all involved participants.*

$$\sum_{k=1}^n (1+z)(x+y) = n(1+z)(x+y)$$

Formula 2 : Parallel conduct of interactions formula

The calculations in *appendix II* further shows that the cost saving of conducting interactions in parallel, will continuously exponentially increase as participants in the transaction increase. Thus, the incentives are to keep the participants in the trade at a minimum or to increase the conduct of parallel operations. As mentioned under *heading 5.3* the estimated costs of not conducting trade facilitation measures are 2-15% of the transacted value, where trade facilitation may reduce this cost by one quarter. Trade facilitation primarily addresses the indirect costs (**y**), which are added by not implementing facilitated measures. The direct costs (**x**) may only be reduced by eliminating the participant or activity from which they originate. Yet, if excluding the entire indirect cost, the proportion of the cost saving between the series and parallel conduct, will not change. Therefore, this even further stresses the importance of reducing the amount of participants in the transaction, which is the only measure which will decrease trade related costs.

7.2 Separation of Marketing and Logistics Channels

When humans first started conducting international trade it was based on basic principles. In the sacrifice of possessive rights of a product, a participant retrieved added value from the product received in return. Thus it was merely a matter of exchanging ownership. Such transaction is displayed in *figure 16*, which additionally shows that the information flow is restricted to only **participant A** and **B**. In case **participant A** does not possess the product required by **participant B**, the previous first has to exchange its product with a third party. Still it is merely a matter of two-part transactions.

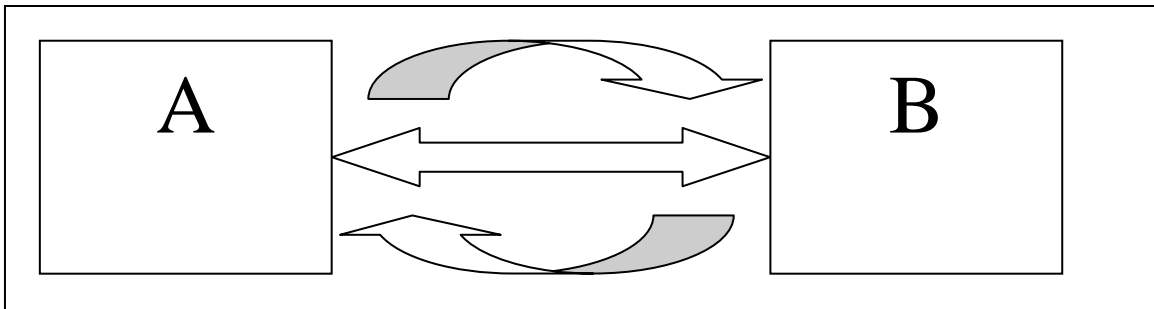


Figure 16 : Conventional trade flows

In including currency in the scenario displayed in *figure 16*, the transaction becomes more direct yet also increasingly complex, as illustrated in *figure 17*. By involving currency in the scenario, **participant A** no longer needs to exchange its product with a third party, if lacking of the product wanted by **participant B**. **Participant A** may exchange an amount of currency for **participant B's** product. Thus, the involvement of currency serves to make the trade flows more direct. Still, the involvement of currency may require the involvement of external participants, i.e. financial institutes, etc., which increase the complexity of the trade transaction. Furthermore, the implementation of currency in the transaction has increased the requirements on the information flow.

