

# Social advance rulings on classification in China: an optimal allocation model of holistic governance

*Xinyi Ye, Shujie Zhang and Caihong Hou*

## Abstract

With the rapid development of international trade, and the diversified change of social needs, Chinese Customs is gradually adjusting its administration by developing Customs-Business partnerships (CBP) to better adapt to the market economy and provide more efficient public services, creating the Collaborative Governance Model (CGM) through market and social resources. As one of the CBP projects receiving much attention from customs administrations and businesses, the social advance rulings system for classification has completed its pilot phase and is continuing to develop, but still faces challenges in optimally utilising and allocating administrative resources. Based on the theoretical perspective of holistic governance, this research identifies and summarises the main types of advance rulings on classification intermediary service models and business characteristics in the context of China. Finally, an optimal allocation model for social advance rulings on classification is proposed.

## 1. Introduction

Pre-processing of customs clearance can reduce operational costs and enhance international competitiveness, which has led to calls for the development of advance rulings on classification in China. The General Administration of China Customs (GACC) officially launched the policy of advance rulings on classification in 2000, nominating Tianjin as the location for the pilot and specifying basic regulations (GACC 2000). As the demand for these services from foreign trade enterprises continues to rise, 11 Customs Districts, led by Shanghai, launched social advance classification rulings programs on 1 January 2008 in which market and social resources were introduced (CCBA & GACC 2007). Under this arrangement, Customs authorise certain reliable intermediary agencies to implement pre-classification services for foreign trade enterprises so as to improve customs supervision and tax efficiency by establishing Customs-Business relationships for mutual benefit (Zheng 2010).

The practice of social advance rulings on classification contributes to trade facilitation. For Customs, it enhances accuracy in classification, timeliness in clearance, and rationality in law enforcement. For foreign trade enterprises, it guarantees low cost risk and consistency in logistics. For intermediary enterprises, it provides a clear direction for business development, as well as transformation and upgrading. However, as foreign trade enterprises have diverse demands there are multiple trends in pre-classification services, which make the processes more complex for intermediaries; increase control difficulties for Customs, and pose challenges for enterprises in choosing suitable intermediaries.

To further improve collaborative governance between public and private sectors in the field of pre-classification, this paper proposes that the way in which executive bodies target customers should change. This paper also shows how refining communication channels between the public and private

sectors can optimise the process design of commodity classification around 'Export to China' (ETCN) construction, gaining full benefits of social resources and providing references to assist in selecting appropriate intermediaries.

For both Customs and businesses, it is desirable to answer the following questions regarding social advance rulings on classification:

- What is the nature of social advance rulings on classification?
- Why do we need social advance rulings on classification?
- What is the status quo of social advance rulings on classification?
- What are the existing problems in implementing social advance rulings on classification?
- Is it possible to propose an optimal model which overcomes these problems?

## 2. Holistic governance theory and customs practice

### 2.1 Theoretical background of holistic governance

As western society entered the post-industrial era in the late 20th century, the profound shift in the social order led to widespread challenges to the traditional bureaucratic model of administration. The United Kingdom vigorously promoted structural reform in the field of public service to cope with the inefficient bureaucracies in the late 1970s, bringing new government reform, oriented by 'New Public Management' (NPM), to the stage of administrative management.

During this time, problems regarding fragmentation and hollowing-out, such as responsibility shifts, government prevarication and ineffective department communications resulting from NPM, started to emerge. Since NPM could not meet the management needs, people began to question the utility of the theory (Zhu 2008). Based on reflection and correction, by means of the development of market-oriented reforms and information technology, Perri 6 (1997) proposed a new government model called 'holistic governance' with the core of crossing organisational boundaries, integrating social resources and achieving policy targets.

### 2.2 Holistic governance theory

Holistic governance theory relies on advanced information technology and is based on using the strategies of coordination, cooperation, integration and responsibility to meet public demands. It also emphasises the integration of governance hierarchy, governance functions, public and private sectors, accountability mechanisms and information systems.

As 6 (2002) points out, holistic governance is a management style used by government agencies and organisations that are aiming to: achieve adequate communication and cooperation; reach effective coordination and integration; bring the policy objective of each party into line; mutually reinforce executive means for policies; and collaborate closely. The core purpose of the theory is to cross organisational boundaries, integrate resources and achieve policy objectives.

