

## **Implementation of Risk Management in China Customs**

Ever since the reform in Mainland China, especially in the recent decade, China has witnessed rapid development of foreign trade. In 2004, China Customs totally supervised 2.07 billion tonnages of import and export goods worth US\$ 1155 billion, 34.64 million entry transaction, vehicles and airplanes and 232.59 million passengers which were respectively 9.9 times, 8.27 times and 10 times of those in 1990. The Customs workload has been increasing rapidly, but at the same time the central government requires us to better relocate our available resources, streamline our internal structure, minimize the staff scale and improve the efficiency. It is realized that the increase of the Customs staff can never catch up with the increasing working load. Now, with a 42,800 working staff, we are seriously challenged by the contradiction between the increased volume of trade and the shortage of the resources.

On the other hand, along with the economic globalization, the government, traders and passengers expect that the customs operations could be more efficient, the procedures more simplified and the cost lower. At the same time, it is even more pressing for the Customs to effectively carry out the policies and regulations. China customs, as the Customs of various countries in the world, is being confronted with the

same challenge, which is rigorous control, but better service; strictly executing the law, but highly efficient operation.

Risk management provides us with the opportunity to solve the contradiction between effective control, simplified procedures and facilitated international trade. Risk management has turned to be the common choice of world Customs for facing challenges, solving the contradiction and releasing the pressure.

## **1 Brief Review of the risk management development of China Customs**

There are basically three stages in the development of China Customs risk management, including the period of introduction, practice, and further development.

### **(1) The introduction period (1994-1997)**

The core of this stage is the introduction of the concept and the method of risk management and its study, establishing the data check and analysis system of China Customs, belonging to basic construction of risk management.

The year of 1986 witnessed the initial set-up of “Red and Green Channel” in Luohu Customs House subordinate to Shenzhen Customs District, and the targeted and regular checks were carried out to entry and exit passengers. At the same time, the operation model of limited random check was implemented, by which the concept of simple random check

was initially introduced.

During the middle of 1990's, with the initiation of theoretic research of establishing the modern customs system, China Customs came to pay attention to the practices and experiences of customs of some other countries such as America, Holland, Australia. We began to learn from foreign countries of advanced management theories and techniques including risk management.

The achievements we made during this period include: firstly, introduced and basically established the customs audit system, which strengthened the prevention and control system of post-clearance risk; secondly, advanced the automatization of clearance processing, and by the mean time, developed CTA, which is an inquiry and analysis system of distributed data based on RDB, to support the follow-up risk analysis and control and lay a foundation for the effective implementation and specific application of risk management; thirdly, set up special data analysis departments at the headquarter and in regional customs as well, which helped to form the professional risk management team.

## (2) The practice period (1998-2002)

The core of this stage is the comprehensive application of risk management with the establishment of the risk management system as the objective.

In 1998, the first step strategy of China Customs modernization came

into force. Being an advanced management ideology and technical method, risk management was applied to reform the clearance models and reconstruct the processing. During this period, China Customs set up the channel-selecting decision-making system based on the initial risk identification of transaction. We designed Risk Profiling and Targeting system applied to risk identification and classified treatment in processing, and Risk Information Management Network used to collect, process and release early-warning risk information. Meanwhile, in order to enhance the processing control and the general management, we also developed series of computer management systems such as Tariff Analysis and Control System used to trace and analyze the tariff situation and price tendency, and Law-enforcement evaluation system based on Statistics Analysis Techniques used to help macroscopically detect the risks of law enforcement corruption, and Performance Analysis and Monitoring System for follow-up control and microcosmic analysis of the law enforcement.

According to the practices at this stage, risk management techniques began to be widely implemented in all fields of the customs management, thus greatly improved the management efficiency. However, risk management was yet mainly limited to the application of information management and data analysis techniques. What risk management emphasized on was still the level of tactics that aimed to the imports and

the risk treatment of site processing. Its strategic power was not taken full advantage with regard to reorganizing customs management resources, improving the whole efficiency of risk prevention and control, and harmoniously consolidating the surveillance and service.

