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Profitability assessment of import from China

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To myself

前言

由邓小平在８０年代后期创建的改革开放计划，深刻的改变了中国的经济结构。经济改革使得贸易更自由，减少国家对经济的控制。
这一计划使中国从一个孤立经济落后的国家，成功的变身为国际化市场。海外的直接投资和国际贸易化的开放，使得中国成为世界上最大的制造业中心。很多海外企业将生产转移到中国，利用当地的经济和财政优惠最大程度地提高成品收入。低廉的劳动力和原材料成本是在中国投资的主要原因。同时这些条件使中国公司可以在市场上提供有竞争力价格的产品从而吸引更多的客户。巨大的供应和中国市场的最低价格是我们国家和其他欧洲国家进口中国产品的真正原因。 意大利市场，特别是服装和电子行业，已经饱和了中国制造的产品。 意大利公司购买原材料，半成品和成品，然后转售，目的是赚更多钱。

今天，中国不仅通过提供有利的价格，而且通过让他们参与合作和开发项目来吸引贸易伙伴。
现任国家主席习近平，是计划投资基础设施和技术部门的推动者，特别是他在２０１３年启动了一带一路项目，意大利也有加入。该项目的根本目的是为了增强贸易流量和进出口流程，加强和欧亚大陆各国的发展和联系。该计划的实施不仅会促进国际贸易，也会促进中国和意大利之间的交流和货物交换。此外，通过创新和最新一代连接系统，两国之间的时间和距离将减少，促进交流和进出口过程.

综上所述，论文最开始的部分重点描述了中国经济的发展水平，中国在国际上的作用，特别是中国和意大利的经济关系。

在对当前中意经济关系进行总体分析后，第二章介绍了该项目的主体，即从中国到意大利的进口过程。从中国进口产品需要了解对外贸易的领域和谈判的经验，但是首先要知道如何做到这一点。因此第二章阐述了进口过程的基本步骤， 如果想要成功从中国进口货物，进口人首先需要选择合适的中国供应商，与谁建立信任和相互合作的关系，确保产品质量符合欧洲标准，分析样品并进行必要的检查。

供应商的选择以及建立信任，透明度和相互忠诚关系是良好管理所有进口操作的基础。

买方必须提供订购物品的详细清单，以避免错误或者误解，并且要求供应方一些样品以检查质量和符合欧洲法规。

这是非常重要的一个方面，因为如果产品性质不符合欧洲标准，产品就不能进入欧洲市场所以买方必须告知中国供应商确产品保符合这一标准。在双方同意并遵守以上条例之后，买方可以进行或组织检查，以检查生产趋势和产品质量。

检测一般分为三个阶段：样品检验、 生产检验和包装运输前检验。三个阶段中，第三阶段还包括了检验适合产品类型的包装，包装运输前检验对于买方接受货物起着决定性的作用。

在解决运输问题之前，第三章重点介绍了公司决定从中国购买商品的时候必须承担的成本。本论文除了为决定从中国进口的人提供实用指南外，还强调了与此程序相关的成本。真正的目标是了解中国产品的低价格是否足以决定在中国而非意大利购买的经济便利性。中国市场比意大利市场上提供了更具竞争力的价格，这也是意大利公司在中国采购的原因。但是，考虑到产品的购买价格是有还原性和危险性的。除了充分了解实际，管理和官僚方面外，进口商还必须评估与进口过程相关的成本和风险。

第三章的第一部分重点介绍了与仓库管理的成本以及中国供应商要求的最小订单数量约束。本章的第二部分从财务角度分析了成本的影响。基于在中国而不是在意大利供应自身的选择，考虑了对营运资本的不同影响。进口商必须有足够的流动资金来支付运营成本，如运输成本、货物保险费、关税成本、库存成本和人员成本等。进口公司必须评估营运资金的需求，以支付货物成本和额外成本。 成本和时间是影响营运资本要求和便利性估值的两个因素。 从中国进口货物的选择不仅扩大了订单和货物到货之间的时间，还扩大了向供应商付款和销售产品之间的时间。 更长的时间需要更多地使用营运资金，也会延长现金流周期。 这个概念将在第三章中用图表来说明。

然而，任何企业的目标都是评估投资的经济优势，但最重要的是要对投入的资本进行赔偿。

最后一章涉及运输专题。特别是，它提供了组织中国货物所需的所有信息，澄清了所有必要的文件，国际贸易术语和付款方式。

最后，最后一部分着重于通关实践，以免忽视进口商必须考虑的关税以及增值税的义务和应用。

最后一部分侧重于货物的清关做法，突出了进口商承担的最终费用部分。在清关时，进口商必须支付根据所购商品的价值计算的关税相关金额。这个论文的内容提供了一种关于进口过程的信息指南，同时提供了与此操作相关的成本估计。

痛过从财务角度分析成本的影响，建议包含三个重要变量的公式，以便对中国而非意大利的购买便利进行经济评估。

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INTRODUCTION

The awakening of the Chinese dragon occurred when Deng Xiao Ping (邓小平) took command of the country in 1978, after the death of Mao Zedong (毛泽东) (1976).

The program of reforms and economic openings devised by Deng has reversed the fate of the country, marking the beginning of a new era. Thanks to the dismantling of the centralized and ineffective economy, China has moved from a situation of backwardness, underdevelopment and closure to being one of the main world powers with the highest growth rate in the world. Internal economic reforms and international openness have allowed the metamorphosis of the country's social, political and economic structure. Furthermore, China has tried to attract foreign investment as much as possible, offering tax and customs conditions particularly favorable to foreign operators, especially in the so-called special economic zones.

Tax concessions, cheap labor and low-cost raw materials continue to represent the reasons why many companies decide to relocate production or buy wholesale in China.

The great Asian giant, in addition to representing an attractive market especially for Western countries, plays a predominant role in the international investment sector. Today, China attracts its trading partners not only by offering them favorable prices but also by involving them in cooperation and development projects.

Xi Jinping (习近平), the current president of the People's Republic of China aims to realize ambitious projects aimed at a radical renewal of industry and commercial connections. One Belt One Road project proposes the relaunching of the Silk Road with a view to constructing a new network of connections to boost trade flows. OBOR is a project launched in 2013 with the aim of investing in the infrastructure and technology sector to intensify the connections and exchanges between the countries included in the Eurasian belt.

At the same time, the great Chinese dragon aims to transform the industry with the realization of the Made in China 2025 plan. A plan that focuses on industrial modernization and technological progress aimed at improving the international competitiveness of the manufacturing sector by 2025, through robotization and automation.

The design of these projects derives from the desire to transform the country into the future leader of the new industrial revolution 4.0 focused on smart manufacturing and at the same time reorganize the supply chain thanks to the political and institutional tools envisaged by the OBOR project.
The modernization and the installation of new routes and lines of communication will increase the flow of exchange between countries within the Eurasian belt but above all it may be a potential solution to multiply the processes of importation and exportation between China and Italy. Relations between Italy and China have always been based on a stable and peaceful relationship and at the same time trade is growing.
China represents a real pillar for some sectors of the Italian market, in particular for the clothing and electronics sector, which are now saturated with Made in China products. The inability of Italian prices to hold competitiveness with Chinese prices has led many companies to import products from China instead of buying them in Italy. This consideration closes the first chapter, which after a presentation of the economic development of China, of the commercial relations between Italy and China, introduces the concept of import, explaining the reason why many Italian companies prefer to stock up in China rather than in Italy.

The whole thesis focuses on the process of importing from China to Italy, highlighting all the aspects that the importer must consider when deciding to buy goods from China.
The second chapter outlines the initial steps to be followed including supplier selection, the importance of compliance with EU standards, sample control and inspection steps.
A careful selection of the supplier and the establishment of a relationship of trust, transparency and loyalty are the basis for a good negotiation, but above all limits the risk of running into unpleasant surprises or running into scams. In addition, the requests of the importer must be clear and comprehensive immediately, he must provide a detailed list of the product he intends to order and above all require compliance of the products with European standards. This last aspect is very important because if the characteristics of the product do not comply with European standards, they cannot be introduced into the market.
After having agreed the conditions and rules to be respected, the buyer can carry out or organize inspections to scan the production progress and the quality of the products. Usually they are divided into three phases: pre-production inspection, during production inspection and pre-shipment inspection. Among the three, the pre-shipment inspection is

decisive for the acceptance of the goods by the buyer and also includes the verification of the use of an appropriate packaging to the type of product.

At this point, before addressing the transport dynamics, the third chapter highlights the costs associated with all the operations envisaged to make an import from China.

This thesis is committed to offering a sort of practical guide regarding the dynamics, operations and documents necessary to make an import from China to Italy and at the same time provides an account of all the costs that the importer has to bear.

The initial part of the third capital focuses mainly on inventory management costs and on the Minimum Order Quantity constraint imposed by Chinese suppliers. Then we enter into the heart of the thesis in which the impact of costs is evaluated from a financial point of view, in particular the change in working capital requirements based on where the company decides to buy the goods. The price of the product is not sufficient to decree the convenience of buying the goods in China rather than in Italy, for this reason a formula is suggested containing three variables to be analyzed to make an assessment of economic convenience.

Another preponderant factor in the evaluation of convenience is time.

In addition to not underestimating the dose of additional costs, the company must calculate the timing required to import the goods from China. Different times for receiving the goods can influence the cycle of the working capital and consequently the capital needs to be invested. In this regard, the company that decides to import from China must consider the thirty days of shipping and an high exposure to the risk factor. Possible delays in delivery, hitches during transport, damage to cargo and complications in customs prove an increase in costs and an extension of the time of availability of goods with a consequent negative reflection on the company.

Finally, the fourth and last chapter takes up again the discussion on the practices related to transport. Specifically, the methods of shipping, the Incoterms, the documents necessary to make a shipment, the payment methods and the various transport phases are described.

Importer and exporter must manage the transport and shipping operations and take responsibility for the load according to the agreed commercial terms.

The final part focuses on the customs clearance practices of the goods, highlighting the portion of final costs borne by the importer.

CHAPTER 1. The growth of Chinese market and trade relation with Italy

1.1 China's economic development

In the last thirty years the Chinese economy has experienced a real economic boom, which has allowed the country to become the second largest economy in the world, to increase economic well-being and to bring millions of citizens out of poverty. The openness towards foreign countries and the economic and social reforms undertaken since the end of the '70s have triggered a path of constant growth. Between 1949 until late 1978, China was a Republic founded on a Soviet Style, meaning with a centrally planned economy. After Mao Tse Tung[1] died in 1976, with Deng Xiaoping[2] the economy has been gradually transformed. China's 1978 reform and consequent （门户开放政策）open door policy have strongly influences the pattern of Chinese trade and have contributed to the development and growth of the Chinese economy. In 1978 China foreign trade and investment began to rise. The economic reforms promoted by Deng Xiaoping have transformed a country with a strong agricultural component in the manufacturing center of the world.

Due to the openness, foreign trade became a new major focus, leading to the creation of Special Economic Zones. In order to attract investment and promote the growth of the country, the first Special Economic Zones were established. These areas offered a wide range of incentives, tax breaks and flexible measures established by the government. Greater flexibility in the organization of work and planning has promoted the establishment of mainly export-oriented manufacturing companies. The first SEZ set up from Deng in '79 in Shenzhen transformed the fishing village of the era into a hub for fast-paced exchanges.

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[1] Mao Tse Tung, was the leader of the Chinese Communist Party from 1943 until his death 1976 and founder of the People's Republic of China in 1949. He is known for having profoundly marked the history of the country with its politics, its dictatorship and the Great Revolution. cultural.

[2] Deng Xiaoping (1904-1997) was the pioneer of Chinese economic reform. Under his leadership, China opened its doors to the rest of the world with the liberalization of trade.

FDIs reached the peak in the 1990s, when China was in the middle of an economic expansion. Due to the Asian crisis in 1997 the domestic demand, export growth dramatically decreased and a domestic price deflation occurred. A dramatic slowdown hit the economy, the levels of the foreign direct investment started to fall, until the Chinese government decided to negotiate the terms for WTO[3] accession. Foreign firms restarted to expand their ability to operate in China. This led to a strong expansion of export and the FDIs were fostered by a pickup in demand growth. In order to increase domestic demand the government used different fiscal stimuli.

China has experienced rapid growth in both imports and exports especially since China joined the WTO in 2001. China's exports and imports have both expanded more than 140 times their value since the beginning of the economic reform. Its export share in the world market, i.e. China's exports to other countries in the world as a percentage of world exports, increased from below 1 per cent in 1980 to 10 per cent in 2013, while its import share in the world market increased from below 1 per cent in 1980 to 9 per cent in 2013. The trade surging has lifted China to become the largest exporter, second largest importer and second largest trade country in the world.[4]

After the Asian crisis, the austerity regime was abandoned. Over the years, the level of the competition in Chinese product markets increased dramatically, thanks to the openness to trade and FDI. Therefore, strategies of promotion and protection gave a shape to the industrial structure. China, at a certain point, decided to follow the pathway of unilateral liberalization, in order to gain credibility with its negotiating partners.
The flow of FDI in China has increased steadily, between the years 2001 and 2003 China was indicated by the WTO as the best destination country of FDI. The global economic crisis has caused a slowdown in the flow of foreign capital, which resumed already in the years after 2009: China faced the global economic crisis of 2008-2009 through a package of incentives in order to promote important investment projects in infrastructure and capital-intensive industries, and this has allowed to reduce the negative effects that have affected other countries. In this period of time, Chinese openness to trade and investments yielded important benefits to China and her trading partners.

[3] World Trade Organization (WTO) is the main International organization for trade relations, in areas that are not only aimed at trade in goods but also in services and commercial aspects of intellectual property.
[4] Calcagno A,Dullien S., Velàzquez A.,Maystre N.,Priewe J.,Rethinking development strategies after financial crisis, Volume II. *Liqing Zhang and Qin Gou*, demystyfing China's economic growth p.43

Currently the People's Republic of China is the country with the largest flow of FDI. The industrial development has subsequently triggered the growth of the service sector, so much so that since 2013 the tertiary sector has become the main contributor to the Chinese GDP. In 2016, the tertiary sector accounted for about 51% of GDP, while the secondary and primary sectors accounted for 40% and 9% respectively.

However, to date, China remains one of the most vigorous and growing economies, positioning itself in terms of GDP generated in second place behind the United States.

According to the latest report by the International Monetary Fund (IMF)[5], Asia continues to be the fastest growing region in the world and the main driving force of the globe economy, contributing over 60% to global growth. Three quarters of this contribution is to be attributed to China (with India).

According to data from the National Bureau of Statistics of the PRC, in 2017 China's GDP recorded a 6.9% increase, thus confirming the Government's average annual development forecasts (the growth rate remained between 6.7% and 6.9% for ten consecutive quarters). The directives of the last Congress of the Party, have confirmed the objective to realize a "moderately prosperous society" by 2020 through the constancy of rates of development not inferior to 6.5%. After decades of exponential growth, China is aiming for qualitative rather than quantitative growth.[6]

1.2 International economic role of China

Since the late 20th century, China has been transforming itself from an isolated and backward agrarian society into a modern economic superpower with global interests and responsibilities. To adjust to changing international and domestic conditions, Chinese foreign policy has become more active, pragmatic, and flexible. With continued economic growth China is expected to widen and deepen its global search for energy and other resources and to expand its investment, market, and political clout. China is vigorously projecting soft power and presenting a peaceful image abroad by promoting cultural, educational, sports, tourism, and other exchanges. It has also become more active in global governance.

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[5] The International Monetary Fund (IMF) is an international organization founded in 1945. It consists of 189 countries working to foster global monetary cooperation, facilitate international trade, secure financial stability, promote high employment and sustainable economic growth.

[6] Italian Trade Agency (ICE) – 意大利对外贸衣委员会, Scheda paese Cina, maggio 2018

China plays an important role internationally, not only in economic terms but also in terms of investments. It not only supports projects for internal development and on a global scale but also cooperates with other countries in order to achieve common benefits. China is part of a geo-economic aggregate identified by the acronym BRICS, formed by Brazil, Russia, India, China and South Africa. These countries are joined by similar characteristics such as high population density, large land area, abundant natural resources and the developing economy. Their main objective is to invest their resources in infrastructure and sustainable development. Furthermore, this organization has a bank that is already operational with the aim of financing new development and modernization projects within the countries in question.
In addition to its roles in existing international institutions, China has played a leadership role in establishing the Asian Infrastructure Investment Bank (AIIB).
The Asian infrastructure Investment Bank is a multilateral development bank[7], a financial institution officially active since January 2016, when the Board of Governor that elected President Jin Liqun[8] met for the first time. The AIIB headquarters is located in Beijing and was founded on the initiative of the Chinese government, which holds 31% of the subscribed capital. The foundation of the new Bank is one of the biggest geopolitical successes of China in recent years.[9] With a registered capital of 100 billion dollars and 61 founding countries, the bank will finance infrastructure projects in Asia, and is an alternative to the World Bank and the International Monetary Fund, dominated by the United States. The bank is a provider of loans for the implementation of projects in infrastructure, technology, telecommunications and environmental protection, so much so that its slogan is "Lean, clean and green".[10]

Furthermore one of the large-scale initiative ready to enhance global connectivity and cooperation is “One Belt One Road project”(一带一路). One Belt one Road Initiative, launched by the Beijing government at the end of 2013 and identified with different names, from New Silk Road to One Belt one Road (OBOR) could be the most significant development work of the contemporary era.

[7] A multilateral development Bank consists of a supranational institution created by the financing states.
[8] Jin Liqun was appointed secretary general of the Asian Investment Bank for Infrastructures (AIIB) founded in Beijing on October 22, 2014.
[9] G. John Ikenberry and Darren J.Lim, China’s emerging institutional statecraft ; the Asian Infrastructure Investment Bank and the prospects for counter-hegemony, April 2017
[10] Bicocchi S., Carotenuto C., Infrastructure Investment Bank, Asean, Ministry of Foreign Affairs and International Cooperation, 2018, pag.10-11

An investment program whose official purpose is to connect and promote the economic and social growth of all the Eurasian region, allowing the People's Republic to create its own area of exclusive influence, as opposed to transatlantic commercial lines, where it still holds American hegemony. In reality, the strategy developed by the Chinese government and made public for the first time by President Xi Jinping at the end of 2013, is structured on two different corridors:[11] (fig.1)

- a terrestrial corridor covering all the countries along the original Silk Road, through Central Asia, Western Asia, the Middle East, Russia and Europe.

- a maritime corridor on the basis of the 21st century Maritime Silk Road, which encompasses a route from China's coasts to Africa and Europe via the South China Sea and the Indian Ocean, and another route from the coast of China through the South China Sea and the South Pacific.

