

CROSS-BORDER E-COMMERCE (IMPORT)

China Retail Snapshot

Asia Distribution and Retail

April 2016



Note: Photos in this report are from official websites and official social media accounts, and freepik, if not otherwise specified.

- Cross-border import e-commerce has been expanding rapidly over recent years. The transaction value of import e-commerce reached 900 billion yuan in 2015.
- Baby food, personal beauty, and healthcare and supplements are the most popular categories.
- Since 2012, the Chinese government has rolled out favourable policies to promote cross-border e-commerce development and fight against grey import market and unauthorised “daigou” activities.

Major highlights

1. From 8 April, 2016 onwards, China has implemented new tax policies for cross-border B2C import e-commerce.
 - Cross-border e-commerce imported goods is no longer charged by personal postal articles tax.
 - New tax includes import tariff, VAT and consumption tax, where the actual tax payable is 70% of the calculated taxable amount.
2. The positive list has replaced the previous negative list for cross-border e-commerce imported goods.
 - The first batch of the positive list has 1,142 types of product categories.
 - The second batch has an additional 151 types of product categories.

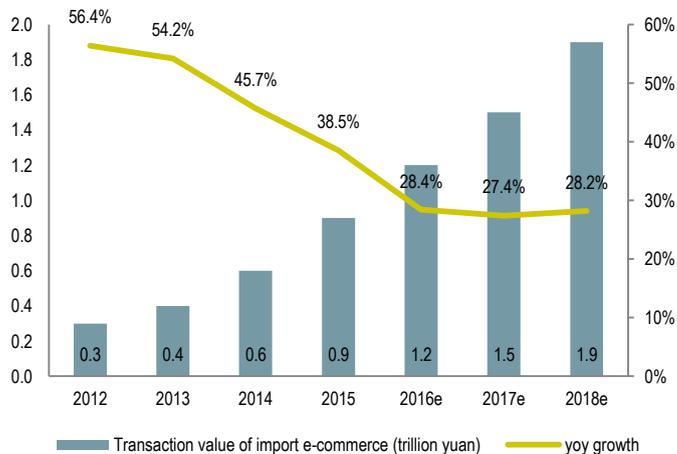
BACKGROUND OF CROSS-BORDER IMPORT E-COMMERCE MARKET

OVERVIEW

- Cross-border import e-commerce has been expanding rapidly over recent years. Many Chinese consumers are buying foreign products via approved cross-border e-commerce platforms.

Transaction value of cross-border e-commerce (import) market

2012 – 2018 (estimates)



2015:
900 billion yuan



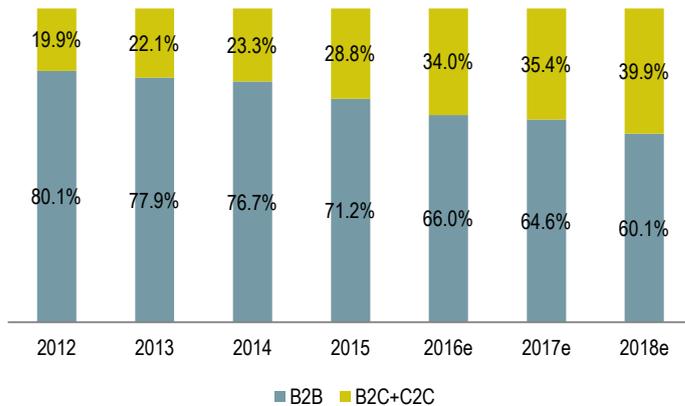
2018 (estimates):
1.9 trillion yuan

BACKGROUND OF CROSS-BORDER IMPORT E-COMMERCE MARKET (CONT'D)

OVERVIEW

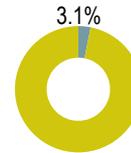
Structure of cross-border e-commerce (import) market

2012 – 2018 (estimates)

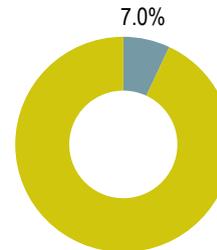


Retail part (B2C+C2C) of the transaction value of import e-commerce accounts for the total transaction value of online shopping

2015:



2018 (estimates):



