



## Implementing Partners



# China's Cross-Border E-commerce

2017 June 20, Riga



# 1. Free Trade Zones



# 1. Free Trade Zones



## BACKGROUND

Date: 1980

Location: Shannon FTZ

Country : Ireland

Mr. Jiang Zemin

PRC's President

1993-2003

# Free Trade Zones in EU

- Free zones are special areas within the customs territory of the Community. Goods placed within these areas are free of import duties, VAT and other import charges.
- There are tens of free zones in the EU
- Shannon, established 1959, world's first Free Trade Zone
- However, the concept of a bonded warehouse existed in China Customs. What's the difference?
  - ❑ Cross-Border E-Commerce
- Why?

Source: [European Commission, List of Free Zones in EU](#)

# Free Trade Zones in China

- For a number of reasons, Chinese government wants Chinese consumers to be one of the main levers of China's economy



## 2. Cross-Border E-commerce

*Initiative to facilitate access to China market to foreign brands to sell online their goods directly to Chinese consumers, with or without product stock in China*

# General Trade

REQUIREMENTS	WHAT IT MEANS?
<b>There's a legal entity</b> in China that imports the product	Find an importer and/or distributor, lengthy process, only apt for large quantities
The legal entity <b>pays</b> to Customs, lands the product in China	Payment upfront. Lengthy procedure. Frequent hassles at Customs
Duties and taxes are paid <b>before</b> the product is sold <b>by the importer</b>	Chinese importers averse to obsolete inventories. Don't want the risk of poor product performance. Only want first brands
Duties and Taxes are paid <b>over</b> CIF price	Intermediaries add high margins in each step of the supply chain up to consumer, thus leading to high price tag on shelf
Product can be sold either off-line or on-line	General Trade responds better to B2B than to B2C

# Cross-Border Trade

REQUIREMENTS	WHAT IT MEANS?
<p><b>There's a legal entity</b> in China that imports the product to a <b>bonded warehouse at the Free Trade Zone</b></p>	<p>Logistics operators and Chinese importers at FTZs know well import procedures and regulations. Verification in advance, speeding up the process, reducing time lapses. Officers from Quality and Inspection (AQSIQ) at hand</p>
<p>The legal entity goes through Customs procedures <b>only when there is an online order from a netizen</b></p>	<p>Importers now want a wider assortment. However still want high rotation products to lower operation costs</p>
<p>Duties and taxes are paid <b>when the item is purchased by a netizen</b></p>	<p>Chinese importers at FTZs <b>don't have the burden</b> of Customs taxes and duties</p>
<p>Duties and Taxes are paid <b>over the shelf retail price by the netizen</b></p>	<p>Competition is introduced, wider assortment, a <b>clearer pricing scheme</b></p>
<p>Product can be sold <b>on-line only</b></p>	<p>All is <b>B2C</b></p>
<p><b>Taxes and Duties are different than on General Trade</b>  <b>Max value of each purchase ~ EUR 250</b></p>	<p><b>Beware, this does not mean necessarily a cheaper product on shelf</b></p>



# Cross-Border Trade

Does it open an opportunity for my business?

It facilitates the entry to Chinese market, mitigating some of the difficulties, such as

- Finding partners, importers/distributors, of General Trade
- Dealing more smoothly with Customs and regulations
- Knowing pre-emptively if product is approved by Customs
- Testing the waters, to scale up later on
- Having an exit strategy, scaling down if needed
- Entering the market through progressive steps
- Having logistics China-wide
- Dealing with returns
- Managing complaints
- Getting paid in EURO in your country of origin
- Dissociating *trade* from *promotion* and *brand image*, you can control the latter two
- Avoid to set up a company and its hassles and costs
- Adapting to a fast changing market

# Cross-Border Trade

It has its downside too

- Cross-Border E-Commerce is still considered *a pilot*. It is only B2C
- Balance strong government planning with the free market is not easy, results can be different from what was intended (e.g. corn tariff; e.g. massive changes on categories permitted on April 2016)
- Large online platforms, non favourable payment terms (e.g. JD, 60 days T/T)
- In a data-driven world, the consumer's information rests on the Chinese side
- List of authorized products that can be traded via cross-border can be changed by government
- Chinese importers enlarge assortments, but do little to promote individual items, hoping for some of the SKUs in assortment explode as a success by itself
- Low rotation annihilates interest of importers, they'll do little to fix it

# Cross-Border Trade

The list of products than can be traded via Cross-Border E-Commerce



## List of Products Authorized for Retail Import via China's Cross Border E-commerce

Translated by the [EU SME Centre](#)  
April 2016

See the [original Chinese list here](#).

02101900	Other meat of swine, salted, in brine, dried or smoked	Only e-commerce bonded products
02102000	Meat of bovine animals:	Only e-commerce bonded products
03061200	Lobsters (Homarus spp.)	Only e-commerce bonded products
03061490	Crab , Other	Only e-commerce bonded products
03061619	Cold-water prawns:	Only e-commerce bonded products
03062290	Unfrozen lobsters other than for cultivation	Only e-commerce bonded products
03062499	Other unfrozen crabs	Only e-commerce bonded products
03071190	Oysters: Live, fresh or chilled: others	Only e-commerce bonded products
03073190	Mussels, live, fresh or chilled	Only e-commerce bonded products
03077990	Frozen, dried, salted or in brine cockles and ark shells	Only e-commerce bonded products
03079190	Live, fresh or chilled other molluscs	Only e-commerce bonded products

Source: [EU SME Centre \(CBEC list, English\)](#)



### 3. Critical Success Factors

# Critical Success Factors

Ponder exhaustively these two critical success factors, they wrap all others

CBEC Critical Success Factors	Motivation
Why would a <b>Chinese online platform</b> choose my product?	To make money
Why would a <b>Chinese consumer</b> buy my product?	To save money

Notice that China itself (\*) is the 2nd cross-border destination for shopping of US, UK, and Brazil. The 3rd for Australia, the 4th for Germany.