Figure 1: One Belt one Road map

Source: Xinhuanet.com

[11] Source: SACE, Nuova via della Seta – lo studio di SACE sulle opportunità per l'Italia, January 2018 https://www.fasi.biz/it/notizie/studi-e-opinioni/17629-nuova-via-della-seta-lo-studio-di-sace-sulle-opportunita-per-l-italia.html

A pharaonic project that involves more than 60 countries in total, with the aim of improving the links between Asia Europe and Africa, encouraging the movement of goods and people and at the same time providing new opportunities for development. Now this initiative has become the architecture of an economic globalization that pivots on China, as opposed to the world in which has the epicenter of the West, home of the great companies that dominated the world economy until recently.

Without officially proclaiming it, China challenges this order, taking advantage of the dual phenomenon of the rebalancing of the world economy in favor of emerging countries, but also and above all of the era of protectionism and confusion in which the United States has entered.

This project is seen as a useful tool for China to trade its production overcapacity, reduce internal imbalances by promoting development and modernization in the western part of the country and ensure easy access to the rest of the international markets.

However, the delineation of the project is based on the concept of connectivity, in fact the new revision of the old silk road points to the creation of a Eurasian belt with the aim of connecting the countries enclosed within it.

There is something extraordinary about seeing the speed with which China has established itself on the international scene. At the beginning of the 2000s, China, with its entry into the World Trade Organization (WTO), became a pole of foreign investment, becoming a "factory of the world", a privileged destination for all delocalization and global subcontracting.

Today's China is an objective, unstoppable, and powerful force. China has dominated the global economic scene thanks to its ability to exploit and intercept the opportunities offered by the globalization of markets and production, which has allowed it to excel in the global markets of the economy and to accumulate enormous wealth. This capacity is dictated in the first place by some elements inherent in the Chinese economic-commercial and political-social fabric: a rapidly expanding market, a population that exceeds one billion and three hundred million people (surveyed), a galloping industrialization (despite some setback due to the economic and financial crisis of 2007-08 which affected its main commercial partners), the absence of a strong and cohesive union apparatus, the consequent low labor costs, the ability to dialogue and conclude agreements.

Beijing aims at the goals of peace and sustainable development to promote a non-stop growth, the sharing of benefits. Beijing hopes to accredit an image of responsible power, adopting a multilateral approach, prone to negotiation and unfavorable to the use of force, consistently with the principle of non-interference in the internal affairs of the other countries which is a key principle of Chinese diplomacy.

1.3 Trade relations between Italy and China

The trade relations between Italy and China started with the accession to the WTO for China. The main difference between the two countries is that China is the world's largest fast growing country, while Italy is the eighth economy globally in ranking. Obviously one reason that explains this point needs to be mentioned. China is much larger in terms of dimension than Italy. In fact, China is made up by 1,357 billion of citizens, while Italy counts 59,83 million. Nonetheless, both countries show unusual similar features in some economic aspect. For instance, they are both specialized in industrial and manufacturing sectors, indeed these industrial segments are central for both countries.

Notwithstanding these similarities, it seems that Italian businesses are exploiting the opportunities that the Chinese market itself offers. The main opportunity for Italian companies, medium and small enterprises, is to lower the production in order to have reduced costs and increased profits. Italy has always been a good trading partner for China, as the two economies share a number of similarities in production structures. The economic and trade relations between China and Italy have shown increasing signs of growing interdependence over the last decade, through both trade and investment.

China represents an indispensable business partner for Italy.

The total exchange of goods with China (currently our 5 trading partners) represents just under 5% of the total volume of our international trade, for a total value that exceeds just over 38 billion Euro.

The Italian trade deficit, in the last 6 years, has fluctuated between 13.2 billion euros (in 2013) and 19.5 billion euros in 2011.

In 2016, compared to the previous year, there was a moderate recovery (from 17.8 to 16.2 billion in deficit), supported by an increase in value of Italian exports of 6.4% (from 10, 4 to 11.1 billion in total value) and a decrease in imports from China in the order of 3,4% (reduced from 28.2 billion euros to 27.2 billion euros).[12]

[12] http://www.infomercatiesteri.it/paese.php?id_paesi=122#slider-2

The data available by ISTAT on the first six months of 2017 are even more encouraging, with an unprecedented growth of our exports to the People's Republic of China of + 28.4% in value. In order to increase trade, both parties need broader and easier access to their respective markets, creating a context of an open, all-inclusive, transparent, non-discriminatory, multilateral trading system and compliant with WTO rules. It is precisely in this agreement that China's removal of the ban on the import of Italian beef, announced by the Chinese Ministry of Agriculture and the administration for quality control, inspection and quarantine, is included.

The 90% of Italian investments in China come from four regions of Northern Italy: Piedmont, Lombardy, Veneto and Emilia Romagna. However, Italy's commercial presence in China continues to be marginal when compared to other European countries such as Germany and France, mainly due to a lack of common planning that facilitates entry into the Chinese market. Currently, the majority of Italian products exported to China comes from the mechanical sector (38.8% of total exports) and manufacturing (14.4%), in particular luxury consumer goods (clothing, jewelry, food, tiles) symbol of Made in Italy. A strong increase was also recently reported in the auto sector (6.6%), furniture (6.3%), chemicals (6.2%), metallurgy and metal products (4.5%) and electronics (3, 8%). Moreover, since the Chinese authorities want to focus on high value-added products, paying more attention to the technological content and the level of environmental impact, the mechanics and products of Made in Italy can play an important role and have ample room for growth. Even the aerospace sector, although still marginal, is in recent years going through a period of exponential growth that is bringing it to the fore on the Chinese market, increasingly interested in technology developed by research centers and Italian agencies in the sector.

To take a detailed look at the rate of import and export in the different product categories between China and Italy, below are two charts (fig.2 and fig.3) containing the data provided by Istat:

Figure 2. Chart of Italian import from China

Italian import from country: CHINA	**2015**	**2016**	**2017**	**Jan-apr 2017**	**Jan-apr 2018**
Total	28.168,37 mln. €	27.289,35 mln. €	28.412,91 mln. €	9.307,95 mln. €	9.638,15 mln. €

Goods (mln. €)	2015	2016	2017
Products of agriculture, fisheries and forestry	297,07	276,47	253,81
Products of mines and quarries	59,78	62,35	58,77
Foodstuffs	337,71	356,11	318,2
Beverage	4,5	4,81	4,94
Textile products	1.623,21	1.609,39	1.637,92
Clothing items	3.028,69	2.702,78	2.643,68
Leather items (excepted clothing)	1.969,95	1.789,94	1.723,87
Wood products and corks (except furniture); articles in straw and plaiting materials	177,78	171,78	175,1
Paper and paper products	177,73	172,67	185,15
Product of printing	7,46	6,64	4,17
Coke and products resulting from oil refining	41,2	56,33	37,55
Chemical products	1.370,43	1.307,78	1.513,69
Basic pharmaceutical products and pharmaceutical preparations	394,55	428,76	438
Rubber and plastic articles	1.060,95	1.082,19	1.162,27
Other products from the processing of non-metallic minerals	511,78	499,06	524,96
Products of metallurgy	1.801,74	1.429,57	1.305,4
Metal products, except machinery and equipment	1.294,18	1.302,11	1.429,1
Computers and electronic and optical products; electro-medical devices, measuring devices and clocks	4.153,65	4.084,65	4.331,93
Electrical equipment and equipment for non-electric domestic use	3.272,36	3.143,32	3.347,66
Machinery and equipment	2.838,88	3.120,87	3.314,55
Motor vehicles, trailers and semi-trailers	507,3	534,4	565,82
Other means of transport (ships and boats, locomotives and rolling stock, aircraft and spacecraft, military vehicles)	348,34	341,09	527,16
Furnishings	445,26	456,79	506,58
Products of other manufacturing industries	2.167,94	2.117,22	2.140,94
Other products and activities	266,52	225,39	261,69
Elaborations of the Embassy of Italy on ICE Agency data of ISTAT source.			

Figure 3. Chart of Italian export to China

Italian export to country: CHINA	2015	2016	2017	Jan-apr 2017	Jan-apr 2018
Total	10.450,34 mln. €	11.113,57 mln. €	13.509,45 mln. €	4.040,01 mln. €	4.083,42 mln. €

Goods(mln. €)	**2015**	**2016**	**2017**
Products of agricultare, fisheries and forestry	39,14	45,56	41
Products of mines and quarries	114,38	117,96	186,24
Foodstuffs	285,21	225,66	250,66
Beverage	114,7	121,64	154,79
Textile products	373,36	385,98	440,42
Clothing items	603,49	614,18	689,5
Leather goods (except clothing)	771,26	730,12	837,55
Wood products and corks; articles in straw and plaiting meterials	31,98	40,72	54,49
Paper and paper products	72,86	73,46	85,47
Coke and products resulting from oil refining	8,57	25,55	48,68
Chemical products	648,06	726,8	847,38
Basic pharmaceutical products and pharmaceutical preparations	568,46	659,86	654,34
Rubber and plastic articles	253,28	263,85	295,89
Other products from the processing of non-metallic minerals	131,5	145,09	175,14
Products of metallurgy	266,59	221,98	260,29
Metal products, except machinery and equipment	237,14	293,22	371,62
Computers and electronic and optical products; clocks	393,58	424,49	495,12
Electrical equipment and equipment for non-electric domestic use	414,4	409,71	477,28
Machinery and equipment	3.338,27	3.378,97	3.865,46
Motor vehicles, trailers and semi-trailers	634,12	994,56	1.815,93
Other means of transport (ships and boats, locomotives and rolling stock, aircraft and spacecraft, military vehicles)	237,72	231,95	275,06
Furnishings	281,83	326,67	450,65
Products of other manufacturing industries	298,03	314,64	368,49
Other products and activities	306,05	306,14	367,08
Elaborations of the Embassy of Italy on ICE Agency data of ISTAT source.			

Source: www.infomercati esteri.it

Trade between China and Italy undoubtedly favors the consolidation of the relationship between the two countries, offering new possibilities for both. The strategic partnership between the two countries is extremely prosperous in economic terms.
Currently, relations between Italy and China and effective cooperation are at a particularly positive moment in history. China is ready to engage with Italy to seize the key moment to promote bilateral cooperation towards a new phase, towards a new era.
Last December 2017, Italian Foreign Minister Angelino Alfano and the Minister of Foreign Affairs of the People's Republic of China, Wang Yi, met in Beijing to discuss the main bilateral relations, the topics of common interest and in particular the evolution of cooperation between the EU and China.[13] During the meeting both ministers evaluated with satisfaction the progress of bilateral relations, the increase in the frequency of exchanges and visits and the intensity of the Italian-Chinese dialogue. They reaffirmed their commitment against all forms of protectionism and concurred their willingness to intensify trade, promoting trade liberalization and investment facilitation.
Subsequently they reaffirmed the objective of favoring a solid and balanced growth of the interchange, promoting a fair compromise and an effective protection of intellectual property. The two countries will strive to ensure easy and broad access to their respective markets, in an open, transparent, non-discriminatory, multilateral and compliant with WTO rules.
The two ministers stressed the importance of the Italy-China Business Forum, as a tool to promote relations between the two business systems and the increase in trade and investment flows. In addition they intend to deepen the cooperation of mutual benefit, in particular they reiterated the interest in joint collaborations for the synergies between the Chinese initiatives "One Belt One Road" and "Made in China 2025"[14] and the "Italian Plan 4.0"[15]. The projects that both countries have in mind are aimed at encouraging industrial competitiveness at the international level, increasing the development and use of new technologies, and on the other, they aim to invest in the technology, transport and

[13]Source: https://www.agi.it/estero/agichina/alfano_cina_italia-3303754/news/2017-12-19/
[14] Made in China 2025 together with OBOR initiatives are two major projects promoted by the Chinese government. Made in China 2025 is an ambitious financing plan that aims to deeply restructure industrial production by making it more automated and technological with the aim of dominating certain strategic sectors of the global economy such as robotic, information technology and aeronautics.
[15] In 2016 Italy launched the 4.0 industrial plan, which springs from the fourth industrial revolution. This plan aims at completely automated and interconnected industrial production.

infrastructure sectors in order to encourage and intensify exchanges, distribution channels and promote Sino-European connectivity.

1.4 Importing concept

Considering the high flow of trade between China and Italy, the import and export procedures will be analyzed, focusing on the import process from China to Italy.

First of all the import means all the goods and services that a state purchases from other state. Imports are usually measured in monetary terms, but also on the basis of product characteristics or methods of use.

The value of imports is significant because it can be used as an indicator of the health of an economy, especially if the value of imports is compared to that of exports. High imports indicate a lack of competitiveness of the nation in the sectors of belonging to the individual goods.

If the value of imports is higher than the value of the goods and services exported, we are in the presence of a trade deficit, a surplus in the opposite case. The value of the balance between imports and exports is the "trade balance”.

In the last decade of the twentieth century, international trade was the subject of significant changes generally directed towards greater trade liberalization. Numerous commercial agreements have been signed, both regional and more general, aimed at the abolition of trade barriers in several countries.

With the development of technologies, expansion of internet and globalization many businesses have started to compete on a global scale. Whenever a business starts growing and expanding, entrepreneurs try to become more competitive either by importing or exporting goods. As these are the basics that make a business successful, there are some benefits of importing and exporting that are worth considering.

As soon as a business starts operating internationally, there are many additional factors which can have a huge impact on its success. Exporting and importing goods is not just the core of any successful business; it also helps national economies grow and expand.

Each country is endowed with some resources. At the same time, a country may lack other resources in order to develop and improve its overall economy. For example, while some countries are rich in minerals and metals or fossil fuels, others are experiencing a shortage of these resources. Some countries have developed educational systems or infrastructures, while others do not.
Once countries start exporting whatever they are rich in, as well as importing goods they lack, their economies begin developing. Importing and exporting goods is not only important for businesses but also for individual consumers. Consumers can benefit from certain products or components that are not available locally, but they have the possibility to purchase online from a business abroad.
Today the choice to import goods is not dictated only by the need to find raw materials that are not available in your country but from the convenience of buying goods abroad because the prices are more advantageous.
Italy like the rest of Europe imports goods in containers from China not because the Italian market does not offer the same items but simply because it is more convenient to import it. The economic boom of China has intensified this process, especially in Italy, causing a double effect: the placing on the market of low-priced products and the collapse of some SMEs that have not managed competitiveness.

CHAPTER 2. Starting dynamics to take into consideration before importing from China

2.1 Why choosing Chinese Market for importing good

Many countries of the West see in the Chinese market the possibility of resurrecting an economy that, in their borders, gasps or struggles to take off.

Chinese manufacturing is a practice that Italy and international businesses have recognized as a potential asset to reducing prices for their products. As domestic prices rise the need automatically for affordable overseas manufacturing grows.

China has the lowest labor costs in the entire world for manufacturing employees. At the same time lower costs of living make China's low wages manageable for the common manufacturing workers, and their factories are thriving by providing goods for the entire world.

The cost differential between manufacturing in own country and manufacturing in China is significant. The ability is to create a combination with foreign technology producing products at prices that cannot be reproduced on Western markets.

Cheap labor and low-cost raw materials are the two main factors that make it possible to offer products at a more competitive price on the market.

However, China is not just a territory of conquest: in other words, it is not only exported to China, but imports from China. The huge offer and attractive prices of the Chinese market attract countless buyers. The actual convenience of buying goods from China rather than in Italy most of the time is based on the list price of the products. However, dwelling exclusively on the price of the product is limited and risky, for this reason from now on the dynamics and operations related to the choice of importing goods from China will be analyzed.

Furthermore, the choice of the Chinese market for the purchase of products or parts of products for any type of business requires familiarity in the sector and in negotiations. So a good knowledge of the Chinese market and the choice of the right intermediary are without a doubt the starting point to organize a negotiation.

2.2 Selection of supplier

Given that China is undoubtedly the country that offers unparalleled economic benefits for those who want to produce and buy products, nevertheless the process of importing goods from China to Italy requires clarification and familiarity in the field. The first obstacle is the language barrier. Starting a contract in English, the risk of misunderstanding is around the corner.

Nowadays, however, thanks to the level of technology achieved, it is possible to develop a good business even from the desk of office. In addition to video and chat tools that allow direct conversations with the provider, you can directly access real virtual markets such as Alibaba, Global Source ecc.

An online marketplace is a type of e-commerce [16] site where product or service information are provided by multiple third parties, and all transactions are processed by the marketplace operators. These online marketplaces are the primary type of multichannel e-commerce and can be a way to streamline the production processes.

The best solution is to rely on experts in the trade, but above all to get a reliable and competent supplier.

The choice of the supplier is always a difficult and risky operation, both from the economic and management point. There are mainly two ways to reach out to potential suppliers in China: Trade Shows and Online Sourcing Platforms. Trade show consist of an exhibition for companies in a specific industry to demonstrate their products and services. Exhibitors partecipate in hopes of getting and connecting with new customers, promoting sales of new products and reinforcing relationship with dealers and distributors. The top five trade shows in China are Canton Fair, Beijing Auto Show, Shanghai Import and Export Commodity Fair, Yiwu Trade Fair and Bauma Fair. This is a good way to come into contact with suppliers directly.

This will allow you to have a 360-degree approach not only with the supplier but also with the products and their quality. Touch with own hand and see with own eyes for sure greater security.

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[16] E commerce is a form of commerce that uses a website to make an economic transaction. The product catalogs are available on the site, which can be consulted by customers, who can then proceed with the purchase. There are three main forms of e-commerce: the "Business to Consumer (B2C)", the "Business to Business (B2B)" and the "Consumer to Consumer" (C2C). In this case the B2B should be taken into consideration, which indicates the electronic commerce of a company with other companies. These are exchanges between two merchants or between a supplier and a company, for example.

