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### China's Cross-border E-Commerce Opportunities for U.S. Exports

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**Report Highlights:**

China's E-commerce market surpassed the United States to become the world's largest E-commerce market in 2013. China's retail E-commerce sales exploded from \$3 billion in 2006 to \$300 billion in 2013. During the same period, China's digital shoppers' population burst from 30 million to 300 million consumers. Young consumers between the ages of 20 to 29 make up more than half of the total digital shopper population. The top three E-commerce merchandise lines are clothing and accessories, groceries, and computers and electronic appliances. There are several business models, such as Business-to-Consumer (B2C), Consumer-to-Consumer (C2C), open platforms, and specialty online stores that include perishable products, wine and bakery goods. There are also special cross-border B2C platforms and flash sales online retailers.

## General Information:

### China's \$300 Billion E-commerce Market: A Market Too Big to Ignore

China's E-commerce market surpassed the United States to become the world's largest E-commerce market in 2013. China's retail E-commerce sales exploded from \$3 billion in 2006 to \$300 billion in 2013. During the same period, China's digital shoppers' population burst from 30 million to 300 million consumers. The relatively young and tech-savvy digital shoppers account for half of the total netizen community. Young consumers between the ages of 20 to 29 make up more than half of the total digital shopper population. More than one third of digital shoppers hold a bachelor's degree.

The retail E-commerce market in China is quite sophisticated. Merchandise lines run across almost all categories, from vacation packages to investment funds, food to furniture, smartphones to books. The top three E-commerce merchandise lines are clothing and accessories, groceries, and computers and electronic appliances. There are several business models, such as [Businesses as Business](#)-to-Consumer (B2C), Consumer-to-Consumer (C2C), open platforms, and specialty online stores that include perishable products, wine and bakery goods. There are also special cross-border B2C platforms and flash sales online retailers. Flash sales online retailers offer products or price discounts in a limited short time period, ranging from one day to one week.

The E-commerce market for food and beverage includes almost all major online retailers and platforms, such as Amazon, JD, Tmall, Womai and YHD. Other niche retailers target fresh fruit, imported wine and spirits, cakes and nuts. For more information, please see [GAIN report CH13803](#) on food and beverage E-commerce market in East China.

<b>Table 1. U.S. and China E-Commerce Market At a Glance 2013</b>		
	U.S. market	China market
Market size	\$263 billion	\$300 billion
2013/2012 growth rate	15.2%	40.9%
E-commerce as a percent of total retailing	6.0%	7.9%
Online shopper population	191 million	300 million
Average spending per person	\$2,466	\$ 1,050
1. 2013 average USD to CNY exchange rate: 1 USD = 6.1932 CNY 2. China market data source: China Internet Network Information Center 3. U.S. market data source: U.S. Department of Commerce, Statista		



### E-commerce without Boundaries: China's Cross-Border E-commerce Market

**Table 2. China Cross-Border E-Commerce Market At a Glance 2013**

Inbound retail E-commerce sales	\$12.3 billion
Inbound retail E-commerce sales as of total retail E-commerce	4.1%
2013/2012 growth rate	57%
Cross-border E-commerce shopper population	21 million
Average spending per person	\$586
Medium age of cross-border consumer	25-35 years old