Holistic governance theory can be applied when trying to coordinate and integrate fragmented outsourcing, and foster public demands through public-private cooperation. The theory plays a vital role in the theoretical direction and practical promotion of the supply of public services and the redesign of government functions.

Unlike the traditional hierarchy governance model, holistic governance pays attention to the full range of auxiliary functions possessed by social and market forces, reducing the government's expenditure

burden on public services and improving service quality and efficiency. It doesn't depend on authority and executive orders for coordination, but emphasises using the resource endowments and comparative advantages of every party, thus integrating local resources and achieving mutual benefit and reciprocity.

However, holistic governance doesn't rely entirely on a contract-oriented marketing system and the mechanisms of contractual relationships. It still emphasises the dominant position of the government, which is responsible for expanding the space of public services, coordinating the supply mechanism, managing service procedures and controlling service results. On the basis of government leadership, it can accelerate mutual recognition between regions, break market segmentation, remove administrative barriers, promote optimal allocation of resources, and complement local advantages.

Through the widespread application in various fields of public administration, the concept has proved to be effective in promoting market-oriented reform of public services. Drawing on domestic and overseas practical experience in recent years, the essential principles of holistic governance are summarised below.

### **2.2.1 Integrating regulatory efforts to promote pluralistic governance**

Holistic governance emphasises effective coordination and integration between government agencies and organisations through full communication and cooperation, so that there can be a consistent policy objective and collective means of policy implementation, creating the effect of mutual reinforcement and leading to close cooperation (Christensen & Lægread 2006).

It focuses not only on government domination and market assistance but also the power of public supervision. The government needs to actively mobilise and coordinate social powers, cultivating the foundations and atmosphere for Customs-Business partnerships (CBP), as well as making up for inadequate government forces. With multi-supervision and subsidiary feedback for governance, the demands of the public can be better met, and the efficiency of public services can be improved.

### **2.2.2 Promoting information exchanges to enhance mutual trust and cooperation**

Holistic governance attaches great importance to the application of information technology. It urges the government to master more information through the use of modern technology, to establish databases for better decision-making, the improvement of public services, and the promotion of electronic reforms (Peng 2005). The networked mode of government administration requires the full use of all stakeholders' exclusive resources and comparative advantages, including those of government agencies, to form changeable network configurations. Conflict arising from different interests and priorities can progress to mutual recognition of these differences through the extensive use of communication, consultation and negotiation mechanisms, thus forming collaborative relationships.

Through the diversified network of information exchange and the delegation of public service supply, each government agency can participate in public affairs and administration, promoting information exchange and market understanding of government departments, social organisations and the public. This also helps to clarify the needs and positive suggestions in respect of public service supply, promoting a diversified mechanism of public service supply.

## **2.3 How Customs applies holistic governance theory**

Chinese society has gone through major transitions and the government is faced with many challenges, including removing the limitations of the original governance patterns and dealing with the diversity and volume of public service needs. The contradiction between the governance pattern and public demands prompted the government to accelerate its reform of public administration and, at present, China's holistic governance reform is functioning well in fields such as business, finance and banking.

China Customs is an example of these reforms. Through integrating the enterprise information and administrative standards required by all the departments concerned with port management, the construction of a 'single window' (which was firstly applied at Shanghai Pilot Free Trade Zone in June 2014), effectively strengthens the regulatory functions of government departments like customs, inspection and quarantine, maritime and frontier inspection. The 'single window' enables 'one platform, one submission and one standard' of enterprise information and improves the information interchange, supervision, mutual accreditation and enforcement, and mutual help between government departments. The integration of customs clearance was also achieved in 2014 in economic zones such as Beijing-Tianjin-Hebei, Yangtze River Delta, Pearl River Delta and Yangtze River Economic Zones, via a coordination mechanism that simplifies customs clearance procedures, boosts inter-regional and inter-departmental customs clearance, and reduces the burden on enterprises.