### (3) The further development period(2003-2010)

The core of this stage is the full application of risk management as the core of the second step of the development strategy, rolling out customs risk management in an all-round manner.

With the entrance into WTO, Chinese economy is rapidly merging with the world economy system. Customs management is facing tremendous pressure and challenges with the rapid growth of foreign trade. Under new circumstances, China Customs **set** up the second step strategy plan of customs modernization. Taking the application of risk management as the core, the second step strategy aims at omnidirectional reformation and innovation of management systems, management modes, and management methods, by means of reorganizing management resources including organizations, information, techniques, and manpower etc. With the implementation of the second step strategy, China Customs can therefore further improve the management effectiveness and efficiency, effectively prevent and control the smuggling and non-compliance risks, and accommodate the economy globalization and the rapidly developing Chinese economy.

Since 2003, China Customs has completed the following items:

- formulated the strategic plan(2004-2010) of advancing risk management all around, and is drawing out enforcement options in details.

- by using information technology such as Data Warehouse, OLAP, Web , Business Intelligence, and Data Mining, developed the general database and the first stage application module of Risk Management Platform(a computer system supporting risk information management and data processing and analysis), which grounded to the reorganization of the existing dispersive analysis systems , and the realization of full sharing of information and management results. At present, the platform has been applied all around.

- developing Intelligent Risk Identification & Selectivity System used to intelligently identify and determine site processing risks, and Trader Credit Measurement/compliance Assessment System used to manage the traders based on its credit grade and risk level, which supported the next reorganization and innovation of clearance processing mode.

- initiatively set up the system of routinely analyzing and monitoring general management, which is used to prevent and control the risks of the focus management objects, so as to further lighten the clearance workload, extend the time and space of surveillance, and reinforce the system of risk prevention and control as well.

## **2. Consideration about risk management philosophy**

With regard to the practices and experiences in recent years, I individually suppose customs should pay attention to the following:

### **(1) Define a scientific management concept and conduct mode**

Risk management concept will be penetrated into every part of customs operations and specified as the characteristics of the thinking manners and operation principles. So, we should abandon the traditional thought of controlling everything, and establish a new management philosophy of preventing and controlling the key risks.

Firstly, affected by factors like society, politics, economy, and culture at particular times, the emergence of risk can not be dominated by human beings. Consequently, what we can do is only to reduce, rather than totally extinguish the loss or injury caused by risks, as Mr. Zhu Rongji, the ex-premier of China, said that there is no eventual victory in anti-smuggling. Secondly, the fact that risks keep changing all the time and the likelihood of risks is always uncertain decides that we can not identify and thus extinguish all risks. Otherwise, the experiences of China Customs in recent years also reveal that we must “do what we can do, but should not do what we cannot do (有所为和有所不为)” in the process of implementation of risk management in customs field.

As to conduct mode, we should take risk management as an important part of customs culture in new era. Risk management should be step by

step turned into one significant aspect of management idea, management system, management mode, and conduct mode, thus to consolidate with customs management in all round. During the course of evolving risk management , we have found from time to time that risk management dissociated from other concrete processings.

## (2) Concentrate on the risk management levels in practice

Applying risk management in customs services aims at effectively preventing and controlling the risk of smuggling and non-compliance. The same as any other kind of management, risk management also emphasizes on maximum security with minimum cost. Thus much determines how we should objectively and systematically evaluate the effectiveness of risk management, and thoroughly understand the significance of applying risk management.