Otherwise for those who do not like this kind of approach there are many online forms such as Alibaba and Global Source where it is possible to look for Chinese suppliers.
Alibaba consist of the reference portal for those who intend to import from China. Alibaba is the largest B2B platform in the world, connecting suppliers and manufacturing companies with buyers from all over the world. However, the problem with online sourcing is the lack of verification of credentials, in fact often scrams and frauds occur on these platforms. Regardless the customer will decide to find his suppliers, before starting to send requests the suppliers, it is advisable to create a list of product specifications. In this way, the list of product specifications will be more detailed and the estimate will be more precise. Immediately it is important to contact more suppliers because often it happens not to receive any feedback or some of them cannot meet the requests sent and above all not compliant with the European certification standards.
Equally important is informing the supplier of a future quality control and laboratory test immediately. At this point, most suppliers will no longer respond to email and apparently it may seem a problem, on the contrary those who do not comply with the requirements and standards required is better to discard them in advance in order to avoid scams or misunderstandings. A common mistake is to choose one's supplier too early and on the basis of unverified promises. Carrying out negotiations with one supplier is risky as the latter will have the opportunity to increase the price or refuse to comply with the certification standards at the last moment. In order to avoid this type of situation it is better to negotiate with more than one supplier at the same time and only after ordering and viewing some samples to get the best ones.
After having carefully chosen the supplier to turn to, it is essential to make inquiries and verify that everything is up to standard. First of all, it is necessary to analyze the commercial license to verify the legal status of the supplier, the share capital, the registered office and the name of the legal representative. In addition, the importer must verify that the business object is specified the activities performed by the commercial company, as in the case in which the business object does not include the goods or services scheduled, the importer runs the risk of having to face a sudden interruption of supply or service.
After that, the bank account details to verify that the account is owned by the supplier and to avoid payment fraud; the buyer's references to check if the supplier already has customers in the same market; product certificates and related tests to verify that the supplier is able to guarantee compliance with the safety regulations and directives in

force in the buyer's country. Finally, the test reports on the substances to verify that the supplier is able to guarantee compliance with the regulations on substances in force in the market of the purchaser.[17]

2.3 Compliance with European regulation

One of the most important aspect to clarify and inform the supplier are the European conformity certificates. Most Chinese suppliers are not able to comply with European safety regulations. However, even if purchased from a supplier who can largely demonstrate prior compliance, all of this does not guarantee 100% that the batch of goods you purchased comply with regulations.
Buyers based in Europe or the United States must ensure that imported products comply with one or more regulations. There are various types of product safety standards and rules to follow, the three main ones are:

- CE mark
- REACH regulation
- RoHs regulation

Confirming which rules and regulations are applicable to the product is not always easy. What certainly does not make things simpler is the fact that less than 5% of Chinese manufacturers are able to demonstrate compliance with European safety standards.
Compliance with regulations is essential when importing from China. The importation of non-compliant items may result in severe penalties, or seizure of the cargo by the customs authorities. The importer could even be forced to pay millions of euros in damages if the product causes personal injury.
When importing in Italy from China the products must comply with one or more EU regulations and marked with the CE mark.
The CE marking existing since 1993 is a must on many products.[18] It indicates that a product complies with EU legislation and can move freely within the European market.

[17] Dezan, S. & Associates, Due Diligence nel rapporto con I fornitori, Volume XI – Number VI, China Briefing Ltd, 2010
[18] https://it.wikipedia.org/wiki/Marcatura_CE

The sale of non-compliant goods is illegal and may result in seizure and serious penalties. CE marking means guaranteeing to the consumer safe products, compliant with European standards and avoiding problems with authorities and law enforcement agencies in case of control. The CE marking is essentially self-certification, so the technical file must be prepared by the importer and not by an extra-European person, so the obliged subject must reside in the European community.
The main categories of products requiring the CE marking are listed below:[19]

Electronic systems

- Gas appliances (gas lamps, gas stoves, gas water heaters)
- Domestic refrigerators and freezers
- Eco-friendly design of energy-related products
- Cisterns, gas pumps, tanks, cables
- Electromagnetic compatibility
- Low voltage
- Radio equipment and telecommunications terminal equipment
- Toys

Machinery (in general)

- Non-automatic weighing instruments
- Measuring devices
- Cableways used for the transport of persons
- Elevators
- Personal protective equipment
- Pressure equipment
- Pyrotechnic games
- Machines for external works (cranes, hoists and circular saw)

Medical devices

- Active implantable medical devices
- In vitro diagnostic medical devices
- Medical devices (surgical instruments, diagnostic test kits, defibrillators, syringes, thermometers, patches ecc.)

Vehicles

- Pleasure craft
- Cars
- Bicycles
- Electric bicycles

[19] https://cinaimportazioni.it/blog/marcatura-ce/

Other

- Cableways used for the transport of persons
- Equipment and protective systems for use in potentially explosive atmospheres
- Explosives for civil use
- Hot water boilers
- Noise emissions in the environment
- Simple pressure vessels
- Flammable products
- Games boxes for chemical experiments and related activities
- Chemical toys (games boxes) excluding games for experiments
- Colors to paint with your fingers
- Swings, slides and toys for similar indoor and outdoor activities for domestic use

Products that are not in the list do not mean that they do not have to comply with the regulations and product directives. There are several other regulations in the European Union, including the REACH directive, which regulate the substances present in all products sold in the EU.

To be legally imported into the European Union, many products such as furniture, toys or plastics must comply with REACH regulations.

REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) is a European Union law that regulates the production, importation and sale of chemicals or finished products containing chemicals.

The purpose of the REACH legislation is to limit the exposure of citizens to certain chemicals (especially those considered toxic). Among the more than a thousand substances regulated by REACH, some are expressly prohibited while for others there are margins of tolerance and the product is declared compliant if the percentage of a given substance is below a certain threshold. As for the CE legislation, the same goes for the REACH legislation: when goods are imported from an extra-European country, the responsibility for the conformity of the goods lies exclusively with the importer. Therefore, both civil and criminal responsibility does not fall in the Chinese supplier but in the importer.

Who produces and who imports a specific substance in quantities equal to or greater than one ton per year has the obligation to register it with the European Agency for Chemical Substances (ECHA)[20]. Registration requires the drafting of a technical dossier.

[20] The European Chemicals Agency (ECHA) works for the safe use of chemicals. It deals with the UE chemicals legislation, benefiting human health, the environment and innovation in Europe.

The technical file contains:[21]

- the identity of the manufacturers or importers;
- the identity of the substance;
- information on the production and uses of the substance.
- the classification and labeling of the substance;
- instructions concerning the safety of use of the substance;
- a summary of the information requested;
- a declaration from which information has been acquired by means of experiments on vertebrate animals;
- proposals for new experiments according to the quantities manufactured or imported.
- a possible declaration of faith, for the consultation of other registrants, of the summaries of experiments not carried out on vertebrate animals. Where more than one manufacturer and / or importer intends to manufacture and / or import a substance into the Community, the joint submission of data is encouraged.

The products regulated by REACH generally fall into these categories: food containers, rubber products, plastic or PVC products, toys, Ink, paint, neoprene, glue, tires, cables, pipes, furniture, fabrics, footwear and leather goods.
Another way to understand if a product should be tested to ensure compliance with the REACH legislation is to focus on the chemicals contained in the product. In particular, a product that may contain one or more of the following substances should be tested:
Lead, azo dyes, polycyclic aromatic hydrocarbons, phthalates (or plasticizers) perfluorooctanoic acid (waterproofing) and Nickel.
Substances regulated by REACH are more than a thousand, however have been named the main ones.
Many Chinese suppliers have never heard of "REACH legislation". There is not too much to be surprised, after all it is about European laws, not Chinese. The only way to determine if a given supplier has the capacity to make a REACH compliant product is to have a product sample tested in a specialized laboratory.

[21] Source: European Chemical Agency (ECHA) https://echa.europa.eu/it/regulations/reach/understanding-reach

The first step is to ask the supplier for the results of a test carried out for a past customer. Although the only way to make sure that your goods are compliant is to have a sample tested.
A REACH compliance test requires a sophisticated laboratory and a good deal of scientific knowledge. It is therefore necessary to contact a specialized laboratory. If the REACH test takes on a crucial importance (when importing PVC, for example) then it is essential to have the test run before having paid the final balance and that the goods are sent to Italy.

Starting from 2013, the RoHs directive is also part of the EU legislation. The RoHs directive (Restriction of Hazardous Substances Directive) is a directive that limits the use of some substances such as: lead, mercury, cadmium, chromium, polybrominated biphenyls, polybrominated diphenyl ethers. These substances can be found in different materials and products such as solders, paints, PVC, batteries and numerous electronic equipment, including:[22]

- Appliances such as refrigerators, microwave ovens, air conditioners
- Computers, tablets and mobile phones
- Consumer electronics such as LED screens, Blu Ray players, etc.
- Lighting, for example LED lamps
- Work tools such as drills or motor-spikes
- Electronic toys and sports equipment (cyclettes, for example)
- Vending machines
- Medical equipment
- Semiconductor devices (breathalyzers, for example)

China has also developed legislation (often referred to as "China RoHS") that has similar limitations. However, Chinese legislation is very vague about the application and responsibility for compliance with the law. There are also doubts about the start date application but is considered to be the same as European legislation.
The directive, adopted in February 2003, has already been amended once in 2011 to keep pace with technological developments and new EU prevention targets.

[22] Miglietta P., Toma P., La direttiva RoHs nelle aziende di importazione e distribuzione, 2011

The EU has now prepared a new legislative update, which is due to enter into force by the end of the year. The amendment aims to facilitate the replacement of hazardous materials in order to make the recycling of components more convenient. Through the new measures, the European Commission hopes to further facilitate operations on the second-hand market, such as resale, and the repair of electrical and electronic equipment.

Successfully importing from China requires a thorough knowledge of current EU laws and all necessary procedures to ensure the purchase of goods in accordance with the law.

Therefore the manufacturer will have the obligation to issue the so-called Declaration of conformity.

The Declaration of Conformity is a document issued by the manufacturer certifying that the goods comply with all current EU directives. The Declaration of Conformity must also list the specific community directives to which the product is compliant.

In addition to this, the company name, address and product information must also be included on the Declaration of Conformity.[23]

Product certificates and false test reports are not rare in China. Many Chinese suppliers issue a Declaration of Conformity that asserts regulatory compliance, while they have made no effort to ensure compliance.

However, by signing the EU Declaration of Conformity, the manufacturer assumes responsibility for the conformity of the product.

In the absence of test reports or insufficient reports, complete or partial tests are carried out on the product, foreseen by the applicable European directives, to assess the degree of conformity of the product, for the purposes of CE marking.

2.4 Terms for the sample order

Equally important is to define in detail all the characteristics of the product to be ordered. A product must exist on the paper before it can be assembled along the assembly line. The Chinese manufacturers expect the customer to provide all the information relevant to the product.

It is rare for samples to come out perfect on the first try. Depending on the product and its complexity, the importer must provide two or three revisions. The analysis of the sample is very important because it allows the buyer to test the product and check if it

[23] Source: https://www.dichiarazionediconformita.eu/le-dichiarazioni/la-dichiarazione-cinese

reflects the characteristics outlined in the list of product specifications sent in advance to the manufacturer. The manufacturer can start production only after receiving the samples' approval from the buyer. To avoid misunderstandings regarding this procedure it is advisable to include the following terms in the contract:[24]

- The supplier must produce an unlimited number of sample revisions (in case the batches of the previous samples do not comply with the product specifications and quality requirements of this document).

- The seller can not demand additional payments from the buyer, unless the buyer makes changes to the design of the products, materials, quality or compliance requirements.

- Pre-Production Sample Revision Time:

  1st sample: X days
  2nd sample: X days
  another sample: X days

- If the supplier fails to produce an acceptable sample after X revisions, the buyer can ask the supplier for a full refund.

- If the supplier fails to produce the samples within the deadlines set in the "pre-production sample review schedule", the buyer can ask the supplier for a full refund.

The main purpose of these terms is to put pressure on the supplier to comply with all design requirements and product specifications, limit the number of revisions needed and, as a result, speed up the entire process.
However, these terms are null if importer change product specifications after the supplier has started working on pre-production samples. In this case, give the right data sheet before proceeding.

[24] Source: CHINAIMPORTAL, https://www.chinaimportal.com/blog/pre-production-sample-order-terms-a-complete-guide/

If the cost of the sample amounts to hundreds of dollars, the samples of the products are usually paid in advance for their total amount. However, the most complex products, such as electronic systems and custom plastic parts that require injection molds, can result in costs of up to thousands, sometimes tens of thousands, of dollars. When the stakes are high, the risks must be managed accordingly. For these situations, it is recommended to apply the following terms:

- Deposit equal to 40% before the implementation of the equipment and pre-production samples.
- Balance of 60% after written approval of the buyer for equipment and pre-production samples.

In case a company is developing a product with a new project, a new function or with your brand, and wants to avoid that the supplier sells his product, or the brand, to other buyers nationally and internationally, it is attached the Non-Disclosure Agreement (NDA)[25] to your sample order terms. Non Disclosure Agreement is a legal contract between two parties or more that undertake not to disclose confidential material, knowledge, or information that the parties would like to share with one another for certain purposes. The parties undertake to use the information obtained only for the purposes permitted.
The purpose of the NDA is to get the supplier to think twice about producing copies of the product in series. However, it does not guarantee that the supplier will start making the product using a different company. So what counts is the project patent and trademark registration. If the product is exclusive and is likely to be copied, it is recommended to register the trademark in the European Union and in China.

2.5 Quality Inspections

After choosing the supplier, specifying the regulations to be respected, evaluating the samples, comes another important phase that is the evaluation of the quality of the products.

[25] https://www.wonder.legal/in/modele/non-disclosure-agreement

Chinese manufacturing does not always guarantee perfect merchandise, receiving some products free of defects is practically impossible. However, the defect rate can be reduced to 1-2%.

The acceptable quality limit (AQL) indicates the maximum acceptable percentage of defects, after which the batch of goods is rejected. The Acceptable Quality Limit is a method used internationally to measure samples of the production order and to verify if the products meet the pre-established specifications and standards.

To examine the samples closely and minimize defective items, quality checks will be carried out before, during and at the end of the production cycle. Quality control is an activity of measuring, examining and verifying the characteristics of a product or service that compares the results with specific requirements in order to determine whether compliance is achieved.[26]

During a quality inspection in China, it is possible to check the status and quality of goods during all stages of production, in order to ensure that all products meet the required quality standards. Quality inspection usually consists of three phases:[27]

- Pre-production inspection
- During Production inspection
- Pre-Shipment inspection

When the customer desires to verify before the start of production the raw materials and components that will be used are compliant with pre-established standards, pre-production inspection can be carried out.

Pre-production inspection is also used to check the first products left from the production line to ensure their compliance with the respective requirements. This phase is crucial because it is much easier to make changes at the beginning of the production cycle rather than at the end.

During Pre-production inspection an experienced inspector checks the quality of raw materials and key components of order, checks the accuracy of production facilities and equipment, examines production schedule and processes and any areas related to quality control and production management.

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[26] Anjoran R., Quality assurance in China: best practices, Quality Inspection Blog

[27] Klotz M.J., International Sales Agreements, Kluwer Law International, 2018, chapter 6

During the second phase when around 20% -30% of production is completed, the quality of semi-finished and finished products, packaging to ensure that the quality meets your requirements is examined.
During an inspection during production it is analyzed and evaluated the quality of semi-finished and finished products and production planning. The During Production inspection allows to confirm that functionality, quality, appearance, processing quality, dimensions, assortment of features, accessories, labeling and logo, packaging, special requirements and other factors are being maintained throughout the production process to your specifications.

Pre-shipment Inspection is also known as Final Random Inspection. When 80% of your order is complete a qualified inspector selects random samples from finished goods and test the product, ensuring it meets agreed upon specifications.
The Pre-shipment Inspection includes a full report on final quantities, quantity available, order information, packaging, label and marking, style, color, appearance, function, construction, assembling, size and measurement, safety, reliability, internal testing and other specified requirements from clients.
Pre-shipment inspection is an important phase because helps customers make the best decision before shipping. Check the quality of the products and refuse shipping if necessary. Furthermore, it is possible to find out the defects and the percentage of products that present defects. The product must meet the specifications before paying the final payment. This procedure reduces risks and losses.
When carrying out this type of inspection, it is possible to contact an inspection agency, which sends qualified personnel to examine the products and the dynamics in question.
In case of doubt, the inspection agency prefers to fail the inspection to protect itself rather than approve it. Clearly if a shipment is started with products that are not fully compliant, the control agency can be held responsible. If they fail a shipment and the buyer still accepts to ship it, then the responsibility lies with the buyer.
In the event that the inspection fails, the buyer must first look carefully at the details of the inspection report and see if the reasons for the failure are large enough to refuse shipping. The inspection before shipment is a control procedure that certainly allows to reduce many risks especially in cases of:

- Expensive products or high order values

- Highly complex items such as electronic items
- Fragile items: make sure to inspect not only products but also packaging because Chinese suppliers often packages the products improperly which causes damage during shipment
- When is the first time working with a new supplier
- Common defects

Finally, organizing an inspection has its price and in the case of small orders it may not be worth it. For example: if the order value is $ 1000 and hire an inspection agency costs $ 300 or 30% of the order value is definitely inconvenient. In this case, the factory is required to carry out an automatic inspection and send the report or request pre-production samples.
After the pre-shipment quality check there would be a last inspection to be carried out, namely the Container Loading Inspection (CLI). Container Loading inspection is the final opportunity to confirm compliance with pre-established requirements in terms of quantity, assortment and packaging.
When the goods are ready to be loaded into the container, an inspector checks whether the goods are 100% complete, packaged, and suitable for shipment.[28]
It is important to make sure that the goods are properly packaged and whether the labeling and specifications match the requirements and regulations. Furthermore, it is always the inspector's duty to check the general conditions of the container in which the goods will be loaded.
Containers are means of containment that guarantee a high level of transport safety, provided that certain conditions of use are respected. Before starting the loading operation it is necessary to check the integrity of the container since during use they are continually exposed to not only mechanical but also chemical reactions, as they are used in the marine environment and therefore subject to corrosion and rust.

Although the containers must undergo periodic inspections, the CTU code[29] prescribes to carry out checks before each load to avoid any anomalies that could compromise safety.

[28] Klotz M.J., International Sales Agreements, Kluwer Law International, 2018, chapter 6
[29] CTU Code (Cargo Transport Unit) 2014 is a global code of practices for the handling and packaging of containers for sea and land transport. This sort of guide provides practices to follow to those who manage the packing of the cargo unit for packing and securing the cargo. Furthermore, this code clarifies the responsibilities and obligations of the various employees in the shipping chain.

The first phase of the inspection involves the external part of the container, which must not show excessive signs of corrosion, holes or significant deformations. Subsequently an internal inspection is carried out to check that there is not a dangerous atmosphere that could cause damage to the operators. No residues of the previous load must be present, the container must be dry and must not present persistent odors that could indicate the presence of residuals from the previous load.

The entire process of loading the container is carefully monitored and this reduces the risk of incurring damage during shipping. Furthermore, ensuring the integrity of the cargo before transit is a priority for the importer, minimizing any problems.

Considering all the procedures that anticipate the production, the importer must know how to organize based also on the timing foreseen in each step. So the choice to contact a Chinese supplier for the purchase of products manufactured in China requires a certain mastery in the management, organizational and even legislative field.

CHAPTER 3. Is it profitable importing from China?