The transition of China Customs is not confined to cross-sectoral and internal reforms; it also attaches great importance to the introduction of social forces and the integration of public and private supervision resources. Chinese Customs started early in developing public-private partnerships (PPP), however, the achievements of the reform were extremely few due to the obstacles inherent in traditional administrative practices and the fragmented design. In 2004, Shanghai Customs socialised part of its commodity classification work. After four years of preparatory work, the pilot of social advance rulings on classification was officially completed and its comprehensive promotion continues to progress. In 2005, the Customs Processing Trade Department began to utilise the third-party service.

### **3. The status quo of social advance rulings on classification**

Social advance rulings on classification has generated widespread concern from both the Customs and the trade community since the first pilot in 2007. To date, Shanghai Customs District has successfully implemented a number of innovative measures to improve the service level, including selecting 70 practitioners, 25 of whom have been awarded classification through examination, and 15 being recognised as outstanding staff. At the same time, multiple business modes of social advance rulings on classification with different characteristics have emerged in the market, which has resulted in a number of issues that need urgent resolution, including how to:

- define the target customers of different government agencies
- allocate resources efficiently and rationally
- realise resource optimisation and potential exploitation.

This paper presents in-depth research into import and export enterprises, traditional declaration enterprises and new foreign trade service enterprises. The aim of the research was to: understand the application and internal demands required by import and export enterprises; clarify business entities and development trends; investigate the fragmentations currently existing; and make recommendations for improvements. This research involved interviewing customs officers, visiting import and export companies, and undertaking surveys using questionnaires.

#### **3.1 The development status of the executive entities of social pre-classification**

According to the current market situation of social advance ruling on classification, business can be broadly divided into two modes: the comprehensive service platform mode represented by Jiangsu Huimaotong Corporation, and the business transformation mode represented by Shanghai Xinhai Customs Brokerage Co. Ltd.

**3.1.1 Integrated foreign trade service platform: a case study of Jiangsu Huimaotong Corporation**

An integrated foreign trade service platform has emerged in recent years, which is mostly funded by large enterprises with abundant financial resources and rich foreign trade experience. With foreign trade, business-to-business (B2B) service providers as its executive body, and data sedimentation and cloud computing as its technology base, this kind of business aims to provide one-stop foreign trade services for importers and exporters. Typical examples of this mode in China include: Just OneTouch, owned by Alibaba in Shenzhen; Hui Mao Tong, owned by Guotai in Jiangsu; and Tradx, owned by Chunyu in Shanghai.

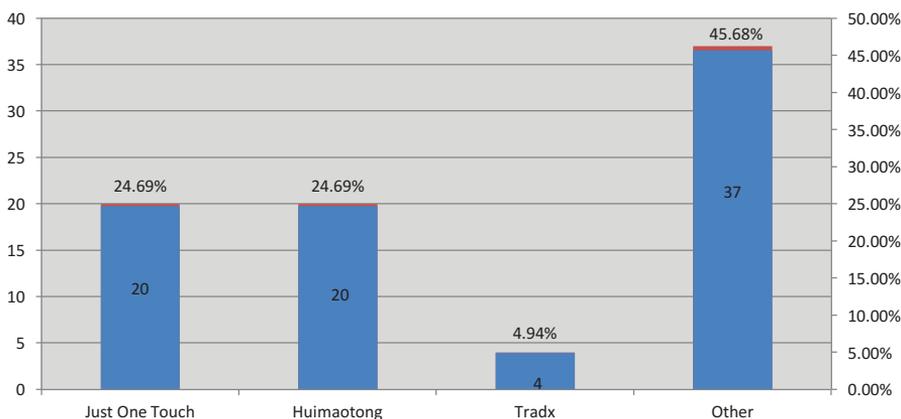
Jiangsu Huimaotong Corporation (Huimaotong), for example, provides one-stop services within the whole supply chain including foreign trade, logistics, and financing for small and medium enterprises (SMEs), foreign trade enterprises and individuals. Acting as the indirect representative unit, Huimaotong uses the internet to generate mass data for its clients (export-import businesses), such as production capacity, delivery, market size, customs clearance and product evaluation. Based on the integration of client data, Huimaotong builds a foreign trade credit system, which provides important reference for the qualification inspection of its clients.