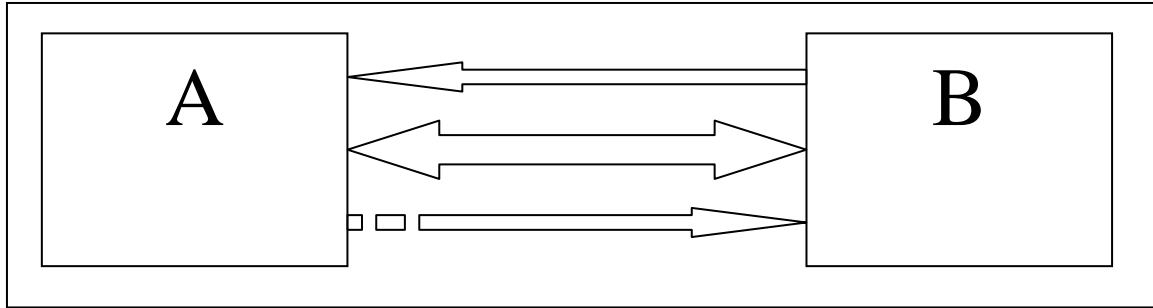


Figure 17 : Trade flow including currency

The basic principle of international trade, to exchange ownership, has not changed with the implementation of currency. Each transaction still requires two inputs, where currency is one and a product the other. In modern trade, currency is involved in almost every transaction. The next step to trade was when product was not found in the participants' surrounding area. The participants hence had to look for the product on other markets, which founded the basic principle of international trade. Such transactions require the involvement of additional external participants; mentioned in *chapter 5*, i.e. *governmental authorities, transport service providers, financial institutes, insurance enterprises*, etc. All involved participants in trade may be categorized into either the **marketing** or the **logistics channel**, illustrated in *figure 18*. The **marketing channel** consists of the immaterial flow of the transaction and the **logistics channel** the physical flow. In simple terms it may thus be claimed that the **marketing channel** deals with the input of currency and the **logistics channel** the input of product.

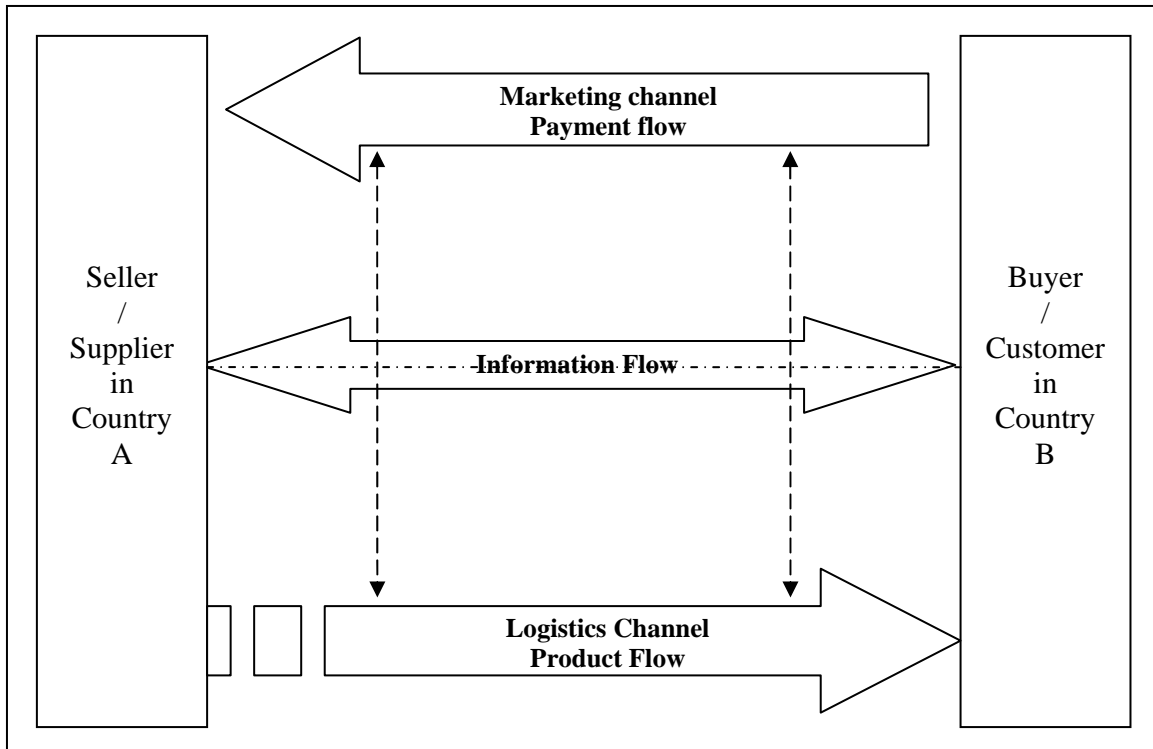


Figure 18 : Separation of marketing and logistics channels

Not only the participants to trade may be divided into the channels displayed in *figure 18* but also their interactions. Still, part of the activities involves both channels. The channels are interdependent and thus, based on the trade activities in *chapter 5*, impediments in one channel may have consequences on the other. One example is the handling of documents, which belongs to the *marketing channel*, but will have consequences in the *logistics channel*, if they contain discrepancies and the products are not accepted by either the transport service provider or Chinese customs. Hence, the time dimension of the *marketing channel* has direct impact on the efficiency and effectiveness in the *logistics channel*. In separating the two channels, they may both proceed without risk of being hindered by one another, as illustrated in *Figure 19*. Thus, the ideal scenario is when the product may be moved from **country A** to **B**, with the shortest lead-time and lead-time variation. This will increase the participants' consistency and predictability which will reduce trade related costs. The interactions in the *marketing channel* should be operated as parallel as possible as shown in *Figure 15*, where the activities are operated simultaneously.

