Kingdom of the Netherlands

China Cross-Border E-Commerce

Guidebook

Consulate-General of the Kingdom of the Netherlands in Shanghai

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PREFACE

International online shopping is vastly expanding around the globe, but nowhere can one observe international e-commerce developments like in China.

Although traditionally China provides the world with its manufactured goods, in recent years e-commerce developments allowed Chinese e-customers to purchase and import goods from other countries directly. As a result, sales of overseas' products to Chinese consumers have thrived and continue to flourish.

The China Cross-Border E-commerce Opportunity Report written in 2015 by Ruben de Bie, Economic Policy Officer at the Consulate General of the Kingdom of the Netherlands in Guangzhou, China, which explored the opportunities of Chinese online retail for Dutch companies. In essence, it provided a comprehensive overview of Chinese e-Commerce and the prospects for Dutch businesses in it.

As more Dutch companies embrace the opportunities and advantages offered by China cross border e-commerce, however, its complexity is often underestimated by those willing to venture into the maze of e-marketplaces, tax regulations, logistic and payment solutions, as well as operations and third party service providers.

This step-by-step guidebook serves as a practical follow-up on the China Cross-Border E-Commerce Opportunity Report, which is intended as an initial reference in order to guide companies especially those Dutch SMEs which do not have a business entity in China, but seek to pursue business opportunities in the booming Chinese e-market.

Therefore, this guidebook will cover the topic of **Cross-Border E-Commerce**, which differs significantly from 'regular' e-commerce in, among other things, scope, regulations and strategies.

The need for a follow-up guidebook originated from the new policy regulations, issued on 8 April 2016, which (drastically) impact the Chinese Cross-Border E-Commerce sector.

Accordingly, this guidebook will cover a comprehensive overview of what Cross-Border E-Commerce in China entails.
The format is a funnel-shaped practical guidebook, starting from a general introduction on cross-border e-commerce (CBEC), a helpful examination of the latest rules and regulations, and an up-to-date analysis of the main marketplace options available for Dutch companies.

Moreover, significant topics that ought to be taken into account for CBEC in China will be covered. These include Chinese CBEC's inextricability from social media, its payment and logistic solutions and subjects related to localisation and operations, such as IPR-protection and marketing.

Finally, the handbook reaches out to those companies determined to concretise their business plans by providing a comprehensive list of (Dutch) third-party service providers, thereby offering an opportunity for further action to develop their Cross-Border E-Commerce activities in China.

1. INTRODUCTION TO CROSS-BORDER E-COMMERCE

In emerging markets, especially with a huge domestic market such as China, consumers may face difficulties when searching for affordable imported goods in their local retail stores. A vastly growing middle class with increased exposure to the internet and foreign products, which are often considered of higher quality and status, the Chinese demand for overseas goods steadily increases every year.

Accordingly, to purchase these foreign products that are often unavailable or excessively expensive in Mainland China, Chinese consumers use overseas' websites or separate domestic e-marketplaces, which are specialised in international e-commerce and host international suppliers.

This process of buying overseas products directly from foreign retailers and suppliers via the internet, without the specific need for an intermediary business entity in China, is called: *cross-border e-commerce*.

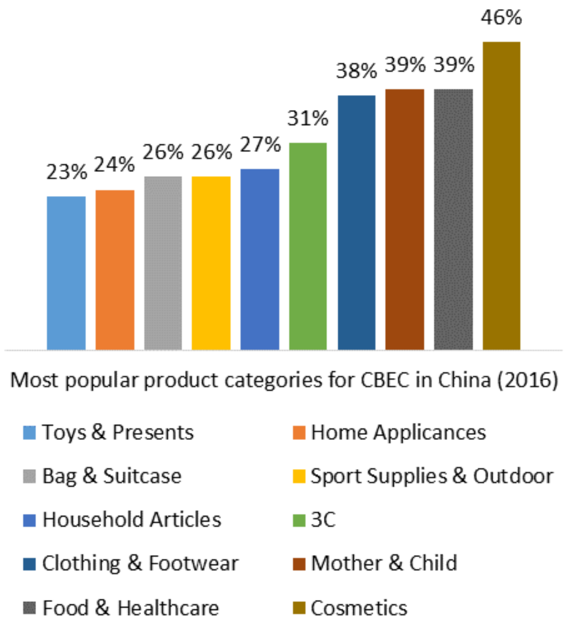
Several factors contribute to the willingness of Chinese e-consumers to buy products from abroad. The (upper-)middle classes seek to pick up the niche and newest items, not (yet) available in the People's Republic. Nonetheless, the main purchasing factors for Chinese consumers to buy via cross-border e-commerce platforms are 'product quality' and 'product price'.

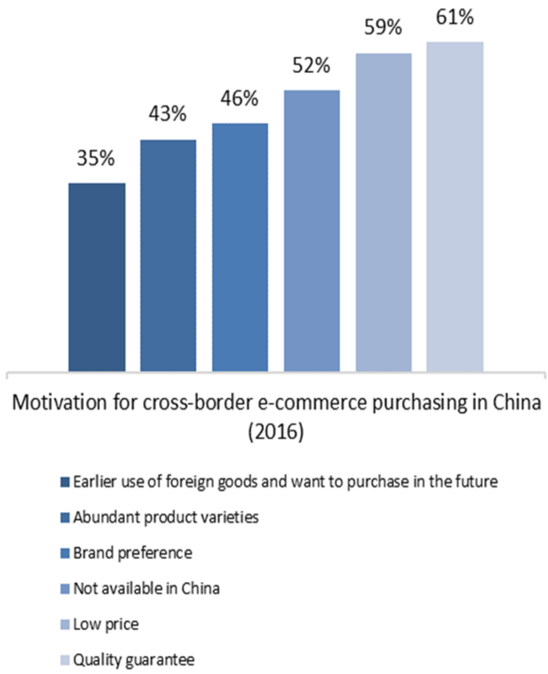
Chinese consumers often feel that products purchased via cross-border e-commerce platforms guarantee a higher level of quality and protection against counterfeit goods (examples include infant milk formula, cosmetic products, handbags etc). In recent years there have been countless examples and nationwide scandals in which counterfeits passed for real ones, especially in non-first tier and non-coastal cities. Due to the fact that merchants on CBEC-platforms have to be established and authorised abroad, they are considered more trustworthy. In fact, 61% of Chinese consumers indicate that quality guarantee is their reason for shopping abroad. [1]

Besides availability (the reason to buy abroad for 52% of Chinese consumers)[2], and a more trustworthy image, to Chinese customers the price of imported goods via CBEC is one of its biggest pull-factors. Due to the exemption of import taxes under certain conditions, the retail price of CBEC goods can be significantly lower compared to the same goods imported via traditional trade. For 59% of Chinese consumers a low price is the reason they buy certain products abroad.[3]

[1] iResearch 2016/Ecommerce Foundation: See annex 1
[2] ibid
[3] ibid

Annex I. Motivation and most popular product categories CBEC in China (2016)





Source: iResearch 2016 / Ecommerce Foundation

Figure I. Chinese Cross-Border E-Commerce consumer portrait

65% male

75% between 26 – 40 years old)

Highly educated
(75% graduate degree)

>¼ has an income higher than 10.000 p/m

Southeast coastal resident
(¼ live in Guangdong and Shanghai)

56% of the purchases are between 100-500 RMB

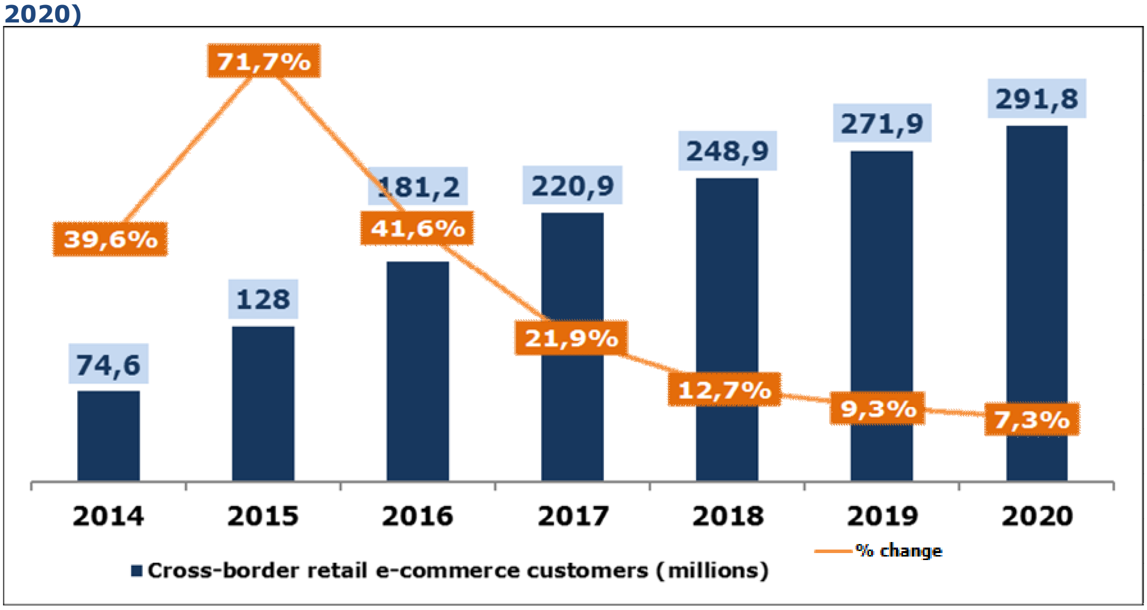
¾ buy less than once per month

Source: Rkylin and iResearch 2016

2. GROWTH OF CROSS-BORDER E-COMMERCE IN CHINA

As a consequence of the abovementioned added value for Chinese consumers, Cross-Border E-Commerce's popularity is growing exponentially in China. In 2015 the annual growth of Chinese customers that purchased overseas products online was more than 70% compared to 2014. The amount of customers is expected to continue to grow steadily during this decade (see Chart I).

Chart I. Cross-Border E-Commerce customers in China (2014-2020)



Source: eMarketer and Alizila (Alibaba Group)

In 2016, the value of these online cross-border purchases is estimated to be over 85 billion USD. By 2020, 292 million Chinese online consumers will purchase goods from abroad, with sales expected to surpass 157 billion USD. (See Chart II).

Well-known underlying societal factors, like ever-increasing standard of living and greater exposure to foreign products, contribute to the sudden upsurge of CBEC sales in China. With an eye on decelerating economic growth, the central government has released several preferential policies aimed to increase cross-border e-commerce. In 2013, Shanghai was the first city to be selected for an experiment as a zone for cross-border e-commerce and better regulation[4]. Soon after other cities followed; among others, preferential tax policies and the first *Cross-Border E-Commerce Comprehensive Pilot Zones* were established in Hangzhou in early 2015. Then, on 12 January 2016 the State Council officially approved the establishment of twelve of these zones in other Chinese cities.

