

Case study

Development Status, Issues, and Strategies of Customs

Special Supervision Areas in China: A Case Study

of Jiangsu Comprehensive Bonded Zone

Abstract: Customs special supervision areas are special zones in China established since the reform and opening-up policy to implement bonded policies for enterprises within designated areas with a focus on processing and trading. Over the past 30 years of constructing customs special supervision areas in China, foreign trade has developed rapidly. However, along with this growth, a series of issues have emerged, including uneven regional distribution, incomplete institutional systems, and unclear tax incentives policies. This paper takes Jiangsu Comprehensive Bonded Zone as an example to provide a detailed analysis and summary of the development status of customs special supervision areas in China and the reasons that hinder their healthy and efficient development. It also presents reasonable suggestions from the perspectives of management mechanisms, development directions, and explores the future path for the high-quality, efficient, and advanced development of customs special supervision areas in China.

Keywords: Customs special supervision areas; Jiangsu Comprehensive Bonded Zone; Processing and trading; Comprehensive efficiency.

Introduction

1. Customs Special Supervision Areas

1.1 Definition and Functional Positioning of Customs Special Supervision Areas

Referring to the definition of "Free Zone" by the World Customs Organization in the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention), in China, customs special supervision areas are designated as specific areas within the territory of the People's Republic of China, approved by the State Council, and subject to supervision by customs authorities in accordance with relevant national regulations. These areas include bonded zones, comprehensive bonded zones,

bonded logistics parks, cross-border industrial parks, bonded port areas, and export processing zones, among others. The policies applied within these areas generally have preferential treatment in comparison to customs supervision policies in other domestic areas, providing a "domestic outside the customs" characteristic. Although these zones are located within the customs jurisdiction in China, enterprises operating in these areas can enjoy preferential tax policies similar to those offered to overseas enterprises, such as exemptions or tax refunds.

Bonded warehousing, export processing, and transit trade are the three core functions of customs special supervision areas. In addition to these functions, in recent years, customs special supervision areas have gradually evolved into public service platforms for China's import-export trade and platforms for attracting investment.

1.2 Comprehensive Bonded Zone

To standardize the development of various types of customs special supervision areas, further promote the optimization and integration of these areas, and address various existing issues, China has gradually merged and upgraded various customs special supervision areas into comprehensive bonded zones according to the latest guidance issued by the State Council on promoting the scientific development of customs special supervision areas.

A comprehensive bonded zone is a type of customs special supervision area with the same functions as a bonded port area, located in inland regions. In terms of subordinate relationships, a comprehensive bonded zone is one form of customs special supervision areas. In terms of spatial relationships, a comprehensive bonded zone is a subset of customs special supervision areas. It integrates multiple functions, including bonded zones, export processing zones, ports, and bonded logistics parks. At present, the comprehensive bonded zone is the most comprehensive in terms of functionality, highest in terms of openness, simplest in terms of procedures, and offers the most preferential policies among all customs special supervision areas in China. It is also the current goal for the integration and optimization of customs special supervision areas in China. Due to the ability of comprehensive bonded zones to engage in a wide range of business activities and to integrate all policies and functions of customs special supervision areas, they serve as important platforms for connecting domestic and international markets, especially within the context of the "Belt and Road" initiative. They also play a significant role in promoting the formation of a new pattern of comprehensive opening up in foreign trade and economic cooperation.

1.3 The Importance of Developing Customs Special Supervision Areas

Since the establishment of the first customs special supervision area in China, the Shanghai Waigaoqiao Bonded Zone, the development of customs special supervision areas in China has achieved remarkable results over the past 30 years. The construction of customs special supervision areas has significant positive implications for China's development of an outward-oriented economy and the rapid growth of GDP. The specific significance is as follows:

First, leveraging the advantages of a vast area, abundant labor force, and

relatively low costs, customs special supervision areas in China have attracted foreign investment to set up global distribution centers within these areas. This has spurred the development of the international logistics industry in China and enabled the country to more extensively and deeply participate in the stage of economic globalization. This, in turn, promotes the rapid growth and sustainable development of China's national economy.

Second, consolidating processing and trading enterprises in customs special supervision areas facilitates efficient customs management for these enterprises, leading to reduced clearance costs and significantly improved efficiency in customs clearance for goods. Additionally, within the closed-loop management of these areas, favorable conditions are created for the standardized production and operation environment of enterprises.