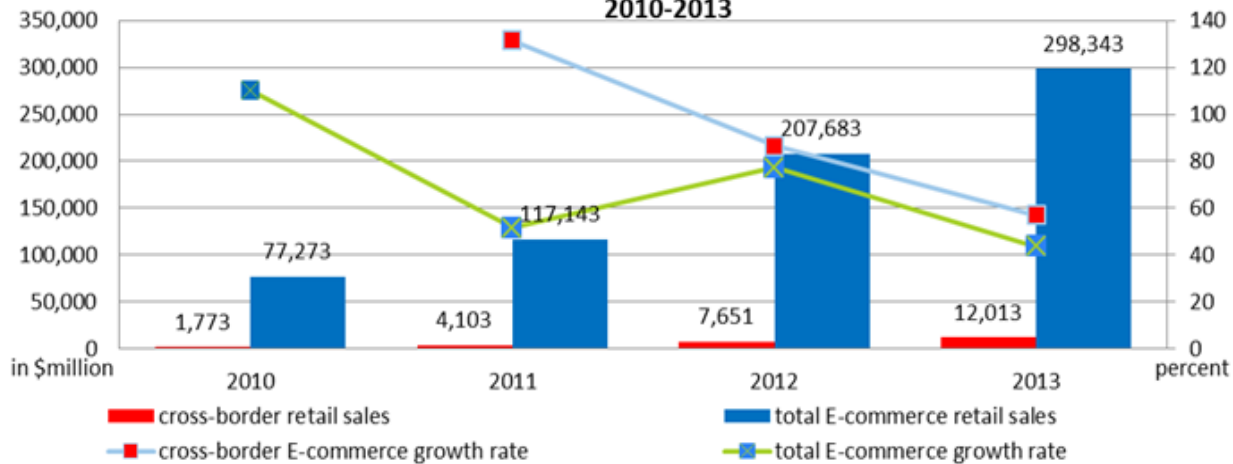
1. 2013 average USD to CNY exchange rate: 1 USD = 6.19 CNY

2. Data source: Iresearch, China E-commerce Research Center

Cross-border B2C E-commerce is one form of B2C online shopping. Chinese consumers purchase overseas products via Internet and receive the goods by mail delivery. Like the traditional international trade, cross-border E-commerce is also a two-way trade, both inbound and outbound, but it does not require a middleman. Outbound E-commerce dominates China's cross-border E-commerce, accounting for more than 90 percent of total cross-border E-commerce sales. For reporting purposes, cross-border E-commerce hereafter refers to China's inbound retail E-commerce.

According to the China Internet Network Information Center, 21 million digital shoppers or 7 percent of all digital shoppers in China made cross-border online purchases in 2013, up from 4.7 percent in 2012. The China E-commerce Research Center estimated that cross-border retail E-commerce reached \$12.3 billion in 2013.

**Chart 2. China's Inbound Retail E-commerce Sales and Growth  
2010-2013**



Data source: China Internet Network Information Center, China E-commerce Research Center

While still in its infancy, cross-border retail E-commerce is growing at a rapid rate. Cross-border retail E-commerce takes up less than 5 percent of total retail E-commerce. However, the growth of cross-border E-commerce has outpaced the growth of total retail E-commerce over the past four years. The potential for cross-border E-commerce is huge. Recently, Ningbo Customs announced that it has cleared 110,224 cross-border E-commerce parcels with a total value of \$5.1 million from December 2013 to July 2014.

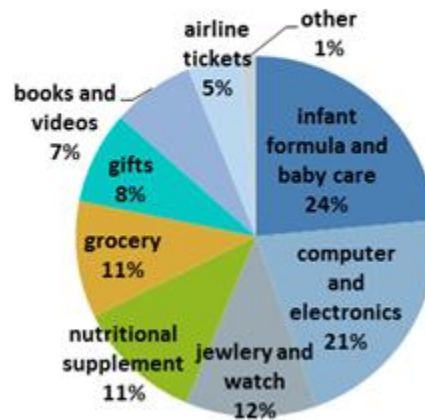
### **Best Prospects Category in Cross-border E-commerce**

According to the China Internet Information Center, the top five categories of cross-border E-commerce are infant formula and baby care products, computer and electronics, jewelry and watches, nutritional supplements and grocery items. Bain & Company estimates that Chinese consumers buy 10 percent of all infant formula and 7 percent of all cosmetics and skincare products through overseas purchasing agents.

In terms of food category, products with the best prospects may include:

- A. products that require high food safety treatment and reputation, such as infant formula and baby food
- B. products prone to fraud
- C. products that are not available in China
- D. products with big price discounts

Chart 3. China's cross-border sales  
breakdown  
2013



Data source: China Internet Network Information Center ~~Center~~

### Favorable Tax and Inspection Policy on Cross-Border E-commerce for Food and Beverage Products

In February 2012, China's National Development and Reform Committee (CNDRC), together with the Ministry of Finance, Ministry of Commerce, China's Central Bank, China Customs, Tax Bureau, Business Bureau and General Administration of Quality Supervision, Inspection and Quarantine, released a joint announcement promoting E-commerce. Later in 2012, CNDRC and China Customs announced the first list of pilot cities to streamline cross-border E-commerce: Shanghai (East China), Hangzhou (East China), Ningbo (East China), Zhengzhou (North China), Chongqing (Mid-west China) and Guangzhou (South China). In 2014, CNDRC and China Customs also approved Qingdao and Yantai, two cities located in Shandong Province. More cities, such as Xi'an, Yingchuan, Nanning and Xiameng are in the process of getting approved.