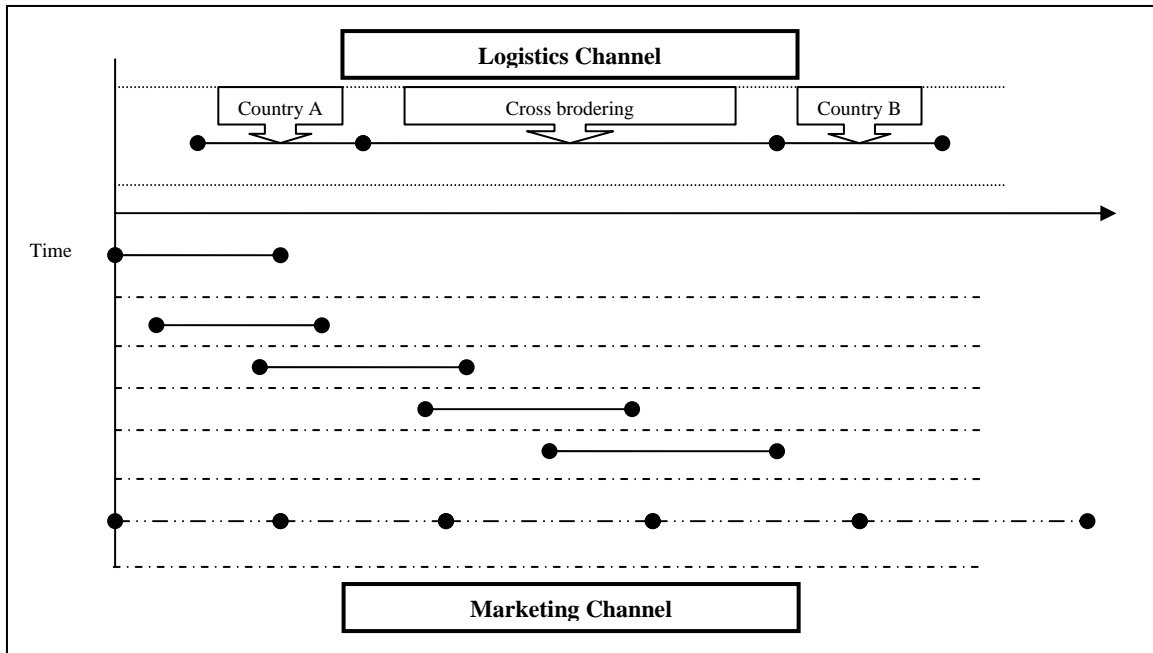


Figure 19 : Activities of the marketing and logistics channels from a time perspective

Enhanced consistency and predictability, as mentioned, will decrease the lead-time uncertainty, which will result in decreased safety stock, as illustrated in *figure 20*. High lead-time uncertainty leads to high safety stock or costly stock-outs. In case the supply goes directly into the enterprise's production process, lead-time uncertainty leads to higher costs of production changes or production stops. There are great potentials for reducing logistics costs and improving logistics customer service in international trade. In theory the recommendations are simple, reduce lead-times and make the demand more predictable in terms of reducing lead-time uncertainty.