2. Current Development and Issues of Customs Special Supervision Areas in China

2.1 Current Development of Customs Special Supervision Areas in China

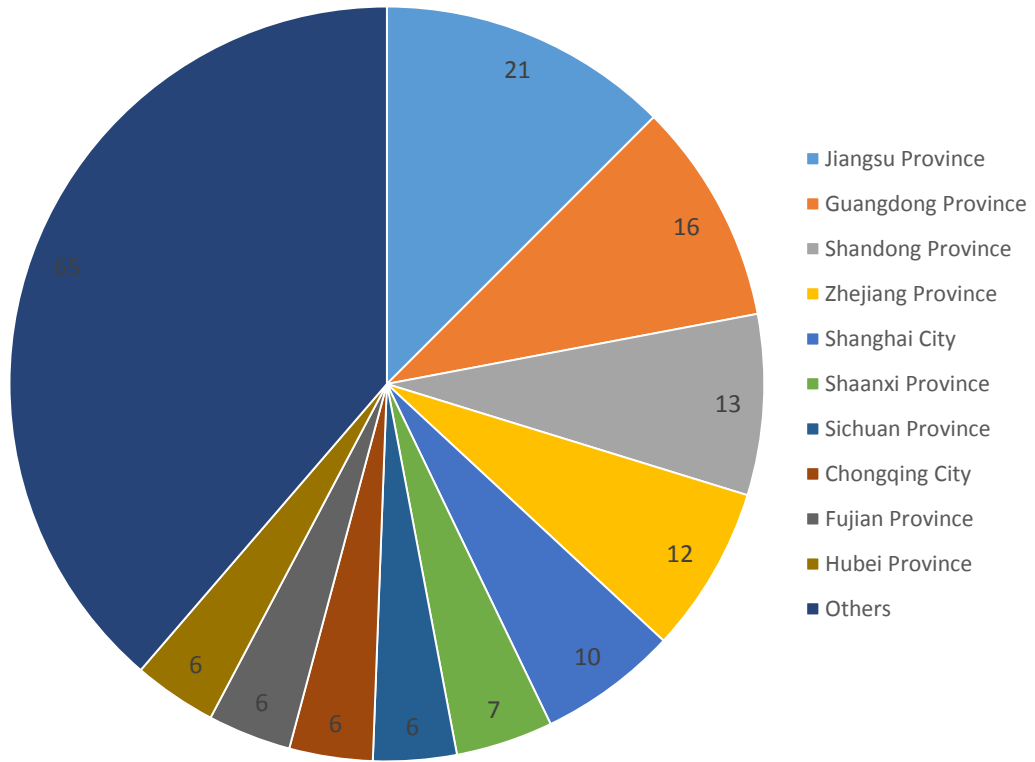
Since the establishment of the first customs special supervision area, the Shanghai Waigaoqiao Bonded Zone, which was approved by the State Council in the 1990s, various provinces, cities, and regions in China have actively applied for the establishment of customs special supervision areas to promote the development of an open economy and foreign trade.

In terms of quantity, as of the end of December 2021, there are a total of 168 customs special supervision areas in China, distributed across 31 provinces, municipalities, and autonomous regions. These areas include 155 comprehensive bonded zones, 9 bonded zones, 2 bonded port areas, 1 cross-border industrial zone, and 1 export processing zone. The total planned area of customs special supervision areas in China exceeds 460 square kilometers. Among them, Jiangsu Province has the highest number of customs special supervision areas, accounting for 21 areas (as shown in Figure 1).

In terms of geographical distribution, customs special supervision areas in China are primarily concentrated in coastal developed regions. However, in recent years, with China's further participation in foreign trade and the development of an open economy, the construction of customs special supervision areas has gradually expanded to inland regions.

In terms of output value growth, despite the impact of the global pandemic on international trade, China has expanded and improved the construction of customs special supervision areas. According to the data released by the General Administration of Customs on April 18th, 2022, from January to March 2022, the total imports and exports of all comprehensive bonded zones in China (including 6 comprehensive bonded zones temporarily suspended due to the pandemic and other factors) amounted to 1.4366 trillion yuan, representing a cumulative year-on-year growth of 17.5%.