On the regulatory level, China Customs as well as China Inspection and Quarantine (CIQ) impose favorable policies governing cross-border B2C E-commerce. Below is a summary of related regulations and their significance.

<b>Table 3. China Customs Decrees on Cross-border Trade and its Significance</b>		
<b>Decree</b>	<b>Effective Date</b>	<b>Significance</b>
Decree 43	September 1, 2010	<ul style="list-style-type: none"> <li>• Authorizes China Customs to charge import tax on private parcels from overseas</li> <li>• Tax collectable below 50 RMB (approximately \$8) will be waived.</li> <li>• The total value of the parcel may not exceed 1,000 RMB (approximately \$160), unless the parcel contains only one undividable product.</li> <li>• Decree 43 applies only to parcels imported for private consumption, not for business purposes.</li> </ul>
Decree 15	April 15, 2012	<ul style="list-style-type: none"> <li>• Sets HS (harmonized system) code and tax rate for private parcel products</li> <li>• Sets reference price for private parcel products</li> </ul>
Decree 56	August 1, 2014	<ul style="list-style-type: none"> <li>• Regulates E-commerce companies and individual consumers who purchase products via cross-border E-commerce platforms pre-registered with China Customs</li> <li>• E-commerce companies or individual consumers need to provide order information, payment information and logistics information to China Customs</li> </ul>
Decree 57	August 1, 2014	<ul style="list-style-type: none"> <li>• Sets China Customs supervision code 1210 for cross-border E-commerce trade products stored in designated bonded warehouses</li> </ul>

Each individual is allowed to purchase products up to 20,000 RMB, or roughly \$3,333, annually. Customs officers also indicate that the annual maximum value may be adjusted in the near future. The interpretations of these government policies and cross-border ecommerce are significant in respect to food and beverage products.

First, China Customs had decided to set more favorable tax rates on cross-border food purchases. The import tax for food and beverage products is 10 percent of the retail price. There is no value-added tax (VAT) on cross-border E-commerce purchases. For each parcel, any tax collectable below 50 RMB (approximately \$8) will be waived. In contrast, in conventional trade, the tariff of food and beverage products is in the range of 0 to 30 percent. In addition to this, there is another 17 percent VAT.

Second, CIQ has set a more relaxed inspection policy on cross-border purchases: they need only meet the regulatory standards of the home country rather than the standards of China. In addition, Chinese labeling is not required for cross-border purchases. However, products forbidden for import remain the same.

CIQ’s more relaxed inspection policy on cross-border E-commerce will help remove barriers for those products that might face challenges through conventional trade. For example, Chinese labeling and nutritional labels are no longer required. USDA certified organic products no longer need to obtain the Chinese organic certification for sale as organic.



Table 4. Import Tax on Consumer Goods via Parcels	
Merchandise	Tax Rate
Food	10%
Hides and skins	10%
Shoes and luggage	
Computer and camera	
Health care and beauty care appliances	
Kitchenware and bathroom hardware	
Jewelry and artwork	
Office supplies	
Books, videos and publication	
Toys	
Sports equipment (except for golfing)	
Musical instruments	
Clothing and textiles	20%
Watches and clocks	
Electronic appliances	
Luxury watches	30%
Golf equipment	
Wine and liquor	50%
Tobacco	
Cosmetics and beauty care products	

The interpretation of CIQ’s policy that products purchased by individuals via overseas mail should meet the related regulatory standards of the origin country will help remove the below thresholds:

## A. Chinese organic certification

Through conventional trade, Chinese government requires all imported organic products to receive Chinese organic certification, even if it is USDA organic certified. Otherwise, the organic logo and word need to be covered up to hide the US organic label. The certification is about 3,000 USD per SKUs plus the travel cost for the inspectors. It also needs to be renewed annually. For those U.S. organic products that do not have a Chinese certification, importers tend to cancel the orders.