3.1 Warehouse management costs

Before addressing the issue of shipping and all the related dynamics and procedures, a report will be proposed of all the costs that a company has to support since it decides to make a purchase in China.
Procurement operations are those operations of purchase of equipment, materials, goods, various services essential for the business of the company.
Procurement activities exist in all types of public or private, industrial, commercial, banking or service enterprises.
However, the methods used for its implementation are very different in relation to the size, the management and organization system adopted, the characteristics of the production process, and the nature of materials.
The input of the process comes from the production or sales forecasts from what springs the need for the company to buy goods.
However, the work process develops according to the company's strategic lines and the procurement policies adopted. Procurement operations in small companies are carried out by the owner or by one or more partners, while in medium-sized companies they are carried out by a special purchasing department.
At the base of any business, the purchasing department is responsible for everything related to the management of suppliers and ordering materials. The quality of the purchasing department can have a significant impact on a company's profit margins.
The purchasing department is responsible for the acquisition of the materials necessary for the production and management of the activity. Moreover it evaluates supplier in terms of price, quality, customer reviews, time to fill orders, and produces a list of approved suppliers.
To ensure that material deficiencies do not affect productivity or the lack of merchandise does not affect sales, the purchasing department uses techniques such as multiple sourcing. Multiple procurement means that the company is in contact with different

suppliers who can supply the same goods. In this way, if there is a problem with a supplier, there is the possibility of addressing another.
The purchasing plan must be simple but flexible at the same time in order to adapt to the various quantitative, technical, economic and financial needs. In the planning of purchases, the economic and financial aspects must also be taken into account. From an economic point of view, apart from the purchase cost, it is necessary to consider the immobilization of capital for stocks and costs (interest expense) in the event that the company should be in debt, and from a financial point of view the company must avoid being in a liquidity crisis and must respond promptly to the payment transactions.
Nowadays, the convenience of supply in China is taken for granted. A company that needs to buy raw materials, semi-finished products or finished products clearly focuses on the cost of the product it has to buy and the Chinese market offers a decidedly competitive price. Stocking in China has advantages but at the same time it is important to remember that nothing is free and above all extra costs and unexpected expenses are never lacking. This chapter will list the costs that the company must bear to allow the storage of the goods but above all the costs to be faced to manage a warehouse.
First of all from an economic point of view there are two categories of costs that the company has to face since it confirms an order: operating costs and maintenance costs.[30]

Ordering costs concern all the items related to the transmission of the order, the receipt of invoices (postal and telephone charges, stationery and office work), control of documents, receipt and handling of goods in the warehouse, expenses for checks and inspections on the quality and quantity of products received, transport costs and any search costs for new suppliers. These are fixed costs regardless of the quantity ordered.
Storage costs that refer to costs for the conservation of assets such as costs for warehouse management, insurance of goods, losses due to deterioration. These instead are variable costs in relation to the quantity present in the warehouse.

Ordering a quantity of goods implies the possession of a warehouse, whether it is a commercial activity or a production activity. Warehouse management is not an activity that only concerns companies that handle large flows of goods, at any level a disorganized warehouse risks compromising the business itself. The company must understand the

[30] Source: SIMCO CONSULTING SRL, https://www.logisticaefficiente.it/redazione/supply-chain/scorte/costi-mantenimento-impliciti.html

importance of efficient logistics and the need to invest time and resources to optimize it. With this premise, we will analyze all the costs that a company has to face relating to warehouse logistics and merchandise management.
The warehouse is usually the most substantial asset and the largest expense at the same time, for this reason the management of warehouse costs is very important because it has repercussions on finances and organization of the company.
The higher the level of stocks, the higher the running costs will be, including storage costs, fixed assets, taxes, insurance, depreciation and obsolescence.[31]

A structure used for the storage of goods clearly entails expenses: the cost of the area, then the costs of renting the room measured the square meters or the costs of depreciation for the structures owned; the costs of the plants, which refer to the costs related to the utilities required, therefore, the costs for the supply of electricity, heating, water and then the added services such as telephone lines, alarms, burglar alarm systems, ecc.
Obviously, these costs depend mainly on the type of warehouse, for example the fact that the deposit is rented or owned by the company. For smaller companies, where the same building is used for different purposes, it is necessary to establish the part of the building intended to receive and store the stocks.
This category also includes a problematic phenomenon: the saturation of the space available in the warehouse, which can result in an absolutely non-linear increase in costs, creating additional costs. For example, when a deposit reaches the saturation point, it becomes almost impossible to move inside it, and the only solution, not always easy to implement in a short time, is to find another building.[32]
The second portion of costs to be taken into consideration are the costs of maintaining the warehouse. This category includes other factors that always generate costs:

- Staff: to ensure that the work is carried out to the best, the company must preferably employ qualified, competent and appropriately trained personnel to perform specific tasks.
- Security: the warehouse must comply with current regulations; the environment must be healthy and safe to guarantee the protection of personnel. The company

[31] Kotler, P., Marketing Managment, Pearson Italia, 2007, pag. 642
[32] Vermorel, E., Costi di gestione del magazzino, LOKAD 2013 https://www.lokad.com/it/definizione-costi-di-gestione-del-magazzino

must provide appropriate protections and safety measures and periodically review and maintain the machinery, vehicles and the structure itself. Furthermore, in order to guarantee compliance with safety standards, it is advisable to adopt a safety plan to which all personnel must comply; organize safety courses to train and instruct staff on the risks to which it is exposed; finally obliging personnel to use personal protective equipment to reduce the risk of accidents.

- Documentation: documents must be drawn up accurately both for administrative and fiscal purposes, keeping track of movements, operations and quantities is essential to avoid hitches or misunderstandings.
- Logistics: logistics concerns in a broader sense the physical, informative and organizational management of the flow of products, from sources of supply to final customers. It is the fulcrum of the warehouse because it coordinates the different branches of the distribution chain.
- Costs associated with storage risks: after the goods have arrived in the warehouse, the storage phase begins. Generally, by means of a forklift, the goods are loaded in pallets and on shelves, in the part of the most appropriate warehouse indicated by the information system.

  The goods must be arranged precisely in the areas designated for storage, in practical and functional places. In this step there are also some costs to be foreseen as possible breakages of the items, deterioration or physical declines of the products. Obviously, the more the company deals with fragile or perishable items and the more this cost will affect the total cost of maintenance.
- Risk costs: They refer to goods that may lose value in the period in which they are put into storage. This is a relevant aspect especially for companies that deal with perishable goods. Risks include shrinkage, ie loss of products from the time of purchase from suppliers and time of sale. It can be caused by administrative errors, fraud, theft or damage due to transport or during storage (due to inadequate storage or external damage). The costs of risk also include obsolescence, that is, costs relating to items still unsold after the expiry date, or to items that become obsolete (this is the typical case of electronic devices that lose value due to technological progress). The costs of insufficiency or depletion of stocks: despite the forecasts of demand, they are difficult to eliminate and determine. This type of cost consists of losses of opportunities and sales opportunities. In this case the customer can: a) wait for the reform of the stocks (there will be a minimum cost

for the company related to the formulation of a special order); b) withdraw the order (cost related to the failed sale); c) contact another supplier.

In these types of situations, for obvious reasons, the choice of contacting a local supplier is more convenient and quick and allows for quicker supply of stocks. Instead, companies that order from China as well as being bound by long delivery times and a minimum order quantity risk not only losing the sale but also the customer.

- inventory surplus costs: often caused by inventory errors, approximate demand forecasts and unsuitable control systems.

The maintenance cost is the most significant category because on the one hand it represents the daily management of stocks by the logistics function (of its staff and its structure), on the other hand it plays a key role in the stock strategies management.
However, the maintenance costs are divided into explicit and implicit: the former refer to all those costs necessary to maintain the stocks that occur through a cash outflow (so therefore explicit) instead the implicit management costs are the associated costs capital investment in inventories: the immobilization of financial resources in inventories involves a "hidden" cost, not evidenced by a cash outflow, therefore implicit.[33]
The implicit costs are higher when:

- the volume of immobilized stock is high
- the immobilization time is long
- the interest rate, applied to obtain the loan used then to invest in stocks, is expensive.

From the analysis of these costs we can deduce that the quantity of goods ordered and available in the warehouse generates costs, for this reason the company has another important objective in order to limit risks and loss of capital, ie the optimization of stocks. Inventory optimization is a challenging but necessary project, as the reduction of the "optimal" minimum inventory allows to release the capital otherwise constrained in unjustified stocks, while guaranteeing the availability of products to satisfy the sale. Often there is a tendency to motivate the optimization of stocks with the search for savings in

[33] Corrado, M., Costi di mantenimento impliciti delle scorte, logistica efficiente 2015
https://www.logisticaefficiente.it/redazione/supply-chain/scorte/costi-mantenimento-impliciti.html

terms of financial and cost, however the improvement and maintenance of a high level of service is just as important in terms of benefits achieved. It is therefore important before talking about stock optimization to have an overview of the objectives, in fact the investment in stocks must be motivated by specific objectives and consistent with the needs of the company and the market in which it operates.

Inventory optimization consists of making the best decisions regarding the quantity to be ordered. This operation is not easy and above all it is influenced by the ruthless competitiveness of the market that pushes companies to have an increasingly rich and varied assortment, responding to market needs with promptness and flexibility. Accordingly, a forecast of sales on which order bases may not correspond perfectly to expectations. Nevertheless, a reliable demand forecast is a necessary condition for optimizing stocks. Companies must prepare the right mix of human and technological resources to outline a forecast of demand and sales performance.

The Economic Order Quantity[34] provides a model for calculating the appropriate reorder point and the optimal reorder quantity to ensure the supply of stocks without scarcity.

In other words, it is the optimal quantity of goods that should be ordered in order to minimize the costs associated with ordering and holding inventory. It can be a valuable tool for small business owners who need to make decisions about how much goods to keep handy, how many items to order each time and how often to reorder.

The EOQ model assumes that the demand is constant and that the inventory is exhausted at a fixed rate until it reaches zero. At that point, a specific number of objects arrives to bring the inventory back to its initial level. Since the model assumes instant replenishment, there are no inventory shortages. Therefore, the cost of inventory according to the EOQ model implies a trade-off between storage costs of inventory (the cost of storage, as well as the cost of tying inventory capital rather than investing it) and order costs (any fees associated with placing orders, such as shipping charges). Ordering large quantities at one time will increase the costs of maintaining a small business, while making more frequent orders with fewer items will reduce maintenance costs but increase order costs. The EOQ model calculates the quantity that minimizes the sum of these costs.

[34] Marchetti A.M., Le operazioni di magazzino e la gestione delle scorte, Franco Angeli, Milano, 2010 pag.81-87

3.2 Minimum Order Quantity (MOQ)

Optimizing stocks and ordering the correct quantity of goods is a vital strategy for any type of business. However, when a company wants to import goods from China, it must take into account the constraints to be respected. One of these is the Minimum Order Quantity (MOQ) which represents the minimum quantity of goods set by the supplier usually expressed in units or currency, to be ordered. Suppliers that use low-cost labor tend to impose fairly high minimum order quantities. However, the Chinese suppliers themselves would prefer to lower the MOQ in order to be able to expand their clientele among small and medium-sized businesses, instead of having to negotiate with medium-large importers who can switch suppliers at any moment. The Chinese suppliers establish this MOQ because they too must respect a minimum of raw materials and components to be purchased, required by manufacturing companies. Moreover, due to the reduced profit margin, Chinese suppliers buy the necessary raw materials only after receiving the confirmation of the order from the purchaser to avoid the risk of finding themselves with a stock of invaded goods. In addition, the products to be imported must comply with the European certification standards and this implies additional costs as the materials found by the supplier must be of high quality and therefore more expensive than those used to make a product below the required standard.

The biggest advantage of Minimum Order Quantity is that the suppliers give the best possible price per unit available. Oftentimes, more buy from a supplier and more it drives down the cost of each unit. This means that paying less per unit that gets produced so will maximize the profit earning when the product will be sold.

The biggest disadvantage of Minimum Order Quantity is the upfront cost required to get your units produced. For example, 500 units at $10 per unit means that the production will cost $5,000 upfront, which, for a new business may be intimidating or impossible to meet.[35] This cost just covers the production of items, other costs such as the cost of shipping or the necessary paperwork required to get the products through customs are not included. However, the importer can only obtain the lowest price per item by purchasing a certain volume of goods.

[35] Topps, J.,Taylor, G., Managing the retail supply chain, Kogan Page, 2018, Chapter 3

3.3 Wholesale suppliers : advantages and disadvantages

Nowadays the companies that start a business of buying and selling are turning to Chinese suppliers for finding the goods.

A wholesaler is someone who resells the products he already owns in stock, while most of Chinese exports are based on "make to order", meaning that the Chinese manufacturing company only starts to produce the goods after receiving the order of purchase.

Wholesalers can be found all over China, however the most suitable area to find an export-oriented wholesaler is the city of Yiwu located in the eastern province of Zhejiang.[36]

Because it is considered a center for export-oriented wholesalers, here it is easy to find local agents, quality control companies and export agencies all necessary to purchase, inspect and ship products from the wholesaler to your warehouse.

Buying from a Chinese wholesaler rather than an Italian supplier simply appears more profitable. Unfortunately, for an importer the biggest problem of buying from a Chinese wholesaler is that in Europe as in the United States the products to be legally imported must comply with the certifying standards and the Chinese wholesalers hardly respect them, this for the simple fact that they focus on the domestic market where the standards are much less strict. Another problem is that usually importers require a product with their own brand, even if it is a simple sticker or a personalized package. This operation is almost improbable because it would mean bringing the goods back to the factory to insert the mark. On the contrary, when buying from a Chinese manufacturing company, the application of the brand is routine.

Today there is also the opportunity to instantly connect to one of the largest markets with the possibility of getting in touch with various suppliers and buying anything wholesale. This is Alibaba, the most important online business to business portal, a website that connects wholesalers and manufacturing companies especially Chinese with entrepreneurs from all over the world suitable only for those who want to buy wholesale goods. It is possible to subscribe to the site for free to import goods from China at a cheaper price than what can be obtained by contacting an Italian wholesaler. Furthermore, being a portal for wholesale purchases, suppliers require a minimum order quantity but affordable. However, the weaknesses of this online market must also be specified.[37] First

[36] Bathelt H., Zeng G., Temporary knowledge ecologies, The raise of Trade fairs in Asia Pacific Region, Edward Elgar,2015, pag.167

[37] Source: Ferrazza S., Quantitativo minimo di ordine su Alibaba, 2015 https://yakkyo.com/blog/2016/10/20/quantita-minima-da-ordinare-moq-su-alibaba/

of all not all suppliers can comply with the specifications and certificates required, so before starting the research it is essential to have a detailed list of product characteristics and then only contact suppliers who are enrolled in the Gold Supplier program[38]. Moreover, before paying the advance, the buyer must prepare a sales agreement and have it signed by the supplier, in this way quality problems can be prevented. The other daunting factor is time. To identify the best supplier, check the samples and negotiate the price can take months and then to produce the goods, it takes a month and finally the shipment from China to Italy, which takes an average of one week by air and about a month by sea.

3.4 OEM and ODM products

The import of products from China is a practice increasingly shared by Italian entrepreneurs because they are attracted by the economic price of the goods and the variety of products that it offers. Despite the possibility of being able to choose from thousands of articles, there is always the desire of an entrepreneur or company to launch a new product on the market. Requesting the supplier to create a customized product is certainly feasible but clearly has an additional cost.
The company can choose to order two different types of products:

- Original Equipment Manufacturing (OEM): indicates a completely customized product, that is, that in addition to the logo of those who market it, also contains particular technical specifications (design, functions, project color, design, ecc).

- Original Design Manufacturing (ODM): indicates a product conceived according to the design proposed by a company that deals with both design and production, with the personalized brand of those who then commercialize it.

[38] Gold supplier is a status issued by Alibaba after examining the veracity of the information of registered suppliers.
Alibaba.com ensures that every supplier of the program has a registered company (there is no control over the "non-gold" members of the portal). Alibaba employees are also responsible for verifying other key information (share capital, operational address, etc.). This information is shown on the online profile corresponding to each supplier and can be used to judge the reliability of a given supplier.
In addition, the "gold supplier" program is the main source of income for the Alibaba.com portal. Each member pays about 8,000 euros a year and, in turn, gets a visibility about twenty times higher than suppliers who do not join the program.

The OEM products are those products with personalized design that are realized through the use of standard components, but with the brand of the company that sells them. They are products manufactured materially by the OEM manufacturers for the parent company that deals with packaging and reselling them.

Many companies and well-known brands use this mechanism, displacing part of the production in China. Collaborating with factories that manufacture OEM products allows large companies to save money, time and energy and to delegate part of the production process.

The Apple iPhone, for example, was designed by Apple, and then licensed out to Foxconn[39] to produce. As a result, the iPhone enjoys a higher level of product differentiation because its design is only available to Apple and its licensed manufacturer. Another example of OEM products are custom-designed garments that differ from one series item. In this case, the designer has total creative control over the design, but the ODM products are based on pre-established designs. Obviously OEM manufacturing is much more expensive in terms of cost and time, the designers invest a considerable amount of research and development in order to create unique products. In this case the projects must be protected by intellectual property to prevent them from being copied.[40]

Unless the importer wants to make a completely new design, it is often not convenient to buy OEM products. ODM consists in the production of items sold to third-party companies that will market the products under their own brand. So the ODM products are factory products with custom branding, finished products that the company can decide to purchase without a name or with the desired logo. Being ready products, the only changes that can be made are in the choice of colors or materials, made available by the supplier.

In conclusion, the OEM products are more expensive and require more time to be produced, instead the ODM, are made on the basis of models that the supplier has ready: the materials are therefore standard, but there is however the possibility to commercialize them with the name of the importing company.

Chinese suppliers can realize ODM products faster and sell them at a lower cost than OEMs because they are routine productions. the Chinese factories are laboratories, for this they can achieve anything now. However, in the case of customized products, Chinese manufacturers must receive all the precise specifications that leave no room for doubt.

[39] Foxconn International Holding Ltd is the largest manufacturer of electronic equipment, electrical and electronic components worldwide. It produces for Amzon, Apple, Sony, Nokia etc.

[40]Source: Guided Imports, https://www.guidedimports.com/odm-oem/

3.4.1 Additional costs of packaging

The Chinese manufacturers also take care of the packaging of the products. They can realize it directly to them or they rely on suppliers specialized in packaging and printing that work with them in subcontracting.

The buyer can choose the packaging from the supplier's proposals or opt for a customized packaging. In this case the buyer must design the package taking into account the size and shape of the product, the material with which it must be made, the size, thickness, type of closure and type of printing.