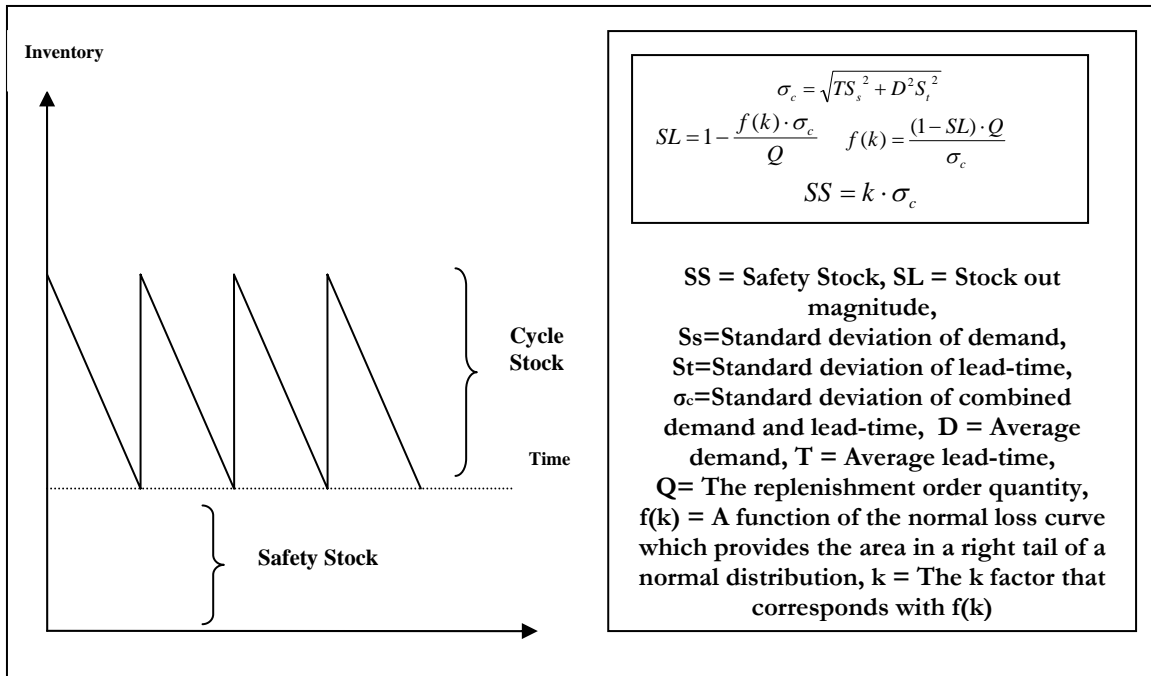


Figure 20 : Base stock system

The impacts of trade facilitation on costs and customer service in logistics channel will increase both its efficiency and effectiveness through reducing inventory costs, reducing costs of stock outs and lost sales and improving customer goodwill, reducing manufacturing costs, reducing transportation costs by making modal shifts possible (from air to sea and from road to rail etc.) It also means there is no need for emergency transport by air or etc, improving load carrier utilisation, for example of containers, reducing costs of packaging and obsolescence and reducing the number of stock points in logistics chains.

The **Matthew effect** is a phenomenon in modern business which implies that one's accomplishments and reputation tend to snowball, and those with meagre accomplishments have greater difficulty achieving accomplishments. This may imply that not all participants have the same possibilities to separate the two channels. The direct consequences of separating the **marketing** and **logistics channel** are, as mentioned, improved *consistency and predictability*, but also improved *transparency, non-discrimination, simplification* and *due process*. Thus, such a measure is aligned with the principles of **trade facilitation**. Increased *transparency* enhances the information flow from both channels, and thus enables participants to make informed decisions, which also improves the *due process* since it facilitates determining which



participant is to blame for impediments. In improving *non-discrimination* all involved participants may operate equally, which increases the *consistency and predictability* of the trade flow. The improved *simplification* leads to elimination of unnecessary procedures and formalities related to import, export and transit of consignments in the ***logistics channel*** and reduced document requirements in the ***marketing channel***.



8 References

Literature

- Bowersox, et al., 2002, *Supply Chain Logistics Management*, McGraw-Hill
- Branch, A., 2000, *Export Practice and Management*, 4th edition, Thomson
- Button, K., 1993, *Transport Economics*, Second Edition, Edward Elgar Publishing Limited
- Coyle, et al., 1999, *Transportation*, 5th edition, South Western College Publishing
- El-Ansary, et al., 2001, *Marketing Channels USA*, Prentice Hall
- Fang, T., 1999, *Chinese Business Negotiation Style*, Sage Publications, Inc.
- Gill, et al., 1997, *Research Methods for Managers*, Second Edition, Paul Chapman Publishing Ltd.
- Grath, A., 1995, *Företagets utlandsaffärer – betalning, valuta och finansiering*, Förlags AB Industrilitteratur
- Green, et al., 1978, *Research for Marketing Decisions*, Paul Chapman Publishing Ltd.
- Guan, et al., 2002, *Guidelines to Chinese Customs*, Chinese Customs Press
- Jensen, A., 1987, *Combined Transport*, University of Gothenburg
- Kotler, et al., 1999, *Principles of Marketing*, 2nd edition, Prentice Hall Inc.
- Kvale, S., 1996, *Interviews: An Introduction to Qualitative Research Interviewing*, SAGE Publication, Inc.
- Lumsden, K., 1998, *Logistikens Grunder*, Studentlitteratur Lund
- Mankiw, G., 1997, *Principles of Economics*, The Dryden Press
- Mankiw, N., 1997, *Macroeconomics*, Worth Publishers
- Mattsson, S.A., 2000, *Embracing Change Management Strategies in the e-economy Era*, Intenia International
- Selmer, J., 1997, *Vikings & Dragons*, Signal Printing Company
- Venedikian, et al., 2000, *Global Trade Finance*, John Wiley & Sons, Inc
- Widersheim, et al., 1997, *Att Utveckla Forska och Rapportera*, Lieber Förlag
- Wood, D., 1995, *International Logistics*, Kluwer Academic Publishing
- Yin, R., 1994, *Case Study Research*, SAGE Publication, Inc.