## B. Nutrition facts and labeling

The Chinese government is implementing a set of new standards for nutrition facts and labeling. A Chinese nutrition label needs to be added to the package. Chinese authorities will test the nutrition facts; if ~~they find~~they find the results are not consistent with the claims, the products will be rejected.

## C. Ingredients and additives check based on Chinese standards

The food standards in China are not always on par with U.S. standards. For example, vitamins are not allowed to be added to food products, such as crackers or baby formulas; however, vitamin-enriched products are quite common in the U.S. These food standards discrepancies prevent some U.S. food exports to China.

## D. Health claim

For products with health claims, the Chinese government requires that it should apply for the health supplement license, or the so-called blue cap. It takes one to three years to get the blue cap registration done. Otherwise, either the nutritional claims will be removed or the retailer who carries the products will be fined.

Table 5. Summary of Import Regulations through Conventional Trade and via Cross-border E-commerce		
Import regulations	Conventional Trade	Cross-border E-commerce
Chinese labeling	required	not required
Nutrition facts and labeling	required	not required
Ingredients check and food additives check based on Chinese standards	required	not required
Chinese organic certification for organic products	required	not required
Registration of functional foods	required	not required

As cross-border E-commerce is a relatively new business model, AQSIQ and local CIQ offices are still developing rules to regulate product flows from cross-border E-commerce channels and to streamline the process.



## Omni-channels of Cross-Border E-commerce

### A. Freight forwarders

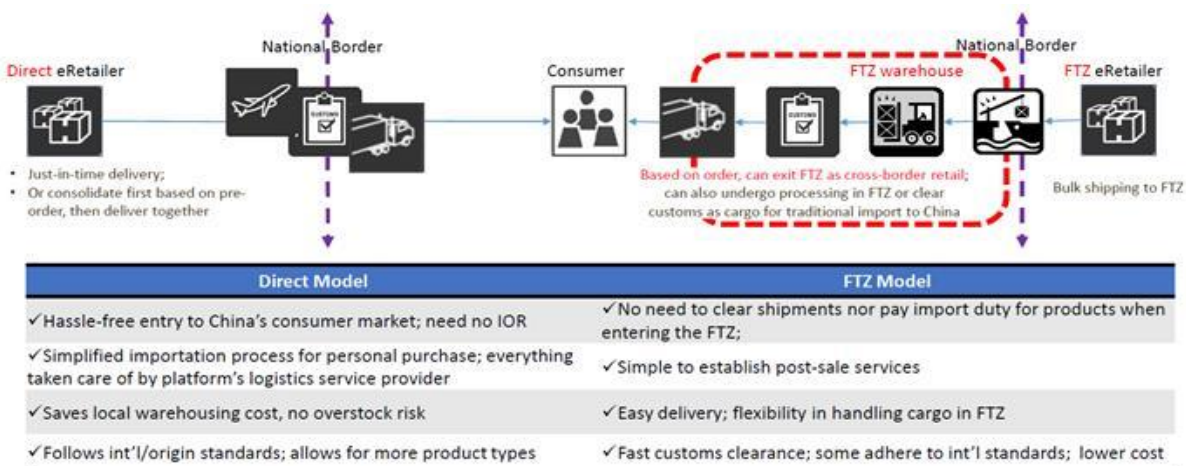
Freight forwarders receive the shipments in the U.S. on behalf of the consumer who placed the order and then send it to China by mail or consolidate it with other products for shipping to China. The shipping charge is normally based on size and weight. The average cost is between \$6.7 to \$10 below one pound and \$4.3 to \$6.7 for each additional pound. Products will be paid by USD to the U.S. online shopping website directly.

### B. U.S. online shopping websites with international shipping services

Some well-established U.S. shopping websites are catching up with the rapid online shopping development in China by offering international shipping to China. Online retailers will collect the estimated import tax deposit at check-out and provide customs clearance on the recipient's behalf. Some of the companies, such as Bloomingdales, Macy's and Neiman Marcus, offer a localized shopping experience, even providing a Chinese language website and prices in local currency.