However, since most integrated foreign trade service platform enterprises are still in the preliminary stage of business development, they don't yet possess high credit ratings. The credit grade of Huimaotong is Class B, so it is not able to issue a 'Commodity Pre-classification Opinion' to Customs for lacking of the formal qualification. Hence, it can only provide its clients with advice and reference that do not involve service compensation. Furthermore, most clients of Huimaotong are SMEs with financial difficulties or low Authorised Economic Operator rating, so the types of commodities to be classified can be complicated and come from a wide range.

To understand the development status of integrated foreign trade service platforms, questionnaires were distributed at customs declaration centres in Shanghai Waigaoqiao Free Trade Zone and Jiangsu Zhangjiagang. The questionnaires were randomly distributed to customs declarants, and 68 valid questionnaires were returned.

As seen in Figure 1, the market visibility of integrated foreign trade service platform enterprises is not very high, and most face development issues such as limited customer acquisition and weak marketing promotion. Among foreign trade service platforms in China, Just One Touch and Huimaotong enjoy higher levels of market penetration, with the other platforms gradually increasing their market share.

*Figure 1: Platform enterprises and their market share*

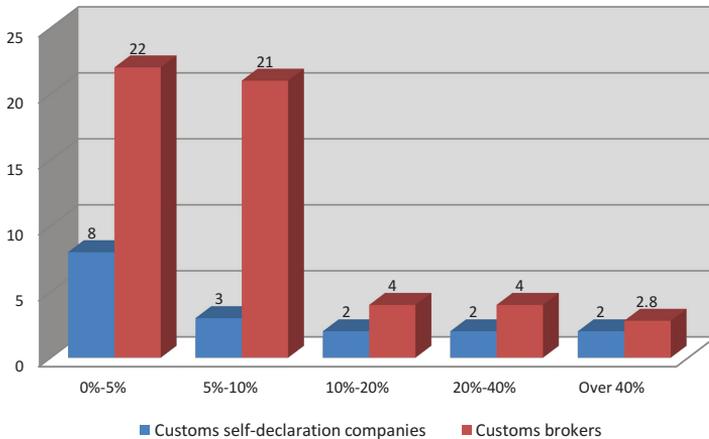


Source: Compiled by the authors.

**3.1.2 Traditional transforming foreign trade service enterprises: a case study of Shanghai Xinhai Customs Brokerage Co. Ltd**

Because of the diversification of customer demands and limited profit margins for individual businesses, many traditional foreign trade service enterprises move from simplification to diversification, expanding to the entire import and export supply chain. With broad customer resources and considerable profit margins, social pre-classification points to a new operation development direction and attracts a large number of traditional foreign trade service enterprises. They begin taking every effort to obtain the business qualification, occupying the market share and opening up channels for profits.

Figure 2: The proportion of operating costs on customs clearance



Source: Compiled by the authors.

Among the 68 companies surveyed, customs brokers are the main type of enterprise, making up 75 per cent of the total sample; the number of self-declaration companies is 17, accounting for 25 per cent. It can thus be seen that the customs broker companies have dominated the entire declaration market in China.

Due to the large operating costs associated with clearing customs (including human, financial and material resources), customs agents dominate the Chinese declaration market. However, declaration enterprises no longer limit their business to customs declarations but diversify their business and develop other services – some even offering a one-stop shop – so that they can consolidate their market position and client loyalty.

Traditional transforming foreign trade service enterprises utilise the popularity of their core business to attract clients. They may provide comprehensive services for their regular clients based on a long-term and stable cooperation. Those who apply for social pre-classification service and obtain the necessary government approval will be granted the qualification by the Chinese Customs Brokers Association. They can charge the service fee after signing the consignment agreement for commodity pre-classification with their clients, but should accept part liability for losses caused by misclassification and return the service charge at a certain percentage.

Table 1: The commodity classification services of Xinhai

| Service item                         | Applicable range   | Utility   | Characteristic           | Validity |
|--------------------------------------|--|---|--------------------------|----------|
| Commodity pre-classification Opinion | Any form of trade  | <ul style="list-style-type: none"> <li>• Upload the number and evidence of commodity classification to H2000</li> <li>• Serve as a management basis for Customs</li> </ul>                                  | Commodity as a unit      | One year |
| Commodity pre-classification Files   | Only for: <ul style="list-style-type: none"> <li>• The record filing for manuals of processing trade</li> <li>• The record filing for HS codes when the credit rating of a business changes from A to B</li> <li>• Other tax-free trade forms</li> </ul> | <ul style="list-style-type: none"> <li>• Upload only the HS codes of the business to the territorial Customs</li> <li>• Customs cannot check the evidence, and treat the file for reference only</li> </ul> | Use Enterprise as a unit | One year |

Source: Adapted from the official website of Shanghai Xinhai Customs Brokerage Co. Ltd.