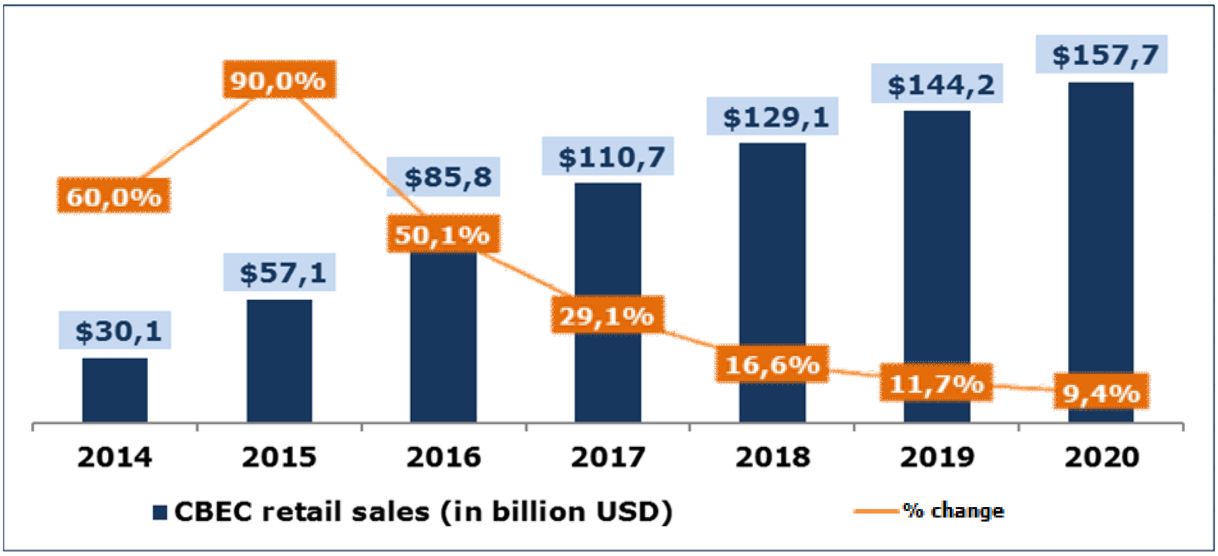
4 http://www.sdpc.gov.cn/zcfb/zcfbtz/201205/t20120515_479258.html

In addition, an overall annual increase in e-commerce in China (according to McKinsey the value of online retail was 630 billion USD in 2015) and a move by consumers and brands alike from C2C to B2C-platforms - considered more professional and trustworthy - adds to the growth of foreign goods' e-sales.

Lastly, in recent years, novel possibilities for foreign brands to directly sell their products in China played a large role in thriving CBEC sales. New 'cross-border marketplaces' opened the door for international shopping when the biggest players, Alibaba Group and Jingdong, respectively launched Tmall Global in 2014 and JD Worldwide in 2015.

These new CBEC resources offer tremendous opportunities for a new type of Dutch entrepreneurs to sell their goods in China.

Chart II. Cross-Border E-Commerce retail sales in China (2014-2020)



Source: eMarketer

3. OVERVIEW CROSS-BORDER E-COMMERCE OPPORTUNITIES

Advantages of Cross-Border E-Commerce

As is clear, CBEC is on the rise, and Dutch companies increasingly seek to hop on the bandwagon. Among others Philips, Holland@Home, Flinders, Attent, and Suitsupply have joined the online retail sphere through different channels.

Traditionally, only large multinationals or those smaller companies with extensive relations and business entities in China were able to offer their products to the Chinese e-market due to the nature of general trade in China.

In essence, importing products via general trade from abroad required a legal entity in China. This legal entity could either be a subsidiary, partner or an own manufacturer. Accordingly, this legal entity would clear Customs and import the products into Mainland China. The legal entity in China would pay duties and taxes over these products before they are sold on Chinese market (be it on e-commerce platforms or in brick-and-mortar shops).

Similarly, opening a store on regular domestic B2C e-commerce platforms requires a company with a Chinese entity.

However, via cross-border e-commerce in contrast to 'regular' e-commerce brands can avoid the need to establish a legal or physical business presence in Mainland China preceding their e-commerce ventures. Nor do they have to relinquish the B2C part of selling to a Chinese trade agent (like via normal trade). As the process to establish such a legal identity is time-consuming, strenuous and a considerable margin is lost engaging a trade agent, CBEC can be a relatively convenient option to sell online directly from abroad.

Besides the fact that CBEC can be a comparatively accessible entry strategy for the Chinese market, the primary advantages of cross-border sales are twofold: reduced import taxes and product compliance checks applied to certain products under China's Luggage and Postal Tax Policy.

Whereas traditional (offline) channels of trade require different levels of procedures to export goods to China (e.g. CIQ compliance checks, product registrations etc.), for certain product categories the shorter and easier value chain can make CBEC a convenient option for Dutch merchants that have not yet exported to China.

Due to this convenience and certain reduced import taxes the trial and error costs of launching (new) products to the vast Chinese market can be exponentially lower.

According to estimations by experts, costs can be 20 to 30 per cent lower and product clearance and dispatch times at the border are considerably faster.

In summary, via CBEC overseas companies get another chance to access the Chinese online consumer market directly and quicker, thereby running smaller financial risks.

Brief overview of the differences between general trade and CBEC

General trade in China via trade agent	***Cross-Border E-Commerce Trade***
When a foreign company does not have its own business license in Mainland China, a legal entity in China imports goods from abroad. This can either be a subsidiary, trade agent or the Chinese manufacturer of the foreign seller. Accordingly, the legal entity clears Customs and imports the product into Mainland China. The **legal entity in China pays** duties and taxes over **the CIF** price **before** the product is sold. Products can then be sold in brick-and-mortar shops or on e-commerce platforms. As Chinese trade agents are usually hesitant to have their yet unsold goods in warehouses (the risk of not selling is on the legal entity in China), they charge relatively high commission fees over the imported products. Moreover, foreign companies have little control over the final B2C part of selling their products.	Cross-border sales are defined as the direct import of goods from outside the territory of Mainland China, utilising special pilot channels, known as cross-border e-commerce platforms, and based on the preferential policies of bonded zones. In this case, an overseas legal entity exports the product to a **bonded warehouse (B2B2C) or via the direct mail (B2C) model**. Oversea legal entity can either be a subsidiary, partner or the own manufacturer. Accordingly, the legal entity clears Customs **only** when there is an online order from an online customer. The **e-consumer** pays duties and taxes over the **shelf retail** price **at the moment** the product is sold. Different taxes and duties apply to CBEC trade and products have to comply with a different set of regulations than via normal trade. Products can then **only** be sold on e-commerce platforms. In sum, with CBEC the consumer takes the lead; the value chain is shorter and there are fewer risks for the overseas merchant.

Busting initial assumptions

Companies are often tempted when presented with the figures on China's quickly expanding consumer population. Though mesmerising, customer and growth numbers stated in popular media, business reports and by consultants only reflect a part of the reality of taking one's business to China.

Therefore, before venturing on their Cross-Border E-Commerce journey and setting up a business plan, companies would be well advised to consider the following - often overlooked – initial misconceptions about selling on the Chinese e-commerce market.

A popular image exists that merely making one's brand available to China's enormous consumer base will automatically translate into sales. However, this perception is often based on the outdated idea that 'the Chinese consumer' is eagerly waiting to buy whatever products, solely because they are 'Western'. Although this might hold true for some product categories e.g. baby milk formula, where Holland is the most popular exporting country, in itself this presumption has been proven unsound.

The emergence of online shopping and the huge number of foreign merchants and brands created hyper-competitiveness and over saturation of the Chinese e-market. Accordingly, it would be naive to think that by just making one's brand available to the Chinese e-market, the demand will be there inevitably.

The same goes for the assumption that because a product is popular with Dutch or Western consumers, has a long heritage in Europe, or enjoys a certain brand reputation, this will be similar in the Chinese market. Although globally well-known brands do attract Chinese e-shoppers' attention, building brand awareness and demand for niche products sold by foreign SMEs in China requires efforts that should not be underestimated. Again, a brand's success in the Chinese market is not solely dependent on the availability of its products.

Moreover, the oft-ascribed homogeneity of China's current 181 million cross-border e-consumers is flawed. As anywhere else, but particularly in a country the size of China, Chinese consumer demands can vary completely from age group to age group, income level to income level and from region to region. Needless to say 'the' Chinese consumer does not exist. Though this fact to a certain extent puts a limit to idea of a 'the sky is the limit' consumer base, at the same time it opens new doors for niche sectors.

It should be clear that selling via CBEC is an entry-level strategy in order to acquire market share, brand equity, and a relevant consumer base in China. As volumes of products sold will increase, for tax and registration purposes it will become more beneficial for companies to engage in traditional trade methods. Thus, ultimately, foreign merchants may use CBEC as a stepping stone to achieve an omni-channel sales strategy whereby they sell their products via traditional channels (both off- and online).

Although CBEC is a comparatively low-cost entry method, (because of minimum trial-and-error costs and shorter value chains) merchants should keep in mind that selling cross-border still requires high investments. Estimated costs of being present on the biggest platforms comes at a cost; experts estimate a minimum of 1 million RMB (± €130 000) in expenses (including branding, logistics etc.) per annum. Moreover, deriving from experts' experience, continuous human and capital investments, as well as sustained efforts and commitment on operational and management level are required to succeed.

Preparations

For all above mentioned reasons, it is very much advised that brands spend adequate time to research their target consumer base and the general demand for their products in the Chinese market, before investing in establishing an e-commerce presence. Generally, operational, logistic and legal queries can be solved (both by this report and by third parties) quite easily.

Conversely, fundamental questions like "why will my product sell in China" are worth thorough consideration.

This initial market research can be as low-key as browsing through China's (cross-border) e-commerce marketplace websites with the help of a Chinese colleague or acquaintance, searching for similar brands or products. Alternatively, paying a visit to offline stores in different regions of Mainland China will provide a company with a valuable initial indication of the market's product availability[5].

Apart from initial market research, it is recommended to also conduct more in-depth research pertaining to consumer preferences, brand awareness and competitors' presence in the online market. [6] Brands can articulate an appropriate CBEC plan thereafter.

For more detailed information on the business opportunities of selling online in China, please refer to the *China Cross-Border E-Commerce Opportunity Report*.