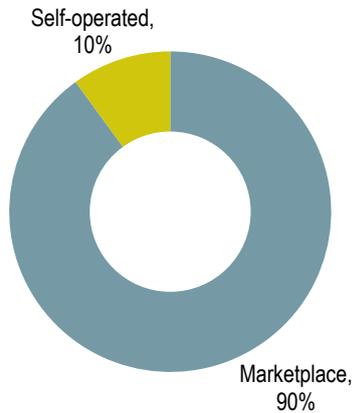
Source: iResearch Consulting Group, compiled by Fung Business Intelligence Centre

BACKGROUND OF CROSS-BORDER IMPORT E-COMMERCE MARKET (CONT'D)

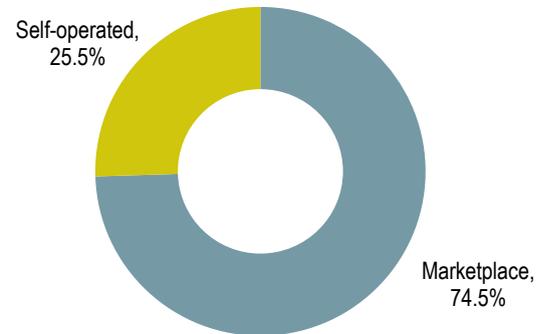
OVERVIEW

Market share of marketplace and self-operated cross-border e-commerce platforms

2014:



2015:



Source: iResearch Consulting Group, compiled by Fung Business Intelligence Centre

DEMOGRAPHICS OF CROSS-BORDER SHOPPERS

OVERVIEW

Population who shop online via overseas platforms



Source: China e-Business Research Center

天猫国际
TMALL.HK

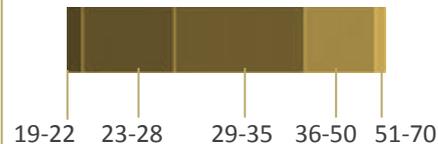
Customers buying on Tmall Global

2015Q4, by gender



Customers buying on Tmall Global

2015Q4, by age



Customers buying on Tmall Global

2015Q4, by city tier



Source: Tmall Global and CBNDData, compiled by Fung Business Intelligence Centre

Growth drivers of cross-border e-commerce

- Consumption upgrade
- Ongoing concerns over unsafe and counterfeit products in China
- Strong demand for high quality imported goods
- Huge price differential between imported goods selling in the domestic and overseas markets
- Emergence of convenient new channels for buying overseas products



BABY PRODUCTS ARE THE MOST POPULAR

- **Baby food, personal beauty, and healthcare and supplements** are the most popular categories on Tmall Global.
- Recently, share of sales of food and beverage, healthcare and supplements, and home products are on the rise, while the share of apparel, footwear and bags are decreasing.



- Since 2012, the Chinese government has rolled out favourable policies to promote cross-border e-commerce development and fight against grey import market and unauthorised “daigou” activities.
 - Pilot zones have been set up in various cities for cross-border e-commerce import services
 - Favourable tax and policies are applicable
 - Streamlined application process
 - Streamlined electronic customs clearance procedures
- Under the new cross-border e-commerce regulations, overseas retailers without Chinese business licenses can sell in China through authorised cross border ecommerce platforms easily and conveniently.
- Many foreign retailers have used the new business model to test the market in China before actually setting up businesses in China.

- In January 2016, the Chinese government announced the establishment of new cross-border e-commerce comprehensive pilot zones in 12 cities (Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen and Suzhou). Including the one in Hangzhou which was approved in March 2015, **China now has 13 national-level cross-border e-commerce comprehensive pilot cities for cross-border e-commerce.**
- Pilot cities will take the lead in setting new standards for cross-border e-commerce transactions, payment, logistics, custom clearance, exchange settlement, inspection quarantine, etc.

Cross-border e-commerce comprehensive pilot zones

As of January 2016



Source: Compiled by Fung Business Intelligence Centre

- Currently, the import business on the cross-border e-commerce platform is conducted mainly under the modes of operation: the “**direct mail**” and “**bonded area import**” modes.
- A new “**near-border**” model is evolved recently as a hybrid of “direct mail” model and “bonded area import” model.