Shanghai Xinhai Customs Brokerage Co. Ltd (Xinhai), for example, obtains large numbers of customers for its professional service level in customs declaration. To meet the rapid development of new formats in foreign trade, Xinhai began its business transformation and turned to social pre-classification. Xinhai is among the first batch of private enterprises to be qualified for commodity pre-classification in the Shanghai Customs District, having the authority to submit 'Commodity Pre-classification Opinion' to Customs. Currently it has 37 professional pre-classification practitioners, and has already provided its services to over 2000 companies. To take both investment costs and market acquisition into account, Xinhai chose to join with large enterprises from other outsourcing areas to form Oujian Network Development Co Ltd, which strives to build a comprehensive foreign trade service system. However, Oujian is less visible at present because the integrated network platform between each member company hasn't yet achieved official formation.

### 3.2 Fragmentation in social pre-classification

The promotion of social advance rulings on classification not only greatly improves the timeliness of customs clearance and the international competitiveness of import and export enterprises, but also contributes to the diversified development in the construction of executive bodies and business modes. However, it also brings challenges to the unity of operational flow and executive systems, and to the way Customs supervises and manages service providers. In order to promote the sustainable development of social pre-classification and maintain the normal operation of import and export clearance, it has become an urgent concern to accurately analyse and mine the fragmentation of every stakeholder in this emerging business.

#### 3.2.1 Fragmentation of Customs

To Customs, the main purpose of introducing social resources to commodity classification and developing CBP is to build a win-win situation where Customs enhances clearance; the import and export enterprises cut their clearance costs; and the service providers broaden their profit space. Through the field research in Shanghai Customs Policy Research Office and Shanghai Waigaoqiao Free Trade Zone, this paper makes the following three points about the fragmentation of Customs in relation to qualification accreditation, follow-up management and policy implementation.

### **Fragmentation in qualification accreditation**

Commodity classification is an important element of a declaration form. To standardise the management of social pre-classification providers, Customs needs to inspect such factors as firm size, credit rating and ability to confirm their qualification. Since the Domestic Clearance Integration System is still being developed, the standards of pre-classification accreditation in different regions are not yet consistent, which to some extent limits the ability of pre-classification providers to expand their business, and the selection available to those who need the service.

### **Fragmentation in follow-up management**

Besides the qualification accreditation to pre-classification providers, Customs also needs to follow up on the implementation status of the businesses. What's more, with the constant emergence of new trade patterns and commodity types, Customs is required to publicise administrative rulings in a timely manner so as to effectively prevent any classification errors by the providers, and improve clearance.

However, Customs has not yet developed a systematic training mechanism and an open information platform, leaving the management and control towards qualified pre-classification providers in a fragmented state. This does not enhance the administrative efficiency of Customs itself, and puts pre-classification demanders at risk of passively breaking regulations.

### **Fragmentation in policy implementation**

The Customs administrative reform should not only focus on practical results but also the extension of unified implementation across the country. In other words, the reform executors should not pursue depth only, but breadth as well. In terms of the current development of social pre-classification in China, the regions of Shanghai, Dalian, Shenzhen and Nanjing are at the forefront. But in other areas, the business of pre-classification is still blank, resulting in regional differences in business development and fragmentation in policy implementation.

### **3.2.2 Fragmentation of pre-classification providers**

Since Chinese Customs launched the market development strategy for commodity classification, many service providers have expressed their wishes to participate for greater profits. As collaborators and executors of customs pre-classification, pre-classification providers occupy a unique position in promoting the development of trade facilitation. With the use of field interviews and market researchers, this paper identifies points about the fragmentation of pre-classification providers in relation to service objectives and service capabilities.