[5] Chinese and Dutch agents with local staff can be paid to carry out this stocking research
[6] The Embassy, Consulate-Generals and NBSOs can refer Dutch companies to selected consultancy firms in all regions in China, each with their own expertise.

4. CHECKLIST

The checklist below will serve as a general guideline when articulating one's cross-border e-commerce business plan. Each step is described briefly below and explained in more detail in the following chapters.

4.1 Rules and regulations

First of all, overseas merchants should consider what rules and regulations apply to the product categories they aim to sell on the Chinese CBEC market. New regulations stipulated in the beginning of 2016 have far reaching consequences for Chinese CBEC at large. The new 'positive list' and updated tax regulations can have a substantial impact on considering CBEC as an entry strategy for the Chinese market.

4.2 Online sales channels for CBEC

The Chinese (cross-border) e-commerce domain developed in a unique way and is focused on large online platforms, rather than stand-alone websites. The explanations on the principle of vertical and horizontal marketplaces, an overview of the most popular cross-border e-commerce platforms, their entry requirements, entry process, and estimated costs will aid merchants that are newcomers to the Chinese CBEC channels to acquire a comprehensive overview of the myriad of possibilities.

4.3 Entry strategy and business development strategies

Providing two entry and business development models for Chinese CBEC, this chapter will clarify in what way foreign businesses may use the different platforms and marketplaces to their advantage, and how they could integrate CBEC in a well-rounded omni-channel e-commerce strategy.

4.4 Payment solutions

For foreign companies without a legal entity or bank account in China, getting paid for selling their goods on Chinese CBEC platforms can seem challenging at first. This chapter will provide a brief overview of the payment solutions for cross-border e-commerce.

4.5 Logistic solutions (incl. fresh foods and cold chain logistic solutions)

Foreign companies that seek to export their products to China and sell them on e-commerce platforms have generally three logistic ways to do so. Choosing the most suitable logistic solution can control companies' risk, investment and operating margin. CBEC rules and regulations and the type of platform will have an impact on what logistic solutions a foreign company can opt for.

4.6 Marketing and localisation

The Chinese CBEC market requires a dedicated and tailored marketing and localisation approach. The marketing landscape and online ecosystem demand companies to take a holistic approach and assess the different channels and audience groups before making the big step to China. This chapter will provide useful factors to consider before selling cross-border to the Chinese online market.

4.7 IPR protection

Foreign companies should consider the risks of engaging in Chinese CBEC. Intellectual Property Rights violation is one of the main jeopardies overseas merchants face. This chapter will give an overview of violations, prevention and protection measures related to IPR infringements in Chinese e-commerce.

4.8 Third party service providers

Local experts that can assist in all above mentioned checkpoints are vital in foreign companies' CBEC strategy. This section will deliver a brief overview of the tools and benefits that third party service providers (TP's) can offer foreign merchants. Furthermore, it will address the potential risks of cooperating with a local service provider and presents foreign companies with advice on how to choose a trustworthy and suitable local service provider.

Finally, in order to assist Dutch merchants to start developing their Cross-Border E-Commerce activities in China, this chapter also features a list of Dutch third-party service providers, each with their own area of expertise.

4.1 RULES AND REGULATIONS

When entering a new market, one of the earliest challenges companies encounter is the unfamiliarity with local rules and regulations. No less is true for venturing into Chinese Cross-Border E-Commerce. It is vital to understand these rules, as it may very well impact the way companies (can) sell their products to Chinese consumers.

This section will provide businesses with an overview of the current rules and regulations pertaining to CBEC in China.

Inconsistency and clarity of regulations

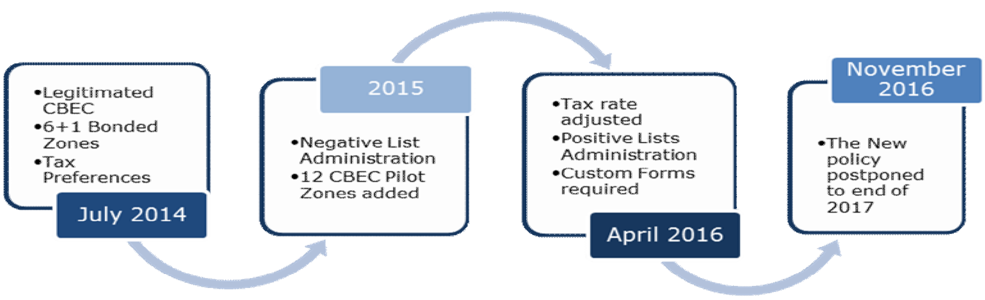
Lack of consistency in regulations is one of the biggest challenges for companies engaging in CBEC. At times, the only consistency in regulation apparently in China seems to be the fact that rules and regulations are ever-changing. This is due to the fact that, although already a big market, CBEC is relatively new and develops rapidly. Many experts agree that Chinese authorities seek to better regulate and tax these new economic activities and to crack down on the grey area of individuals running semi-legal e-commerce networks. Government crackdown on *Daigou* agents – Chinese agents bringing back products to China in person by mail or in person without paying customs or import duties – has been relatively low in the past years. This has allowed a large grey market to surface, which the Chinese government now hopes to reduce.

In 2016, two new rules "Tax Policy for Cross-Border E-Commerce Retail Imports" and "List of Imported Commodities for Retail in Cross-Border E-Commerce" were coupled with stronger implementation from the Chinese authorities. Upon protest from Chinese e-commerce companies about the new rules and out of fear of tanking the Chinese e-commerce market, the Central Government decided upon a one-year transitional phase which ends in 2017.

Accordingly, Dutch companies should pay particular attention to continuously updated regulations. Moreover, any business should be prepared to promptly make their CBEC products compliant to the new regulatory requirements.

Although in China many sectors are heavily regulated, national rules and regulations are often kept general, flexible and inexplicit. In turn, this allows for a broad scheme of interpretations by local authorities as well as regular updates to the rules (for example through 'positive lists'). Be aware that even though the general outlines of CBEC regulations and procedures are similar, pilot zones' detailed protocols might differ quite extensively from location to location. Dutch companies are furthermore advised to reach out to different pilot zones or seek professional help to better understand the local procedures, and to find the CBEC pilot zone that best suits one's company. Starting out in the right CBEC pilot zone and being able to navigate the local rules and procedures from the beginning can save foreign companies major fines and relocation costs, as well as increase profit through benefitting from local legal exemptions.

Source: Rkylin



(Newest) regulations tax rates and payment rules for CBEC

Taxation rules

On 24th March 2016 Ministry of Finance (MOF www.mof.gov.cn), General Administration of Customs (www.customs.gov.cn) and State Administration of Taxation (www.chinatax.gov.cn) jointly issued the "Tax Policy for Cross-Border E-Commerce Retail Imports" to adjust the tax policy for CBEC retail (B2C) imports effective from 8th April 2016.

The new rules will greatly influence Dutch companies in different sectors. The taxation policy has different effects on different import models.

Moreover, the value of a single transaction cannot exceed 2000 RMB and is limited to 20.000 RMB per person per year. Above this value, general trade rules apply. In addition, the 50 RMB tax exemption policy is abolished and single items exceeding the 2000 RMB limit are handled according to general trade tariffs, without 'personal use' exceptions.

Positive list

On 7th April 2016, 11 ministries and commissions of China including Ministry of Finance (MOF www.mof.gov.cn), China Food and Drug Administration (CFDA www.sfda.gov.cn), General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ, www.aqsia.gov.cn), Ministry of Agriculture (MOA, www.moa.gov.cn), General Administration of Customs (GACC, www.customs.gov.cn) co-released the "List of Imported Commodities for Retail in Cross-Border E-Commerce". This "Positive List" includes 1142 different tariff lines covering food and beverages, clothing, footwear, hats, home appliances, cosmetics, diapers, children's toys and other items commonly purchased by Chinese consumers on e-commerce platforms. On 15th April, the "Positive List-2nd Batch" was announced.

This list includes 151 items covering meat, fruit, grain, cooking oil, health food and medical devices.

The positive lists, published in two batches, involve a total of 1293 commodity categories, categorised in 8-digits HS codes. The goods included in the positive list are exempted from submitting an *import licence* to Customs. However, products under CFDA rules require registration prior to import (*see page 17*). The new regulations stipulate that <u>only the listed commodities</u> can be imported to China through cross-border e-commerce. For companies that want to make use of the bonded import or formal direct mailing models, it is of utmost importance to check whether one's products are on either of the lists.

The current positive lists can be accessed in Chinese (I and II) and in English (I and II), or in the appendix.

Import Models

Before explaining the impact of the new rules, it is important to understand the major import models of cross border e-commerce and how different models work. Currently there are two main models of cross-border e-commerce: the bonded imports and direct purchase imports.

Bonded imports:
Bonded imports include bonded warehouse model (B2B2C) and direct mailing (B2C) model.

Bonded warehouse model (B2B2C): 'stock first, order later'. Products on two lists of 1,293 HS codes can be imported in bulk into approved CBEC bonded warehouse zones across China. After Chinese consumers place orders through cross- border e-commerce sites, these products go through customs clearance directly in the bonded area and are then delivered. Consumers will normally receive their goods within 2-3 days.

Direct mailing (B2C) model: 'Order first, deliver later'. AFTER customers place orders on registered cross-border e-commerce platform, the platform needs to submit the records of order, shipment and payment to customs. At the same time, the products will be shipped from an overseas distribution centre that is linked to Chinese customs. Only when these three records of a single purchase are in accordance, the parcel can be released.

Bonded imports are subject to both new taxation rules and positive lists. For bonded imports, personal postal articles tax will no longer be levied. Instead, for online imported commodities both under the bonded warehouse model (B2B2C) and direct mailing model (B2C) import tariff, VAT, and consumption tax will be levied upon customs clearance. In the transition period (until the 31 December 2017[7]), temporary rates are set. The tax rates under the new CBEC Retail Imports can be found in Table I.

Direct Purchase Imports (B2C)
Products which are not on the CBEC Positive lists can also be shipped directly from overseas merchants (B2C) and individuals (C2C) to China via the postal and courier system. We refer to this as: *Direct Purchase imports*. New rules do not affect Direct Purchase import, except for the tax rates. This is to say, Dutch companies that opt to ship their products from overseas to Chinese consumers directly by using postal and courier service will be subject to 8 April 2016 regulations on personal postal tax only. It is important to note that Direct Purchase imports tax will only be levied when customs check the parcel during regular checks.