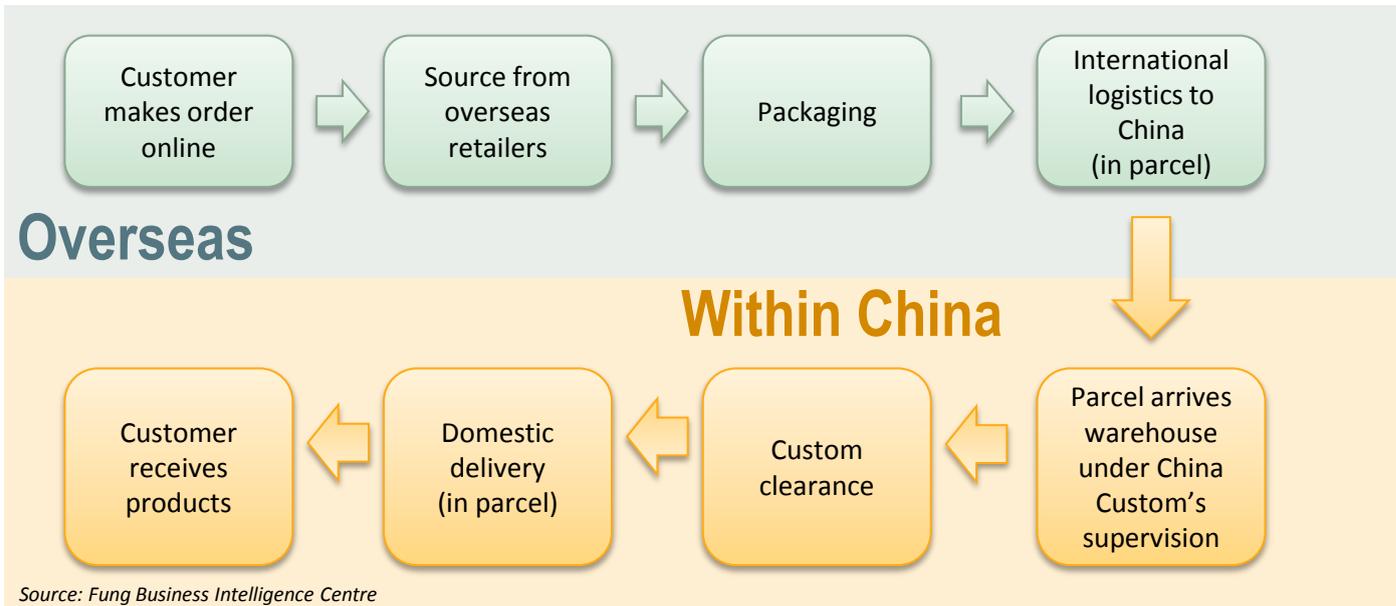
“DIRECT MAIL”
MODEL

“BONDED AREA
IMPORT” MODEL

“NEAR-BORDER”
MODEL

“DIRECT MAIL” MODEL

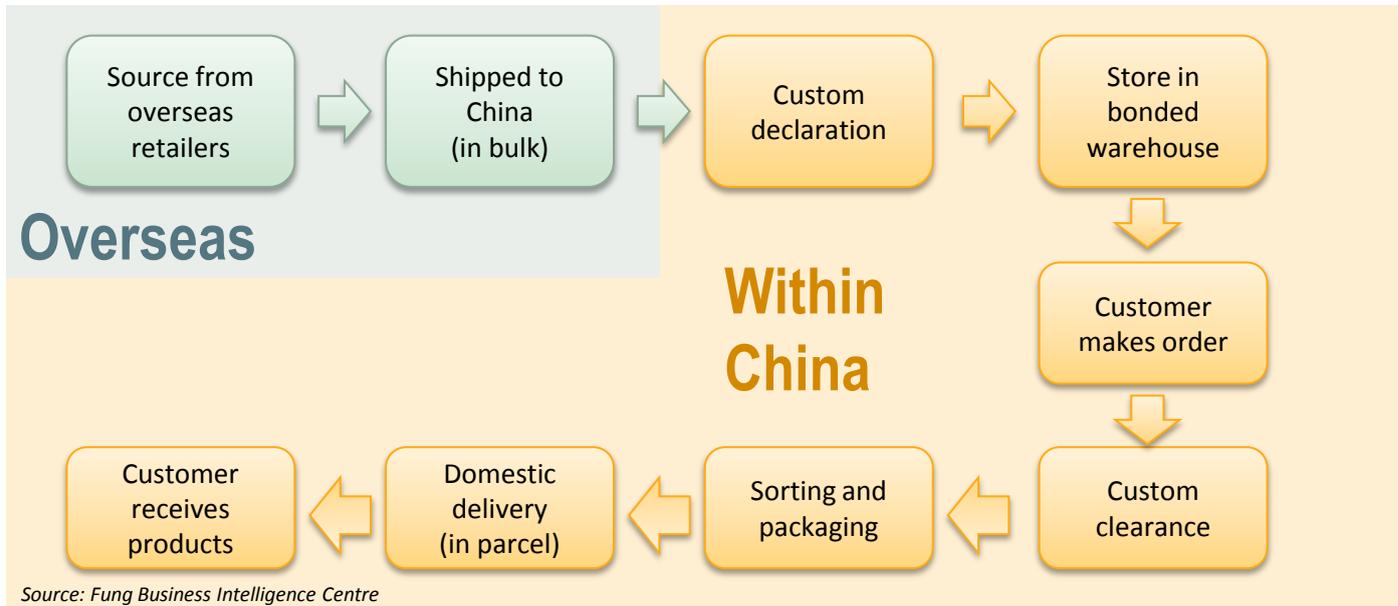
- **“Order first, deliver later” model**
- AFTER customers place orders on registered cross-border e-commerce platform, the platform will submit particulars of the orders electronically for Customs clearance
- At the same time, the products will be shipped by direct mail to customers