Journals and Articles

- American Chambers of Commerce PRC, 2003, *White Paper American Business in China*
- Barck-Holst, C., 2004, *Kinas Kapitalmarknader*, Sveriges Ambassad I Peking
- European Commission, 2004, *Database regarding Market Access Sector and Trade Barriers*, Directorate-General for Trade
- Hammer, M., 2001, *The Super Efficient Company*, Harvard Business School Corporation
- Hellvin-Stålgren, L., 2004, *OECD Economic Outlook Nr 75 2004 – Sammanfattning av prognoserna för Japan, Sydkorea, Australien, Nya Zeeland och Kina*, Regeringskansliet, Utrikesdepartementet
- Hellvin-Stålgren, L., 2004, *Vilka är de globala effekterna av Kinas höga tillväxt?*, Regeringskansliet, Utrikesdepartementet
- ICC, 1999, *Trade Liberalization, Foreign Direct Investment and Customs Modernization: A Virtuous Circle*



- ICC, 2002, *Regional Trade Agreements and the Multilateral Trading System*
- ICC, 2003, *Business and the Global Economy*
- ICC, 2004a, *Globalization is Narrowing the Poverty Gap*
- ICC, 2004b, *Recommendations for WTO Negotiations on Transparency in Government Procurement*
- Jonsson, E., 2003, *Trender i den ekonomiska utvecklingen i Asien*, Regeringskansliet, Utrikesdepartementet
- Keen, M., 2003, *Challenges and Strategies for the Reform of Customs Administration*, IMF
- Kiepels, C., 2004, *Jakt på nya handelsvägar*, Göteborgs Posten
- Kleen, P., 2002, *Trade Facilitation – Impact and Potentials*, Swedish National Board of Trade
- Kleen, P., 2003, *Trade Facilitation from a Developing Country Perspective*, Swedish National Board of Trade
- Lascoux, J., 2003, *Country Presentation China, Financing Trade and Investments in China*, SEB Merchant Banking
- Livanos Cattai, M., 2001, *Developing countries are key to a successful new trade round*
- OECD, 2002, *Business Benefits of Trade Facilitation*
- OECD, 2003a, *Anti-Bribery Laws Spotlighted in 13 OECD Countries*
- OECD, 2003b, *Event in China on Intellectual Property Rights*
- OECD, 2003c, *Trade Facilitation: The Benefits of Simpler, more Transparent Border Procedures*
- OECD, 2003d, *Quantitative Assessments on the Benefits of Trade Facilitation*
- OECD, 2004, *Guidelines for establishing single window*
- Pagrotsky, L., 2004, *Konkurrenskraften stärks*, Göteborgs Posten
- Pagrotsky, L., et al, 2003, *Stop the hold-ups at the border – making trade easier*, International Herald Tribune
- STI Working Paper, 2004, *An Emerging Knowledge-Based Economy in China?*
- Swiss Bank Corporation, 2001, *Documentary Credits A practical Guide*
- UN/CEFACT, 2004, *Enhancing the efficient exchange of information between trade and government*
- UNECE, 2001, *International Forum on Trade Facilitation*
- Widell, et al., 2003, *Kina som medlem i WTO – 18 månader efter anslutningen*, Swedish National Board of Trade
- Widman, E., 2004a, *China Business Climate Report: Swedish investments larger than previously known, but 2 out of 3 Swedish Companies face trade and investment barriers*, Sveriges Ambassad i Peking
- Widman, E., 2004b, *Kinas ekonomi 2003: Hög tillväxt och nya utmaningar*, Sveriges Ambassad i Peking
- Widman, E., 2004c, *Kinas ekonomi första kvartalet 2004: Överbettningens vägval*, Sveriges Ambassad i Peking
- Widman, E., 2004d, *Kinas finansiella sektor: en överblick*, Sveriges Ambassad i Peking
- World Bank, 2002, *Economic Development and Trade Facilitation*
- Yu, Q., 2004, *To foster Charisma of port environment*, Newspaper of shipping transaction

Internet

www.ccic.com

www.chinatax.gov.cn

www.ciq.com.cn

www.cnca.gov



www.cqc.com.cn
www.customs.gov.cn
www.euccc.com.cn
www.eureu.com
www.fdi.gov.cn
www.findarticles.com
www.fmprc.gov.cn
www.gao.org
www.gfptt.org
www.iccwbo.org
www.imf.org
www.kommers.se
www.mamma.com
www.marketingchannels.com
www.mofcom.gov.cn
www.oecd.org
www.pbc.gov.cn
www.retailforward.com
www.safe.gov.cn
www.scb.se
www.sdpc.gov.cn
www.swedemb-cn.org.cn
www.swedishtrade.se
www.tradeeasy.se
www.tullverket.se
www.unece.org
www.ustr.org
www.volvo.com
www.wcoomd.org
www.worldbank.org
www.wto.org
www.xinhuanet.com