Furthermore, Chinese customers are obligated to pay personal postal tax if they purchase goods from abroad (B2C) or through individual (C2C) that send them to China by post or international courier service. Unlike with the bonded imports, Chinese customs will treat the imported product as a product for personal use, thus taxed by personal tax: 15%/30%/60% depending on category, which is waved if it amounts to less than 50 RMB. Additionally, the low postal tariffs China benefits from due to international agreements[8] make this an attractive mode of import for many Chinese consumers.

For personal parcel imports, the newest regulations can be found in Table I.

The latest details on tax policy can be accessed on the website of the Chinese Ministry of Finance, the General Administration of Customs and the State Administration of Taxation.

[7] According to a statement released by the Ministry of Commerce on November 15th 2016, the newest rules and regulations issued in April 2016 are postponed until 31 December of 2017.

[8] China is considered a developing country in Universal Postal Union agreements and thus benefits from discounted tariffs.

Table I: (Temporary) Import Tax policy for different import model

Bonded Imports Model (B2B2C) ***From bonded warehouse*** ***Direct Mailing Model (B2C)*** ***From overseas distribution centre***		**Direct Purchase Imports** ***From overseas merchants (B2C) &*** ***From individuals (C2C)***		
Tax and duties	**Rate**	**Personal postal articles tax category**	**Goods categories**	**Tax rate**
Import tariff	Temporarily set at 0%	**1**	Books, magazines, and educational audio-visual products; computers, video recorders and digital cameras; food, beverages; gold and silver; furniture; toys, games, festive and other recreational articles	15%
Value-added tax (VAT)	Levied at 11,9% (normal flat VAT is 17%)[4]	**2**	Sports goods, fishing equipment; textiles and textile products; TV cameras and other electrical appliances; bicycles; other goods not included in categories 1 and 3	30%
Consumption tax	Levied at an equivalent to 70% of the standard rate applicable to the type of goods	**3**	Tobacco, wine; precious jewellery and jade, golf clubs and equipment; high-end watches; cosmetics	60%

Source: HKTDC Research

[9] This is a temporary rate, at an equivalent to 70% of its standard rate. Statutory VAT levy rate is 17%. Hence, under the temporary policy: 17% x 70% = 11.9%

Customs Clearance of Entry Commodities (Clearance Form)

Before the new policy regulations, goods imported through CBEC were generally subjected to humbler customs inspections and quarantine (CIQ) procedures. However, the new rules more or less resemble general trade procedures.

Hence, the new CBEC rules stipulate the issuing of a Customs Clearance of Entry Commodities (Clearance Form) before bonded goods can be cleared. The examination on the goods' compliance with Chinese requirements by the Quarantine and Inspection Authority obliges, among other things:

- A copy of the Business License;
- A copy of the Organization Code Certificate;
- Firm Information Registration Form;
- Transaction, payment and logistic information;
- Cross-Border E-Commerce Retail Import/Export Declaration List

For detailed information regarding the Clearance Form please refer to the GACC Official Announcement [no.26] in Chinese or English.

Please refer to the digital version for the web links

Detailed regulatory requirements differ per product. Therefore, Dutch companies are encouraged to seek professional assistance from third party service providers for tailor-made information and advice on their products.

For the latest (English) reports on registration and filing requirements, please refer to the website of Chemical Inspection and Regulation Service (CIRS) and for detailed (English) announcements, rules and regulations on Customs please refer to the General Administration of Customs of the People's Republic of China (GACC).

Registration and filing requirements for certain products

Starting from January 2018, certain goods stored at bonded warehouses will also have to obtain certification from the China Food and Drug Administration (CFDA) before sale in Mainland China.

According to the new positive lists certain product categories will need to follow the same registration or filing requirements required for products imported through general trade channels, or for those products sold at Chinese (non-cross border) e-commerce platforms.

Depending on the product category CFDA demands imported goods either go through 'registration' or 'filing' procedures. Hereby product registration is a lengthier and stricter procedure than filing (see below).

CBEC product categories that require registration or filing are cosmetics, infant formula milk powder, medical devices, health food and food for special medical purposes (FSMP).

CFDA filing and registration are extremely lengthy procedures (two up to five years) and can be summarized as follows:

Filing procedure:

1. Sample testing;
2. Dossier preparation;
3. Dossier submission;
4. Filing approval.

Registration procedure:

1. Sample testing;
2. Dossier preparation;
3. Dossier submission;
4. Technical evaluation;
5. On-site verification and re-testing;
6. Registration approval.

Under existing regulations, products categories found in Table II require the CFDA registration of or filing.

Table II: Registration or Filing of special categories

Categories	Included or not	Details
Alcohol	Most are excluded	**I.** Small packaged wine (< 2L) is included in the positive lists. **II.** Other alcohols, such as other packaged wine, beer, and distilled spirits are all excluded.
Common pre-packaged food	Most are included	**I.** Most categories of common pre-packaged foods are included in the positive list (refer to the list for details)
Cosmetics	New are excluded	**I.** The positive lists exclude those cosmetic products that are imported to China for the first time. **II.** Relevant filing or registration license at CDFA is required.
Dairy products	Most are excluded	**I.** Yoghurt, cheese, butter etc., are listed. **II.** Liquid milk (including pasteurised milk, UHT milk, modified milk), and milk powder (except formulated milk powder) are all excluded from the positive list.
Fresh food (vegetables, fruits, animal products)	Part are included	**I.** Many limited to commodities imported via CBEC under the bonded warehouse mode. **II.** Companies and products must be registered with AQSIQ and CNCA. See chapter on *fresh food and cold chain logistics*.
Health food & FSMP	Most are excluded	**I.** Nutrition supplements must be filed with CFDA **II.** Health foods must be registered with CFDA
Infant food	Part are included	**I.** Only registered infant formula milk powder under CFDA can be imported by CBEC, no exemptions. **II.** Other pre-packaged common infant foods are all included. **III.** Currently only a draft on formula registration of infant formulated milk powder exists. Hence, the registration certificate is not required until January 1 2018.
Medical devices	Most are excluded	**I.** Medical devices imported via CBEC must be in compliance with CFDA regulations. **II.** Registration or filing with CFDA is required

Source: CIRS and Swiss Business Hub China

Impact of the new regulations

One of the biggest advantages of CBEC over general trade was the relative low taxation and simpler CIQ procedures. Before the newest regulations, Dutch companies were able to sell their products to the Chinese market swiftly via CBEC. However, for the aforementioned special categories (relevant to a fair share of Dutch exporters) CBEC will no longer be a channel to import their products to China without CFDA licensing.

Moreover, the new taxation rules certainly increase tax burdens for Dutch CBEC exporters. Though, compared to duties levied on general trade, bonded imports, direct mailing and direct purchase import CBEC are often cheaper, especially for general consumer goods.

In short, price-wise the best import model does very much depend on the products to-be-imported. This is illustrated by the comparative examples in the chart below.

For different commodities merchants should consider different ways of import and different logistic solutions. The latter will be elaborated upon in the logistics solutions section in 4.5.

Comparative example: Cosmetic products (on Positive List) priced at 400 RMB

Import method	Tax payable	Price after clearance
General trade	- 400 RMB + - Tariff (6.5%-18%) + - VAT (17%) + - Consumption tax (30%)	614-660 RMB
Direct purchase import (if checked by Customs)	- 400RMB + - Personal postal articles tax category 3 (60%)	640 RMB (no waived tax)
Bonded import / Direct Mailing	- 400RMB + - Tariff (temporarily 0%) + - VAT (11.9%) + - Consumption Tax (21%)	531,6 RMB

Comparative example: Books priced at 100 RMB

Import method	Tax payable	Price after clearance
General trade	- 100 RMB + - Tariff (0%) + - VAT (13%) + - Consumption tax (0%)	113 RMB
Direct purchase import (if checked by Customs)	- 100RMB + - Personal postal articles tax category 1 (15%);	100 RMB (115 RMB, but waived tax)
Bonded import / Direct mailing	- 100RMB + - Tariff (temporarily 0%) + - VAT (70% x 13%) + - Consumption Tax (0%)	109,1 RMB

Comparative example: Cheese (on Positive List) priced at 100 RMB

Import method	Tax payable	Price after clearance
General trade	- 100 RMB + - Tariff (12%) + - VAT (13%) + - Consumption tax (0%)	113 RMB
Direct purchase import (if checked by Customs)	- 100RMB + - Personal postal articles tax category 1 (15%)	100 RMB (115 RMB, but waived tax)
Bonded import / Direct mailing	- 100RMB + - Tariff (temporarily 0%) + - VAT (70% x 13%) + - Consumption Tax (0%)	109,1 RMB

Deadlines of the transition policy

A transition period for companies to adapt to the new regulatory requirements was granted in pilot cities by the Chinese government. Until 31 December 2017 products not on the positive list are still exempted from checks of their Customs Clearance Certificates, and first-time imported cosmetics, baby formula, medical equipment and food products for health/medical purposes are not required to provide import permits, registration or filing. Hence, until the end of 2017 they can ship these imported goods to bonded warehouses in the pilot cities, or via the direct mail model without having to comply with rules from April 8, 2016 on cross-border e-commerce activities. Important to note here is that the Registration Measures for these products also include tighter and more detailed requirements for (amongst others) manufacturing and labeling, of which it is currently unclear if the Chinese government also applies leniency to this. It is wise to consult with policy experts before importing any of these products during and after 2017.

Moreover, this grace period should only be regarded as a postponement. While cross-border e-commerce remains an attractive channel to sell products to Chinese buyers, Dutch exporters are advised to register their products with Chinese authorities as early as possible before the end of the regulatory grace period on 31 December 2017. As the duration of filing and registration applications are often extensive, companies currently doing CBEC business are suggested to start and consider the application process sooner, rather than later. Advanced preparation of the required materials will shorten the certificate application duration and make the entrance to Chinese market relatively easier via CBEC at large.

Future developments

Chinese authorities have generally shown to be interested in and supportive of CBEC. Though, supervision on CBEC-imports is most likely to tighten in the future, rather than loosen. As is common in China, discovering the best policy approach is conducted on a trial-and-error basis.

However, the process of custom clearance is uncertain. Positive lists require verification and registration of goods imported via bonded zones/warehouses (in contrast to direct international transport to Chinese customers) by 'Customs Clearance of Entrance Commodity'. Although traditional imports already require these forms, implementation for cross-border e-commerce is unclear and likely to be determined by the interpretation and execution of inspection and quarantine of products by pilot cities like Shanghai

Finally, some experts believe that local authorities of the several pilot cities will have a great say in how to interpret and implement the new CBEC rules. Therefore, in the long term, CBEC policies and regulations will differ, to a certain extent, from place to place.