In the early period of advancing risk management, we basically focused on the level of tactics and micro aspects. We concentrated more on the effectiveness of risk treatment to particular imports at site, for instance, the rate of seizure of inspection. But tactic risk management can not settle the conflict between the increasing workload and the limited management resources. Neither can lighten the workload at site and improve the effectiveness and efficiency of risk treatment as a whole. Nowadays, we consider much of the strategic aspects of risk management, which means to focus more on reorganizing the management resources of

all levels and departments, enhancing the integrity and harmony of risk management, and pushing forward the innovation of system and mode by implementing risk management ideas and methods. For instance, whether the processing distribution is reasonable or not, whether the clearance efficiency has been improved or not, and whether the risk treatment is suitable or not, etc. I believe it is the same reason that WCO has listed risk management technology into Kyoto Convention, as well as APEC has taken risk management as measures for trade facilitation.

### (3) Combine information technology with construction of mechanism

Risk management involves all fields of customs management. The enforcement of risk management must base on the extensive application of information techniques. In order to make full use of the limited resources and maximize the share of information and improve the whole effectiveness of risk management, generally planning, partly designing, and steply implementing should be taken to avoid the isolation of different application systems. No matter how useful the system is, it is only a tool which can not be brought into force without human beings. Hence, on one hand ,we shall pay attention to the innovation of techniques and methods; on the other hand ,we shall set up a coordinating operating system involving different levels and departments which focuses on every process of risk management including data and information collection ,risk analysis and assessment , risk treatment, and

effectiveness evaluation.

### **3. Consideration of risk management pattern**

Firstly ,I give you a summary of the risk management strategy design of China Customs

Based on the actual conditions of China's economic development and the practices of risk management in recent years, we assume that the focus of risk management is at the level of strategy, that is to say, to boost the innovations of procedures, modals and processes by adoption of risk management. Only by this way, we can solve the contravention between increasing volume of business and the shortage of management resources. So, based on the experience and practices in the last few years, China's Customs further develop the comprehensive strategy of risk management for 2004 to 2010.

Strategic object:

One system: Importer/exporter Compliance Assessment system.

One mechanism: Risk Management Coordination Mechanism within Customs Management.

One platform: Customs Risk Management Platform.

The "one system, one mechanism, one platform" mentioned above complementarily form a complete organic body and jointly establish the general framework of China Customs risk management system.

(1)promote the work of classified clients management, to move

forward the innovation of management procedures and business pattern.

Customs' approach to managing its work through both traders and its transactions rather than individual transactions overwhelmingly is the central focus of trader compliance process. It weaves its way throughout the entire risk management process. By comprehensively evaluating the risks of a trader and its goods, we put the classified management into force, further simplify and optimize the existing pattern of controls and business processes, to furthest improve the movement efficiency along with control effectively on the spot.

(2)develop routine risk analysis and comprehensive management mechanism, to keep away and control main risks.

By enhancing pre-entry analysis and post-clearance audit, we carry out routine and tailored controls on the traders and goods, which will influence the steadiness of our country's economic order, play unique roles in the key industry and in the custom's management, therefore selectively controlling main risks in customs management and furthest lightening the pressure of on-the-spot controls.

(3)introduce taxation insurance system and utilize market mechanism, to dissolve main customs management risk.

Based on the existing guarantee system, we seek to develop taxation insurance system beneficial to compliance and facilitation, to effectively dissolve risks, especially taxation risk, which are confronted with

customs by market mechanism, and to provide more smooth & quick movement services to traders which enter into taxation insurance. Besides the measures above, we should use developed countries' advanced practices and experience for reference, to further improve classified risk control mechanism, to simplify business processes, to extend the time and space for controls, and to realize classified management for different styles of risks.

(4)improve our risk management organization, to intensify the integrity and synchronicity of risk decision-making and treatment.

(5)communicate and cooperate intensely with all related parties, to promote comprehensive risk treatment.

We will better communicate and cooperate with international organizations such as WCO, all related customs administrations, domestic enforcement and management sectors, trade associations, key traders and the press, develop the shared mechanism of traders' credence records and the mechanism of comprehensive management, to promote social comprehensive management and to furthest contract the living space for non-compliance traders.

