Rebalancing the Economy: Practical Ways That China Can Increase Imports and Boost Consumption
July 2013

Executive Summary
In recent years, China has established a clear goal to rebalance its economy through increasing imports and growing domestic demand. In line with those objectives, the US-China Business Council (USCBC) has developed this paper to identify sector-specific recommendations government officials may consider to achieve these goals. The report covers five issue areas—consumer goods imports, customs procedures, meat imports, the China Compulsory Certificate (CCC) mark system, and advanced agricultural products, including genetically modified organisms (GMOs). In each area, USCBC has offered suggestions to make importing easier, including:

- Lowering or eliminating import and consumption tariffs on high-end consumer goods, while engaging foreign stakeholders on tax and tariff considerations about these products to fully evaluate the impact of policy and tax decisions.
- Establishing a de minimis value threshold in line with international levels, and bringing Chinese customs standards in line with international customs standards to facilitate trade.
- Lifting restrictions on imports of US beef and certain poultry, and aligning domestic standards on ractopamine levels with international standards.
- Eliminating duplicative procedures in China’s conformity assessment system, and complying with a commitment made at the 2012 US-China Joint Commission on Commerce and Trade to allow qualified foreign-invested certification and testing organizations to conduct testing for the CCC mark in China.
- Allowing for concurrent approval for advanced agricultural products, including GMOs; eliminating the zero-tolerance policy and implementing international best practice by establishing a science-based threshold for low-level presence of GMO imports.

Incorporating these recommendations will assist policymakers in achieving their objective to boost imports, while strengthening the overall economy and broadening consumer choice and consumption nationwide.

Introduction
Imports are a vital component to strong global economies. They expand individuals’ choices in the market, and introduce healthy competition by encouraging domestic companies to become more efficient and innovative by competing with a wider array of technologies and products.

For China, increasing imports remains a primary objective—one that prominent leaders have underscored time and again in public statements and key policy documents. In May 2012, the State Council issued guidelines to increase imports by “further [improving] the structure of imports and … [importing] more advanced
technological equipment, important parts and raw materials and appropriately broadening its imports of consumer goods.”¹

Increasing the availability of imported products can benefit China’s economy in a number of ways, including by:

- Giving China’s consumers and companies access to higher quality products at lower prices, thus supporting the growth of China’s consumer economy;
- Spurring innovation and creativity in the broader economy through fair competition; and
- Rebalancing China’s economy to promote more sustainable growth by reducing dependency on exports.

To achieve the stated policy goal of increasing domestic consumption, China can continue its efforts to increase imports and work with foreign governments to promote exports from their countries into China. At the same time, there are also opportunities for some regulatory changes that can boost imports. Currently, in some sectors, Chinese companies and consumers face restrictions and other practical barriers that make it difficult to buy imported products. Sectors impacted by these barriers vary widely and include retail, agriculture, express delivery, and testing and certification. Reducing these barriers would allow more high-quality goods to reach Chinese consumers and would ultimately put China on a more sustainable path to economic growth and development.

Based on conversations with members in a range of sectors, the US-China Business Council (USCBC) has developed this paper to provide examples of sectors in which reforms would be particularly beneficial to help China increase imports. USCBC has also offered recommendations for China’s policymakers to consider as they formulate commercial policies and regulations related to imports in the years to come.

Lower Tariffs on Imported Consumer Products

China maintains high tariffs and consumption taxes on many imported high-end consumer products, such as jewelry, cosmetics, and certain motor vehicles. These tariffs and taxes often price items at nearly double what they would cost overseas, resulting in prohibitively costly products for Chinese consumers.

Higher prices on these consumer goods have several negative effects on China’s market. High prices lead domestic retailers to import less of these products, resulting in decreased domestic consumption and potential shortages of in-demand products in China. High costs do not, however, dampen demand for these products; instead, Chinese consumers are forced to go abroad to make these purchases. As a result, analysts estimate that nearly half of all higher-end goods purchased by Chinese consumers occur overseas. China loses valuable tax revenue because of consumers’ overseas purchases, while other nations with lower tax and tariff rates benefit from the increased consumer spending.

In 2011, China’s Ministry of Commerce (MOFCOM) found that prices of 20 brands—from watches to suitcases to clothes—were nearly 45 percent higher in China than in Hong Kong, 51 percent higher than in the United States, and 72 percent higher than in France. These costs act as a significant impediment to the development of China’s high-end goods market—a market that is expected to see considerable growth in the coming years. Chinese consumers could represent more than 30 percent of global consumption of these goods by 2015, meaning the Chinese government could lose even more valuable consumer spending if high tax and tariff rates remain on these products.