The Chinese supplier will have to receive precise indications because he will not make corrections at the last minute. The customized packaging obviously has a greater cost because it may require the use of additional equipment, the costs of such equipment are always borne by the buyer, but vary according to the type of tools. However, the prices of such equipment are usually quite low and rarely higher than a few hundred euros. One way to save money can be to use the packaging offered by the Chinese supplier, adding a personal touch, for example by inserting your logo, changing colors, etc. This layout must naturally refer to the project and the size of the package, but most suppliers can provide a digital model.[41]

In addition, on the customized packaging must be the label of the product that must comply with the regulations of the country where the sale is to be made, for example in Europe the CE mark must be inserted to indicate that the product safety standard has been respected. The lack of any indication of the necessary requirements could lead to the removing of the goods with a consequent loss of money. Finally, some directives impose the obligation to report not only the country of origin but also some warning notes on the packaging of some products and the indication of specific symbols.

3.5 Different economic and financial impact of buying in China or in Italy

After outlining the practical operations of warehouse management, considering the costs that the importer must bear in order to organize an efficient logistics and the constraint of the minimum quantity of order to which he must comply, the focus shifts to the actual

[41] https://jingsourcing.com/customize-product-packaging-in-china-a-complete-guide/

capital commitment to invest and the subsequent analysis from a financial point of view. As already mentioned previously, the price of the product is the factor that determines the choice of companies to obtain supplies in China rather than in Italy. However, the aim is to understand whether the price advantage is such as to allow a positive remuneration despite all the costs to be incurred to import the goods from China. Now the question is: "What is the actual commitment of the capital to invest?"

The advantageous price offered by the Chinese supplier is obtained by ordering a minimum lot of purchase and this requires the availability of a warehouse suitable for storing the goods, all of which have an impact on the company's working capital. Working capital is the amount of resources that make up and finance a company's operations, it is an indicator used to verify short-term financial equilibrium.[42]

The formula for obtaining working capital is: CURRENT ASSETS - CURRENT LIABILITIES

Current assets consisting of cash and inventories must meet short-term payables, consisting of current liabilities.

The working capital consists of:

- account receivable
- inventory
- account payable

Net working capital expresses the company's liquidity situation, ie the ability to meet short-term obligations.

Positive working capital generally indicates that a company is capable of extinguishing its liabilities in the short term, while negative working capital indicates a state of illiquidity because current assets do not cover current liabilities.

However, it is important to understand the significance of changes in the individual elements that make up Net Working Capital and, significantly, which of them generate liquidity for the company:

- change in inventories: if negative, it affects positively the CCN because it reduces the immobilization of capital in inventories;
- change in short-term receivables: if negative, it affects positively the CCN as it is symptomatic of the collection of the receivables;

[42] GUPTA R.K., GUPTA H., Working Capital – Management and Finance, Notion Press, 2015, chapter 4

- change in short-term payables: if positive, it affects positively the CCN as a symptom of financial expansions extended over time and therefore of greater liquidity available.

  In general, the solution to improve company liquidity derives from the reduction in inventories, the collection of receivables and the payment in installments.

However, it is not always said that negative changes in the CCN are symptomatic of a pathological situation for the company. Indeed:

- a positive change in inventories may derive from an investment in stocks prior to an expansion of the asset and / or from the possibility of exploiting better market conditions, which allow to create a stock from which to draw, facing future increases in raw material prices or of the goods;
- an increase in short-term loans, typically those due to customers, may be due to an increase in sales, as, conversely, the decrease in receivables does not necessarily take on positive value if it is symptomatic of a decrease in sales and therefore of a loss of competitiveness on the market;
- an increase in short-term payables does not necessarily take on positive value if it is symptomatic of the company's difficulty in honoring its commitments.

According to the hypothesis that an Italian company prefers to buy goods from China rather than the local supplier, it involves changes in working capital to be invested. Assuming that the price offered by the Chinese per unit corresponds to half the price offered by the Italian supplier, buying the goods in Italy would cost twice as much. Apparently it seems cheaper to import the product from China, but before arriving at this conclusion it is worth checking how much capital needed to cover all the expenses arising from the purchase of goods in China. As previously explained, obtaining the lowest price per unit from the Chinese supplier implies the execution of a minimum order quantity, this constraint forces the company to purchase a minimum lot of goods, which can however be a costly undertaking. Depending on the order quantity there is a different impact on the working capital deriving from the warehouse volume. The greater the quantity of goods purchased, the greater the necessary space and the resources to be invested to guarantee the maintenance of the goods stocks and therefore the working capital employed will be greater. The circulating capital acts as a sort of "sponge": each of its contraction corresponds to a generation of liquidity, while every dilatation always results in an absorption of monetary resources. Therefore a dimensional growth of the working capital determines an absorption of liquidity and therefore of monetary resources. Its decrease instead involves the release of resources and consequently the company's ability to generate greater cash flows. In other words, the reduction of working capital over a given period of time is one of the sources of self-financing, while the increase requires monetary resources for its coverage. in fact, investments in inventories and trade receivables are made with a view to obtaining returns in terms of sales.[43]

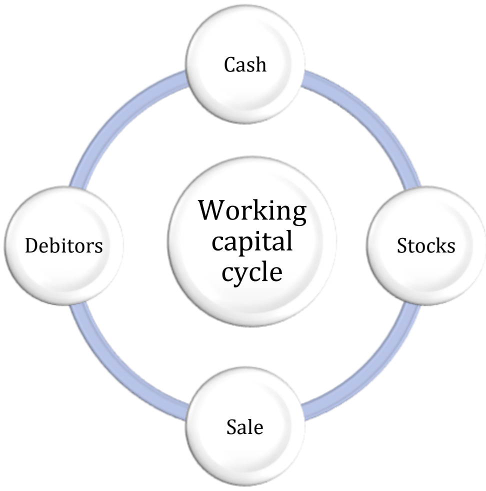
CREDITS = revenues not collected INVENTORIES = products purchased but not sold	→	They absorb liquidity with consequent dilation of the CCN
DEBTS TO SUPPLIER	→	Generates liquidity with consequent reduction of the CCN

The implementation of improvement actions on the warehouse component necessarily leads to the following trade off: ensuring on the one hand a certain degree of continuity and therefore minimizing the risk of stock breaking, clashes with the search for lower stock levels. Maintaining the balance of inventories is more complex if the goods are purchased in China. In the case, for example, of an unexpected trend in sales and a consequent need for reorganization, the average wait is about a week in the case of an Italian supplier, a month or so if the company decides to stock up in China. Practicality and short deadlines facilitate re-allocation and make it possible to quickly fill in the shortcomings, reducing the risk of loss of sales and therefore collection. On the contrary, the wait for goods coming from China considerably lengthens the timing of reorganization with the risk of non-sale. So who decides to stock up in China in addition to stick to the minimum order quantity must put a margin in order to avoid the breakdown of stocks, clearly margin + MOQ increase the need for liquidity. However, the biggest problem can occur if, after having purchased the batch of goods plus a quantity useful to cover the risk margin, the goods are unsold. To this the impact on the working capital is negative as the

[43] Riccio G., Il controllo del capitale circolante e delle condizioni del credito per il miglioramento delle performance aziendali, G.Giappichielli, 2014, pag.99

inventories constitute a capital immobilization and create a hitch of the healthy cycle of the working capital.

Figure 4. Working capital cycle



The cycle of the working capital is the time that elapses from the moment of payment of the goods upon receipt of the revenues obtained with the products sold. [44]One of the main factors influencing the ability to generate cash is the immobilization of resources in working capital, the latter symbolically represented as the "petrol" that feeds the production cycle purchase - production - sale. So the time factor plays a role of fundamental importance: the more time elapses between the payment of the goods and the collection from their sale, the greater the fixed working capital will be. Repetitive purchase - transformation - sale activity generates a continuous flow of payments and collections. During the first phase, the company acquires the materials, services and employees necessary for the typical management, thus sustaining the costs that are defined as "Management Costs". The economic expression of the "cost" is offset in a financial event represented by a "payment" (outflow) on a certain future date which depends on the delays obtained on purchases. The company therefore records management debts for the extension obtained on the payments related to these costs and for this reason called "Management Payables". This aggregate includes short and medium / long-term payables to suppliers of materials and services and to associated companies

[44] MARCHESI, A., Dinamica e gestione del capitale circolante, Franco Angeli, Milano 1996

for commercial transactions; advances and advances from customers, various short-term and medium / long-term payables such as tax payables, payables to social security institutions, payables to mutual funds, payables to employees, payables to the State and other public bodies, accrued expenses and deferred income, the provision for severance indemnities (TFR), the provisions for risks and charges and future expenses not directly deductible from asset items, the provision for taxes and duties, etc. The duration of the extension obtained on average is defined as "days of management payables".

Simultaneously with the purchase of goods, a Warehouse is created (this aggregate includes inventories of raw materials, semi-finished products, work orders in progress, finished products, packaging, ecc) equal to the value of the goods not yet sold. The average turnover days of the stocks, ie the period of time that passes on average from the moment when the goods are purchased at the time when are sold; is defined “days of Warehouse”. The sale closes the operating cycle, generating an economic effect, the operating income, and one of a financial nature, "the collection" (incoming flow) that occurs at the effective expiry of the extensions granted to customers. Until collection occurs, the sale generates credits that are called "Management Receivables". This aggregate includes short, medium and long-term trade receivables. The inventory management policy and the time necessary for their rotation, and the commercial purchasing and payment of production factors (materials, services and employee work), and sales and collection of products or services are therefore the determinants of the financial requirements or of financial surplus.

The quantification of this need or surplus is obtained by subtracting from the resources still involved in the production cycles not yet completed (stocks of raw materials, semi-finished products, finished products and receivables not yet collected) management debts (payables to suppliers not yet paid).

The trend in sales and the change in the duration of the monetary cycle dilate or contract the operating working capital requirements.[45]

The monetary cycle is the period of time that occurs between the monetary exit linked to the purchase of inputs and the monetary income generated by the sale of the company's goods or services.

[45] Cappelletto R., Elementi di finanza aziendale, G. Giappichelli, Torino, 2004, chapter 3, pag.85-86

The duration of the monetary cycle is influenced by:

• average extension of payables to suppliers
• average stock of goods in stock
• average stock of finished products in stock
• average extension of loans to customers

The time lag between receipts (receipts) and payments (exits) - the so-called "monetary cycle" - determines net resources / needs, which are defined as net working capital (CCN).[46] If the operating net working capital is positive, the current management generates a financial requirement; if the operating net working capital is negative, the current management generates positive financial resources. The shorter the duration of the monetary cycle, the lower the amount of financing necessary to support management activities; on the other hand, the longer the duration of the monetary cycle, the greater the need for considerable financing.
The purchase - transformation - sale transactions lead to a certain volume of receivables, of stock inventories that represent the use of resources, because they are purchases made and habitually paid which have not yet completed their monetary cycle with collection. Part of these uses is directly reduced by the payment extensions obtained from the suppliers and therefore, by the shift in time of part of the disbursements related to the current management.
The monitoring of the evolution of the CCN is very important in order to: calculate the management cash requirements and check whether the financial exposure to the banks is correct.
Analyzing the final balance sheet it is possible to quantify the financial trend linked to the balance sheet items (management receivables, inventory, management debts), so it is possible to state that:

1. the sum between inventory and management receivables corresponds to the potential borrowing requirement (gross working capital) of current operations as it represents the revenue collections not yet carried out;
2. CCN instead corresponds to the actual financial outlay, as the gross working capital (collections not made) are deducted management debts and therefore the costs not yet

[46] Orlandi M., Come diventare manager imprenditori, Wolters Kluwer, 2015, chapter 5

paid (thanks to the extensions obtained from suppliers). It therefore represents the actual financial outlay, which may vary based on the trend in sales and purchase volumes and the timing of the time lag.[47]

When a company decides to buy goods from China, it is bound both in terms of time and quantity and based on what has been said so far this generates variations on the need to invest. In order to carry out international transactions, the L / C [48]is generally adopted as a method of payment, as it offers greater guarantees and satisfies the needs of the parties involved, on the other hand it may, in some cases, be non-competitive in the negotiation phase. since it is a guaranteed form of payment and requires more laborious management than other instruments, it entails higher implicit costs.
Then, at the cost of the goods, the percentage is added to the amount of credit requested by the bank, which is usually between 1% and 3% of total credit. In addition, the L/C provides for its opening sixty days before delivery, which means that the company must have the necessary liquidity to pay the debts to suppliers two months before the goods arrive.

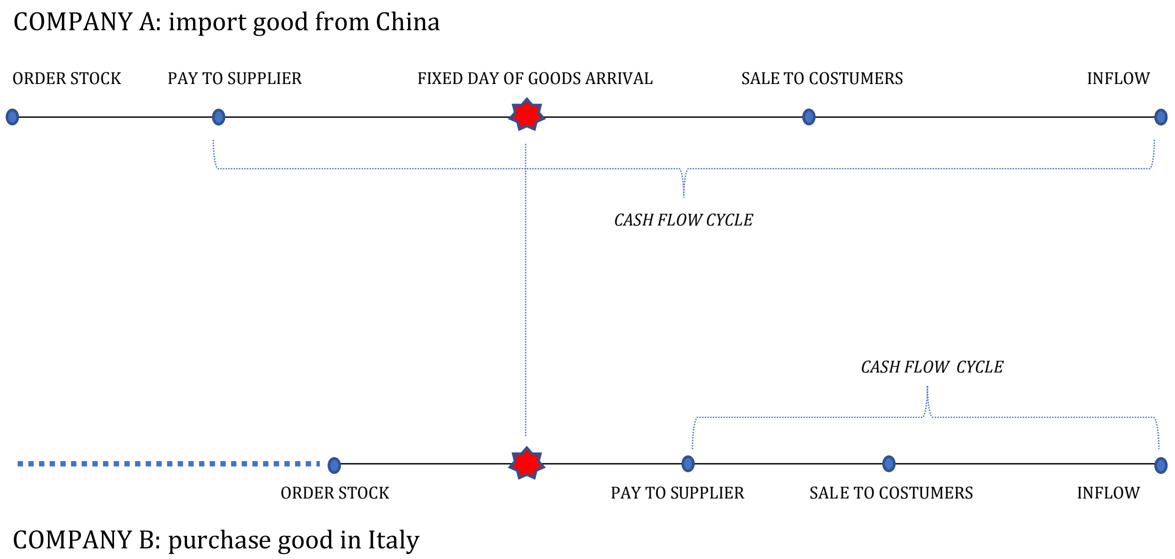
In this regard, if the method of payment by letter of credit requires more money and therefore a greater commitment to working capital, the importer may have to ask the bank for an increase in the bank credit. Through the bank credit the bank gives the possibility to withdraw money from its account even if in negative balance within the limits of the agreed sum. The applicant is required to reimburse the amount within the pre-established deadlines.
Therefore, having to set aside the fee for payment of the goods about two months before delivery, the importer risks depleting the pre-established credit limit and not having availability for other ongoing expenses such as payment of employees, so he should request bank the increase in credit.
The increase in credit should be assessed and, if necessary, granted by the bank, which in addition to the amount to be repaid will also apply interest.

[47] Cappelletto R., Elementi di finanza aziendale, G. Giappichelli, Torino, 2004, chapter 3, pag. 88
[48] The letter of credit (L / C) is an irrevocable commitment assumed by an issuing bank by order of the buyer in favor of the seller-beneficiary to make a payment after receipt of certain documents and provided that all other conditions.

The decision to adopt the L / C provides for an advance payment and consequently lengthens the time between the payment to suppliers (which corresponds to an outgoing cash flow) and the sale. The incoming cash flow will then occur with the receipt of the sale. The time between the outflow and the collection is much longer if you buy from China with a L/C. On the contrary, if the company buys from an Italian supplier, although the cost of the goods is higher, the liquidity will not be absorbed until the goods are paid, usually after delivery. This means that if the company pays the supplier after receiving the goods or is granted payment extensions within 120 days, the time between payment and sale is considerably reduced.

This concept becomes clearer with a graphical representation:

Figure 5. Duration of working capital cycle



The figure 5. highlights the different management and financial effects by ordering from a Chinese supplier (company A) and from an Italian supplier (company B).

Both companies must receive the goods on X and according to the supplier they are addressing they must evaluate some aspects. The graph points out that in the case of company A, which has decided to import goods from China, it has to place the order a lot earlier than company B. Considering that only shipping times from China to Italy are about a month, company A must be taken early to avoid misunderstandings or interruptions. Unlike the company B, buying from a local supplier, it has fewer practices

to deal with for receiving the goods and much faster travel times. Furthermore, the degree of risk is much lower because the goods are not exposed to the same risks as goods shipped overseas.
This allows shorter times between ordering and delivery of goods and drastically reducing transport and insurance costs.
If transport times and payment methods prompt company A to proceed in advance with respect to company B, these two factors also prove to be effective at the financial level.
As the graph shows, the cash flow cycle of company A is much longer than the cash flow cycle of company B, because by adopting L / C as a payment method, company A must dispose of the liquidity necessary for the payment of the goods before the opening of the L / C and therefore the impact on the working capital will be considerable. The working capital invested by the company A will be greater since the time between payment and sale is much greater than the time of company B, which only makes the payment after receiving the goods.

Cash flows represent the monetary income and expenditure attributable to the processes of purchase, sale, investment and financing when the financial events connected to them translate into real monetary movements. Thus, observing the economic side of the process described above, against a purchase, the relative cost will be recorded, while the corresponding revenue will be recorded against the sale. At all costs the accounting will report the related supply debt and for each revenue the related credit. Receivables and payables, respectively, refer to collections and payments to be carried out in future periods, when the actual inflows into and out will occur.
In financial terms, the value of the company lies in the ability to generate financial cash flow. Operating cash flow is generated by typical management operations, ie those relating to the acquisition of goods and services with a rapid cycle of use and their sale. Cash flow should not be confused with operating profit. The latter results from the difference between revenues and costs concerning to an accounting period, allowing the measurement of the economic-income performance of the company. Instead, the cash flow calculated as the difference between payments and collections of the accounting year, indicates whether the current management has generated (positive result) or has absorbed (negative result) monetary resources. The company is in a situation of financial equilibrium when the flow of income is constantly able to cope with the flow of exits. Before making an investment, the company must ask itself what cost it must bear and

which it is willing to support. The amount to be spent will be more or less high depending on the nature of the project (in this case the purchase of goods) and the volume of activity. Negative flows will usually follow a series of positive flows that will represent the performance of the project, ie the margins that will be used to remunerate and repay those who deprive themselves of a certain sum of capital for a certain period of time. Time plays a fundamental role. The value of each cash flow makes sense only if it refers to a certain time. For financial theory (as well as for common sense), there is a difference between cashing a euro today or cashing it in a year, a difference in terms of value. The Euro tomorrow compared to the Euro today increases the degree of risk linked to the future cash flow, and this makes it convenient to immediately cash the capital rather than tomorrow, if there is not adequate remuneration for the wait.[49]

The compatibility of the investment with the income and expenditure profile must be verified, both in terms of size and time.

