



## Understanding China's Import Cross-border E-commerce Market (B2C)

[China.direct.biz](http://China.direct.biz), By Noam David Stern, Founding Partner (Updated May 24, 2018)

China remains one of the world's fastest growing economies and rapid developing consumer markets. With rising incomes, higher standards of living and greater demand of foreign products, China's fast expanding e-commerce market has become a major engine of growth for both the Chinese and global economy. Many overseas companies have realized the huge growth potential and wish to sell their products online in China.

Changes in Chinese consumer preferences, the emergence of innovative technologies and new business models have also created much growth momentum in the e-commerce sector which to a large extent has been fueled by the rapid spread and growth of Internet use in China.

Despite the continued opening up of the Chinese economy to foreign direct investment and trade, the domestic e-commerce (and social media) market is still largely protected from overseas competition whereby China has created its own unique online eco-system with the major local players of Alibaba (Tmall.com), Jingdong (JD.com) and Tencent (WeChat) completely dominating the domestic market.

To give Chinese consumers a greater choice, the Chinese government announced a set of policies in March and April 2016 to give overseas companies better access to the Chinese consumer market through cross-border e-commerce.

Today, more than 200,000 companies are involved in import cross-border e-commerce with over 5,000 platforms across China. They operate either as integrated platforms that sell a wide variety of goods like an

online hypermarket or vertical platforms that focus on a few specialized products. Some allow you to build your own online store while on others, products are listed according to their product category.

The aim of this brief paper is to give overseas SMEs with limited business experience from China a better understanding of China's import cross-border e-commerce market and some of the considerations they need to make prior if/when entering. It is a snapshot of a market that is fast evolving and growing.

## **KEY NUMBERS**

To fully appreciate the scope and size of the Chinese cross-border e-commerce market, the following will provide some key statistics on e.g. Internet penetration, market values, competitors and users. The following data is taken from iiMedia Research – Cross-border e-commerce in China (August 2017).

### **Internet Penetration**

In 2016, China had 721 million individual Internet users equal to 52.4% of the total population which is estimated to reach 777 million in 2018 or 56.5% of the total population.

### **Mobile Internet**

According to the 'China Internet Network Information Centre', 695 million people or 95% of total Internet users access the Internet from their mobile phones of which 401 million are mobile online shoppers. The Ministry of Industry & Information puts the 2016 number at 469 million or 1/3 of the total population

According to 'iResearch', online transactions made on mobile devices compared to desktops was 1.5% in 2011, 55.5% in 2015 and estimated to reach 73.5% of online sales by 2018. M-commerce is the new norm.

### **Cross-border Trade**

In 2016, the total value of China's cross-border e-commerce trading (import and export) was RMB 6.3 trillion (USD 980 billion) and is estimated to reach RMB 8.8 trillion (USD 1.33 trillion) in 2018.

### **Cross-border Imports**

In 2016, the total value of the import cross-border e-commerce market (i.e. exports to China) was RMB 180 billion (USD 28 billion) and is estimated to reach RMB 275 billion (USD 42 billion) in 2017.

### **Cross-border Platforms**

Although the domestic Chinese e-commerce market is dominated by Tmall and JD with a combined share of 83.7% in 2016, the import cross-border e-commerce market is more diverse and fragmented. Some operate as online hypermarkets while others specialize in a few product categories.

Top 8 (market share): 1. Kaola (24.2%), 2. Tmall Global (20.3%), 3. VIP Shop (15.7%), 4. JD Worldwide (12.5%), 5. YMatou (5.8%), 6. Xiaohongshu (5.3%), 7. Mia (3.1%) and 8. Yihaodian (1.3%).

### **Cross-border Buyers**

In 2016, the total number of cross-border e-commerce buyers was 41 million which is estimated to reach 74 million buyers in 2018.

### **Cross-border Motivators**

Product quality, value for money, wide brand selection and genuine products are the top 4 reasons to buy.

### **Cross-border Top Destinations**

Ranking: 1. Japan, 2. South Korea, 3. USA, 4. France and 5. Germany are the top 5 overseas destinations for Chinese online shoppers.

### **Top Product Categories**

- Japan: Cosmetics, Nutrition & Healthcare
- South Korea: Cosmetics, Bags & Fashion, Food & Beverages
- USA: Nutrition & Healthcare, Bags & Fashion, Childcare
- France: Cosmetics, Childcare, Nutrition & Healthcare
- Germany: Cosmetics, Childcare, Nutrition & Healthcare

### **Cross-border Purchase Frequency**

Almost 2/3 of all online customers buy products directly from overseas at least once a month.

### **Cross-border Purchase Amounts**

91.7% of all online purchases of imported products have a total value of up to RMB 1,000.