“BONDED AREA IMPORT” MODEL

MODELS

- **“Stock first, order later” model**
- Products are shipped in bulk and stored in e-commerce platform’s bonded warehouse in pilot cities BEFORE consumers place orders online
- The e-commerce platform will make real-time declaration to Customs after customers placing orders
- The products will be shipped to customers from the bonded warehouse after completing customs clearance, inspection and quarantine procedures





- **“Near-border” model**
- Goods are shipped to warehouse in Hong Kong for storage.
- Advantages:
 - Better inventory management
 - In case of excess inventories, goods can be sold to other places outside China or through other channels besides cross-border e-commerce platforms
 - Shipping time shorter than shipping from foreign countries
- Disadvantages:
 - Higher warehousing costs
 - Shipping time slightly longer than shipping from mainland bonded warehouses

COMPARISON OF DIFFERENT BUSINESS MODELS

Comparison of different business models

As of April 2016

	"Direct Mail" model	"Bonded area import" model	General import
Tax levied	Before 8 April, 2016: Personal postal articles tax After 8 April, 2016: Tax for cross-border e-commerce*		Import duties + VAT + consumption tax
Tax rates	Before 8 April, 2016: Personal postal articles tax: 10%, 20%, 30%, 50% varies from products After 8 April, 2016: Tax for cross-border e-commerce: Import duties (0%) + 70% of VAT and consumption tax		Import duties: varies from products VAT: 17% Consumption tax: varies from products (e.g. 30% for cosmetics)
Payment	Domestic online payment methods are applicable		Cash, domestic online payment methods are applicable
Delivery time	Around 7-14 days	Around 3-4 days	Can buy on-site
Logistics costs	Higher	Lower	Lower
Selling price	Lower	Lower	Higher

* Note: From 8 April, 2016, a new tax will replace the tax for personal postal articles tax.

Source: Fung Business Intelligence Centre

NEW TAX ON CROSS-BORDER IMPORT E-COMMERCE

NEW TAX

- The Ministry of Finance, China Customs, the State Administration of Taxation jointly announced **new policies on cross-border e-commerce** on 24 March, 2016. The new policy is **effective from 8 April, 2016**.
- Key adjustments under the new regulation:
 - New transaction limit per order via cross-border e-commerce platform is increased from 1,000 yuan to **2,000 yuan**. New upper limit per person each year (or the “annual cap”) is set at **20,000 yuan**.
 - For single orders with price tags larger than 2,000 yuan, or total transaction value over 2,000 yuan, taxes applicable for general import is levied.
 - For single orders with price tags under or equals to 2,000 yuan, or total transaction value under or equals to 2,000 yuan, a new tax replaced the tax for personal postal articles. The new tax includes **import tariff + VAT + consumption tax**, where the actual tax payable to the Custom is **70% of the calculated taxable amount**. Current import tariff is temporarily set at 0%.
 - Before the tax adjustment, the personal postal articles tax was exempted by the Customs if the taxable value was 50 yuan or below. Under the new regulation, the exemption for cross-border e-commerce is cancelled.
 - Duty-paid value (the actual transaction price) includes retail price of goods, shipping costs and insurance costs. End-consumers are liable to pay the taxes, but cross-border e-commerce platforms can pay the taxes on behalf of customers.
 - Customers can apply for tax refund for goods returned within 30 days of purchase from cross-border e-commerce channels.
 - The positive list has replaced the previous negative list for cross-border e-commerce imported goods.