(6)integrate and explore the risk analysis methods and techniques, to improve the level of modernization of information and intelligence.

We will integrate the current auxiliary decision-making business systems which are comparatively independent, develop centralized and

uniformed risk management platform at the level of Customs General Administration of China and customs districts, to provide effective media and tools for cooperation and communication on risk control in the whole customs territory. Meanwhile, we will improve the risk selectivity mechanism of business transaction systems, further the intelligent level of risk identification and analysis.

(7)intensify faculty construction, build up a trans-level and trans-division team of risk management specialists.

While intensifying the philosophy of risk management among all customs officials, we will come to develop reasonable classified position procedures and training systems suitable to risk management, in order to create good institutional and learning environment, which is vital to foster a risk management team of professional and qualified customs officials.

Secondly, I introduce our risk management organizational structure/two-level center for risk analysis &monitoring.

We have establish two-level risk analysis and monitoring center in customs administration general and customs district, to fortify fore-and-aft and transverse harmony and control at aspects of risk information, analysis, evaluation, treatment and etc, to promote the same and comprehensive treatment for the same risk in the whole customs territory, and to improve the overall efficiency and effectivity of risk controls.

#### **4. Risk Management Tool**

In the process of risk management, in order to improve risk management information and automation level, China Customs pays great attention to the application of information technology and analysis tools. At present, the application systems that customs are using in the risk management are mainly as follows:

- ☐ Channel decision-making system
- ☐ Risk profiling and targeting system
- ☐ Law-enforcement evaluation system
- ☐ Tariff analysis and control system
- ☐ Customs risk management platform

##### **i. Channel decision-making system**

Channel decision-making system was developed at the beginning of 1998. According to the pre-set indexes concerning customs control, duty collection, trade restriction, risk index and etc., this system can distinguish, check and verify the declared electronic data. Basing on 3 channel standards in customs clearance procedures, automatically the declaration data can be distributed to different channels including Red channel (Verification by means of actual physical inspection, The goods are released after verification), Orange channel (expert document processing, global checkup & verification by means of electronic data with the possibility of actual physical inspection, The goods are released

after verification), and Green channel (on-spot (gate) releasing, by which the classification management and graded control of the declaration data was realized, or general verification with the possibility of further verification by means of documents and electronic data, the goods have already been released).

#### ii. Risk profiling and targeting system

Risk profiling and targeting system was developed at the beginning of 1998. This system can allocate risk objects, range profiling standards and deliver risk treatment instructions before the arrival of the goods or at real-time document processing. As a result, computer application systems can spot the profiled targets among the declaration data during the customs processing operation of clearance control, inward processing trade control, transferring transportation, manifest management, enterprise management etc. Correspondingly, risk treatment or risk warning will be delivered in relevant positions or spots.

#### iii. Law-enforcement evaluation system

The law-enforcement evaluation system was developed at the beginning of 1999. By using the professional statistical analysis system (SAS), the statistics analysts may conduct quantitative evaluation and macro-analysis on smuggling scale, quality of duty collection, control level of the entry/exit goods and the inward processing trade in the whole country or partial controlling sectors, so that the abnormal phenomenon,

the existing problems and flaws in the customs control can be found, and the clues can be spotted for risk identification and analysis.

#### iv. Tariff analysis and control system

Tariff analysis and control system was developed at the end of 1999. This system applies the database and data-searching techniques. The analysts of duty collection can analyze the structure of the imported good, tariff sources and duty collection and etc of the whole or some parts of the country, and evaluate the law enforcement level of duty collection and customs evaluation. In addition, through the comparative analysis, the analysts can find out price fraud information of the imported goods which provides the clues and reference for researching and drafting the price risk indexes and auditing the suspected enterprises of price fraud.

#### v. China Customs Risk Management Platform

The risk management platform was completed at the end of 2002. This platform consists of two modules.