Interviews

- Andersson, A-M.**, (2004-10-21), Financial Manager, *Modul Service AB*, Älmhult
- Arvidsson, B.**, (2004-10-21), Transport Purchaser, *Modul Service AB*, Älmhult
- Arvidsson, K.**, (2004-07), Continuously, Chief Representative Shekou Office, *Modul Service AB*, Shenzhen
- Ba, J.**, (2004-08-20), Chief Representative, *Renluftsteknik AB*, Beijing
- Bergqvist, B.**, Continuously, Phd Student, School of economics and commercial law, Gothenburg University
- Biveby, A.**, (2004-09-17 and 10-08), *Volvo Truck Corporation*, Beijing
- Cai, Z.**, (2004-09-15), Manager at Customer Service Division, *China Merchants Bank*, Shenzhen
- Carlsson, S.**, (2004-07), Continuously Operation Manager, *IKEA Trading (Hong Kong) Ltd.*, Shenzhen,
- Chan, P.**, (2004-08-24), Senior Vice President, *ABB*, Beijing
- Chang, T.**, (2004-07), Continuously, Delivery Planner Shekou Office, *Modul Service AB*, Shenzhen
- Chen, E.**, (2004-08-12 and 09-24), Representative, *Skandinaviska Enskilda Banken Rep. Office*, Beijing
- Chen, F.**, (2004-08-18), Managing Director and CEO, *Penta Global Logistics*, Beijing
- Chen, M.**, (2004-08-25 and 09-20), Customs Specialist, *Hua Wo Truck Corporation*, Jinan
- Chen, Y.**, (2004-08-18), Assistant to General Manager, *Swedish Chamber of Commerce*, Beijing
- Cui, H.**, (2004-08-26), Deputy Manager Product & Production, *Volvo Truck Corporation*, Beijing
- Ericson, H.**, (2004-08-17), CFO, *Volvo Car Corporation*, Beijing
- Ericsson, D.**, (2004-08-23 and 09-21), General Manager, *Hua Wo Truck Corporation*, Jinan
- Eriksen, E.**, (2004-04-26), Area Manager, *Penta Global Logistics*, Gothenburg
- Fel, L.**, (2004-09-24), Analytic Officer, *European Commission*, Beijing
- Gao, L.**, (2004-09-05), Director of Investment and Promotion Division, *Shenzhen Bureau of Trade and Industry*, Shenzhen
- Hakansson, B-M.**, (2004-12-01), Area Manager, *VFS International AB*, Gothenburg
- Hammarberg, P.**, (2004-08-22), CFO, *Sandvik*, Beijing
- He, M.**, Continuously, Professor, Business School, Beijing Technology and Business University
- He, S.**, (2004-08-26), Logistics Manager, *Volvo Truck Corporation*, Beijing
- He, W.**, (2004-09-07), Section Chief, *Processing Management Division Shenzhen Customs District*, Shenzhen