NEW TAX ON CROSS-BORDER IMPORT E-COMMERCE (CONT'D)

NEW TAX

Regulation before 8 April, 2016

Value cap per transaction	≤ 1,000 yuan
Annual cap	No nationwide requirement
Tax applied	Personal postal articles tax
Personal postal articles tax	10%, 20%, 30%, 50% varies from products (Personal postal articles tax ≤ 50 yuan: waived)
Products can be imported via cross-border e-commerce	Negative list is published

Regulation after 8 April, 2016

Value cap per transaction	≤ 2,000 yuan
Annual cap	20,000 yuan
Tax applied	Import tariff + VAT + consumption tax
Import tariff	Transaction of single orders ≤ 2,000 yuan: 0%
VAT / consumption tax	Transaction of single orders ≤ 2,000 yuan: 70% of VAT and consumption tax (as in general import)
Products can be imported via cross-border e-commerce	A positive list has replaced the previous negative list for cross-border e-commerce imported goods

NEW TAX ON CROSS-BORDER IMPORT E-COMMERCE (CONT'D)

NEW TAX

Price comparison of selected product categories (for transaction value under 2,000 yuan per order)

As of April 2016

Product categories		Tax applicable before 8 April, 2016		Tax applicable after 8 April, 2016		Difference
		Personal postal articles tax	Tariff	VAT	Consumption tax	Change
Food & beverage	≤500 yuan	waived	0%	17% * 70% = 11.9%	0%	↑
	>500 yuan	10%			0%	↑
Apparel	≤250 yuan	waived			0%	↑
	>250 yuan	20%			0%	↓
Skin care & personal care products without consumption tax	≤100 yuan	waived			0%	↑
	>100 yuan	50%			0%	↓
Color cosmetics or others products with consumption tax applied	≤100 yuan	waived			30% * 70% = 21%	↑
	>100 yuan	50%			30% * 70% = 21%	↓

- On 7 April, 2016, 11 government authorities, including the Ministry of Finance, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Commerce, General Administration of Customs and State Administration of Taxation, jointly released a positive list for cross-border e-commerce imported goods.
- The positive list has replaced the previous negative list for cross-border e-commerce imported goods; only goods that are on the list are eligible to be sold via cross-border e-commerce channels.
- The first batch of positive list has 1,142 types of product categories. These products are mostly daily consumer goods with solid demand in China. According to the China Customs, these products can satisfy supervision requirements of authorities concerned, and can enter China via express delivery or direct mail. Product categories on the list include food and beverages, apparel and footwear, home appliances, cosmetics, paper diapers, children's toys and so on.
- Products on the list are exempted from submitting an import license to China Customs. Inspection and quarantine approvals are required when imported products enter bonded warehouses. Direct mailed products do not require such approvals.

- On 13 April, 2016, the Ministry of Finance issued an announcement to clarify some terms on the positive list that have raised a lot of queries, including (1) infant formula and (2) first-time imported cosmetics.
 - **Infant formula:**
International infant milk formula brands that have not registered with the CFDA are allowed to be imported through CBEC channels until 1 January 2018.
 - **Cosmetics:**
First-time imported cosmetics still need approval. According to the Supervision of Hygiene of Cosmetics Regulation, cosmetics that are first-time imported to China needs a pre-market approval. This requirement used to only cover normal trade, now extending to CBEC imported cosmetics.
- On 15 April, 2016, the second batch of positive list has an additional 151 types of product categories. Newly added categories include: fresh food (meat and fruits), seafood, liquid milk, grains, cooking oil, certain nutritional and health products (e.g. vitamin supplements), registered medical instruments, etc.
 - For nutritional and health products, first-time imported products (including vitamin supplements) require registration from the China Food and Drug Administration Bureau (CFDA) according to a new regulation which will be effective from 1 July 2016.
- The list of product categories will be reviewed on a regular basis.