The financial activity uses some tools to measure approximately the cash flow generated by the company's operating activities, such as EBITDA.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)[50] is an indicator of the profitability of invested capital. It indicates the profit of the company before the payment of interest, taxes, depreciation and amortization. EBITDA is calculated as follow:

Revenues

−

Expenses

———

NET PROFIT
+ Interest
+ Taxes
+ Depreciation
+ Amortization

= EBITDA

[49] Cappelletto R., Elementi di finanza aziendale, G. Giappichelli, Torino, 2004, chapter 3, pag. 3
[50] Vernimmen P., Quiry P., Corporate Finance, John Wiley & Sons, 2009, chapter 9 p.161

The amount of revenue is equivalent to the turnover of a business, in other words it corresponds to the collections recorded in a specific period of time. This value is obtained by multiplying the quantity of goods sold for the sale price. Revenues can be high but costs can also be costly. A high percentage of costs significantly reduces revenues and the consequent income. Revenue and income are two important variables to assess the company's ability to generate income.
The amount of revenues is strictly related to the sales trend and the price of products sold. Operating costs must be subtracted from total revenues. Figure 6 lists the general costs that two companies must support by purchasing the same product but in different places:

Company A: **imports good from China**	**Company B:** **purchases good in Italy**
COST OF PRODUCT X: 30 cent/unit	COST OF PRODUCT X: 1 euro/unit
*MOQ	
SHIPPING COST	TRANSPORT COST
INSURANCE COST	
WAREHOUSE COST	WAREHOUSE COST
LABOR COST	LABOR COST
CUSTOMS DUTY	

Figure 6: List of Additional costs

The company that buys from China generally has advantages in terms of price of products, but at the same time has high costs to import the goods. In contrast, the company that buys in Italy pays the raw material three times the company A but has lower costs and is less exposed to any risks. So if a company has to subtract huge costs from the sum of revenues it is clear that net profit is reduced.
If the revenues > Expenses = EBITDA is positive.
If the revenues < Expenses = EBITDA is negative.

The elements to be taken into consideration to make an assessment of economic convenience about the choice of purchase of goods in China or Italy, can be summarized in the following formula:

Δ price of good +

Δ additional burden +

Δ requirement of working capital

On the basis of what has been said so far, the advantage of buying goods in China tends to be the low price of the good. The price economy is not sufficient to determine the purchase convenience in China rather than in Italy. The company that intends to import must not only evaluate the price of the goods but also the amount of additional charges such as transport costs, insurance and customs duties. If on the one hand the lower price of the asset amortizes the need for working capital, on the other hand the additional costs dilate the working capital. Furthermore, the importer must respect the minimum order quantity constraint requested by the Chinese supplier. This factor is important because a lot of minimum goods may be too expensive for some companies or not correspond to the real quantity of goods needed.
In this case, the company must commit more liquidity to purchase the minimum order quantity, and may also experience an increase in inventory costs. All this is accompanied by the risk of a negative sales trend, which causes the immobilization of working capital.
The company that decides to stock up in Italy employs more working capital for the purchase of the asset as the prices offered by the Italian market are less competitive than the Chinese prices. However, it does not have to bear the same amount of additional burdens as an importing company. Logically, the costs of transport and insurance are significantly lower if the company purchases from an Italian supplier. Moreover, the Italian supplier probably applies a discount percentage after a certain order quantity, but certainly does not impose a minimum order quantity.
So the impact on working capital from different factors based on the choice of where the company decides to buy the goods: (fig.7)

Fig.7 Change in cost based on the place of company purchases the goods

Importing good from China	Purchasing good in Italy
	+ Δ price of good
- Δ price of good	- Δ additional burden
+ Δ additional burden	

However, there is no single answer on which solution is the most convenient, as each business is based on its own company and market reality.

Assuming that a company has a good margin; it does not urgently need the goods; and the price of the Chinese good is much cheaper than the Italian one, in this case it is probably better to stock up in China.

Given the huge discrepancy between the price of the Chinese and the Italian goods, the company will be able to recover the additional costs with the sale of the asset.

Otherwise, where the company has just enough margin; urgently needs the goods so they are inadmissible of any delays on delivery times; does not have a good familiarity in the negotiations, will be forced to stock up in Italy despite the price of the asset is more expensive than the Chinese. This is because the risk of drying up liquidity and not getting the goods on time is too high.

There are many cases and variables to take into consideration. Each business must have a clear picture of its assets and then evaluate the economic advantage of the investments it intends to pursue.

However when buying in China the difference in cost of the Chinese product and the Italian one must be significant otherwise it is not worth it to import. If the difference in cost is low, the company risks using more liquidity to pay the additional costs instead of the cost of the total goods. Therefore the importer is likely to spend more money to receive the same product (perhaps of poorer quality) with waiting times of one month if everything goes well instead of a week.

The formula outlined above contains the three factors to be calculated if a company has to evaluate what should be done.

As convenience is measured in costs, through the algebraic sum of the three variables describe above, it is possible to calculate the difference in capital to be invested in the case of purchases in China or in Italy.
The formula works in the absence of capital rationing, so the company has available capital to invest. Rationing of capital indicates the situation in which the company does not have sufficient funds to undertake any projects.[51] So if the company has tied the capital to other projects, it may not have free liquidity to invest in other purposes.

According to the data reported by Istat (Fig.2 Chapter 2, page 7), the main sectors in which Italy has a high rate of imports are the clothing sector and electronics sector.
But why is the volume of imported goods larger in these sectors than others?
One of the great advantages of producing goods in China rather than in Italy lies in the low cost of labor. It is not by chance that these two categories of goods deal with items that require a high level of manpower.
The low cost of labor is an element in favor of the economic purchase in China, given that Italian SMEs do not have any chance of competing in terms of quantity and price.
Although low manpower is a predominant aspect in the choice of buying goods in China, the quality of the product also takes on a certain importance. The Chinese producers can supply huge variety of articles but the medium-low quality is still debatable above all for the type of substances sometimes contained in the garments.
At the same time the creation of electronic devices such as smartphones, tablets, computers, optical products, measuring devices ecc, it requires a high intensity of labor especially for the assembly phase.
The incessant, numerous and economic labor force has made China the ideal workplace for the manufacture of electronic equipment.
"Foxconn, the largest factory in the world located in Shenzhen, hosts about 450 thousand employees and is considered the true Apple city since the plant is dedicated to the production and final assembly of mobile devices such as the Iphone."

However, the convenience of purchasing in China linked to the advantage of low-cost labor is significant when the product in question involves laborious, meticulous and lengthy processing.

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[51] Damodaran A., Raggi O., Applied Corporate finance, Maggioli s.p.a, (2015) 4th edition, chapter 6 pag.315-317

Therefore, according to what was said and analyzing the variables mentioned above, it emerges that:

- cost of the good is much lower
- additional costs remain high

Although the additional costs are significant, they are recovered with savings on production costs. These considerations are able to give an answer to why the volume of imports is quite high for these two product categories.
On the basis of these considerations, the low cost of labor is such as to make it more convenient to import the good rather than buy it in Italy despite the additional costs to be paid. However, once the most convenient choice has been identified, the company must have the necessary capital to cover all costs.

CHAPTER 4. Shipping process

In the previous chapters were described the initial steps to be followed for those who intend to import goods from China, also emphasizing the costs to be incurred. However, the crucial part of every commercial exchange is transport. When it comes to transport, it is not just a question of how to send a cargo of goods from country A to country B, but it is also about negotiating the terms of transport and the documents necessary to export from China and a import in Italy. Consequently, the methods of transport valid for shipping goods from China to Italy, the specific international contracts (Incoterms) stipulated between the sender and addressee and the international documentation will be analyzed.

4.1 Ocean freight and air freight

Transport is a delicate phase not only because it is the moment when the purchased goods are more exposed to tickling and possible risks but also because according to the category and the quantity of products to be imported it is important to choose the most convenient transport solution.

In general, the modes of transport are divided into two categories: by sea and by air.

The three main differences between modes of transport concern three factors: speed, price and environmental impact.

The urgency of the load is the first factor to consider when deciding between a sea transport and an air transport, since the shipping themes are decidedly different. Air transport generally varies from a few days to a dozen days, taking into account the waiting time in the airports, the route and the management of the load at the point of departure and place of origin. Maritime transport, on the other hand, takes about 35/40 days. The difference in costs between sea and air transport varies depending on the market and the quantity of goods to be shipped. The capacity of an aircraft is limited by weight, instead the capacity of a ship is limited in volume, so the difference in price for sea and air transport is lower in the case of light loads.

Specifically, the air transport rate is USD 4.50 per kilogram and the maritime transport rate is USD 125 per cubic meter. for air transport the load weight is usually calculated based on the dimensional factor of 6000 cubic centimeters per kg (166.67 kg / m^3). For maritime transport the standard is 1000 kg / m^3. So assuming you have to send a cubic meter of load weighing 500 kg, the transport will be 18 times more expensive than the sea, instead if the cubic meter load weighs only 100 kg, air travel will be only six times more expensive than transport maritime. these calculations refer to the transport of goods from port to port and from airport to airport.

Although it is the price to reduce the choice between shipping and air shipping, the environmental impact of the chosen transport type should also be considered.

The environmental impact of an aircraft is much more damaging than that of a ship. Public statistics show that 1000 kg of cargo on average emit 500 grams of carbon dioxide per km traveling on a modern cargo (B747). In comparison, a 200 kg load sent by sea on a modern container ship the emission can be reduced to 15 grams of carbon dioxide for every km of navigation.[52]

Generally the goods to be transported by sea are loaded either in a bulk cargo ship or in the container.

The bulk carrier is a type of ship that carries loads in large quantities. The cargo transported in these ships is bulk, without any kind of packaging and generally contains items such as cereals, coal and minerals, cement, etc. This name does not refer to the type of ship or cargo but to the fact that these bulk carriers are not based on fixed navigation tables, rather they can be defined as sea taxis as they are booked to sail one or more times for a specific customer. Goods produced in Asia and purchased by the Western buyer are loaded onto container ships.

Container ships, unlike bulk cargo shipments, follow the fixed navigation tables, they can be considered sea buses because they dock at a certain port the same day of the week.

In the field of international logistics there are two terms to define the type of container load: Full Container Load (FCL) and Less than Container Load (LCL).[53] LCL enables importers to ship smaller amounts of cargo in addiction the cargo is combined with other shipping consignments headed for the same destination.

[52] Source: Transporteca https://transporteca.it/trasporto-merci/

[53] Favaro M., Il trasporto delle merci nel commercio internazionale, IPSOA, 2013

Unlike Full Container Load, which usually has a flat rate per container, LCL is charged based on the volume, set in cubic meters. LCL shipping is a cost-effective solution above all for smaller shipments as only need to pay for the volume space used and at the same time it almost always cheaper than air freight. For this reason, who choose to share the container must make sure that the goods prepared and packed properly to be able to withstand sharp or heavy objects as well as chemical fumes or liquids.
On outer package is also printed the shipping mark, the purpose of the marks is to identify goods from those of other shippers. They should be made with waterproof ink, so that they can always be easily read, they should be in black, with orange or red for dangerous cargo.
The marks should be in both English and the language of the country of destination. LCL shipments take longer to process but is a cheaper solution. FCL shipment will be loaded and sealed at origin by your supplier or the manufacturer, the cargo will be exposed for consolidating once at the loading port, and for sorting out again at the destination port. In this case the cargo will be safer and the shipment more expensive.
Air freight transport is generally divided into two categories: standard air transport and air courier. Standard air transport consists of loading the goods in the hold of scheduled flights that travel long distances.
The smallest loads are placed in a ULD (Unit Load Device) container which consists of an aluminum container shaped to fit the fuselage, the largest items are stored in the ULD pallet. Standard shipping is generally only performed on so-called wide fuselage aircraft, suitable for covering long distances. Finally, the goods arriving from Asia tend to be unloaded in Frankfurt or Stockholm and then transported to Italy by truck.
Air freight has a tighter control over its cargo, thus that reduces the cargo exposure to damage, theft, and pilferage.
It requires less packaging because of better security and faster delivery, less packaging may mean saving packaging, labor costs and freight. In addiction
airfreight is faster and has better security than ocean and land freight, thus the insurance rate generally is lower.
Although transport by sea and by air is the most popular, it should also be mentioned transport by land through the railway lines.
Transnational freight traffic between China and Europe by rail has evolved as a third option as an alternative to shipments by sea and by air. Rail transport could be an alternative especially for trade with China's hinterland.

Several important trading centers in particular Chongqing and Wuhan have good connections to international train stations. Corresponding inland container depots are easy to reach for trucks, allowing for efficient management of the containers.
The main container type used in railway freight traffic are 40ft (12,19m), but as for sea transport it is possible to send a batch of goods and occupy only a part of the container using the LCL container. Transit times of the container freight trains are about between 15 to 20 days, the main train stations of discharge in Europe are in Germany for example Duisburg, Hamburg and Nuremberg.
However, according to the One Belt One Road initiative proposed by the president of China, most of the investments will be destined to the transport sector with the aim of intensifying the routes and facilitating trade between Europe and China.
In this regard, a new railway line has recently been activated which connects our country with China. The first China-Italy freight train was inaugurated on 28 November. It started from the railway terminal of the integrated logistic pole of Mortara, in the province of Pavia, to get to Chengdu, the capital of Sichuan, where in December the connection in reverse was inaugurated.[54] This new link is strategic because it allows you to ship large objects more quickly than by ship, it is cheaper than the plane and moreover being more stable than maritime transport it is particularly suitable for fragile goods. The advantages in terms of savings in delivery times are clear: if sea transport takes between 40 and 45 days, shipping the goods by train drops to 18-22 days.
Air freight which takes ten days, is certainly the fastest, but also the most expensive. The train is a good solution to send or import goods from China, transport prices are accessible and containers are more stable on rail than at sea.

4.2 International Commercial Terms (Incoterms)

To regulate international trade, the Chamber of Commerce has drawn up universal terms to regulate the obligations of the buyer and seller. The so-called Incoterms acronym of International Commercial Terms are the terms used to regulate the responsibility of contractors when importing or exporting goods. These agreements are a component of the contract but do not define the transfer of ownership of goods, which remains a

[54] Source: 长久物流 and Integrated Logistic hub of Mortara
http://www.terminalmortara.it/ita/pdf/presentazione-china-italy05-06-2017-ita.pdf

prerogative of the purchase contract. In other words, they regulate some of the obligations pertaining to the contract of sale, in particular the obligations inherent to the delivery of the goods and the consequent passage of the risks of damage to the goods from the seller to the buyer, even if, obviously, the Incoterms do not exhaust the conditions that regulate the contract.[55]

The Incoterms represent an international standard and are intended to simplify foreign trade, in detail they clarify the following aspects:

- mode of transport
- place of delivery
- subject of the transfer of risk from buyer to seller
- transport, insurance and allocation costs
- responsibility of necessary documents

Every single step is taken into account: the sender or exporter, the export customs from the country of departure, the port or the boarding airport, the port or the landing airport, the import customs of the country of arrival, the recipient or the person who imports the goods. The Incoterms currently in force are 11 and are divided into two groups according to the means of transport involved:[56]

Terms applicable to any type of transport:

EXW Ex Works
FCA Free Carrier
CPT Carriage Paid To
CIP Carriage and Insurance Paid To
DAT Delivered At Terminal
DAP Delivered At Place
DDP Delivered Duty Paid

[55] Fusari P., Incoterms 2010 e trasferimento della proprietà, Confindustria Vicenza
[56] ICC ITALIA, Tavola sintattica comparativa predisposta da ICC Italia, 2010

Terms applicable to sea / water transport:

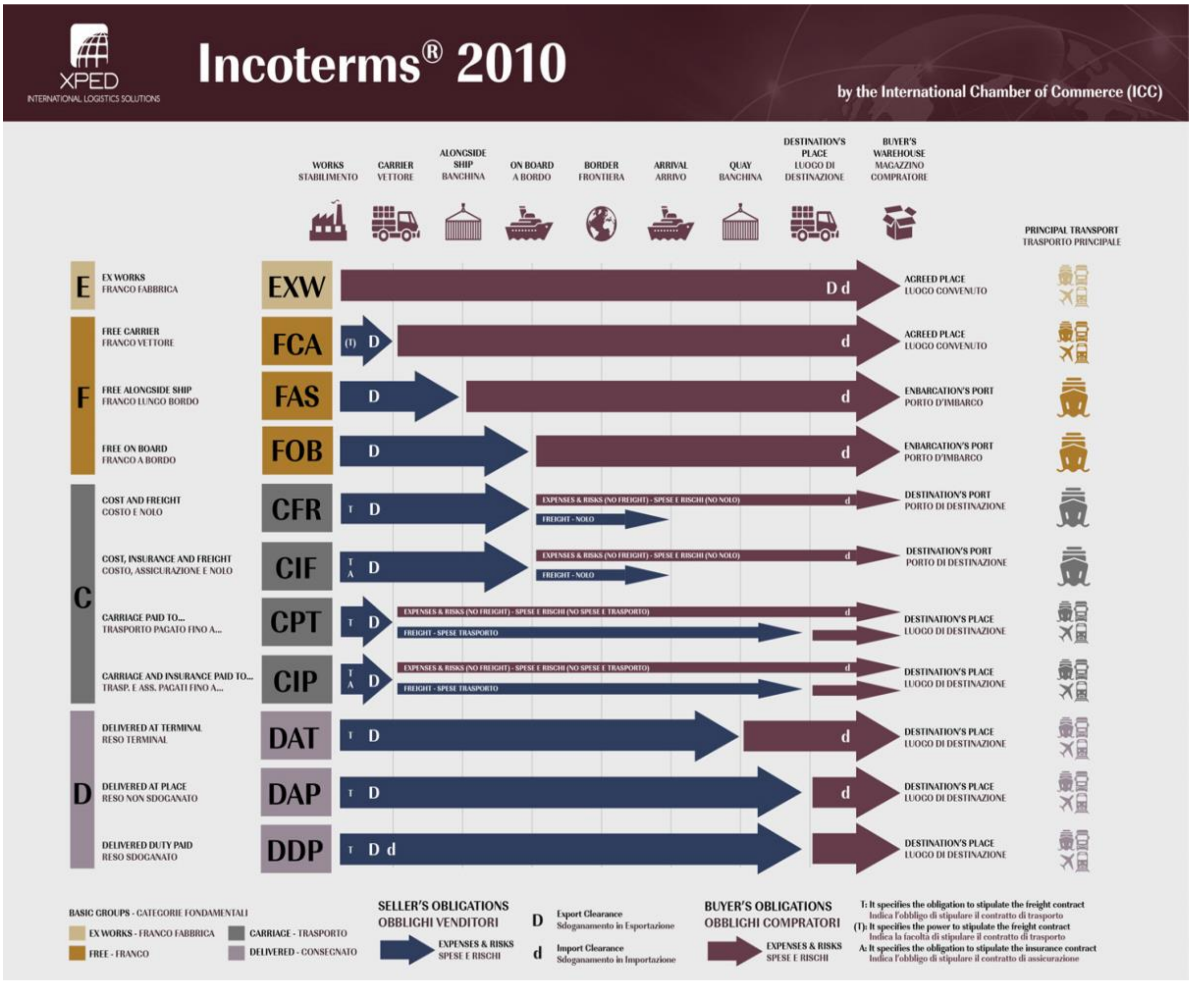
FAS Free Alongside Ship

FOB Free On Board

CFR Cost and Freight

CIF Cost, Insurance and Freight

Figure 8: Incoterms 2010



Source: International Chamber of Commerce (ICC)

The correct knowledge of the individual rules and the related charges attributed to the buyer and seller is essential for the choice of the Incoterms rule most appropriate to the specific case.[57] The individual terms will now be listed and explained:

[57] Favaro M., Assicurazione trasporti e Incoterms IPSOA, 2012, II edizione

Ex Works (EWX)

This seems to be the less demanding and less expensive term for the seller since all costs and risks in terms of transport, insurance and customs are borne by the buyer. The seller is not obliged to take care of loading the goods in the carrier chosen by the buyer and is not required to bear the costs for export customs clearance.