One is “information management” module that serves the information promulgation, experience exchanges, business training relevant to risk management and the collaboration and coordination in risk analysis and risk treatment.

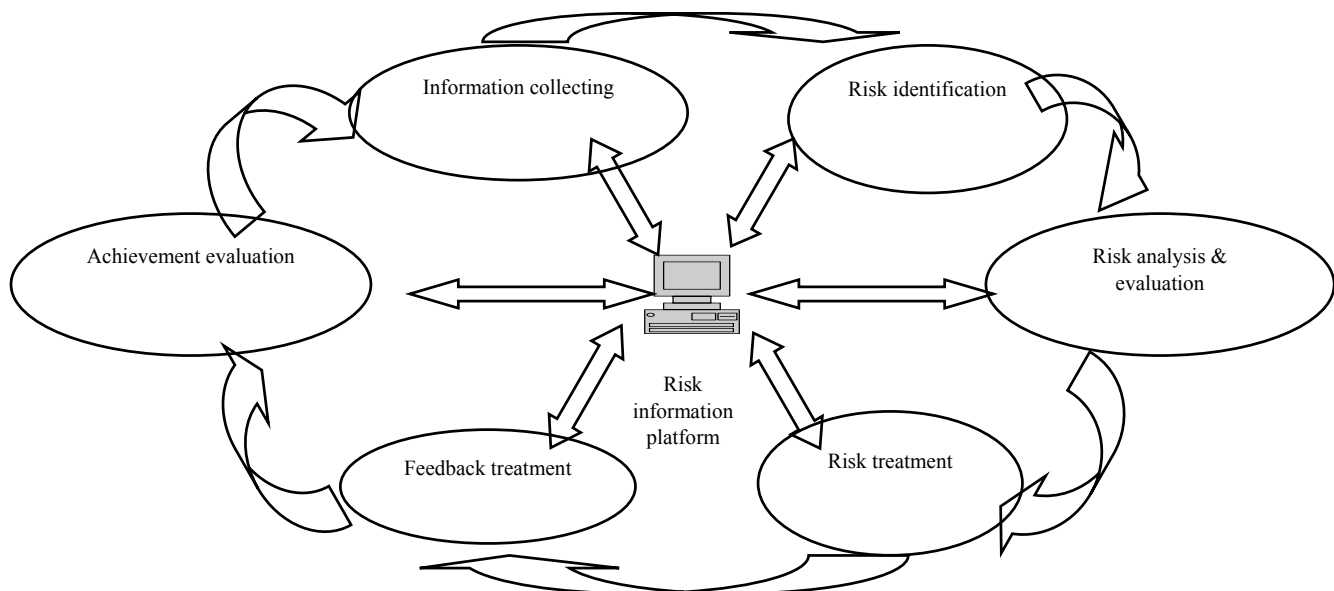
Theoretically speaking, it is a website of risk management of China Customs similar to such websites as “Sina” and “Sohu”.

Specifically speaking, “information management” includes: risk

information processing, processing of risk analysis and treatment, risk management communication, security management, system maintenance and etc. altogether 7 categories and 29 functions.

The other is “data application” module that mainly serves as a tool for users to enquiry data and conduct risk analysis online.

“Data application” includes: data quality management, report & graph analysis, trader information enquiry & analysis, customs operation /risk monitoring, online data analysis, risk profiling and targeting monitoring, performance evaluation, synthetic data enquiry, security management, system management and etc. altogether 9 categories and 339 functions.



Nowadays, Risk management platform plays an active role in strengthening post-entry control, regularizing corporate operations and

combating smuggling activities and etc.

In 2004, thanks to the market investigation, trade investigation, smuggling intelligence and risk analysis through the risk management platform, 5820 cases of smuggling or suspect of smuggling were seized nationwide, valued at 6.41 billion RMB. At present, 0.36 billion RMB has been handed into the state coffer.