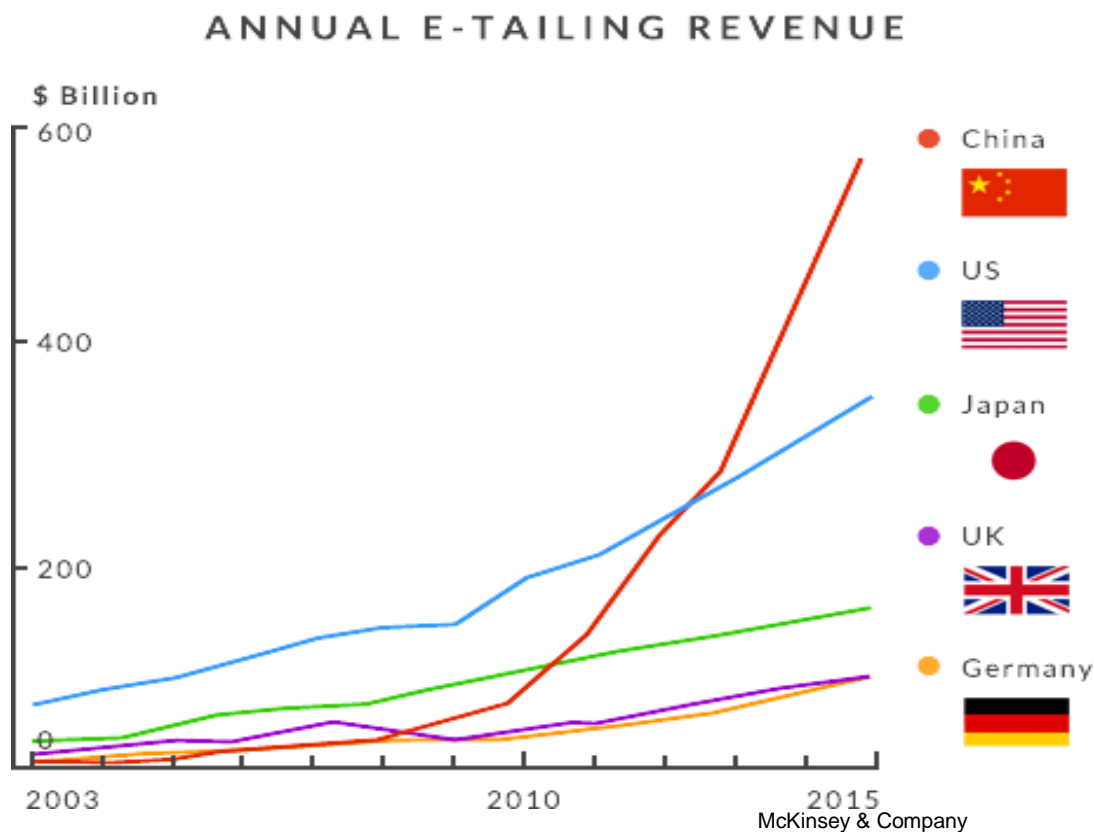


### Cross-Border E-Commerce: The Next China Sales Frontier

**China Integrated Bullet Points** is an operational resource, presenting decision makers with concise updates on recent government adjustments to China's business ecosystem that can be important to business operations.

**In 2016, e-commerce in China continued to grow exponentially.**



A recent regulatory adjustment will now extend current regulations through 2017, allowing continued **direct access to the Chinese market for foreign businesses through cross-border e-commerce.**

Under this regime, goods sold to Chinese customers through cross-border e-commerce will continue to be imported free of customs duty and through an expedited customs process until the end of 2017. Any foreign goods that are included in the "positive list" of approved product categories will be eligible for sale via cross-border e-commerce (full "positive list" available [here](#)).

The advantages of this development for foreign consumer goods brands include:

- No prerequisite of an established legal entity in China.
- Products in the positive list sold through cross-border e-commerce do not need to be registered in China until the end of 2017.
- Direct brand-to-customer sales resulting in better confidence in quality of goods for customers.
- Expedited (fast track) customs clearance and import inspection processes.
- Foreign brands can make their products available to Chinese customers without customs tax for up to RMB 2'000 (about USD 300) per parcel and for up to RMB 20'000 (about USD 3'000) per buyer in China per year.
- These goods will only be subject to a 17% VAT tax and in certain cases a moderate consumption tax.<sup>1</sup>

The one year validity is short, however, cross-border e-commerce will not be interrupted; instead the tax exemption may not be as favorable in the future. In any case, cross-border e-commerce is an opportunity to test the market and provide attractive introduction prices to consumers in 2017.

For those interested, this is generally how it works:

- Goods are shipped to a bonded warehouse within Mainland China before purchase, and then shipped to individual customers from the bonded warehouse.
- Order-to-delivery turnaround time of between 2 and 7 days.
- A second option of direct delivery from abroad to individual customers (not using bonded warehouses in China) is available, but increases delivery time and delivery cost and is not generally optimal for retailers.

This development comes at a time when increases in import sales of consumer goods are at an all-time high in China. China's e-commerce sales are growing remarkably year-by-year. In 2015 alone, cross-border e-commerce sales in China topped \$40 billion<sup>2</sup>, and with record Single's Day sales in 2016 (Alibaba recorded

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<sup>1</sup> Wang, Qionghui. "Taxing Times for Booming Consumer Market". <http://english.caixin.com/2016-04-28/100937746.html>

<sup>2</sup> Xia, Chenan. "Cross-border e-commerce is luring Chinese shoppers". McKinsey Quarterly. <http://www.mckinsey.com/industries/high-tech/our-insights/Crossborder-ecommerce-is-luring-Chinese-shoppers?cid=other-eml-alt-mip-mck-oth-1602>

\$17.79 billion on Single's Day<sup>3</sup>) this number is sure to grow.

To capitalize on the new opportunities, foreign brands selling their products without a China entity for their business will in most cases need to cooperate with an e-commerce platform manager. Some important considerations before opening a cross-border e-commerce shop include:

- Choice of e-commerce platform, some platforms will prefer exclusivity with a brand.
- Identification of an e-commerce partner in China to assist with platform maintenance, establishment of payment gateways, management of day-to-day operations, customer service, marketing for online promotion.
- Deposits on e-commerce shops (\$25,000 - \$30,000).
- Technical maintenance fee paid to e-commerce platform (\$5,000 - \$10,000).
- Commissions paid to e-commerce platform (5% - 10%).
- Logistics and warehousing needs will be specific to a transaction model. Logistics and warehousing fees vary depending on products.

The flexibility of the new regulations will allow participating companies to explore multiple scenarios and adopt sales angles that will reduce costs and build brand reputations in China.

With the extension of the current regime until the end of 2017, companies selling products through cross-border e-commerce may consider beginning product registration in parallel with selling through e-commerce. China Integrated's experts are experienced in the trade, import, and registration of consumer goods in China, for those who would like to understand more about China's new e-commerce opportunities and how to take advantage of them, please do not hesitate to contact us at [info@ch-ina.com](mailto:info@ch-ina.com).

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<sup>3</sup> Domonoske, Camila. "Alibaba Says It Smashed Sales Records On China's 'Singles Day'". National Public Radio. <http://www.npr.org/sections/thetwo-way/2016/11/11/501706748/alibaba-says-it-smashed-sales-records-on-chinas-singles-day>