The seller fulfills his obligations simply by placing the goods, packaged and easily recognizable, available to the buyer at the place indicated (generally his own factory or warehouse).

The customs export operations are the responsibility of the buyer, however when the buyer does not entrust the task of doing to the carrier, such operations can be carried out by the resident seller. In this case it is advisable to protect the term 'cleared for export' from the EXW term, which means that the goods are cleared by the seller.

Free Carrier (FCA)

According to the FCA term, the seller takes care of getting the goods to the point agreed with the buyer (warehouse or terminal) where them will be delivered to the carrier.

The risk for loss and damage of the goods passes to the buyer when the seller delivers the goods to the carrier or to another person designated by the buyer at the agreed delivery location. However, the following distinction must be taken into account to identify the time of delivery:

if the place of delivery is the seller's warehouse, delivery takes place when the goods are loaded on the means of transport procured by the buyer; if the place of delivery is any other, delivery takes place when the goods are made available to the carrier, ready to be unloaded, on the means of transport of the seller.

Furthermore, the specific place of delivery should be indicated as precisely as possible to make it clear where the transfer of responsibility for the goods takes place.

This rule can be applied to any type of transport.

Carriage Paid To (CPT)

The term CPT implies that the seller after preparing the goods must deliver the goods to the carrier or to another person designated by the seller himself, obtain, at its own expense, the license and any official export authorization and must bear the costs related to the transport for the delivery of the goods. The risk for loss and damage of the goods passes to the buyer when the seller delivers the goods to the carrier or to another person designated by the seller at the agreed delivery location.
Often the difference between moment of risk transfer and moment of transfer of expenses creates a lack of understanding between buyer and seller.
The risk of the goods passes to the buyer when the seller delivers the goods to the carrier at the agreed delivery location. From now on, the seller still has to pay the costs up to the place of destination, then the costs are borne by the buyer. Therefore the responsibility of the seller to bear the costs of transport is not equivalent to responsibility for the risks of the goods.
It is therefore very important that the parties accurately indicate both the precise point within the place of delivery (for the transfer of risk) and the precise point within the place of destination (for the transfer of expenses).[58]
Moreover, if the transport requires the use of several carriers, the risk passes to the buyer with the delivery of the goods to the first carrier if the parties have not otherwise stated in the purchase contract.

Carriage and Insurance Paid to (CIP)

The term CIP assumes that the seller must deliver the goods to the carrier or other person designated by the seller himself, deal with customs clearance, manage the transportation of the good and stipulate an insurance contract for loss or damage during transport up to agreed place of destination.
The risk for loss and damage of the goods passes to the buyer when the seller delivers the goods to the carrier or to another person designated by the seller himself at the agreed delivery place, instead the transport and insurance costs are borne by the seller up to the place of delivery. The criticality, from the point of view of the buyer, is the minimum coverage of the insurance as it covers only the basic risks (fire, explosion, overturning and

[58] http://battaglinidesabato.com/blog/2016/02/incoterms-cpt/

derailment). If the buyer wants a more extensive coverage, he will have to bear the related costs for a supplementary insurance.

<u>Delivery at Terminal</u> (DAT)

Return to the Terminal "means that the seller makes the delivery by placing the goods, once downloaded from the arrival means of transport, available to the buyer at the terminal of the port or agreed destination. "Terminal" includes any place, uncovered or covered, such as a warehouse, a quay, a yard for containers, a road, rail or airport terminal. The seller assumes all the risks associated with transporting and discharging the goods to the terminal in the port or place of destination established.
If the agreed place is different from the seller's country, the seller assumes responsibility for the export customs clearance and the practices for the crossing of possible third countries.

<u>Delivery at Place</u> (DAP)

With the DAP term, the seller fulfills the obligation of delivery by placing the goods at the disposal of the buyer on the means of transport at the agreed destination. The seller is responsible for the export and transport management and must bear the costs of transport and the costs of unloading the goods if provided for in the transportation counter. The buyer will be responsible for any risks of the goods only after the delivery, and will also have to deal with of documents for importation and related costs.

<u>Delivery Duty Paid</u> (DDP)

“Delivered duty" means that the seller makes the delivery by placing the goods at the disposal of the buyer on the means of transport of arrival ready for unloading at the agreed destination.
The costs and risks associated with transporting the goods to the place of destination, the outgoing and incoming customs clearance costs are entirely the responsibility of the seller. In addition, the seller must bear the costs related to any duties, as well as the value added

tax, which weigh on the goods in the country of importation. This agreement involves the maximum level of bonds for the seller.

Free Alongside Ship (FAS)

Incoterms FAS is one of the four terms dedicated exclusively to sea transport.
According to the FAS term, the seller takes care of delivering the goods alongside a ship (barge or quay) on the departure port agreed in the purchase contract, sustaining costs and risks. For some ports it is also important to specify the reference quay due to the size of some port areas. Furthermore the seller must carry out the customs clearance operations for export.

Free on Board (FOB)

"Free on Board" means that the seller makes the delivery by placing the goods on board the ship designated by the buyer at the agreed port of shipment. The risk of loss or damage to the goods passes to the buyer when the goods are on board the ship and the buyer will bear all costs from that moment onwards.
The costs at the departure terminal and the export costs are borne by the seller.
FOB is the oldest Incoterm along with CIF the most common with maritime transport.
The term FOB may be more advantageous in the case of imports. In fact, the buyer could not organize all the remote operations well, and it is therefore more appropriate for them to be paid by the seller. On the other hand, the buyer can choose the most convenient solution for the route and keep the documentation and the unloading operations under control, without receiving the information at the last moment and having clear and defined costs.[59]
In any case, the buyer could not remotely take care of all the operations at the origin, and it is therefore more appropriate for them to be paid by the seller. On the other hand, the buyer can choose the most convenient solution for the route and keep the documentation and the unloading operations under control, without receiving the information at the last moment and having clear and defined costs.

[59] https://www.plaisantspedizioni.it/it/informazioni-63091/109-alcuni-vantaggi-degli-incoterms-fob-e-cif

Cost and Freight (CFR)

The term CFR provides that the seller take care to deliver the goods by putting it on board the ship chosen by the buyer, provide the buyer with the Bill of Lading essential for the pick-up of the goods at their destination, clear the goods for export and manage the transport of goods to the place established.
The obligation to manage transport is what differentiates the CFR rule from the FOB rule. Once the goods are on board the ship in the port of shipment, the risk for loss and damage of the asset passes to the buyer.

Cost Insurance and Freight (CIF)

Using the term CIF the seller takes charge of all costs, liabilities and risks until the goods are on board the ship cleared. It is also responsible for the transport costs up to the designated destination and the insurance that will cover the goods during shipment.
The CIF agreement is advantageous in the case of exports. The seller maintains control of the shipment and can choose, by assigning his trusted shipper, the most convenient solution from both an economic and an operational point of view. In fact, it is free to choose the most suitable vector and to take care of all the documentation.

4.3 Shipment documents

Accurate documentation is one of the most important elements in international logistics and customs clearance. Properly completed documentation will help the ordered goods to reach its international destination on time and reduce the risk of it being delayed at customs.
To make sure that the products get to destination without any trouble, it's essential to get shipping documentation right. Therefore it is important that the importer and exporter are familiar with all the required documents.
These documents are distinguished in:

- Contractual document: pro forma invoice

- Commercial document: commercial invoice and packing list
- Customs document: certificate of origin
- Insurance document: insurance policy
- Transport document: bill of lading – "B/L" and air waybill – "AWB"
- International payment: Letter of credit – "L/C"

Pro forma invoice

The proforma invoice is a document that allows the seller to provide the characteristics of the products, the prices of the products, the conditions of sale and the terms of payment. The proforma invoice has no tax value, it is issued before the tax business and in this way does not bind the customer to pay. The purpose of the proforma invoice is to provide information and conditions that will then be shown on the sales invoice. For this reason it is useful for the customer who can check prices, articles and tax data before issuing the tax invoice.
Specifically, the proforma invoice must contain the following information:[60]

- the seller's logo and registry (as in the export sales invoice)
- list and description of the products
- unit price of products
- net weight of products and gross weight of the most appropriate packaging
- packing sizes and volume
- term incoterms
- terms and conditions of payment
- shipping cost and insurance if they are not already included in the price of the product
- expiry date of validity of the offer

The proforma invoice already in itself does not meet all the customer's requests and for this reason it is advisable to attach some illustrative material that facilitates the conclusion of the sale. Even if contact with the possible importer takes place at a distance, however, the seller must do his best to present the company and its products.

[60] Capela J., Import/Export for Dummies, John Wiley & Sons, 2011, part IV, pag.171-172

Alternatively, the seller could send a simple commercial offer, however, since the data to be forged are many, without respecting a specific scheme there is the risk of forgetting or omitting some information. In the event of errors or changes in amounts it is possible to reissue the proforma invoice without having to modify the tax documents already issued, different is for the tax invoice, if the amount is incorrect, it is necessary to issue a credit note to cancel the invoice. Furthermore, the final invoice can only be issued after the customer has made the payment.

Commercial Invoice

Commercial Invoice is an international shipping document provided by the supplier to the customer detailing all important information about the type and value of goods sold. The commercial invoice is one of the most important documents in the sale of goods and services. Its importance is given by the fact that it contains all the information necessary to verify the correct execution of the purchase order.[61] The commercial invoice works like a bill for the goods from the exporter to the importer, and it also serves as evidence of transaction. The commercial invoice must include all the following required information:[62]

- the word "invoice" followed by the number and date of issue
- the complete registration of the seller
- registration of the buyer and the recipient of the goods if different from the buyer
- the two codes identifying the goods: the combined nomenclature code (NC) and the integrated EU tariff code (TARIC)[63]
- the tax code and VAT number of the seller and the buyer
- the description of the goods: specify the quantity writing if it is crates, cartons, pallets ecc. and report unit prices and total
- indication of the agreed Incoterm
- the terms of payment
- the IBAN code; BIC or SWIFT of the seller

[61] Johnson T. E., Bade D., Export/Import Procedures and Documentation, AMACOM, 2010 p.87
[62] Capela J., Import/Export for Dummies, John wiley & Sons, 2011, part IV, pag.200
[63] See chapter 4 pag. 88

- the letter of credit in case of payment with documentary credit
- place of destination of the goods
- the origin of the goods
- any specifications required by law.

In case of payment by L/C the commercial invoice must be identical to the pro forma invoice with the exception:

- the words "invoice" instead of "proforma invoice"
- the date of issue
- the reference to the proforma invoice previously issued
- the reference to the letter of credit, as this information is not available at the time the proforma is issued.

Packing list

Packing List also known as a bill of parcel or shipping list is a document which details the quantity, dimensions, weight of each package or container. It serves to inform all parties involved with shipping, including transport agencies, customers and government authorities about the contents of the package. Packing list is a non-fiscal document in which are indicated the details that describe the appearance of the packages and allow their identification.[64] It is a very widespread but optional document with the exception of shipments to countries outside the EU, for which the package list is mandatory.
The Packing list is a very important document especially for its customs and insurance implications, as in case of customs inspection the packing list is fundamental for the verification of the goods, and in case of damage or loss of goods it is a reference for the evaluation of the extent of the damage suffered.[65]

[64] Rhee C., Principles of International Trade (Import-Export) Author Hous, 2012, pag.135
[65]Source: Consulenza export, http://www.consulenzaexport.it/la-distinta-dei-colli/

Certificate of origin

A Certificate of Origin is an international trade document that certifies that goods in a particular export shipment are wholly manufactured, produced or processed in a specific country.
The exporter has to prepare the document and then it may have to be certified by a Chamber of Commerce or Consulate. It is used to identify the country of manufacture of the goods in your export shipment. A certificate of origin discloses the nationality of the goods that is, the country in which they were manufactured or produced.[66]This paper is intended to prove the origin of goods in order to satisfy trade requirements and customs. In addiction it can be served as evidence of goods' inner quality and important tool for deciding on tariff treatment.
Most countries now are applying different customs duty rate upon imported commodities from different countries. According to these conditions, import countries will provide different tariff treatment according to the Certificate of origin.
However the certificate of Origin should only be issued only when the importer requires it, or to meet customs requirements in the importing process.

Insurance policy

Depending on the international commercial terms, either the seller or the buyer is responsible for insuring the cargo. The person who is responsible for the load can contact an insurance agency, from which to obtain an insurance policy. The insurance policy is a document issued and signed by the insurer and the contractor, in which the terms and conditions and the various clauses must be specified.
The purpose of the policy is to cover the loss or damage of the goods while in transit by sea, by land or by air. It is important that the insurance cover is valid before the date of shipment, otherwise the insurance will not cover any damage because it may have occurred before shipping.
Goods during long-distance shipments are exposed to a wide range of risks, such as: rough, dropping or inappropriate handling; aircraft crashing or vehicle fire, vessel sinking, road

[66] Klotz M. J., International Sales Agreement: An Annotated Drafting and Negotiating Guide, Kluwer Law International, 2008, pag.105

traffic accident or overturning; weather conditions or atmospheric agents; theft or hijacking.
There is an infinite variety of mistakes that can jeopardize the load, which is why the owner of the goods in most cases should rely on an insurance agency.
Most insurance agencies calculate the insurance on the basis of a percentage applied to the value of the goods. Usually total insured value can be extended over the actual value of the freight and also cover freight costs plus an additional 10% for covered incidental costs in the event of a loss. This leads to the insurable value that is indicated in the policies with the words "110% of the invoice value".[67]
However, the person responsible for the load may decide to apply directly to a transport company or a forwarder without using the insurance agency, but without obtaining full coverage of the load. transport companies do not offer insurance that covers damage or loss that may occur during the journey.
The shipper has a responsibility, in international trade is defined as 'limitation of liability' for the shipper, which means that it is possible to obtain compensation in the event that the goods are damaged or underused during transport. However the compensation is quite insignificant:

air transport around EUR 20 / kg
road transport about EUR 10 / kg
maritime transport around EUR 2 / kg

For example, if the importer decides to ship a 20kg package by sea, the usual shipper will have to pay a refund of 20kg x EUR 2 / kg = EUR 40.[68] Moreover, the client cannot receive compensation higher than the amount paid for the total goods.
To understand whether it is appropriate or not to apply a comprehensive insurance must evaluate the goods to be transported. If the value of the goods exceeds the limitations of liability and the exemption it is advisable to arrange an insured shipment.

[67] Klotz M. J., International Sales Agreements, Kluwer Law International, 2018, chapter 6
[68]Source: Transporteca, https://transporteca.it/spedizione-assicurata-o-no/

Bill of Lading – “B/L”

The bill of lading is a document used exclusively in the field of maritime transport and is undoubtedly one of the most significant documents of International trade. The bill of lading is a representative document of the goods loaded on a particular vessel and certifying the loading of the goods from a port of departure to a pre-established landing port. The representative term means that the legitimate holder of the document has the right to have the goods delivered. The bill of lading is a credit instrument that confers the right to obtain the delivery of the goods and proves the stipulation of a contract of shipment by sea, as all the credit instruments is negotiable therefore the holder of the goods has the power to transmit such title to other subjects through the turn (stamp and signature on the back of the policy). Once bill of lading is issued, it must be presented to obtain delivery of the goods, a function which has given the B/L the metaphorical designation "the key of floating warehouse".[69]

Normally, three originals and two non-negotiable copies are issued and used for administrative purposes.

The following must be indicated on the bill of lading:[70]

- name of the shipping company
- name and address of the shipper, or the sender of the shipment
- name and address of the consignee, ie the consignee of the shipment
- notify party: refers to the name, address and information relating to the subject
- must be informed before the arrival of the cargo at destination
- name of the ship
- details of the loading and unloading port
- indication of freight payment (prepaid or collect)
- number of originals of bill of lading issued
- summary description of the goods
- number of packages, dimensions and weight
- signature of the shipping company or of the master
- date of loading of the goods “on board”

[69] MØllamann A., delivery of Goods under Bills of Lading, Taylor & Francis, 2016

[70]Source: Consulenza Export, http://www.consulenzaexport.it/la-polizza-di-carico/

The B / L must also be "clean" that means that it must be free from "reserves" or negative annotations regarding the status of the goods such as: unsuitable packaging, damaged goods, presence of rust, broken seals, etc.
In the past, most of the letters of credit required that the bill of lading be issued "clean on board", and it was understood that the policy was marked with the "clean on board" stamp dated and signed. Today most shipping companies no longer issue the clean on board policy but only "shipped on board". The policy with the annotation "shipped on board" becomes proof of boarding.
Finally, all the data shown in the bill of lading are fundamental for the negotiation of the Letter of Credit. Therefore it is essential to fill out all the individual documents with the utmost care.