Companies are advised to consult the respective local CBEC authorities' website, or third party service providers for updated rules and regulations, and tailored information respectively, in order to find out which Cross-Border E-Commerce Comprehensive Pilot Zones will suit their businesses best.

4.2 ONLINE SALES CHANNELS FOR CORSS-BORDER E-COMMERCE

The vast development of CBEC activities in China brings about a high demand for foreign brands and products. After thorough consideration of why a brand's merchandise could be successful with Chinese consumers, an initial scan of the e-market, and checking the rules and regulations that may apply to one's products, businesses should be ready to consider the sales channels through which they can actually sell their products.

The purpose of the 'sales channels' section is to provide companies interested in Chinese CBEC with a comprehensive understanding of those main marketplaces and their characteristics available for cross-border e-commerce.

Background on online-sales channels in China

On an individual level, Chinese online consumers find and purchase foreign products through various channels.

Before the current trend towards official B2C channels, CBEC to China was mainly the domain of purchasing agents, so called *daigou*. Via C2C platforms, such as *Taobao*, these purchasing agents sell small quantities of overseas products, which they acquired from abroad directly. These products (e.g. milk powder) are then sent to the customers by means of direct mailing, without paying any import duties, nor passing by mandatory customs inspections as would be the case with normal trade.

Due to the fact that import procedures are often a lengthy process and taxes can surge to 50 percent of the product value, alternatives to traditional trade are in high demand. Despite their success, due to current developments in CBEC, more official B2C channels are quickly replacing C2C purchasing agents. According to iResearch Global, in 2012 the ratio of percentage online retail sales of imported goods via C2C vs. that of B2C channels was 98.9% vs. 1.1% respectively. Only four years later, in 2016, this ratio was 43.6% for C2C vs. 56.4% for B2C.

Needless to say, as merchants on B2C platforms have to be established and authorised abroad, these companies and traders are considered more trustworthy. This is a great advantage and offers opportunities for Dutch merchants.

Even though these B2C cross-border e-commerce possibilities exist, Chinese consumers rarely buy overseas products via stand-alone websites or third party platforms outside of China. The high shipping costs, slow delivery, problems with dissimilar payment methods, slow of difficult website access due to the 'Great Firewall', risks of blockage by customs, and the lack of customer services (e.g. return policy), let alone the language barrier, are reasons behind this reluctance.

Rather, Chinese customers use stand-alone websites in China or - by far most popular - a third party platform inside China. These options are preferred due to fast and cheap delivery, customer services, integration of Chinese payment methods, and an enhanced feeling of trust that the ordered product actually will arrive on ones doorstep.

Recently, nearly all major e-commerce platforms in China opened new B2C channels specifically for products from abroad. For instance, the biggest marketplaces on the Chinese domestic e-markets, Alibaba's *Tmall.com* and Jingdong's *JD.com*, initiated their CBEC-variants; *Tmall.hk* and *JD.hk*.

Respectively *Tmall Global* and *JD Worldwide* (among others) sell foreign products directly from abroad, either via direct sourcing or via *bonded warehouses* in Mainland China, to Chinese customers.

Cross-Border E-Commerce Models

Currently there are six major models for brands to sell their products via CBEC to Chinese customers: via a brand's stand-alone web shops outside China, via shop fronts on online malls, via self-operated hypermarkets, via vertical specialty marketplaces, via flash sales sites and via WeChat stores.

Although all of these models can be used to sell foreign products without obtaining a business license in China, some sales channels are far more well-known than others. Nevertheless, using huge, leading e-commerce platforms will certainly not guarantee success stories. Considering less evident or niche sales channels may very well be more lucrative for Dutch SMEs and smaller brands.

Below, advantages and disadvantages of each model, their entry requirements, and general entry procedures will be introduced. Moreover, the most famous marketplaces in each model will be briefly introduced as to provide companies with a well-rounded view of all options available. For an overview of China's main CBEC platforms, refer to Figure II below.

Platforms

Chinese e-consumers almost exclusively shop on third-party online marketplaces to buy their goods rather than on stand-alone websites (either domestic or foreign based). 54% of Chinese consumers want to shop on global market places in the future, 65% (also) do so on the global channels of Chinese e-commerce sites.[10]

Different from domestic Chinese websites that require a Chinese business entity, there are separate markets for products which are imported or sent from abroad. Many domestic e-commerce platforms have a section, or entirely different website, for products from outside of China.

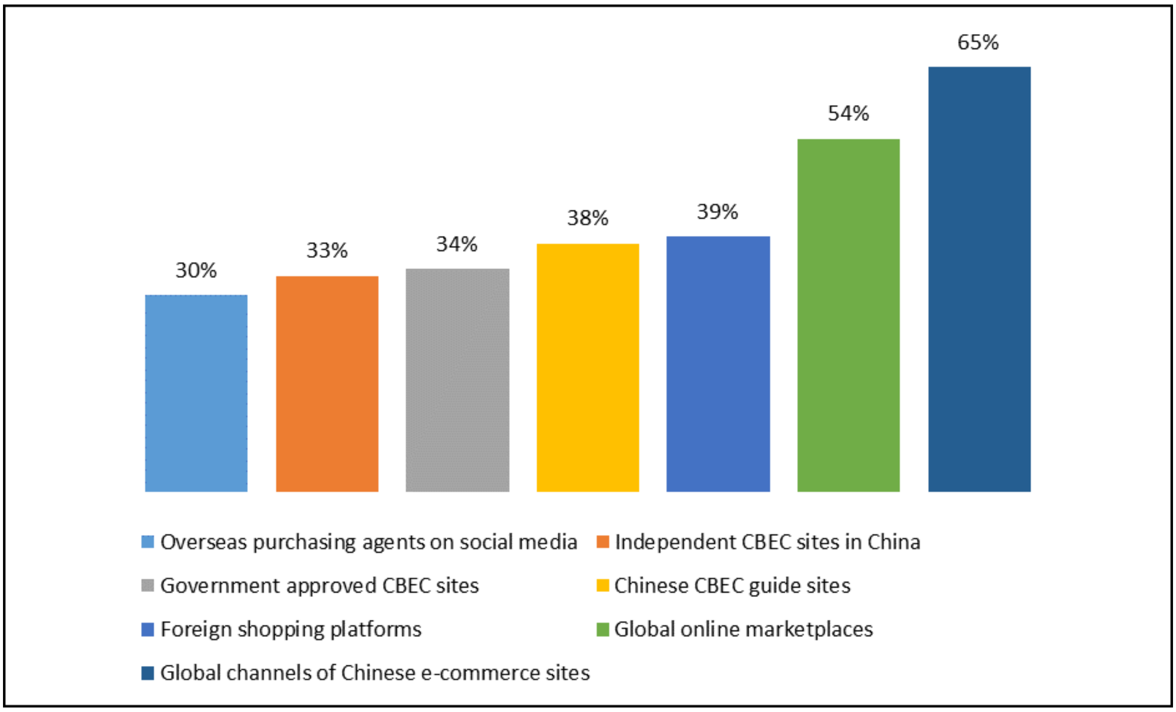
As mentioned in last year's Opportunity Report; "overseas products have become a category in its own right".

Only companies with a Chinese entity can open a store on regular B2C platforms, while only companies with a foreign entity can open a shop on cross-border platforms. Chinese third-party CBEC platforms come in a variety of models. As these platforms offer a lot of business potential for foreign merchants, it is essential to have a good overview of the possibilities, requirements and costs that come with each model. Dutch companies may approach different platforms directly to obtain relevant information

Figure II. China's main CBEC platforms

[10] iResearch 2016/Ecommerce Foundation: See Annex 2

Annex II. Preferred platforms by Chinese consumers for future CBEC purchases (2016)



Source: iResearch 2016 / Ecommerce Foundation

Stand-alone web shops (outside China)

Selling products directly to China via a website hosted outside of China at first hand might seem to be the most convenient and cheapest entry option for those brands that do not have a legal entity in China.

However, the chances of success in China with a foreign stand-alone website are very limited. Traffic is already monopolised by big Chinese e-commerce platforms. Creating one's own traffic is even more costly than being active on the platforms. Due to internet restrictions, even if the website is translated to Mandarin, Chinese e-consumers are unlikely to find the website. Moreover, if Chinese consumers can find the website, issues with after-sale support, refund or exchange schemes, and compatibility with Chinese payment methods (e.g. UnionPay) makes direct selling from abroad nearly impossible. In addition, few Chinese consumers are willing to bear the delivery risks of this kind of CBEC. Therefore, this model is not a viable option for foreign merchants that want to enter the Chinese e-market, and will therefore not be elaborated upon in this report.

Online Malls

Online malls are large, well known, marketplaces where e-customers can roam around to select items from different independently operated *shopfronts* (stores). Different from websites like Amazon.com, they provide a centralised platform (similar to an offline mall) where goods from a variety of individual shops can be purchased from a merchant directly with a single transaction via the overarching marketplace checkout system. The most famous examples of online CBEC malls in China are Tmall Global and JD Worldwide.

On several platforms the shopfronts are branded according to country of origin. Good examples are Tmall Global's and JD Worldwide's *country pavilions*. After the State Visit in 2015, the Netherlands has been selected to have its own 'Holland Pavilion' on Tmall Global (see Figure III. on the next page). On JD Worldwide there is a European Pavilion.

Figure III. Example of an online mall (Philips on Tmall Global)

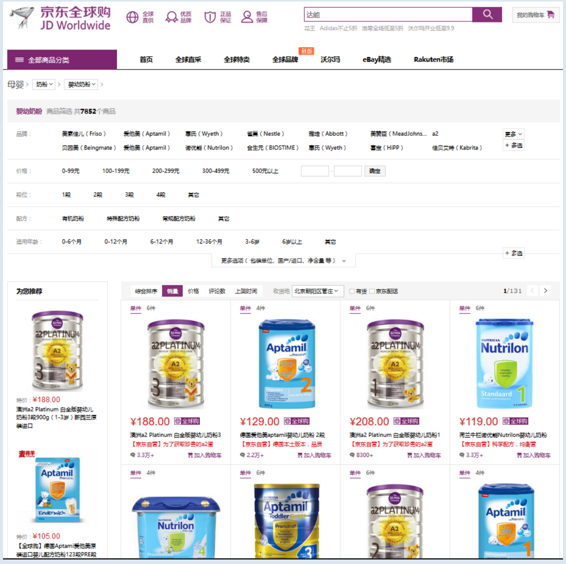
Hypermarkets

The hypermarket model, different from the online mall model, is based on B2B2C Cross-Border E-Commerce. Therefore, Chinese e-customers are reached indirectly by overseas suppliers. The intermediary is the hypermarket marketplace that charges a mark-up from the wholesale price to retail prices on their online platform. 'Pure' hypermarkets, such as Kaola and Jumei, purchase a great variety of popular goods directly from overseas companies and adds them to their own product assortment. As a result, they only have one shopfront, and not countless individual brand shops.