Figure 1
The Distribution of National Customs Special Supervision Areas as of the end of December 2021



2.2 Current Development of Comprehensive Bonded Zones in Jiangsu Province

Since the establishment of the Zhangjiagang Bonded Port Area in Jiangsu Province in 1992, in accordance with the requirements set by relevant documents of the State Council, Jiangsu Province has actively established customs special supervision areas, leveraging its advantageous geographical location and developed manufacturing industry. As of the end of December 2021, there are a total of 21 customs special supervision areas in Jiangsu Province, including 20 comprehensive bonded zones and 1 bonded port area. The early establishment of customs special supervision areas in Jiangsu Province, in response to the development requirements of different periods, has achieved remarkable and rapid development. Overall, the quality and efficiency of comprehensive bonded zones in Jiangsu Province are leading nationwide. According to Table 1, from January to March 2022, among the top 12 comprehensive bonded zones in terms of total imports and exports nationwide, 4 are located in Jiangsu Province, and all of them have seen significant growth compared to the same period last year. Therefore, comprehensive bonded zones serve as important carriers for the development of Jiangsu Province's open economy and play an indispensable role in supporting the development of foreign trade in the province.

However, despite the early vigorous development, in recent years, comprehensive bonded zones in Jiangsu Province have shown a trend of slow development overall. Some zones have even experienced long-term idle land and few projects being introduced, resulting in limited influence. Although comprehensive bonded zones in Jiangsu Province serve as a development model for customs special supervision areas nationwide, they seem to have entered a period of development bottleneck. Therefore, it is necessary to carefully examine the issues that currently constrain the development of comprehensive bonded zones in Jiangsu Province, and even the development of customs special supervision areas nationwide.

Comprehensive Bonded Zone	Import and Export Value(¥10k)	Cumulatively compared to the same period of lsst year+/-%
Chengdu High-Tech Comprehensive Bonded Zone	13,010,739	-4.4
Zhengzhou Xinzheng Comprehensive Bonded Zone	11,444,074	-5.3
Kunshan Comprehensive Bonded Zone	9,097,027	17.1
Chongqing Xiyong Comprehensive Bonded Zone	8,241,005	8.8
Songjiang Comprehensive Bonded Zone	6,607,447	18.9
Suzhou Industrial Park Comprehensive Bonded Zone	5,686,616	34.2
Chongqing LiangluCuntan Comprehensive Bonded Zone	4,872,150	17.6
Xi'an Guanzhong Comprehensive Bonded Zone	4,692,319	48.6
Shenzhen Qianhai Comprehensive Bonded Zone	4,408,607	55.5
Yangshan Special Comprehensive Bonded Zone	4,222,889	35.7
Wuxi High-TechComprehensive Bonded Zone	3,721,231	6.7
Suzhou High-Tech Industrial Development Zone Comprehensive Bonded Zone	3,325,737	17.6

2.3 Analysis of Issues in China's Customs Special Supervision Areas

2.3.1 Imbalanced Regional Distribution

Based on the historical factors of the reform and opening-up policy, which initially focused on the eastern and southern regions, the current distribution of customs special supervision areas in China shows an imbalance with more areas in the east and south compared to the west and north. Taking comprehensive bonded zones as an example, as of the end of December 2021, around 30% of the total number of comprehensive bonded zones are located north of the Yangtze River Basin, while approximately 70% are located south of the Yangtze River Basin. Such significant vertical regional disparities can lead to a stronger economy in the southern regions and relative weakness in the less economically developed regions, exacerbating regional economic imbalances.

In Jiangsu Province, as a "province of customs special supervision areas," there is an evident imbalance in the development of comprehensive bonded zones between the northern and southern parts of the province (as shown in Figure 2). The economic development speed in different regions of Jiangsu Province, including northern, central, and southern areas, is not uniform. Moreover, the establishment of comprehensive bonded zones in each region has varied timelines, stretching over more than a decade, resulting in significant developmental disparities among the zones. The southern region, which started earlier, has seen the aggregation of numerous leading production-oriented enterprises since the export processing stage, and its business volume has been steadily increasing. On the other hand, the northern and central regions, where comprehensive bonded zones were established later, not only missed the most prosperous period of development for customs special supervision areas but also face limitations due to their own economic, geographical, and transportation factors. This has resulted in a relatively limited range of business types in the customs special supervision areas in these regions, with a focus on bonded logistics and "one-day tourism" activities. Additionally, the northern and central regions have relatively weak manufacturing industries, lacking the pillar industries necessary for the sustainable development of comprehensive bonded zones.