<u>Air WayBill – “AWB”</u>

The Air Waybill is a legal transport document that proves the stipulation of an air shipment contract. This document is compiled by the air carrier or normally by the International forwarding agent and works as a shipping contract in which all the information necessary to identify the goods transported is reported.
Unlike the maritime bill of lading, the Air Waybill is not a representative title of the goods but only of legitimation that allows those who are not in possession of the original title to collect the goods.[71] In turn, it is not a negotiable title, therefore the final recipient of the goods does not necessarily have to possess the document in order to collect the goods, but it is sufficient to demonstrate to the carrier that he is the legitimate person entitled to redelivery.
International AWB that contains consolidated cargo is called master air waybill (MAWB) Master Air Waybill provides for a cumulative consignment of several batches with the same destination or at least one joint section. Master Air Waybill is a unique document with the addition papers of individual shipments (HAWB).[72] Each AWB contains information of each individual shipment with the consolidation. Consolidated shipment is advantageous both for the carrier because it has fewer bills and documents to manage, and for the shipper because it can get better prices if the quantity to be shipped is high.

[71] Branch A. E., International Purchasing and Management, Cengage Learning EMEA, 2001
[72] Ashutosh Madhukar Belapure, Export and Import Management, Horizon Books,2014, pag.97

The Air Waybill must report the following indications:[73]

- sender
- recipient
- airport of departure and destination
- flight number
- quality of the goods and type of packaging
- quantity of packages by specifying size, weight and volume
- declared value for transport purposes
- value declared for customs purposes
- notify party
- must be informed before the arrival of the cargo at destination
- signature of the sender and of the carrier
- terms and conditions of the transport

In the Air Waybill the sender can indicate the insurable value of the goods and thus can also works as an insurance certificate.

4.4 Methods of Payment

Within international transactions it is never easy to establish the most suitable payment terms to protect the interests of both the seller and the buyer. The seller wants to avoid the risk of delayed or even non-payment, and the buyer tries to keep the liquidity available for payment as much time as possible, hoping to have to pay the fee only after receiving the goods. Before agreeing the payment method there are risks that should not be underestimated:

- Risk of production: it is the risk that the entrepreneur runs every time he starts production without being able to recover the relative costs. This risk may arise in the event of changes in the economic or financial conditions of the purchaser or of

[73] Source: Consulenza Export, http://www.consulenzaexport.it/la-lettera-di-vettura-aerea/

the destination country, in the event of changes in production costs or revocation of the order of goods.

- Exchange risk: this is a risk that affects both seller and buyer, in the case of contracts stipulated in foreign currency. The problem arises when the amount paid by the debtor does not correspond to the value of the consideration agreed between the two parties due to a change in the value of the currency. In this case, to reduce the risk, insurance instruments can be used. Furthermore a minimum price can be established to protect the seller and a price in favor of the buyer.

- Country risk: refers to the risk of the seller not to receive the payment because the buyer fails to pay due to various political economic reasons, also related to wars or unpredictable natural disasters affecting the country. The only way to cover this type of risk is to open an insurance policy.

When the seller and the buyer have to decide the form of payment, they must refer to the time factor. Payment can be made at three different times compared to the delivery of the goods. There is an advance payment, which will be made partially or in full before the shipment or delivery of the goods; the contextual payment, which occurs at the time of delivery of the goods; the postponed payment, expected after receipt of the goods.
To avoid the occurrence of problems or complications it is advisable to specify in the contractual agreement any clarifications:

- when payment is made
- the payment currency
- payment procedure
- the banks involved
- the payment system

These are the key points to be signed in the contract to evade misunderstandings or bad surprises.
The main forms of payment used in international trade are: Bank transfer (T/T); Letter of credit (L / C); Documents against payment (D/P).

The bank transfer consists of a transfer of a sum of money from the buyer's bank to the seller's bank. It is a form of payment that is not guaranteed and therefore inadvisable because noon offers no protection. The bank transfer provides a deposit of 30% before the start of production and a second payment at the end of the production cycle and before shipment. It is not an expensive method of payment but no guarantee except proof of payment, on the contrary the letter of credit does not provide for advances but offers much more security and is used for payments with amounts exceeding 20,000 euros.

When it comes to transactions between a Chinese seller and an Italian buyer, the two most used payment methods are: document against payment and letter of credit.
One of the best method of payment for the buyer is to utilize document against payment or D/P transaction. In this case the seller uses the services of a bank to effect collection, but neither the buyer's bank nor the seller's bank guarantees payment by the buyer. The seller will ship the goods and the bill of lading, and a draft will be forward such documents to a correspondent bank in Italy and the bank will collect payment from the buyer prior to the time that the goods arrive. If the payment is not made by the buyer the bank does not release the bill of lading to the buyer and the latter will be unable to take possession of the goods.[74]

4.4.1 Letter of Credit

The letter of credit represents one of the most used forms of payment in international trade. The spread of this type of document lies in the fact that it is able to satisfy both the needs of the seller who demands reassurance regarding the payment of goods and the buyer who fears in advance payments and wants to make sure that the payment will be made only after obtaining the documents requested by him as proof of the actual supply by the seller.
The letter of credit involves four subjects:

- buyer / importer: who orders his bank to open a credit in favor of the seller
- seller / exporter: who supplies the goods then the beneficiary of the credit
- issuing bank: the bank to which the buyer has requested the opening of the L / C

[74] Johnson T. E., Bade D., Export/Import Procedures and Documentation, AMACOM, 2010, pag.306

- advising bank: the bank resident in the beneficiary country, which advises the seller of the opening of a L / C in its favor

The documents that are generally required for the opening of the L / C correspond to all the documents mentioned above, namely: commercial invoice, packing list, transport documents (B / L, AWB), insurance certificate, certificate of origin, other certificates (quality, compliance, ecc). Most of these documents are procured from third parties, so it is important to calculate the time required to issue all the documents required for issuing of the L / C.

After receiving the notice from the Advising bank, the seller is required to deal with the documentation required by the L / C. The payment of the credit is bound only to the conformity of the documents presented, therefore the documents must be drawn up with extreme care. After obtaining all the documents, the seller sends the goods to the buyer, then sends all the documentation to the advising bank, which in turn forwards all to the issuing bank. The issuing bank will carefully analyze all the data, if everything complies with the request, it will make the payment to the Issuing bank. The seller will be able to go to the bank to collect the payment, however the costs of managing the part already previously agreed with the bank will be subtracted. The issuing bank agrees in an irrevocable, unconditional and autonomous way to execute the payment towards the beneficiary, is obliged to pay the debt even in case of insolvency on the part of the buyer.

However, it is possible that the advising bank is asked to issue a "confirmation" letter, the confirmation operation means that the Conforming Bank no longer advises the bank to commit separately to guarantee the beneficiary's credit and consequently fulfill the obligations and risks attached.[75]

4.5 Shipment process: from shipper to consignee

As anticipated at the beginning of the chapter the shipping process requires a good knowledge of all the logistic and contractual practices and operations in order to receive the goods at the port of destination with success. So far, the main transport methods for making a shipment from China to Europe have been described, the international trade clauses that assign responsibility for the payment of the transport and the insurance of

[75] Klots M. J., International Sales Agreement, Kluwer Law international, 2008, pag.128

the goods, the documents necessary for the shipment of the goods and methods of international payment, in particular the letter of credit. Now, for a more complete view of the shipping process, it is necessary to mention the phases that characterize the passage of goods from shipper to consignee.

The main steps of shipping process are: export haulage, origin handling, export custom clearance, ocean freight, import customs clearance, destination handling and import haulage.

The transport process starts from the movement of cargo from warehouse of supplier to forwarder's premises. In this phase the good typically move on road by truck or by rail and the responsibility for the arranging and paying of this operation depends on agreement between shipper and consignee.[76]

The shipper, in the case of its competence, can contact a local transport company, instead the consignee can agree directly with the forwarder to include in the transport costs also the export haulage.

Origin handling is a phase that covers various activities, from the moment when the load is unloaded from the truck and placed in an area reserved for carrying out inspection and inspection activities and subsequently inserted in a special warehouse for consolidation with other shipments with the same port of delivery, until a few days before the departure where the cargo is placed inside the container and transported to the port where it is loaded onto the ship along with other containers.

Before shipping the cargo, the customs authorities require an export license to allow customs clearance. Export custom clearance can be performed by a freight forwarder or an agent appointed by the freight forwarder. Any cargo before leaving the country of origin must complete export customs clearance.

Ocean freight is carried out by a shipping line, which stipulates a contract of carriage for the container with the freight forwarder. In this case the shipper and consignee have no direct interaction with the shipping line. Moreover, the containers can be loaded on several different ships before reaching the destination port, therefore it is not said that a ship carries the cargo directly to the delivery port.

Before the cargo arrives at the port of delivery import custom clearance begins. As for export custom clearance at the port of origin country, it consist of a procedure required by custom authority for verifying all documents and for registration and assessing of

[76] Source: Transporteca, https://transporteca.it/processo-di-spedizione/

duties payment. This operation must be completed prior to the cargo crosses a custom bounded area in the country of destination.

Cargo Handling is also required in the port of destination, as for the origin it covers multiple activities such as checking documents, transferring the container from ship to shore and transportation to the destination warehouse.

After carrying out sufficient checks and inspections, the load is ready to be collected.

The withdrawal of the cargo and the delivery of the same constitutes the last phase of the shipping process. As for export haulage it also can be performed by forwarder freight or local transportation company select by the consignee.

As for the transport to the export, it can also be carried out by a local forwarder or transport company selected by the recipient and usually by road or truck.

The import haulage covers the transport from the warehouse to the address of the consignee but does not include the unloading phase, the latter is the responsibility of the consignee.[77]

All these steps involve the involvement of third parties and resources and also require time. It is important that all parties involved perform their duties correctly in order to avoid hitches or even to stop the process. Any errors during these phases could compromise the shipment or receipt of the load, proving a significant loss of money. This means that when you import from China the risk factor is quite high. Risks especially of shipping hitches, cargo damage or customs problems lead to costs or even a huge loss of money. Reconnecting the speech to the impact on working capital, the time between the payment of the goods and the sale of the same determines the amount of liquidity invested, therefore a delay in delivery lengthens this timing impacting on the working capital of the company.

4.5.1 Customs clearance and cost correlated

However, to complete the report there is one last expectation to consider, namely the costs related to customs clearance.

[77] Beathe M., Himanen V., Reggiani A., Zamparini L., Transport Developments and Innovation in an Evolving World, Springer, 2004, Chapter 4

Although the charge for the importation of the goods depends on the international commercial term agreed between buyer and seller, unless it is DDP the costs are borne by the importer.
The goods arrived at customs are subjected to the control of all the documentation. The three essential documents to be presented to customs are:[78]

Invoice: which allows to accurately quantify the value of the goods to be imported and certifies the payment;
Packing List: which allows customs officers to check the goods transported;
Certificate of origin: certifying the origin of the goods, specifying the country of origin in which the goods were produced.
These three documents must be shown to the customs office, furthermore the responsibility is exclusive of the importer who introduces products within the country and the European community. The importer must ensure that the documents are in order and that there are no discrepancies regarding the value of the goods, the quantity ordered and the weight of the load. Everything must fit together otherwise the goods will be subjected to physical verification. If something goes wrong a customs officer will break the seals of the container or the parcels sent to carry out the necessary checks. This operation involves costs and a few days delay on delivery or even the seizure of the goods. In the event that there are no discrepancies between the documentation and the goods to be imported, the importer must support:

- customs clearance costs: these are bureaucratic costs for placing goods within the EU.
- storage costs: these are costs for renting the space in which the goods are stored until they are collected

According to the time required for the customs clearance procedures, it takes 2/3 days from the moment the goods arrive at the port of destination.[79]
In addition to costs related to customs clearance, customs fees include:
The application of the customs duty and the application of the VAT relative to the country of destination.

[78] Source: CIPPA TRASPORTI https://www.cippatrasporti.ch/it/operazioni-doganali/sdoganamento-ue/documenti-doganali-trasporto/
[79] https://yakkyo.com/blog/2018/01/25/dazi-doganali-cina-guida-calcolarli/

The EU having a single market provides for the application of the same customs duties to all goods from non-EU countries. The calculation of customs duties varies depending on the type of product and the regulations in force in the country of destination. The value of the goods on which the duty calculation is based is the result of the actual cost of the goods, the cost of transport and the cost of the insurance. The factors that will not be taken into consideration are those related to port expenses and transport to the warehouse. The value of the goods is declared in the Bill of Lading, which is issued by the supplier or the company carrying out the transport and is then consulted by the customs authorities.

The customs authorities are able to calculate the percentage of the duty using an information tool required in international trade, the so-called TARIC. TARIC lists the product categories in which the individual products are specified. This classification serves to identify the characteristics of the products and to attribute the related customs tariff.[80]

The correct coding of goods is extremely important as it influences the application of import duties.

When the importer buys goods from China he must take care of the correct classification. An incorrect identification of the goods also determines a wrong customs tariff and in this case the importer incurs a sanction or blocking of the goods.

Contrary to the duties, the VAT being a state tax varies according to the country of destination, in Italy it amounts to 22%, but a reduced rate of 10% applies to essential items.[81] The Italian law provides that VAT is applied to all imported products. This value is calculated on the total duties and the value of the goods indicated in the Bill of Lading. Therefore the VAT of the country of final destination is calculated on the whole amount which includes:

product cost + shipping costs + duty.

The operation must be attested by a document which provides the amount of customs duties and VAT both to be paid to customs.

In order not to incur risks or unpleasant surprises, the importer must have clear all the practices related to the customs clearance and above all make sure that the contents of

[80] Fabio M., Export e tutela dei prodotti agroalimentari del Made in Italy, Wolters Kluwer, 2015, chapter 2
[81] http://tradecommissioner.gc.ca/italy-italie/market-facts-faits-sur-le-marche/17370.aspx?lang=eng

the documents reflect the reality of the facts. any customs interference could significantly increase the total costs to be incurred or even prevent the receipt of the goods.
The risk linked to the temporal factor emerges also in this phase because a delay in the customs clearance procedures postpone the arrival of the goods in the company and the consequent delay in the sale of the products. Furthermore, the arrival of delayed goods may result in a loss of sales during the unforeseen period.

CONCLUSION

The economic progress of China has favored the increase of trade on a global scale and has changed the structure of the world economy. China, also known as the world's manufacturing center, is home to countless foreign companies, which have taken advantage of tax breaks to directly displace production. At the same time, raw materials and cheap labor are the reasons why China is able to introduce a wide range of products to the market at more than competitive prices, becoming a real global distributor. The huge offer and the bargain prices are the real reasons why our country like the rest of Europe imports products from China. The Italian market, especially in the clothing and electronics sector, is saturated with Made in China products. Italian companies buy raw materials, semi-finished and finished products and then resell them with the goal of making more money. The choice to obtain supplies in China derives from the inability of the Italian market to sustain competitiveness with the Chinese market. However, to opt to import from China based only on the price of the asset is reductive and risky. The import process requires a good managerial competence, a slowness in the negotiations and a good knowledge of the practices to be dealt with. In this regard, the thesis offers a sort of practical guide for those who decide to import goods from China.

The second chapter outlines the initial steps to be followed including supplier selection, the importance of compliance with European regulations, sample control and inspection phases.

Establishing a relationship of trust, transparency and loyalty between buyers and sellers is the basis for a good negotiation. The misinformation that spreads among the Chinese suppliers regarding the conformity of the products to the European standards is to be solved immediately in order to avoid problems during production or risk buying non-compliant products. In addition to providing a detailed list of product characteristics, the importer should evaluate the samples and perform the necessary checks during the inspection phases.

The contents of this thesis offer a general overview of the precautions and procedures to be followed to limit the risks and unwanted surprises and at the same time the costs that a company must bear when deciding to import from China.

Therefore, the third chapter provides an analysis of the costs associated with the choice to buy in China with the aim of evaluating its convenience. As I mentioned before, the purchase price of the asset is not the only determining factor for decreeing the economic convenience of one business rather than another.

First of all, the importer must have a sufficiently large warehouse to contain the minimum order quantity. The reduction in the price of the good implies the constraint imposed by the Chinese suppliers of a minimum quantity of order, which is high enough to be able to have a profit margin.

The MOQ is a constraint not only from a quantitative but also an economic point of view. Although unit price is very low, the final price of a minimum order quantity may not be within the reach of all businesses. So already according to this consideration some SMEs could discard the option to import from China.

The real objective of this thesis is to understand the impact of costs from a financial point of view, trying to evaluate the economic convenience of supply in China rather than in Italy.

The impact on working capital is assessed to understand the effects of costs. However, not only costs but also times affect the change in liquidity requirements. Working capital is given by current assets, less current liabilities, and a correct circulation cycle provides for a corresponding cash inflow (liquidity dilatation) at each cash outflow (liquidity absorbance).

To understand the effects on the working capital in case a company decides to import from China, its necessary making a premise.

Since the payment method most often used in national transactions is L / C, the temporal factor plays a fundamental role. The opening of the L / C depends on the acceptance of the issuing bank and moreover it is expected two months before the delivery of the goods, this means that the buyer must have two months before the liquidity necessary to cover the payment of the goods.

On the contrary, the company that decides to stock up in Italy usually makes the payment after the delivery of the goods, or in case of usual supplier, payment extensions are allowed up to one hundred and twenty days from the date of receipt of the goods.

The longer working time between payment to suppliers and the sale of goods, the greater the working capital to invest. So in the case where L / C is adopted for purchases in China, the company must consider the extension of the timing and the dilatation of the working capital.

Purchasing goods from China also involves the application of additional costs including transport, insurance and customs duties, which can make the difference in terms of economic convenience.
The variables to be examined to evaluate the economic convenience can be included in this formula: Δ price of good + Δ additional burden + Δ requirement of working capital. The formula contains the three factors to consider before choosing where to buy the goods.
However when buying in China the difference in cost of the Chinese product and the Italian one must be significant otherwise it is not worth it to import. If the difference in cost is low, the company risks using more liquidity to pay the additional costs instead of the cost of the total goods. Therefore the importer is likely to spend more money to receive the same product (perhaps of poorer quality) with waiting times of one month if everything goes well instead of a week.
However, every business has to deal with its own company and market reality and this does not allow to give an unequivocal answer on the convenience of importation from China. In any case it is important that every company has a clear vision of its financial situation to consciously invest its money.
As explained at the end of the chapter, the products for which a high labor intensity is required, the convenience of buying in China is quite obvious, considering the low labor costs. However, despite the obvious convenience in terms of price / quantity ratio, the company must have the necessary liquidity to be able to bear all the expected costs.
Finally, the fourth chapter deals with issues related to transport. Before organizing the shipment, the two partners must agree on the mode of transport, define the incoterms and provide the required documentation.
The chapter closes highlighting the costs related to the process of customs clearance including duties and VAT. VAT is actually a cost that is recovered when the asset is sold, but the duty comes within the additional costs and is calculated on the basis of the value of the imported goods.

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