#### **Fragmentation in service objectives**

The fragmentation in service objectives is mainly reflected in two areas related to corporate customers: one is the distribution areas, which results in different qualification accreditations and recognition; and the other is the type of business. Some mature pre-classification providers with high credit ratings will filter and audit their service demanders before the settlement of contractual relationships, but most grant whatever is requested, neglecting customer selection, misallocating service resources and influencing the realisation of benefit maximisation in the business of social pre-classification.

#### **Fragmentation in service capabilities**

Customs and the Customs Brokers Association are jointly responsible for the service capability audit of service providers applying for qualifications for social pre-classification. This audit mainly consists of two parts: data verification and a job knowledge test. During data verification, pre-classification providers are required to obtain at least an A credit rating. For some businesses with a rich working experience with Customs, the criterion can be broadened. The job knowledge test is uniformly a closed-book test, which tests knowledge rather than hands-on experience. Thus, the defects in the auditing mechanism bring about the fragmentation in service capabilities of different providers.

## 4. Improvement measures of social pre-classification

To effectively resolve the fragmentation of the social pre-classification mechanism, based on the theoretical view of holistic governance, the business strengths of each executive body are analysed to optimise the allocation of service resources and create a win-win situation. This paper proposes a process-reengineering model for commodity classification based on the use of ETCN, an important media for process optimisation and information interchange of customs clearance in China, using both public and private classification service resources and increasing Customs-Business mutual trust and cooperation.

### 4.1 Realising the optimal allocation of pre-classification executive bodies

Due to the lack of unified industry control and the variability of business models, the reasonable and effective allocation of pre-classification service resources hasn't been achieved. This has led to the phenomenon that part of the available resources are left idle. This paper presents the following concepts from the perspective of the business characteristics of service providers and the actual requirements of service demanders, thus achieving allocation on demand and efficiency mobilisation.

#### Customs

As the administrative department in charge of import and export supervision, Customs is the receiver and examiner of an enterprise's commodity classification. In order to ensure commodity classification accuracy and alleviate the conflict between limited administrative resources and growing pre-classification demands, Customs should focus on the business of pre-classification towards new and controversial commodities and release classification decisions in a timely manner, reducing the response time of both intermediaries and enterprises and maintaining the effective operation of the foreign trade market.

#### Traditional transformation of foreign trade service enterprises

Most pre-classification staff of traditional foreign trade service enterprises have professional qualification certifications and acquire strong operational capacity. They are qualified to submit a 'commodity pre-classification opinion' and receive regular professional training, which is organised jointly by Customs and the Customs Brokers Association. Therefore, considering for the rationality of business design, the traditional foreign trade service enterprises that want to transform their businesses have the capacity to handle commodities with complicated formulations and components, which can give full play to their operational capacity and resource superiority.

#### Integrated foreign trade service platform enterprises

With a short development time and temporarily low credit ratings, the integrated foreign trade service platform enterprises lack classification professionals and can only offer enterprises pre-classification opinions for reference at present. For these reasons, they can focus on offering pre-classification services towards those commodities with relatively simple composition and low value.

Based on the actual development of each pre-classification executive body, Table 2 presents a comparative analysis between Customs, traditional transforming foreign trade service enterprises, and integrated foreign trade service platform enterprises from the aspects of business qualification, business working time, service integration, service charge, follow-up services and database services. It presents an optimised model for applicable pre-classified commodity types and customer groups, reconfiguring the supply of pre-classification service and promoting supply-demand matching.