- Huang L.**, (2004-09-12), Vice President, *Shenzhen Customs Broker Association*, Shenzhen
- Huo**, (2004-11-15), Director of Tax Office, *Tianjing Customs*, Tianjing
- Husemoen, J.**, (2004-08-26), Senior Vice President and CFO, *Ericsson*, Beijing
- Jardevi, I.**, (2004-10-21), Credit Manager, *Modul Service AB*, Almhult
- Jensen, A.**, Continuously, Professor, School of economics and commercial law, Gothenburg University
- Jeppsson, S.**, (2004-09-09), Chief Representative, *Nordmetal*, Shanghai
- Jiang, I.**, (2004-09-13), Senior Associate, *Boss & Young*, Shanghai
- Johansson, B.**, (2004-09-21), Area Manager, *Volvo Truck Corporation Thailand*, Jinan
- Johansson, M.**, (2004-12-02), Financial Department, *Elof Hansson AB*, Gothenburg
- Johansson, V.**, (2004-09-10), President, *Volvo Logistics East Asia*, Shanghai
- Jonsson, M.**, (2004-10-21), Logistics Manager, *Modul Service AB*, Shanghai
- Kristiansson, T.**, (2004-09-20), Production Support, *Hua Wo Truck Corporation*, Jinan
- Li, H.**, (2004-07), Continuously, Purchaser Shekou Office, *Modul Service AB*, Shenzhen
- Li, Y.**, (2004-09-21), Deputy General Manager, *Hua Wo Truck Corporation*, Jinan
- Lindblad, G.**, (2004-09-10), Sales Manager, *Elof Hansson AB*, Shanghai
- Liu, Y.**, (2004-07), Continuously, Delivery Planner Shekou Office, *Modul Service AB*, Shenzhen
- Liu, Z., M., M.**, (2004-09-07), Chief Representative, *Swedbank Rep. Office*, Shanghai
- Orberg, S.**, (2004-11-30), Global Manager Trade Finance, *SEB*, Gothenburg
- Peng, H.**, (2004-09-07), Deputy Director, *Processing Management Division Shenzhen Customs District*, Shenzhen
- Peng, T.**, (2004-08-15), Export Director, *Zhongqiao Hardware & Electrical Appliance Manufacturing Co., Ltd.*, Shenzhen
- Peterson, J.**, (2004-09-06), Vice President, *EF*, Shanghai
- Rao, L.**, (2004-09-07), Deputy General Manager, *Rui Shenghang (Raising-hong)*, Shenzhen
- Rosta, P.**, (2004-08-12 and 09-24), Commissioner Counsellor, Head of Trade Office, *Swedish Embassy Trade Office*, Beijing
- Runhagen, P.**, Market Executive China, *Volvo Truck Corporation*, Gothenburg
- Smedberg, U.**, (2004-09-08), *IKEA*, Shanghai
- Song, G.**, (2004-08-25), Policy Research Department, *MOFCOM*, Beijing
- Sorquist, M.**, (2004-12-02), Export Assistant, *Elof Hansson AB*, Gothenburg
- Stenberg, O.**, (2004-12-02), Vice President Trade Finance, *Elof Hansson AB*, Gothenburg
- Sternsjo, T.**, (2004-11-18), Managing Director, *SAPA Heat Transfer (Shanghai) Ltd.*, Shanghai
- Sun, X.**, (2004-11-18), Import/ Export Specialist, *SAPA Heat Transfer (Shanghai) Ltd.*, Shanghai



- Sundqvist, P.**, (2004-08-24), CFO, *Hua Wo Truck Corporation*, Jinan
- Tang Qizhen, E.**, (2004-09-13), Purchasing Manager, *BILTEMA*, Shenzhen
- Thorén, A.**, (2004-09-08), Area Manager, *Gambro*, Shanghai
- Tong, G.**, (2004-09-08), Warehouse Manager, *Sandvik*, Shanghai
- Uusmann, R.**, (2004-11-30), *SEB*, Gothenburg
- Villanueva Engstrom, J.**, (2004-08-17), Chief Representative, *Nordea Rep. Office*, Beijing
- Wang, G.**, (2004-08-15), Sales Executive, *NYK Line (China) Co., Ltd.*, Shenzhen
- Wang, J.**, (2004-07), Continuously, Business Developer Shekou Office, *Modul Service AB*, Shenzhen
- Wang, J.**, (2004-08-26), Chief Representative, *Svenska Handelsbanken Rep. Office*, Beijing
- Wang, K.**, (2004-08-25 and 09-20), Accountant, *Hua Wo Truck Corporation*, Jinan
- Wang, K.**, (2004-08-27), Division of Trade in Goods at WTO Affaires Department, *MOFCOM*, Beijing
- Yang, W.**, (2004-07), Continuously, Deputy Process Owner Shekou Office, *Modul Service AB*, Shenzhen
- Yuan, D.**, (2004-08-25 and 09-20), Logistics Manager, *Hua Wo Truck Corporation*, Jinan
- Zhang, H.**, (2004-07), Continuously, Supply Planner Shekou Office, *Modul Service AB*, Shenzhen
- Zhang, R.**, (2004-09-13), QA Engineer, *IKEA*, Shanghai
- Zhang, Y.**, (2004-07), Continuously, Delivery Planner, Shekou Office, *Modul Service AB*, Shenzhen

Appendix I

Single Window

A single window can simplify and facilitate, to a considerable extent, the process of providing and sharing the necessary information to fulfil trade-related regulatory requirements for both trader and authorities. The use of such a system can result in improved efficiency and effectiveness of official controls and can reduce costs for both governments and traders due to better use of resources.⁹⁷