In turn, products are stored and delivered through their own online platforms and distribution centre. Foreign companies a not required to manage distributions of operate shop fronts. Companies can sell to a hypermarket via a procurement manager with whom they negotiate the price. Furthermore, popular brands and high-turnover items may find it easier to sell their products because hypermarket platforms are more confident to bare the risk of storing and distributing these items.

Many CBEC platforms currently offer both the online mall and the hypermarket model to foreign merchants. However, for direct purchasing, these hybrid platforms tend to focus on certain categories and brands for overseas products, which they exhibit on either their domestic or CBEC platforms. For example, JD concentrates its overseas' products on domestic www.jd.com to categories like wine, watches, handbags and milk powder.

Figure IV. Hypermarket model



Source: JD Worldwide

A selection of different brands that sell milk powder on JD's cross-border e-commerce hypermarket: JD Worldwide.

Vertical specialty marketplaces

The specialty marketplaces typically buy goods directly from overseas suppliers. Different from hypermarkets, they focus on specific product categories, target audience or geographical region. In recent years many specialty marketplaces have entered the competition with the largest online malls and hypermarkets.

Despite the fact that consumer traffic is lower and the product catalogue is limited, specialty marketplaces provide brands in niche-markets with a valuable opportunity to sell their goods which would likely remain under the radar of consumers on large e-commerce platforms. Traffic on speciality marketplaces tends to be more qualitative, with a higher conversion into sales.

Flash sales websites

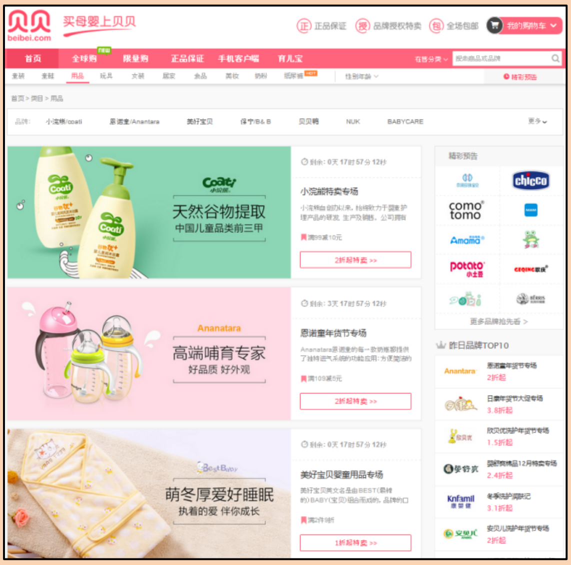
Flash sale, or 'branded sales' sites focus on offering limited quantities of new-to-market, or surplus products at highly discounted rates for a limited period of time (according to the gone=gone principle).

As consumers go to these sites especially to hunt the newest overseas gadgets, flash sales sites can be an effective trial tool for foreign merchants to test their (newest) products in the Chinese market before venturing into more substantial (cross-border) e-commerce activities. At the same time flash sales websites can be considered an effective marketing technique to give more exposure to one's brand.

Figure V. Specialty Marketplace

As one would expect from the name, 'specialty websites' dedicate their marketplaces to certain niche categories. For instance, beibei.com (see below) specialises in mother and baby products.

They present a good CBEC opportunity for Dutch retailers with a specialised range of products.



Source: beibei.com

Figure VI. Flash sales websites

Christmas flash sale, ending in 17 hours and 39 minutes on the European pavilion of VIP.com

Source: VIP.com

Despite the fact that these website sell 'limited quantities' of products, the market size of the Chinese flash sales web shops is substantial. Therefore foreign sellers ought to keep in mind that the 'limited quantity' of products that are allowed to be sold via these websites during a certain period of time can still be a vast amount of goods that need to be supplied by small to medium sized companies once the products prove popular. Therefore, SMEs may encounter sudden stock shortages when dealing with these platforms' procurement demands. In this case it is possible to sell their products first B2B to smaller trading partners, also referred to as TPs (read more in section 4.8). When said products prove to be in high demand, new negotiations with flash sales websites for larger quantities can be initiated.

Cross-Border E-Commerce Online Malls

天猫国际
TMALL GLOBAL

Tmall Global (www.tmall.hk), the sister-website of China's leading online marketplace Tmall, is China's first and largest official cross-border B2C platform, and therefore its most famous. Owned by Alibaba Group, it was launched in 2014 and sells imported merchandise only via foreign merchant's stores hosted on Tmall's website. At the end of 2015 Tmall Global offered more than 5400 international brands in various categories. As mentioned above, Tmall opened various country pavilions, which bundle products of different merchants from the same country on one page (see Figure V.).

The Netherlands held a 6th spot among the 53 countries Tmall Global shoppers ordered from most. It uses Alibaba's online payment escrow service, Alipay, to complete transactions in a preferred currency.

京东全球购
JD Worldwide

JingDong (JD) Worldwide (www.jd.hk) is the largest competitor of Tmall Global as China's second largest online mall. Moreover, JD is China's largest (direct sales) hypermarket, with a 54% market share. JD dominates in home appliances and consumer electronic goods. Direct sourced foreign products are shown on JD's domestic website (www.jd.com) and indicated by a special sign.

JD has seven fulfilment centres and 200 warehouses across China. Furthermore, it operates with more than 5000 of its own delivery and pickup-stations. JD launched its cross-border website, JD Worldwide, in 2015. For its hypermarket model JD Worldwide purchases inventory from overseas companies and resells it to Chinese consumers. For its online mall model JD Worldwide hosts foreign brands' flagship stores similar to Tmall Global. JD uses Tencent's online payment escrow service, Tenpay, to complete transactions in US Dollars.

苏宁易购 suning.com · 海外购

Suning Global (g.suning.com) is the CBEC online mall of China's largest commercial company, Suning, and launched in 2014. It currently features about 300 foreign shopfronts and offers integrated logistics (4 aviation hubs, 12 automatic picking centres and 660 urban distribution centres), store operator and financial support services. Their most popular product categories are electrical appliances and maternity & baby.

Similar to JD, Suning's CBEC hypermarket (hk.suning.com) is stocked by direct sourcing.

It uses its own online payment escrow service, Yi-Pay, to complete transactions in RMB or foreign currency.

亚马逊 amazon 海外购

Amazon China Global Store (www.amazon.cn/globalstore) is Amazon China's CBEC platform for Chinese customers. Brands can sell their products without an annual fee. Commission is based on sales only. These referral fees, depending on the product category, are paid on each item sold. On Amazon each product has its own independent page – if more than one seller sells the same items, offers from different sellers will appear in a 'more buying options'. It uses Alipay, Tenpay and UnionPay online payment escrow services to complete transactions in RMB or foreign currency.

Fees of China's largest CBEC marketplaces

The general characteristics on the entry process, operating models and the basic licensing requirements for selling via each of the largest cross-border marketplaces can be found the appendix.

Both opening as well as operating a shop front on the largest platforms is generally very costly. Besides continuous commitment and investments in their own e-commerce team and TP, companies that seek to open a shop on one of the CBEC platforms should take in consideration the following fees.

Table III: Breakdown of deposits and fees (Tmall Global, JD Worldwide, Suning Global and Amazon China Global Store).

	Tmall Global	JD Worldwide	Suning Global	Amazon China Global Store
Security Deposits	150 000 RMB or 300 000 RMB, depending on the type of products sold by the merchant	10 000 USD or 15 000 USD, depending on the category of products	10 000 USD	5000 – 50 000 RMB, depending on the category of products
Annual Platform Fee	30 000 RMB or 60 000 RMB, depending on different operating categories	1000 USD per year	5000-10 000 USD, per year depending on different categories Annual Fee Return Policy 50%-100% if target sales are achieved NB: In 2017 Suning Global will cancel the annual platform fee	N/A
Commission Fee[11]	0,5% - 5%, based on the category of the product sold.[12]	2% - 10%, based on the category of the product sold.	2% - 6%, based on the category of the product sold.[13]	5%-15%, based on the category of the products sold.[14]
Payment Service Fee	1% commission per transaction via Alipay.[15]	N/A	N/A	N/A

Source: Tmall Global; JD Worldwide; Suning Global; Amazon China

[11] The commission fee is calculated using the product price and the logistics cost.
[12] A detailed Commission Fee Schedule can be found on Tmall Global's website (English)
[13] A detailed Commission Fee Schedule can be found on Suning Global's website (Chinese)
[14] A detailed Commission Fee Schedule can be found on Amazon China's website (Chinese)
[15] Alipay Service Fee =((Product Price) + (Logistics Fee))* .01 – source: www.tmall.hk

Assessment of China's biggest CBEC marketplaces

The section below will provide the general characteristics on the entry process, operating models and the basic licensing requirements for selling via each of the largest cross-border marketplaces.

Tmall Global

Entry Process

Tmall Global allows foreign brands without a Chinese business entity to sell to consumers directly by opening their exclusive flagship stores. Though, since March 2015 companies are required to use authorised *third party service providers*, so called 'TPs'.

Via the 'Partnership Business Structure' a local TP will help the foreign brand to open a Tmall shopfront. The brand is responsible for the products, branding and marketing strategy whilst it outsources daily operations[16] of the storefront to the TP.

After investing considerable time and resources into entry preparations, setting up a shop will take 4-8 weeks.

Basic requirements[17]

- A registered corporate entity outside of Mainland China;
- Overseas retail and trade license;
- Own the brand or be an authorised distributor;
- Chinese customer service must be provided;
- Product returns should be handled in China.

Since 2015 shopfront registration for Tmall Global is on invitation-only basis.

Admission priority

- Well-known international brands without official presence in China;
- Merchants with a turnover of at least 100 000 000 RMB

JD Worldwide

Entry Process

JD has three operating modules;

1. Franchise Business Partner – brands open a storefront on JD Worldwide. JD is fully responsible for warehousing, delivery and customer service;
2. Licensing Business Partner - companies can set up their own store and handle all logistics, JD will supervise customer service and invoice
3. Self-Operation Partner – brands open a storefront on JD Worldwide and take care of warehousing and delivery themselves.

In order to sell products or open a store on JD Worldwide, merchants should directly contact the category sales of JD according to the product category they wish to sell their goods in. Their contact details can be found on JD Worldwide's website. Although not required, it is strongly advised to use a reliable TP for business on JD Worldwide.