### C. Chinese platforms that specialize in cross-border E-commerce ("HaiTao" in Chinese)

Chinese cross-border E-commerce platforms became popular when consumers began having concerns with the food safety of baby food products. These platforms pre-selected popular products and directly linked them to overseas shopping websites. Product categories have been expanded to include electric appliances, mother and baby care products, nutritional supplements, and cosmetics.



Note:

- IOR: Importer of Record

Source: KJT

## Constraints to Cross-Border E-commerce

Despite the promising future of cross-border E-commerce in China, a few constraints pose in the development of cross-border food and beverage E-commerce. Suppliers are anxious about policy consistency. The differences of tax and inspection standards between conventional trade and cross-border E-commerce also cause businesses to wonder whether the favorable policy in cross-border trade

can be sustainable.

Consumers are concerned about privacy protection. The ID registration process is one of the concerns that ~~makes~~ consumers drop the shopping cart. To make the cross-border orders and tax payments controllable and traceable, China Customs now requires recipients to upload ID information to the online retailer or freight forwarder. That said, the potential abuse of the use of cross-border E-commerce makes consumers question whether the products are truly coming from overseas.

### **A Quick Guide to Doing Online Business**



#### **Step 1. Develop an online marketing strategy**

Think clearly about whether or not to do business online. Here are some key questions to consider:

- Are products suitable for online sales?
- How to balance and differentiate the existing distribution channel with the E-commerce channel? - What objectives to achieve through online business, such as consumer awareness building and/or sales revenue?

Depending on the product, online strategies will differ—sometimes by a great deal. A new-to-market product needs more exposure. In the beginning, a new online business may be considered as a marketing channel rather than sales channel. However, a mature product may achieve immediate sales target right after being launched online. Balancing the price between online retailers and offline retailers/wholesalers may also be a priority for these products.

#### **Step 2. Determine online channels**

In terms of online channels, there are a number of models to consider:

- A. Selling products to a distributor who has online channels
- B. Selling products to a B2C website
- C. Setting up a store in a B2C platform
- D. Setting up a company owned-and-run website

## E. Doing cross-border E-commerce

### **Step 3. Work on product information and brand information**

The beauty of online shopping is that the supplier can add as much descriptive information as one likes. Industry insiders say making a well-designed product webpage will help sell products. Brand history, recipes, how-to-use directions, ingredients, and eye-catching pictures of the products are the most popular ways to convey information on a product webpage and gain attention.

Designing an effective product webpage is vital. Most B2C platforms can provide this service with or without fees. Good resolution pictures of your products are always wanted. Literature about products on the internet is the equivalent of sample tasting in stores.

### **Step 4. Prepare a promotion and marketing plan**

Running an online business is far more than delivering products to a warehouse. It requires a serious sales and marketing effort. This is quite similar to marketing in conventional retail stores except that it is in a different format. Critical issues include securing a prime location for the webpage, fitting into an existing promotion with the website operator, and creating your own promotion. Major website/platform operators are quite capable of doing event marketing, such as Singles Day Promotion. Suppliers who actively engage in these promotions will usually have a better sales result.

### **Step 5. Monitor sales, collect consumer feedback, and evaluate the results**

Monitoring sales and evaluating results is basically the same job as it is with retail stores. An advantage of online shopping is that suppliers can collect first-hand product feedback from consumers. Websites make consumer feedback more traceable and transparent. Consumers can write comments and post them online. Suppliers can use this feedback to improve their products and services.

### **Step 6. Adjust plans and examine market trends**

Success does not come overnight. Instead, it comes from trial and error. Here are some approaches to accomplish your goals:

- A. Learn from the experiences of website/platform operators. They are on the frontlines and interact with consumers. They know what works and what does not work.
- B. Listen to the voice of consumers. Check consumer feedback. Handle product inquiries or complaints in a timely manner.
- C. Based on the sales results and previous marketing activities, adjust your plans and improve them. Online business is evolving all the time. Stay on top of innovation, market trends and new applications.