Table 2: Optimal model of pre-classification resource allocation

|  | Customs   | Traditional transforming foreign trade service enterprises   | Integrated foreign trade service platform enterprises   |
|--|---|--|---|
| <b>Business qualification</b>                    | —   | <ul style="list-style-type: none"> <li>• Most have qualifications</li> <li>• Minority can issue ‘Commodity Pre-classification Opinion’</li> </ul>                        | <ul style="list-style-type: none"> <li>• Temporarily have no qualifications</li> <li>• Only offer opinions for reference</li> </ul>   |
| <b>Business working time</b>                     | Slow  | Fast   | Average   |
| <b>Service integration</b>                       | —   | <ul style="list-style-type: none"> <li>• Some provide multiple foreign trade services</li> <li>• Usually limit to old and stable corporate customers</li> </ul>          | <ul style="list-style-type: none"> <li>• Provide one-stop services</li> <li>• No limitation for customers</li> </ul>  |
| <b>Service charge status</b>                     | Without charge  | Charge   | Without charge temporarily  |
| <b>Follow-up services</b>                        | None  | Some provide follow-up services like communication and explanation to Customs  | <ul style="list-style-type: none"> <li>• Directly responsible party for the declaration</li> <li>• Responsible for all clearance operations</li> </ul>  |
| <b>Database services</b>                         | None  | Few  | Have  |
| <b>Key commodity types of pre-classification</b> | <ul style="list-style-type: none"> <li>• New-type commodities</li> <li>• Controversial commodities which are difficult to coordinate</li> </ul> | <ul style="list-style-type: none"> <li>• Commodities with complicated formulations and components</li> <li>• Some controversial commodities but can be solved</li> </ul> | <ul style="list-style-type: none"> <li>• Commodities with relatively simple composition</li> <li>• Commodities with low values</li> <li>• Commodities that have achieved unified opinion</li> </ul> |
| <b>Applicable enterprise types</b>               | Emerging enterprises  | Enterprises with changeable product ranges   | Enterprises with stable product ranges  |

Source: Compiled by the authors.

## **4.2 Refining the process construction of ETCN—the interactive platform for commodity classification**

Using holistic governance as the guide, and computer technologies and electronic platforms as the means, ETCN (the national pre-classification service platform led by the Tariff Policy Department of GACC and CCBA), passed quality acceptance on 28 April 2012, and was formally launched on 30 August 2012.

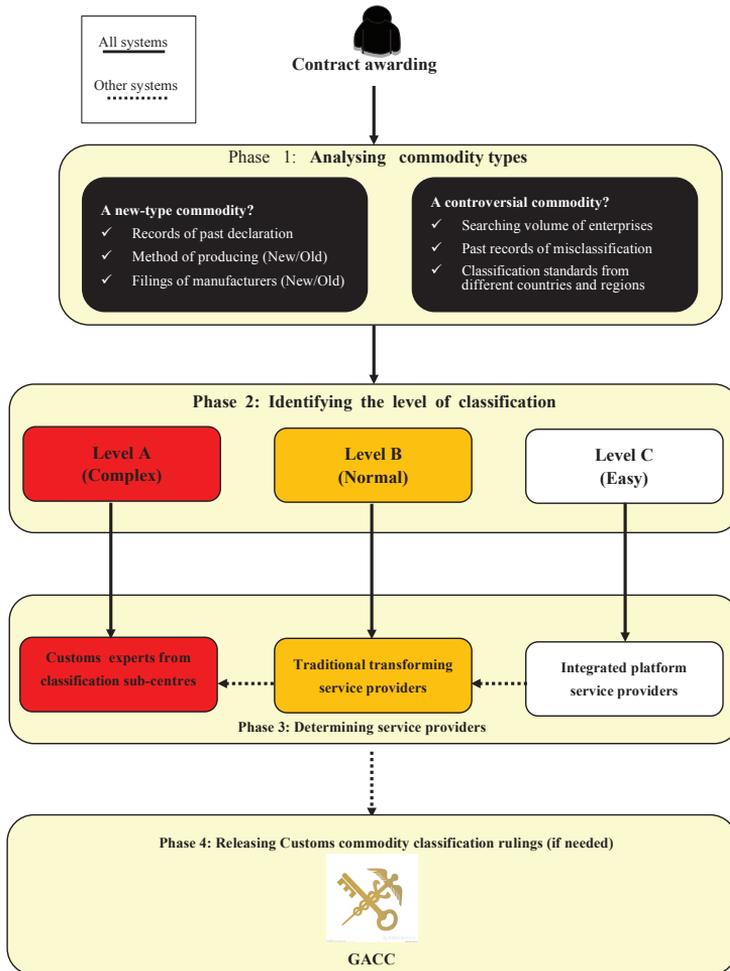
ETCN has the function of providing timely filing towards commodity data that is used for classification. The results of classification can be transmitted to the H2000 system of GACC and the local Customs office network, effectively promoting the pre-processing of examination exercise and the unity of classification results from enterprises and Customs. In addition, the platform is currently the only certified service platform for national commodity pre-classification. It realises the integration of interactive operations, including service demanders, service providers and CCBA, and combines featured items like expert online consultation, clearance site tracking and intelligent classification, promoting business facilitation and information integration.