Tariff and Tax Rates of Select Imported Consumer Goods

<table>
<thead>
<tr>
<th>Product</th>
<th>Customs Duty Rate (%)</th>
<th>Consumption Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jewelry</td>
<td>3-35</td>
<td>10</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>6.5-15</td>
<td>30</td>
</tr>
<tr>
<td>Handbags</td>
<td>10-20</td>
<td>n/a</td>
</tr>
<tr>
<td>Watches</td>
<td>11-23</td>
<td>20</td>
</tr>
<tr>
<td>Clothing</td>
<td>14-25</td>
<td>n/a</td>
</tr>
<tr>
<td>Automobiles</td>
<td>25</td>
<td>1-40</td>
</tr>
</tbody>
</table>

Source: “Luxury experiences in China: A KPMG study,” April 2011, KPMG

China’s officials have also emphasized their plans to boost domestic consumption by making it a key component of China’s most recent Five-Year Plan, released in March 2011. At the same time, China has sought to reduce its domestic wealth gap, most recently through its income distribution plan. While this plan addresses important concerns about income distribution, there are more effective methods to accomplish this goal than by taxing consumer goods.

China may be considering raising taxes on certain high-end consumer goods. However, taxing these goods would negatively impact Chinese consumers, causing them to spend less on such products. Such an impact will not solely affect high-income consumers because some of the products classified as higher-end consumer, or “luxury” goods in China, such as cosmetics, are ones that would likely be considered middle-range consumer goods in other markets. China’s growing middle class and rising wages mean more individuals will be able to afford these types of “luxury” products. As a consequence, imposing high tariffs and taxes on these goods will negatively impact China’s market more broadly, due to lower consumption and reduced sales. By contrast, lowering or eliminating tariffs and taxes on these goods would promote market-based consumption.

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habits among China’s middle class, as well as the broader population, thus strengthening China’s economy overall.

In order to improve consumer choice, increase domestic demand, and further develop China’s consumer goods sector, USCBC recommends that MOFCOM and other Chinese government agencies:

- Lower or eliminate import tariffs and consumption taxes on consumer goods, such as cosmetics, apparel, accessories, jewelry, watches, and motor vehicles.
- Fully engage foreign and domestic stakeholders on tax and tariff assessments on consumer goods to fully evaluate the impact of policy and tax decisions.
Streamline and Modernize China’s Customs System

More products pass over China’s borders each year. As China seeks to manage its border and trade flows, reforms to streamline and modernize its customs system could offer significant benefits to consumers, importers, and the broader China market. In its 2011 Global Trade Analysis Project report, the Asia-Pacific Economic Cooperation (APEC) found that China could increase real GDP by nearly $750 million by enhancing its customs system.9 Developing a more modernized customs system aligned with international best practices will enable China to become better integrated into the global trading system, benefitting its economy and helping it to increase imports. There are three areas in which immediate action to improve customs clearance efficiency will enable China to meet this long-term objective.

Currently, China’s General Administration of Customs (GAC) imposes requirements that ultimately slow the shipment of goods to Chinese consumers. For example, most imported goods below RMB 400 ($64) – the “de minimis” level – are cleared without customs declarations, and duties and taxes are not collected. This level, however, is far below de minimis levels in other countries, such as the United States ($200), Malaysia ($166), and Japan ($127).10 In practice, China’s low exemption threshold means that far more goods are above the de minimis level. This slows the delivery and processing time for a product to get to market or components to enter into supply chains, creating bottlenecks in the system and effectively delaying and reducing trade. Increasing this threshold and bringing it closer to international levels could benefit China’s market by facilitating trade, improving the speed at which products are brought to market, and ultimately boosting consumption.

In addition, while China has sought to harmonize many areas of its customs rules with international norms, it also has imposed a number of specific customs standards that deviate from World Customs Organization (WCO) guidelines. These deviations often cause misunderstandings and operational delays for producers and exporters seeking to transport goods through customs, including both foreign manufacturers and many domestic exporters. For example, one GAC standard requires express delivery carriers to complete export manifests four hours prior to aircraft loading. Due to the nature of express delivery services, operators often do not know their full shipment order until closer to takeoff. In order to better facilitate trade and promote efficiency within its trading system, China would benefit from harmonizing standards, such as this one, with international standards. Making such changes would help international exporters comply with China’s customs system, and ultimately bolster trade with other countries.