FEATURES OF CROSS-BORDER IMPORT E-COMMERCE BUSINESS

FEATURES

Parameter	Description		
Ease of setting up business	<ul style="list-style-type: none"> • International legal entity, no need to register a company in China • Trademark registered in home country • No need to have local team, but require Chinese speaking customer service support and product return centre in China (usually outsourced to third-party service provider in China) • No need to prepare new product labels • Low initial investment 		
Operation fees	<ul style="list-style-type: none"> • Need to pay deposits, platform service fees, commissions. Usually higher than opening storefronts on B2C e-com platforms • Need to build own storefront for transaction 		
Fulfillment	<table border="0"> <tr> <td style="vertical-align: top;"> <p>Direct mail model</p> <ul style="list-style-type: none"> • Goods are stored in overseas warehouses • Orders are fulfilled and shipped from overseas • Lower inventory risk but higher shipping costs </td> <td style="vertical-align: top;"> <p>Bonded area import model</p> <ul style="list-style-type: none"> • Goods are shipped and stored in e-commerce player's bonded warehouses in China, need to bear inventory risk • Difficult to resell or re-export goods to other countries once they have entered the bonded warehouses </td> </tr> </table>	<p>Direct mail model</p> <ul style="list-style-type: none"> • Goods are stored in overseas warehouses • Orders are fulfilled and shipped from overseas • Lower inventory risk but higher shipping costs 	<p>Bonded area import model</p> <ul style="list-style-type: none"> • Goods are shipped and stored in e-commerce player's bonded warehouses in China, need to bear inventory risk • Difficult to resell or re-export goods to other countries once they have entered the bonded warehouses
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Product attractiveness	<table border="0"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> • Less product categories compared with retailer's overseas website • Usually selected categories and popular items available • Lower tax • Higher shipping costs </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> • Less product categories compared with retailer's overseas website • Usually selected categories and popular items available • Slow replenishment if products are out-of-stock • Lower tax • Lower shipping costs </td> </tr> </table>	<ul style="list-style-type: none"> • Less product categories compared with retailer's overseas website • Usually selected categories and popular items available • Lower tax • Higher shipping costs 	<ul style="list-style-type: none"> • Less product categories compared with retailer's overseas website • Usually selected categories and popular items available • Slow replenishment if products are out-of-stock • Lower tax • Lower shipping costs
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Customer experience	<ul style="list-style-type: none"> • Domestic credit cards and online payment methods available • Delivery time shortened (if via "bonded area import" model) • Difficulty in returns. Some platforms do not support product returns 		
Customer data acquisition	<ul style="list-style-type: none"> • Able to get all transaction data • Some platforms such as Tmall Global have a range of CRM tools to help anticipate customers' needs 		

MAJOR CROSS-BORDER IMPORT E-COMMERCE PLATFORMS

PLAYERS

Integrated cross-border e-commerce platforms sell different categories of products:

Marketplace

天猫国际
TMALL GLOBAL

KF1.COM
跨境通

洋码头

Hybrid

京东全球购
JD Worldwide

亚马逊
amazon.cn

1号店
The Store

Self-operated

小红书
找到国外的好东西

西集
Xiji.COM
海外购 真,简单

网易考拉海购
KAOILA.COM

Vertical cross-border e-commerce platforms focus on a few specialised categories:

Marketplace

蜜芽 mia.com
Baby products

Self-operated

聚美 | 极速免税店
GLOBAL STORE

Cosmetics

Vertical platforms gradually moving towards **integrated** platforms

KEY PLAYERS

COMPARISON OF TMALL GLOBAL AND JD WORLDWIDE

PLAYERS

Comparison of Tmall Global and JD Worldwide

As of February 2016



Date of launch	Feb 2014	May 2015
Operation	Marketplace	Marketplace + direct sales
Location of bonded warehouses in China	Ningbo, Shanghai, Chongqing, Hangzhou, Zhengzhou, Guangzhou, Tianjin	Ningbo, Hangzhou, Guangzhou
Commission charge on sales	0.5 - 5% +1% Alipay service fee (5% for most apparel items)	1-10% (+0.85% if using JD Shipping) (7% for most apparel items)
Guarantee deposit	US\$ 25,000	US\$ 10,000 – 15,000
Technical fee	US\$ 5,000 / 10,000 (Standard annual fees)	US\$ 1,000 (Standard annual fees)
Payment methods	Alipay/ Internet banking for major banks/ Credit card	Tenpay / Internet banking for major banks/ Credit card
Key partnerships	Costco, Lotte Mart, P&G, Zara, Metro Cash & Carry	Unilever, Sephora, GAP, eBay

Source: Fung Business Intelligence Centre, DBS Group Research, China Briefing

- A new solution for traditional retailers
 - An increasing number of traditional players have engaged in cross-border e-commerce businesses.
 - They run both physical stores as well as e-commerce platforms to sell imported goods.
 - Most experiential stores sell both bonded imported goods and duty-paid goods.