Basic requirements[18]

- A registered legal entity outside of Mainland China;
- Overseas retail and trade license;
- Own the brand or be an authorised distributor or franchiser;
- Chinese customer service must be provided and product details page should be written in Mandarin;
- Products must be dispatched within 72 hours after order placement;
- Product return centre must be available in Mainland China.

Admission Priority

- Reputable overseas products;
- Excellent operation team and infrastructure;
- Reputable B2B/B2C online companies, or experience brand owners and retailers in e-commerce;
- Following categories: maternal and baby, apparels and accessories, cosmetics and personal care, health supplements, food, bags, luggage, watches etc.

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[16] Including store maintenance, product content editing, customer service, fulfillment, shipping and warehousing.
[17] Source: rule.tmall.hk
[18] Source: JD Worldwide (www.jd.hk/service/joinus.tml)

Suning Global

Entry process

As a hybrid platform Suning Global has two cooperation models;

1. Entry Model – Suning provides store operator, logistics and warehousing services;
2. Procurement Model – Suning purchases from overseas partners directly;

On Suning Global, although not required, it is strongly advised to use a reliable TP.

Basic requirements

- A registered legal entity outside of Mainland China;
- 100% foreign sellers, 100% overseas goods mailed from abroad or bonded areas;
- Own the brand or be an authorised distributor or franchiser;

Preferred requirements

- Famous overseas brand or B2C website that has not yet entered China;
- Operating team with experience in e-commerce of at least two years;
- Following categories: mother & baby products, clothes, cosmetics and health products, footwear, bags and suitcases, food;
- Members of Tmall Global, JD Worldwide and other overseas B2C websites.

Amazon China

Entry Process

Amazon China Global Store provides two modes of cooperation.

1. Self-distribution: independent warehousing, distribution and customer service.

   Costs: commission fee

2. Use Amazon logistics: storage, distribution, customer service and cash on delivery service is done by Amazon.

   Costs: commission, logistic fees, storage fees.

Basic requirements

- A registered corporate entity outside of Mainland China;
- Own the brand or be an authorised distributor;
- Self-distributors have to make sure they can deliver goods nationwide;

Companies that submit their electronic applications will have to wait for three working days to get their audit completed.

Advantages

Shopfronts are fully operated by individual merchants. This means that sellers are responsible to manage and operate their own shopfronts and are required to take care of their shopfront design, product pricing, marketing, order fulfilment, as well as customer and delivery services. In turn, they can benefit from the enormous customer traffic, the reliable reputation, marketing opportunities, and mature infrastructure that these marketplaces offer.

For leading international brands a flagship store presence on either Tmall Global or JD Worldwide is almost compulsory. In the second quarter of 2016 their market shares of China's huge domestic market were 54.4% and 26.3% respectively. It is important to Chinese customers that a brand is present on Tmall or JD, because it is regarded as proof that a brand matters. This is why, especially from a branding perspective, brands that can (financially) afford to be present on these online malls will definitely choose to open their own shopfront on Tmall or JD.

Disadvantages

Of course establishing an official CBEC shopfront on a potentially lucrative online mall is not without costs and other preconditions. On the previous pages an overview of the biggest online malls, platform service fees and other requirements has been provided. The extreme costs, a minimum of 1 million RMB (± €130 000) per year may very well from an obstacle to t many entrants to the Chinese market. Moreover, due to mandatory promotions, and pressured price undercutting the big online malls often try to play brands off against one other to get the lowest prices for their e-customers. The result is a 'race to the bottom' with an extraordinary high competition amongst companies. Therefore, being present on Tmall or JD, even after all the investments may not necessarily result in good sales records.

Figure VII. Holland Pavilion on Tmall Global

Please make sure to consult any of the marketplaces directly for updated and more detailed information.

Medium-size vertical CBEC platforms

Kaola (www.kaola.com) is a cross-border e-commerce hypermarket platform with the largest bonded warehouses in China. Hence, its main 'global partnership' model is direct purchasing of large quantities of overseas goods (B2B2C). Via self-operated bonded warehouses Kaola mainly sells products related to health and wellness, including mother and baby products, cosmetics, skincare, sports and outdoors, and health foods. Country stores are available, although Dutch products are not (yet) a category in its own right.

Moreover, companies can set up 'POP stores' at Kaola's platform operated by third-party merchants, or opt for a hybrid option, whereby they both open a shopfront (B2C), as well as participate in direct sales to Kaola (B2B).

Xiaohongshu (www.xiaohongshu.com), translating as small red book, is a rapidly growing CBEC platform with over 17 million registered users. As the key example of a social selling, it allows Chinese users to discover and purchase foreign products posted by like-minded users. Being a large word-of-mouth marketing platform Xiaohongshu is the gateway to reach Chinese consumers, especially females under the age of 30. The social platform is mostly used to discover cosmetics, skin care, food, nutrition, mother & baby, household, small appliances & electronics, fashion categories.

Currently Xiaohongshu is looking for quality brands and retailers to partner with.

Yiguo (www.yiguo.com), founded in 2005 and based in Shanghai, is the leading fresh food e-commerce platform in China in terms of volumes of fresh food sales. Yiguo sells over 3600 SKUs of fresh fruits in 8 categories including; fruit, meat, seafood, vegetable, poultry, beverages, desert, and grain & oil products. It is a one-stop fresh-food service provider that manages each step of the food procurement process, cold-chain quality control, order processing and food distribution. Moreover, since 2014 it partnered with Alibaba, making Yiguo the exclusive operator of Tmall Supermarket's 'Fresh Food' category.

In 2015 Yiguo covered 27 provinces and 301 cities across China, serviced by Yiguo's subsidiary, ExFresh (安鲜达) - China's largest cold-chain logistics service company - and third party contractors.

Besides local and imported produce, Yiguo seeks to increase direct purchasing overseas to cater to the ever-changing and more demanding tastes of Chinese CBEC consumers, which are looking for more varieties of fresh products from abroad.

VIP.com (www.vip.com) was launched in 2008 and opened their CBEC-website, VIP International (global.vip.com) in 2014. They have 200 million registered users. Currently the section of VIP International is only responsible for 4% of VIP sales, but it is expected that CBEC will take over normal e-commerce by 2018.
VIP operates under the so-called 'branded sales events' (flash-sales) model. As such, they specialise in offering products that are either completely new to the Chinese market, discontinued or surplus stock. For overseas products VIP main focus is on mother and baby products.

WeChat

A unique feature of Chinese e-commerce is its connection with social media. The biggest advantage of using unique social media applications, such as WeChat, is that companies can both sell to, and, engage with their customers/followers on one overarching platform which is deeply embedded into everyday (Chinese) lives.

Providing a brief account on the ways social selling on *WeChat* is connected with CBEC is vital for companies that seek to enter the Chinese CBEC market. The use of WeChat as a social branding mechanism will be covered in the 'social media' section of this report.

WeChat, founded in 2011, is primarily known as a messaging app to foreigners, but it serves as the virtual lifeline of 700 million Chinese smartphone users.

Originally, WeChat started as a messaging app which allowed users to chat with friends and family. As of this moment, apart from messaging, WeChat is omnipresent in Chinese daily lives; it allows users to top-up their mobile phones, pay bills, rent and fines, order food and taxis, monitor the air quality, and even book doctors' appointments. Moreover, it also serves as a competitor to traditional bank with wireless payment and investment options everywhere in China.

WeChat

Besides individual users' accounts, WeChat offers range of choices for businesses to initiate a corporate or public WeChat account. Currently companies may choose between three public WeChat accounts:

- WeChat Subscription Account
- WeChat Enterprise Account
- WeChat Service Account

For overseas companies that aim to participate in cross-border e-commerce Service Accounts are generally the best option due to the fact that they unlock boast a wide(r) range of features enabling marketing, customer service and sales via (cross-border) e-commerce.

Service accounts appear directly in WeChat users' contact list and are, thus, highly visible branding resources.

WeChat Stores

In China, product research or getting recommendations is often done through social media. Recently, this consumer behaviour has been expanded from deciding what to buy, to actually buying directly on social media. According to the iConsumer China Survey carried out by McKinsey, the percentage of users that used WeChat to purchase doubled from 2015 to 2016 (to 31% of WeChat users). A distinct feature of WeChat, not found in western equivalents, that allows for this purchasing behaviour is the so called "WeChat Stores".

Merchants with verified accounts, which have coupled their accounts to WeChat payments platforms, can open an in-app store on WeChat. In this way, (foreign) businesses can sell their goods to millions of potential WeChat customers directly, without the need to guide them to external platforms. And the customers in turn can utilise the WeChat-integrated online payment systems to pay for their ordered goods.

Compared to other platforms, opening a store on WeChat via their own Service Accounts gives brands a lot of creative space to maneuver and interact with their (potential) customers directly.

Furthermore, customer behavioural data is easily accessible and shared with official account owners (contrary to large platforms like Tmall and JD, which keep the raw data for themselves), thereby creating high potential for customer relationship management (CRM). This allows companies to manage and analyse detailed customer interactions and data to improve their sales growth.

Currently, local business license and ICP licensed website domain are required when applying for a service account or any official WeChat account. Overseas merchants are advised to explore two other options to circumvent this challenge:

Figure VIII: WeChat Store

Example of a WeChat Store on *Weidian*, one of China's most popular third-party WeChat platforms.

1. **Engage a local partner to use their business license or engage a third-party agent to register an account.**

Although technically overseas merchants can operate their own cross-border WeChat e-Commerce channel, to be successful on WeChat requires a third party service provider that will assist in design and daily operations.

2. **Open a local WeChat shop on a local third party WeChat platform.**

These platforms offer a variety of designs, familiar interfaces, multiple cross-border payment options and are trusted by Chinese mobile shoppers. Despite being an easy and relatively economical entry mode, WeChat e-Commerce platforms increasingly start to charge platform and commission fees, they lack customizability found on Service Accounts and offer little support in terms of counterfeiting activities.

More information

For a practical guide on everything WeChat, please refer to:

"Everything You Need To Know About WeChat" by WalktheChat, or one of the blogs on their website.

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WeChat CBEC platforms

Mengdian, different from the other largest domestic WeChat E-Commerce platforms like *Youzan* and *Weidian,* is the biggest third party WeChat E-Commerce platform that supports CBEC sales. It supports both the 'shop in shop' principle (like an online mall), as well as the procurement model (like a hypermarket). After registration, operating a store via the Mengdian platform, including an audit on the authenticity of the products, takes up to 10 days. Currently Mengdian supports Tenpay, Alipay and UnionPay as payment solutions.

Detailed information can be found on www.mengdian.hk [in Chinese].