**The above data only emphasize how important (cross-border) e-commerce has become in China and to overseas companies that wish to sell. China is fast moving towards a fully mobile and cashless society.**

### **PROS AND CONS**

Before rushing in to set-up an online shop on one of the many Chinese cross-border e-commerce platforms, it is important to consider some of the pros and cons that this entails and should be considered carefully.

**Pros:** Large user base, lower investment cost, shorter lead time to start selling, no need for a Chinese business license, possible to use original product labels, and no tariffs and reduced VAT for approved product categories within certain transaction limits.

**Cons:** Changing government policies, many competing brands and similar products, limits on approved product categories and high costs in relation to service fees, sales commissions, marketing, logistics, warehousing and customer support.

### **Marketing Partner**

Before getting started, it is important to identify and select the right cooperation partner(s) in China or overseas that can offer the kind of support and services your company need to operate an online store efficiently.

Without a proper and well-executed marketing plan that also includes Website, WeChat and Weibo (3W), it is almost impossible for an overseas company to generate sufficient brand awareness and Internet traffic to succeed in the highly competitive and crowded Chinese e-commerce market.

Listing products on an e-commerce platform without engaging actively with the Chinese consumers via social media (and Key Opinion Leaders) will only lead to disappointing sales. Good content and dialogue are key.

### **TAX POLICIES**

#### **Transaction Limits**

According to the current tax policy, products sold in China via cross-border e-commerce can be imported to China at zero tariffs with VAT levied at 70% of the statutory rate of 16% equal to an effective rate of 11.2%.

This only applies to single transactions with a limit of RMB 2,000 and with an annual individual limit of RMB 20,000. If these limits are broken, the imported products will be levied full import tariffs and VAT.

#### **Positive List**

To enjoy the special tax benefits, the products must be listed on the official 'Cross-border E-commerce Retail Import Commodity List' also known as the 'Positive List'.

The Positive List consist of 1,142 standard product categories with no restrictions and 151 selected product categories were certain conditions apply. Each product category is listed with the official customs HS-code.

If the product is not included, it cannot be sold in China via cross-border e-commerce and will not enjoy any tax benefits.

## **Personal Effects**

If Chinese consumers decide to purchase products from overseas that do not comply with the transaction limits of cross-border e-commerce they can still import products classified as Personal Effects.

Whereas a single product piece in principle can have an unlimited value, it is only possible to buy a basket of pieces with a total value below RMB 1,000 (RMB 800 for products from Hong Kong and Macau).

## **Parcel Tax**

Products imported as Personal Effects are subject to a Parcel Tax (consumption tax) on top of the retail value. If the calculated taxable value is less than RMB 50, the product is exempt from Parcel Tax.

- 60% Parcel Tax: Luxury Cosmetics, perfume, tobacco, alcohol, jewellery, golf equipment and watches.
- 30% Parcel Tax: Non-luxury cosmetics, garments, sport equipment, bicycles and other items not listed in the other two categories.
- 15% Parcel Tax: Food & beverages, computers, digital cameras, furniture, household appliances, toys & Games, newspapers, books and magazines.

## **SUCCESS OR FAILURE**

With the enormous growth of the Chinese (cross-border) e-commerce market, it is no wonder that many overseas brands and retailers have their eyes firmly fixed on China and wish to sell their products online to a rapidly growing and more affluent Chinese middle class.

Understanding Chinese buying behaviour and preferences is thus critical for determining a proper online strategy including e-commerce and social media.

Cross-border e-commerce offers overseas brands and retailers the promise to reach a vast number of new consumers without a legal entity and physical presence in China. But, many underestimate the fierce competition from both domestic, regional and international brands eager to get their slice of the China pie.

Setting up an online shop on one of the major e-commerce platforms to reach out to millions of potential customers may appear an attractive proposition but the operational cost can be high, and succeeding does require both commitment, patience and investment.

Nevertheless, the Chinese cross-border e-commerce landscape is continuously evolving with many online platforms catering to more specific needs or focus on fewer product categories such as maternity & baby care, sports & outdoors, food & beverages, and cosmetics & skincare.

For new, smaller and/or less known consumer brands, it is much better to pick a platform that targets a narrower user base that looks for more specialized (niche) products that fulfil a specific need. These are often less expensive to join and benefit from.

With the rapid development, adoption and integration of m-commerce, mobile payments, live streaming, VR, social media and O2O retailing in China, it is important that overseas companies always stay on their toes and actively engage and communicate with their target customer base and do not rely solely on a third-party service provider to promote and push sales.

It takes ownership and commitment to build your brand in China together with your customers.

China's import cross-border e-commerce market will continue to evolve and expand in the years to come, and it will be interesting to see how foreign retail brands will adapt to 'Made for and sold online in China'.

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