Figure 2. Distribution of Comprehensive Bonded Zone in Jiangsu Province at the end of December 2021



2.3.2 Incomplete Institutional System

The legislation regarding customs special supervision areas in China is relatively inadequate. The "Customs Law" only provides provisions for the establishment of customs special supervision areas but does not clearly define their nature and status. Furthermore, there is a lack of relevant administrative regulations. The regulations issued by the General Administration of Customs, as the only existing regulations, are numerous and repetitive, hindering the advancement of management concepts within the supervision areas.

Comprehensive bonded zones are the result of the integration and reform of customs special supervision area functions. At the beginning of the establishment of comprehensive bonded zones in Jiangsu Province, they were positioned as the best policy option in terms of innovation, broad layout, rational structure, convenient customs clearance, and comprehensive functions among all customs special supervision areas in China. They are responsible for tasks such as tax refunds, processing, ports, and logistics. However, despite nearly 30 years of operation, comprehensive bonded zones in Jiangsu Province are still managed based on the "Interim Measures for the Administration of Bonded Port Areas" issued in 2007, lacking specialized laws and regulations that are compatible with the current era to regulate various operations and production activities within the area. In addition, outdated and slow adaptation of some policies and regulations make it difficult for enterprises to conduct certain business activities smoothly due to a mismatch with the current economic situation and actual production and operation conditions.

For example, regarding solid waste generated during the production process by enterprises in comprehensive bonded zones, according to the current "Management Measures for the Import of Solid Waste," disposal or utilization outside the zone requires approval from the municipal-level environmental protection department. Enterprises need to provide materials proving that the receiving unit can dispose of or utilize the solid waste generated by the enterprise within the comprehensive bonded zone in an environmentally harmless manner. Some local environmental protection departments, to avoid risks, require detailed supporting documents from enterprises, including endorsement from the environmental protection department at the location

of the receiving unit. Enterprises within comprehensive bonded zones have generally expressed difficulties in obtaining approvals and providing multiple documents and endorsements from various departments for the disposal of solid waste generated within the zone. However, considering that these solid waste are actually generated during the processing and manufacturing processes within the customs jurisdiction of China, they should not be subject to the import-related waste management regulations. In recent years, although the General Administration of Customs has issued some systematic documents for specific business areas, they remain relatively independent and lack a comprehensive system to provide institutional guarantees for the management of comprehensive bonded zones.

2.3.3 Uncertainty Regarding the Applicability of Preferential Tax Policies to Enterprises in Customs Special Supervision Areas

The current regulations clearly state that the rules of preferential origin under each free trade agreement should be applicable to the more than 100 customs special supervision areas in China. However, it is explicitly mentioned that this does not apply to goods imported and sold on a tax-bonded basis through processing trade. Unless the General Administration of Customs establishes separate rules governing preferential origin for tax-bonded goods and bonded logistics goods, most tax-bonded goods under current domestic laws are not eligible for preferential tax rates. In recent years, due to the impact of the COVID-19 pandemic and the trade tensions between China and the United States, many companies have adjusted their marketing strategies to shift from exporting products to selling them domestically. This has affected the determination and management of the origin of products originally intended for export but now sold domestically. The question arises of whether tax-bonded goods, after being subject to tax-bonded supervision in domestic customs special supervision areas, can still enjoy the originally agreed preferential tax rates when converted for domestic sales. This issue involves examining the consistency between converted products and the originally imported products as well as determining the mode of transportation. In addition to origin determination, goods that undergo further processing in customs special supervision areas before being re-exported also require a new determination of origin, which affects whether the company can enjoy preferential tax rates. Currently, there is a lack of specific regulations in China regarding the management of origin for goods in customs special supervision areas, which can lead to uncertainties and difficulties for companies in determining the origin of products converted from export to domestic sales.

3. Strategies to Promote the Higher Quality Development of China's Customs Special Supervision Areas

3.1 Integrated Planning and Reasonable Layout

To promote the development of a regionally balanced and high-quality economic layout, it is necessary to plan and coordinate based on the local economic situation. This involves harnessing complementary advantages and continuously improving the division and level of labor in global industrial chains, innovation chains, and value chains within each comprehensive bonded zone.