Source: (\*) [Nielsen via China Watch](#)

# Critical Success Factors

CBEC Critical Success Factors	Motivations Breakdown
<p>Why would a <b>Chinese online platform</b> choose my product?</p>	<ul style="list-style-type: none"><li>○ A <b>real demand</b> in China exists. Check it out. Prove it.</li><li>○ Your product is <b>known</b> in the market of origin. Prove it.</li><li>○ If possible, leverage on your <b>country strength</b> (strong correlation in China between country &amp; category). Prove it.</li><li>○ Prove your CIF price can guarantee enough <b>gross margin</b> for platform while being competitive in tag price at shelf (design a price build-up scheme from CIF price to the shelf)</li><li>○ Prove that proposed <b>tag price</b> fits close with that of competitors</li><li>○ The <b>unique proposition</b> of your product. Is it packaging? design? novelty? ahead of others for some reason?. Prove it.</li></ul>

# Critical Success Factors

CBEC Critical Success Factors	Motivations Breakdown
Why would a <b>Chinese online platform</b> choose my product?	<ul style="list-style-type: none"><li>○ Reassure to the platform of that <b>product rotation</b> will be high, thus shelf life isn't a key issue. Prove it through convincing planning</li><li>○ Demonstrate you can feed news and <b>content of quality</b> about the brand and the company</li><li>○ Show you have a <b>digital marketing</b> strategy</li></ul>

# Critical Success Factors

CBEC Critical Success Factors	Summary
Why would a <b>Chinese online platform</b> choose my product?	<ul style="list-style-type: none"><li>○ Potential demand in China</li><li>○ Notoriety in market of origin</li><li>○ Perception of your country</li><li>○ Gross margin enough</li><li>○ Price is competitive</li><li>○ A distinctive feature</li><li>○ High rotation</li><li>○ Notoriety through content and news</li><li>○ Social Networks plan</li></ul>




# Critical Success Factors

CBEC Critical Success Factors	Motivations Breakdown
Why would a <b>Chinese consumer</b> buy my product?	<ul style="list-style-type: none"><li>○ It belongs to one of categories on the rise</li><li>○ Perception of country/product</li><li>○ Key Opinion Leaders have their say</li><li>○ Social Networks buzz</li><li>○ Peers-pressure (<i>don't you know...?</i>)</li><li>○ Lifestyle proposition (health, sport, etc.)</li><li>○ Price, price, price</li><li>○ Distinctive</li><li>○ No story of fakes behind</li><li>○ Peers approval</li><li>○ Wide-circle (i.e. social networks) approval</li><li>○ To appear as they are in the know, leading, rather than following</li></ul>

# Critical Success Factors

Example  
EU brand, bags

CBEC Critical Success Factors	Summary
<p>Why would a <b>Chinese online platform</b> choose my product?</p> 	<ul style="list-style-type: none"><li>✓ Potential demand in China</li><li>✓ Notoriety in market of origin</li><li>✓ Perception of your country</li><li>✓ Gross margin enough</li><li>✓ Price is competitive</li><li>✓ A distinctive feature</li><li>✓ High rotation</li><li>✓ Notoriety through content and news</li><li>✓ Social Networks plan</li></ul>

# Critical Success Factors

CBEC Critical Success Factors	Motivations Breakdown
<p data-bbox="428 344 1217 444">Why would a <b>Chinese consumer</b> buy my product?</p> 	<ul data-bbox="1251 344 1997 1243" style="list-style-type: none"><li>✓ It belongs to one of categories on the rise</li><li>✓ Perception of country/product</li><li>✓ Key Opinion Leaders have their say</li><li>✓ Social Networks buzz</li><li>✓ Peers-pressure (<i>don't you know...?</i>)</li><li>✓ Lifestyle proposition (health, sport, etc.)</li><li>✓ Price, price, price</li><li>✓ Distinctive</li><li>✓ No story of fakes behind</li><li>✓ Peers approval</li><li>✓ Wide-circle (i.e. social networks) approval</li><li>✓ To appear as they are in the know, leading, rather than following</li></ul>

# Critical Success Factors

<p>CBEC Critical Success Factors</p>	<p>Motivations Breakdown</p>
<p>Why would a <b>Chinese consumer</b> buy my product?</p> 	<ul style="list-style-type: none"> <li>✓ It belongs to one of categories that are on the rise</li> <li>✓ Perception of country of origin</li> <li>✓ Key Opinion Leaders have their say</li> <li>✓ Social Media buzz</li> <li>✓ Peer pressure (<i>don't you know...?</i>)</li> <li>✓ Lifestyle proposition (health, sport, etc.)</li> <li>✓ Price, price, price</li> <li>✓ Distinctive</li> <li>✓ No story of fakes behind</li> <li>✓ Peers approval</li> <li>✓ Wide-circle (i.e. social networks) approval</li> <li>✓ To appear as they are in the know, leading, rather than following</li> </ul>

TRADEMARK WAS ALREADY REGISTERED BY SOMEONE ELSE



## 4. In Closing

Consumers are a key lever in China's economy

If China's slowdown is cushioned by higher consumption and Chinese households do not decide to increase the level of savings (healthcare, house), then

EU SMEs are recommended to explore in depth **CBEC** as potential entry strategy for China



## About the EU SME Centre

- A project funded by the European Union in 2010 to help European small and medium-sized enterprises (SMEs) get ready to do business in China
- Implemented by six chambers of commerce
- Based in Beijing