The benefits for governments is that it can lead to a better combination of existing governmental systems and processes, while at the same time promoting a more open and facilitative approach to the way in which governments operate and communicate with business. Risk management techniques for control and enforcement purposes can also be enhanced through a Single Window facility that collects all data in a systematic way, resulting in more secure and efficient trade procedures. Further, the implementation of a payment system within a Single Window ensures rapid and accurate payment to governmental authorities and agencies for required duties and any other charges. A single window that provides up-to-date information regarding tariff rates and other legal and procedural requirements will reduce any unintentional errors and increase trader compliance. In addition, the collection and co-ordination of the required information and trade documentation, through a Single Window will reduce the use of both human and financial resources, enabling governments to re-deploy resources previously used for administrative tasks to areas of greater concern and importance.⁹⁸

The main benefit for the trading community is that a Single Window can provide the trader with a single point for the one-time submission of all required information and documentation to all governmental agencies involved in export, import or transit procedures. As the Single Window enables governments to process submitted information, documents and fees both faster and more accurately, traders should benefit from faster clearance and release times, enabling them to speed up the supply chain. In addition, the improved

⁹⁷ OECD, (2004)

⁹⁸ Ibid.

transparency and increased predictability can further reduce the potential for corrupt behaviour from both the public and private sector. If the single window functions as a focal point for the access to updated information on current trade rules, regulations and compliance requirements, it will lower the administrative costs of trade transactions and encourage greater trader compliance.⁹⁹

Although many business and trade practices are common to all countries, each country will also have its own unique requirements and conditions. A single window should represent close cooperation between all involved governmental authorities and agencies, and the trading community. A single window does not necessarily imply the implementation and use of high-tech information and communication technology.¹⁰⁰

The three basic models for the Single Window are¹⁰¹:

- A single authority that receives information, either on paper or electronically, disseminates this information to all relevant governmental authorities, and coordinates control to prevent undue hindrance in the logistical chain.
- A single automated system for collection and dissemination of information that integrates the electronic collection, use, and dissemination of data related to trade that crosses the border.
- An automated information transaction system through which a trader can submit electronic trade declaration to the various authorities for processing and approval in a single application. In this approach, approvals are transmitted electronically from governmental authorities to the trader's computer.

The lead agency must be a very strong organisation with the necessary vision, authority, political backing, financial and human resources and interfaces to other key organisations. Customs or port authorities can be the agency best suited to lead a single window

⁹⁹ OECD, (2004)

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

development and implementation. They can also be the entrance points to receive and coordinate the flow of information related to the fulfilment of all cross-border regulatory requirements.¹⁰²

The Swedish Single Window system, known as VCO (The Virtual Customs Office), allows for electronic Customs declarations and application for import and export licenses and licenses for strategic products. It can be integrated into the traders business system and can automatically update changes in exchange rates, tariff codes and duty rates. The Single Window also includes all trade-related regulations and can provide traders with automated updates on changes via Internet and/ or SMS-services. The VCO also offers interactive training courses and the possibility to customize and create personal virtual customs offices, which contain all information and processes that each trader uses and finds relevant to its needs and wants. Import and export declarations can be processed both via Internet and EDIFACT. All services are pooled on a single VCO web page. The information and procedures on the VCO supports ten different languages. The system currently involves the Swedish Customs, the Swedish Board of Agriculture, the National Board of Trade, the National Inspectorate of Strategic Products and the Police. The Customs have simultaneously been able to cut costs, increase the efficiency of internal procedures and relocate resources to core activities. The system is fully financed by government funds and all services are free of charge.¹⁰³

¹⁰² OECD, (2004)

¹⁰³ *Ibid.*

Appendix II

Statistic Comparison of Series and Parallel Operations with different Average Profit Margins

Participants	Series (2%)	Parallel (2%)	Series (10%)	Parallel (10%)
0	100	100	100	100
1	102	102	110	110
2	206	204	231	220
3	312	306	364	330
4	420	408	511	440
5	531	510	672	550
6	643	612	849	660
7	758	714	1044	770
8	875	816	1258	880
9	995	918	1494	990
10	1117	1020	1753	1100
11	1241	1122	2038	1210
12	1368	1224	2352	1320
13	1497	1326	2697	1430
14	1629	1428	3077	1540
15	1764	1530	3495	1650
16	1901	1632	3954	1760
17	2041	1734	4460	1870
18	2184	1836	5016	1980
19	2330	1938	5627	2090
20	2478	2040	6300	2200
21	2630	2142	7040	2310
22	2784	2244	7854	2420
23	2942	2346	8750	2530
24	3103	2448	9735	2640
25	3267	2550	10818	2750
26	3434	2652	12010	2860
27	3605	2754	13321	2970
28	3779	2856	14763	3080
29	3957	2958	16349	3190
30	4138	3060	18094	3300

n 30 Participants
x 75 Average Direct Cost
y 25 Average Indirect Cost
z1 2% Average Profit Margin
z2 10% Average Profit Margin