In the case of Jiangsu Province, it is essential to leverage the regional advantages of northern, central, and southern areas. This can be achieved by: (1) Establishing research and development and manufacturing centers: Supporting the development of key national industry innovation centers, engineering research centers, and new research and development institutions within comprehensive bonded zones to enhance innovation-driven and technological advancement capabilities. Specifically, supporting the construction of biopharmaceutical research and development in Suzhou Industrial Park comprehensive bonded zones and the nucleic acid industry base in Kunshan comprehensive bonded zones. (2) Building processing and manufacturing centers: Strengthening the role of enterprises as main actors in the market economy, supporting large enterprises to settle in comprehensive bonded zones, and providing targeted support and assistance for small or emerging enterprises with suitable projects to create an excellent business environment. Specifically, supporting the engineering machinery industry in Xuzhou comprehensive bonded zones, the chip storage industry in Wuxi comprehensive bonded zones, the electronics industry in Huaian comprehensive bonded zones, and the automobile industry in Yancheng comprehensive bonded zones. (3) Establishing logistics distribution centers: Leveraging the strategic location of comprehensive bonded zones in Jiangsu Province, creating key logistics nodes for the Huaihe River ecological economic belt, the Yangtze River economic belt, and the starting point of the "Belt and Road Initiative," as well as the eastern end of the New Eurasian Land Bridge. This will improve the service capabilities for economic development within Jiangsu Province and even nationwide. Strengthening the linkage between coastal and inland ports and comprehensive bonded zones to reduce logistics costs and extend the logistics chain. Specifically, supporting the construction of warehouses in various comprehensive bonded zones in Suzhou, the development of international business in Taicang Port, and the international trade with distinctive "port and shipping connectivity" in Lianyungang comprehensive bonded zones.

3.2 Enhancing the Legal System to Improve the Comprehensive Efficiency of Customs Special Supervision Areas

To address the current bottlenecks constraining the development of customs special supervision areas, it is necessary to expedite the establishment of a complete legal regulatory system. Adequate legal protection mechanisms should be established for the management of regulatory departments and the production operations of enterprises within customs special supervision areas. Efforts should be made to promote the formulation of management measures for comprehensive bonded zones in accordance with the requirements of the local economic new normal and supply-side structural reforms. Wide-ranging opinions and suggestions should be solicited from local governments, relevant management departments, and enterprises to meet the needs of all parties and develop management measures for customs special supervision areas in line with local economic development trends.

Taking the legislation and management of the 20 comprehensive bonded zones in Jiangsu Province as an example, it is crucial to highlight the primary responsibilities of the Jiangsu Provincial Government and establish a comprehensive management

system with clear responsibilities for each department. Each department should fulfill its respective responsibilities based on statutory regulations. Additionally, a performance evaluation system for comprehensive bonded zones should be established, and the entry and exit mechanisms should be improved. Regular assessments and evaluations should be conducted to promote survival of the fittest. The future development prospects of China's comprehensive bonded zones should focus on "quality" rather than quantity. This approach can motivate local governments to pay more attention to the quality of development in local customs special supervision areas and avoid the situation where some zones are established but not operational. It can also eliminate non-viable comprehensive bonded zones and redirect resources and preferential policies to comprehensive bonded zones with genuine and positive development.

3.3 Emphasizing the Overlay Effect of Preferential Policies in Customs Special Supervision Areas

The essential characteristic of customs special supervision areas is that they can provide preferential tax-rate policies. Initially, these areas primarily served processing trade for import and export purposes. However, in response to changes in the international trade environment caused by the COVID-19 pandemic and the trade tensions between China and the United States, it is necessary to appropriately introduce tax incentives policies to support tax-bonded imports and goods converted for domestic sales. Currently, enterprises outside the customs special supervision areas can enjoy zero-tariff treatment in free trade zones based on preferential origin rules. If customs special supervision areas cannot provide the same tax incentives to enterprises within their zones, they may gradually lose their advantages and be surpassed by processing conducted outside the areas. Eventually, the enterprises may have to relocate outside the customs special supervision areas. In response to China's policy of transforming processing trade, efforts should be made to apply regional trade agreement policies to customs special supervision areas, ensuring that products meeting substantial processing and other rules of origin can maintain their original origin status. This will stimulate domestic enterprises within customs special supervision areas to increase their procurement of components originating from China, promote the introduction and transfer of high-tech industries, and enhance cooperation and trade among upstream and downstream enterprises.

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