As well, China would benefit from establishing a 24-hour user-fee system to enable round the clock customs handling that China’s trade activity realistically requires. Allowing commercial goods transporters to pay certain customs fees upon entry into China will facilitate imports, and ease customs officials’ workloads. These changes would also help to modernize China’s customs system, and enable it to meet the demands of China’s producers and consumers.

USCBC recommends that GAC and other Chinese government agencies:

- Establish a de minimis level in line with international levels.
- Harmonize Chinese customs standards with international standards, such as the one dealing with export manifests.
- Implement a 24 hour user-fee system to enable full-time customs handling.

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Allow Increased Meat Imports While Maintaining Strict Food Safety

Over the past decade, China’s strong economic growth has led to a dramatic rise in consumer demand for high-quality meat products, including beef, poultry, and pork. At the same time, rapid economic development, urban sprawl, and environmental challenges have all reduced the arable land and other inputs available to agricultural industries, stretching a smaller supply of meat products across a large population. Despite rising prices and increased demand, restrictions remain on imported meats, including those imported from the United States.11 These prohibitions, along with meat import requirements that differ from international best practices, combine to reduce imports from foreign producers and limit the availability of affordable, high-quality products for Chinese consumers.12

US beef is effectively barred from importation into China. China’s restrictions on US beef imports stems from concerns related to bovine spongiform encephalopathy (BSE), also known as “Mad Cow Disease,” dating back to 2003. Since that time, the US Department of Agriculture (USDA) has taken strong action against the spread of BSE. USDA’s regulatory system and safeguards have continued to protect consumers in the United States and abroad. In response to USDA’s action to limit the spread or infiltration of BSE in the food chain, many countries that previously imposed bans on US beef have lifted restrictions, including South Korea and Japan.13 Affirming the safety of US beef, the Scientific Commission for the World Organization for Animal Health (OIE) declared in February 2013 that beef from the United States was of negligible-risk for BSE.14

In addition to beef, imports of poultry from or shipped through two US states – Arkansas and Virginia – are also banned, based on alleged concerns regarding low-pathogenic avian influenza. China has in the past lifted its bans on US states formerly subject to similar restrictions, such as Minnesota, Texas, and Pennsylvania.16 Lifting restrictions on these remaining states and bringing import practices into accordance with OIE guidelines will help to strengthen imports of high-quality meat products. Furthermore, removing these restrictions would broaden Chinese consumers’ access to low-cost poultry products, and defuse perceptions that these restrictions are being used as a trade barrier to US exports.

China recently announced its intention to impose restrictions on the use of ractopamine in imported pork products, which could negatively impact the amount of high-quality and affordable pork available to Chinese consumers. For example, in 2012 the United States exported nearly $900 million in pork and pork products to China, representing 52 percent of the market share.18 A ban that differs from international standards may result in higher pork prices and less selection for Chinese consumers. One such standard was set in July 2012 by Codex Alimentarius, the global organization created to develop international food standards, when it established practices for the safe use of ractopamine in pork.19 Employing such standards will help China meet growing demand for meat products, while ensuring safety and health of consumers.

China’s industry and consumers would gain important benefits from increasing imports of meat products from the United States. In 2012, the average cost of beef in China increased 30 percent from the previous year, while prices on pork and poultry are expected to increase in 2013.20 Gaog Guan, deputy secretary-general of the China Meat Association acknowledged this fact in January 2013, attributing rising beef prices to limited supply, stating that “a shortage of beef supply is the main cause of rising beef prices.”21 Increased imports of beef, pork,

21 Ibid
and poultry products from reliable suppliers like those found in the United States will help to stabilize supply and keep prices low while easing inflationary pressures and meeting China’s growing demand for high-quality meat products.

In order to reduce costs and meet growing demand for meat imports, USCBC recommends that the Ministry of Agriculture and other Chinese government agencies:

- Swiftly finalize discussions with the US to ultimately resume imports of US beef.
- Lift bans on poultry exports from Arkansas and Virginia.
- Harmonize requirements on ractopamine used in pork imports with international standards, such as those established by Codex.
Streamline CCC Mark Requirements

The China Compulsory Certification (CCC) system is an important part of China’s attempts to ensure the quality, safety, and efficacy of products sold in China. Yet the process of obtaining CCC marks for imported products can be costly. For large and small companies alike, the CCC system often imposes a significant cost on their exports to China. Small- and medium-sized enterprises (SMEs) in particular may have fewer resources to manage CCC certification costs. Still, US SMEs represent a significant share of overall exports to China – more than $30 billion in goods in 2010.22 By reducing certain requirements imposed within China’s CCC mark system, China will help companies of all sizes grow their exports to China and create more opportunities for strengthening domestic consumption.