Stores inside Free Trade Zones



Stores launched by department store operators



Stores run by e-commerce platforms



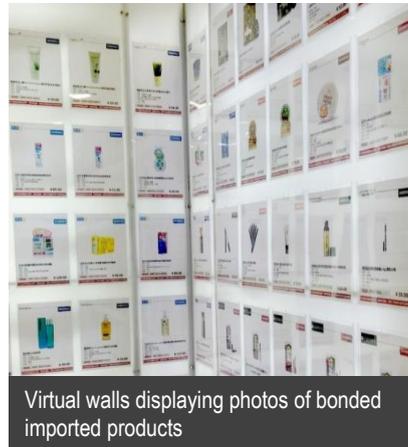
Typical experiential stores

Grandbuy Department Store



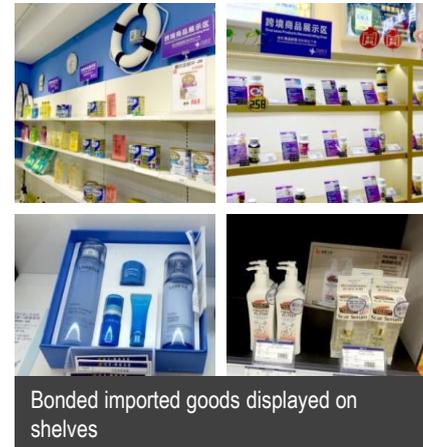
A wide range of duty-paid and bonded imported goods available

Meijoy Best Experiential Store



Virtual walls displaying photos of bonded imported products

Fusens (Nansha Overseas Products Direct Purchase and Experience Centre)



Bonded imported goods displayed on shelves

Source: Fung Business Intelligence Centre

CROSS-BORDER E-COMMERCE EXPERIENTIAL STORES (CONT'D)

LATEST
ISSUES

Selected examples of department store operators launching cross-border e-commerce businesses

As of January 2016

Company	Launching month	Location of the first cross-border experiential store	Website
 Guangzhou Mopark Department Store Co., Ltd.	April 2015	Guangzhou	http://www.imopark.com
 Better Life Commercial Chain Share Co., Ltd.	April 2015	Hunan	http://www.yunhou.com/
 GrandBuy Department Store	May 2015	Guangzhou	http://www.gbhui.com
 Intime Retail (Group) Co., Ltd.	June 2015	Hangzhou	https://westchoice.tmall.hk
 Rainbow Department Store Co., Ltd.	July 2015	Shenzhen	http://www.tianhong.cn/ht/ht.html
 Hunan Friendship & Apollo Commercial Co., Ltd.	July 2015	Hunan	http://www.tepin.hk/
 Yi Hua Department Store Holdings Ltd.	August 2015	Zhongshan	http://www.yihua888.com/
 JiaHua Stores Holdings Ltd.	September 2015	Shenzhen	N/A
 Dashang Group Co., Ltd.	September 2015	Dalian	http://www.51tianqiu.com/

Source: Compiled by Fung Business Intelligence Centre

- Cross-border e-commerce is increasingly becoming a popular way for retailers to transform their businesses. However, products selling on cross-border e-commerce platforms are highly similar currently. Players mainly compete on price. It is expected that weaker players who cannot survive the competition will eventually leave the market.
- Variety and quality of products will continue to increase to match consumers' desire.
- Further online and offline integration is expected to provide better consumer shopping experiences for imported products.
- The 13th Five-Year Plan highlights the importance of developing new business models to facilitate cross-border e-commerce. More new business models may be evolved.
- Changes of government policies in regulating the cross-border e-commerce market will largely affect the industry. Players have to keep a pulse on government policies and initiatives, especially the tax policies for cross-border e-commerce.



Source: Tmall Global

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