At present, the platform positioning of ETCN is to serve intermediaries and foreign trade enterprises, providing a network channel for developing contractual and cooperative relationships. However, it does little to promote the holistic governance of commodity pre-classification, especially the decisive process designed for some of the new and controversial commodities.

Holistic governance theory emphasises the application of digital information technology. It advocates that governments use modern technology to master more information and establish information databases, improving the efficiency of government decision-making and the quality of public services, and realising e-government reforms.

In order to consolidate the Customs-Business governance model and promote holistic governance in commodity classification, the construction of ETCN needs further updates and modifications for comprehensive online professional resources and optimised business processes. Figure 3 presents an optimal procedural model for commodity pre-classification for service demanders, service providers and Customs.

Figure 3: The optimised workflow design of ETCN



Source: Compiled by the authors.

#### 4.2.1 Analysing commodity types

ETCN can further divide online pre-classification providers into local customs, traditional transforming foreign trade service enterprises, and integrated foreign trade service platform enterprises and determine their working scope respectively. Combined with multiple factors like novelty, controversy and structural complexity of import and export commodities, the type of the commodities released on ETCN by foreign trade enterprises seeking classification can be analysed through database searching. In this way, the pre-classification work for a certain commodity can be given to certain service providers. Thus, ETCN is able to realise on-demand allocation and strategic alignment of pre-classification services, promote the optimised service supply and give full play to all pre-classification resources.

#### 4.2.2 Introducing customs experts

For those controversial commodities with high search volume and operating difficulty, ETCN can introduce experts from the Customs Classification Sub-Centres for professional advice. However, it is worth noting that ETCN has not yet carried out the online work of customs classification experts for genuine government risks at this stage. The current pre-classification experts on ETCN are mostly enterprise experts with national pre-classification qualifications and rich practical experience. As the examining body of import and export commodity classification in the link of artificial documents examination, the customs classification experts obviously have more professional advantages than enterprise experts. By rationally defining limits for service demanders to have direct consultation with customs classification experts, ETCN can effectively reduce integrity risks while improving operational accuracy and customs clearance efficiency.

#### 4.2.3 Establishing feedback mechanisms

For complicated and new types of commodities for which different local customs have different classification opinions and, therefore, there is no standard classification, ETCN can transmit the specific commodity data and information to GACC to promote the timely release of Customs commodity classification decisions, thereby improving the flexibility of imports and exports and customs clearance operations.

Social pre-classification is an innovative reform to accelerate functional transformation of Customs, enhance the efficiency of customs clearance and open up emerging markets for intermediaries. Faced with various fragmentations appearing in the new development of such businesses, holistic governance theory helps to direct the development of Customs-Business partnerships and provides a solution to the contradiction between supply and demand of Customs public services.

In the process of applying holistic governance theory to commodity pre-classification, the social roles and business models of each party need to be clarified, public and private resources need to be appropriately allocated, and business channels and communication platforms for every stakeholder need to be developed.

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**Xinyi Ye**



Xinyi Ye is a junior student majoring in the Department of Customs Management at Shanghai Customs College in China. Currently, she is responsible for a major research program on Customs-Business partnerships (CBP) and holistic governance in the 2015 University Students' Innovation and Pioneering. As the third author, her paper 'Holistic governance applied in regional integration on the perspective of regional integration' was accepted at the 2nd International Conference on Management Science and Management Innovation (MSMI 2015).

**Shujie Zhang**



Shujie Zhang is Acting Director, Department of Training, Shanghai Customs College. He was Technical Attaché in the WCO Asia Pacific Regional Office for Capacity Building (ROCB AP) in Bangkok from 2007 to 2012. Shujie is a WCO accredited expert in customs modernisation, TRS and trade facilitation and has conducted a wide range of capacity building activities in many countries.

**Caihong Hou**



Caihong Hou holds a Doctor of Management and is Associate Professor at the Department of Customs Administration, Shanghai Customs College, China. She is actively involved in researching complex system modelling, operational research and computational intelligence. Her paper, 'Reflections on Client-Oriented Customs Collaborative Governance', was published in the *Journal of Customs and Trade* in 2015.