Companies can experience long processing times and delays while going through the CCC certification process. Though hundreds of products must receive the CCC mark from China’s Certification of Accreditation Administration (CNCA), foreign and domestic companies seeking certification have limited choices for testing labs and designated certification bodies (DCBs). This can drive up the cost of certification and cause delays in the system, contributing to limited product availability for Chinese consumers.

Implementing the 2012 US-China Joint Commission on Commerce and Trade (JCCT) commitment to allow qualified foreign-invested testing and certification organizations to participate in CCC mark-related work, and to receive equal consideration in applying to do so will help facilitate and streamline trade.23 Certifying and designating such foreign-invested entities would bring China into compliance with its World Trade Organization (WTO) commitment to provide non-discriminatory treatment to such organizations. Furthermore, allowing greater participation by foreign entities would remove bottlenecks in the system and help reduce costs for both domestic and foreign companies, thus facilitating bilateral trade and promoting imports.

In addition, ambiguity over which products require the CCC mark can also delay the time in which products reach consumers in China’s market. In particular, officials from CNCA, local customs agents, and local representatives of the Administration of Quality Supervision, Inspection, and Quarantine may in practice provide contradictory information about whether a given product must be CCC-certified. Harmonizing these interpretations will reduce time spent on administrative and testing procedures, and ultimately speed the time it takes to bring a product to market.

To help promote trade and increase imports, USCBC recommends that CNCA and other Chinese agencies:

- Fully and quickly comply with its 2012 JCCT commitment to allow qualified foreign-invested certification and testing organizations to conduct testing for the CCC mark in China.
- Eliminate duplicative procedures in China’s conformity assessment system.
- Clarify which products require the CCC mark, and apply these requirements non-discriminately to foreign and domestic producers.

Remove Import Barriers Facing Advanced Agricultural Commodities

With its middle class expected to reach nearly 600 million by 2020, China will require significant increases in agricultural output and agricultural imports to meet the demands of a growing population.24 Anticipating this demand, Minister of Agriculture Han Changfu announced in February 2012 that China will seek to strengthen agricultural cooperation with the United States, in part to increase bilateral trade in agricultural goods.25 In order to help promote this objective and meet growing demand, China can consider harmonizing its agricultural biotechnology risk assessment and review processes to streamline and accelerate the approval of crops that leverage advanced technologies, such as genetically modified organisms (GMOs).

GMO products are often used in China for food, feed, and processing. However, China’s lengthy – and at times unpredictable – regulatory approval processes for advanced agricultural products may impede China’s ability to source safe, well-priced agricultural commodities on the global market.26 For example, in order to register a seed with a genetic modification in China, the product must be fully approved in another cultivating and exporting country. Only once that process is complete can a developer begin to seek approval for the product in China.27 When domestic approval is secured, only then may a seed be cultivated and sold into international export channels. This process creates extensive delays in approval timelines and suspends a seed company’s ability to offer agricultural producers access to the newest and most relevant technology.

Given the effects of this barrier, the Chinese agriculture industry may benefit from eliminating the consecutive approval requirements and allowing approval in China concurrently with approvals in other markets. Removing consecutive approval requirements would help introduce new and innovative products into China’s market in a timely manner and strengthen the country’s food security.

In addition, current regulations maintain a zero-tolerance policy for unapproved GMOs in imported products, which is a very difficult standard to implement. This position also diverges with international best practices and creates unnecessary risk for agricultural commodity importers in China. In order to ensure a steady and predictable supply of agricultural imports, officials may consider establishing science-based threshold for the low-level presence of unapproved traits in advanced agricultural products. Adopting a risk-based approach to low-level presence of these traits—as at least 13 other countries have pledged to do—will help facilitate agricultural trade while meeting China’s high-standard food-safety requirements.28

By streamlining approval processes for advanced agricultural products, including GMOs, and bringing its import requirements in line with international best practices, China will move closer toward developing a modern agricultural sector—a goal articulated by then-Vice Premier Li Keqiang in January 2013.29 Implementing these changes will therefore help China to develop a modern, robust, and enduring industry.

In order to increase development, output, and modernization of China’s agricultural industry, USCBC recommends that relevant Chinese government agencies:

- Allow for concurrent approval processes for advanced agricultural products, including GMOs, to speed up the approval process for allowing these products into China.
- Eliminate the zero-tolerance policy and implement international best practice by establishing a science-based threshold for low-level presence of GMO imports.