Table IV. Breakdown deposits, fees and basic requirements

	Fees	Basic requirements
Security Deposits	10.000 – 20.000 RMB (depending on the product categories)	Depending on the type of sales model. Detailed information can be found on their Chinese website (www.mengdian.hk/index/merchants)
Monthly Platform Fee	500 RMB	
Commission Fee	1,5% - 4%, based on the category of the product sold.	

Source: TMO Group / Mengdian

4.3 ENTRY STRATEGIES AND BUSINESS DEVELOPMENT

After familiarising themselves with the rules and regulations, the five models of selling via CBEC and the different marketplaces, many foreign companies will have the same question: which model and marketplace is "the best" for my company? Providing a generic answer to this question is particularly hard. Different CBEC models and platforms are suitable for different products, types of businesses and budgets. In general, companies have to make a choice in the kind of marketplaces, logistic and payment solutions, marketing strategy, and third party service providers they will use. The decision on which one suits the company best will depend on four things:

1. One's products
2. Rules and regulations
3. The company's business model
4. Budget

The Chinese user is extremely sophisticated and online channels are very deeply integrated in their lifestyle. Companies will need to understand the dynamics of their specific industry and define the appropriate channels, investments and marketing execution strategy based on in-depth knowledge of the Chinese user preferences as to be successful sellers.

To this end, engaging third party service providers (TPs) familiar with the Chinese CBEC market and with the infrastructure to provide these alternative models allows businesses to experiment with the Chinese CBEC market before committing to full-fledged investment.

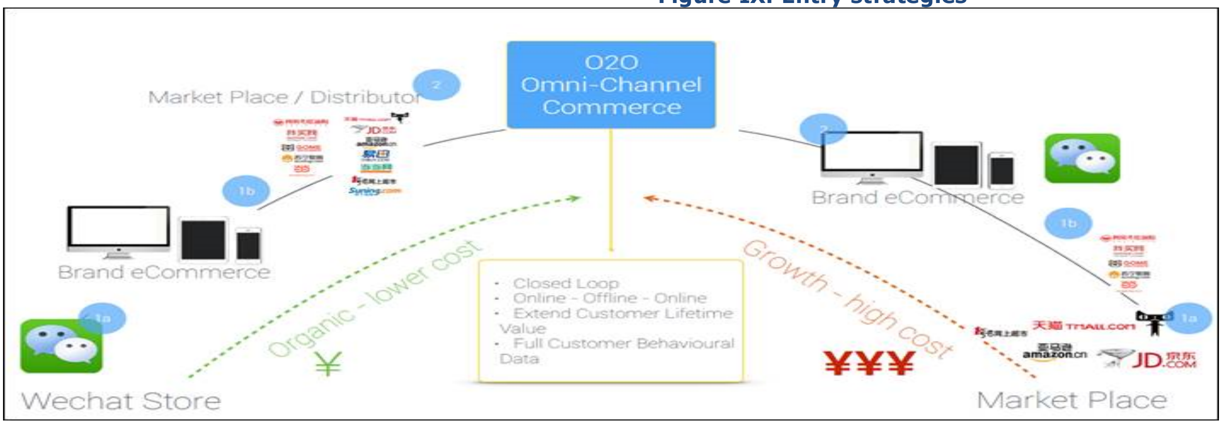
Choosing the best fit: multi-channel e-commerce strategy

How can foreign businesses use the different platforms and marketplaces to their advantage? Broadly speaking there are two business development strategies for companies that just start to enter the Chinese market via CBEC. Both growth strategies focus on different aspects of selling cross-border, have their distinctive starting points and development cadence.

1. Fast growth strategy (high costs, higher growth)
2. Organic growth strategy (lower cost, slower growth)

It should be reiterated that in both cases CBEC is not the final objective. Merely, selling via CBEC serves as an entry strategy in order to acquire market share, brand equity and a relevant consumer base in China. Ultimately, brands will try to aim to achieve an omni-channel sales strategy whereby they sell their products via traditional channels (both off- and online). Figure IX, provided by TMO Group, shows different entry strategies.

Figure IX: Entry strategies



Source: TMO Group

Two possible multi-channel cross-border e-commerce strategies

Fast growth strategy (high costs, higher growth)	**Organic growth strategy** (lower cost, lower growth)
Step 0: Reflect on brand equity, do market research, check compliance rules and regulations (Omitting this step can be costly in the medium-long term i.e. fines, problems moving money in- and out of the country, relocation costs, etc.)	
Step 1: Flagship store on online mall or large hypermarket CBEC platforms (B2C). Most foreign companies hoping to sell on the Chinese e-commerce market for the first time will have heard about the huge market share of platforms like Tmall and JD.com. Online traffic is monopolised by large platforms and instinctively, as an entry strategy, many rush to acquire a flagship store on the big CBEC platforms like Tmall Global and JD Worldwide. *Advantage* Very high traffic, first-hand consumer feedback, official brand status, acquisition of seed users (who interact with brands and show how one's brand is perceived by the general public) and operation support by TPs are the main reasons to choose for early presence on big CBEC platforms. *Disadvantage* Costs and regulatory barriers of being present on the biggest platforms are very high for an entry strategy and there is a lot of competition to generate sustainable traffic and build a dedicated consumer base. Moreover set-up times may take long, and platforms often demand special low prices and discounts for their consumers which can make it difficult to materialize profit for starting companies.	***Step 1: Selling and branding via WeChat store (B2C).*** Alternatively, for SMEs without large budgets starting to enter the Chinese market via less formal (social) CBEC platforms like WeChat can be a valuable decision. This strategy is based on slowly, but surely, familiarising and testing the Chinese market and is especially useful for niche products. *Advantage* Opening a store on a WeChat e-Commerce platform gains brands more exposure and low-cost, accurate branding via social marketing. Consumers will generally have a strong consumer impression due to the more personal interaction. Brand equity can grow quickly among a dedicated consumer base. Set-up times are much lower than on big platforms. WeChat is still fragmented and not monopolised by big players. *Disadvantage* Initial sales volumes will most likely be low. For lesser known brands difficult to attract new consumers. Operating is labour intensive due to personal connections. Pricing and regulation is difficult due to competition and easy counterfeiting.
Step 2: Hypermarket, Specialty or flash sales marketplaces (B2B2C). The procurement model may fit brands' overall sales strategy or product category better. Moreover, adding to their multi-channel strategy, presence on CBEC hypermarkets, specialty shops and flash sales sites, foreign companies can reach a wider Chinese consumer base and quickly expand their sales volumes. Compared to selling on online malls merchants will lose a certain margin of their profit to procurement of selling on vertical CBEC hypermarkets.	***Step 2: Hypermarket, Specialty or flash sales marketplaces (B2B2C).*** After receiving initial response via social marketplaces, foreign companies can commit to initial selling on specialty marketplaces to a limited, but niche audience. Entry expenses, and thus trial and error costs, are usually significantly lower than on large online malls and big hypermarkets. Moreover, although merchants will lose a certain margin, by engaging in the procurement model, vertical CBEC hypermarkets will bear the risks of selling products.

Step 3: Branding via WeChat stores and Public Accounts (B2C).

Being present on WeChat is increasingly becoming a given, and merchants can make a profitable business out of it.

Rather than an initial entry method, already well-known brands can integrate WeChat to complement their existing omni-channel branding strategies. Operating via their own Public Accounts or selling on WeChat e-Commerce stores, strong interaction, data analytics and sales functions can contribute to higher conversion rates and maximize coverage.

Step 3: Flagship store on online mall or large hypermarket CBEC platforms (B2C).

To complement their sales activities and create a well-rounded CBEC strategy, foreign brands can opt to open a flagship store on for instance Tmall Global or offer their products to large hypermarkets such as JD Worldwide.

By doing so they will have access to very high traffic and strengthen their brand status (in the eyes of Chinese consumers).

Step 4: From CBEC to General trade via domestic e-commerce platforms (e.g. Tmall.com/JD.com).

This is the stage where companies outgrow the dependence on CBEC platforms. At this point they may opt to transition from CBEC to domestic e-commerce platforms.
General trade will substitute CBEC imports because of the increased volumes of goods. General trade requires a business entity in China, compliance with local product registrations, long preparations and less available SKUs. Moreover, it will generally add 20-50% costs on imports and 15-30 days of delay before products arrive at the customer.

Nevertheless, a brand’s market expansion will be around 10 times, because CBEC still accounts for a small portion of overall retail in China.

It should be noted that a local trade agent or business entity is required to sell on domestic Chinese e-commerce platforms.

Step 5: Traditional channels (e.g. regional distributor, offline stores).

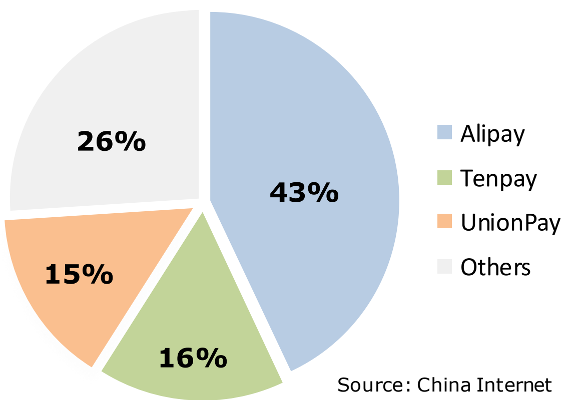
From here on merchants may wish to embark on traditional ways of trade that transcend (cross-border) e-commerce.

4.4 PAYMENT SOLUTIONS

To any brand financial security is among the top priorities of doing business abroad. Hence, they seek secure payment solutions. For foreign companies without a legal entity or bank account in China, getting paid for selling their goods on Chinese CBEC platforms can seem challenging at first. However, Chinese cross-border payment methods are generally very sophisticated and convenient, and Dutch companies should not be discouraged to engage in cross-border e-commerce because of them.

After searching for foreign products and comparing prices on the various CBEC platforms, Chinese customers pay for their purchases through a single transaction via the overarching marketplace checkout system. Although available credit cards (MasterCard and Visa) are particularly unpopular payment methods for Chinese e-consumers. Instead, they usually opt to pay via third-party online payment platforms such as Alipay, Tenpay or UnionPay. These have been integrated into all cross-border marketplaces and serve as transaction intermediaries.

Chart IV. Online payment platforms market share (total transaction value Q2 2016)



Source: China Internet

Chinese online payment platforms work similar to PayPal; both the customers' and corporate online payment accounts are linked to their respective bank accounts. However, different from instant cash transfer on PayPal, Chinese online consumers typically prefer to pay via *escrow payments*, which they consider to be safer.

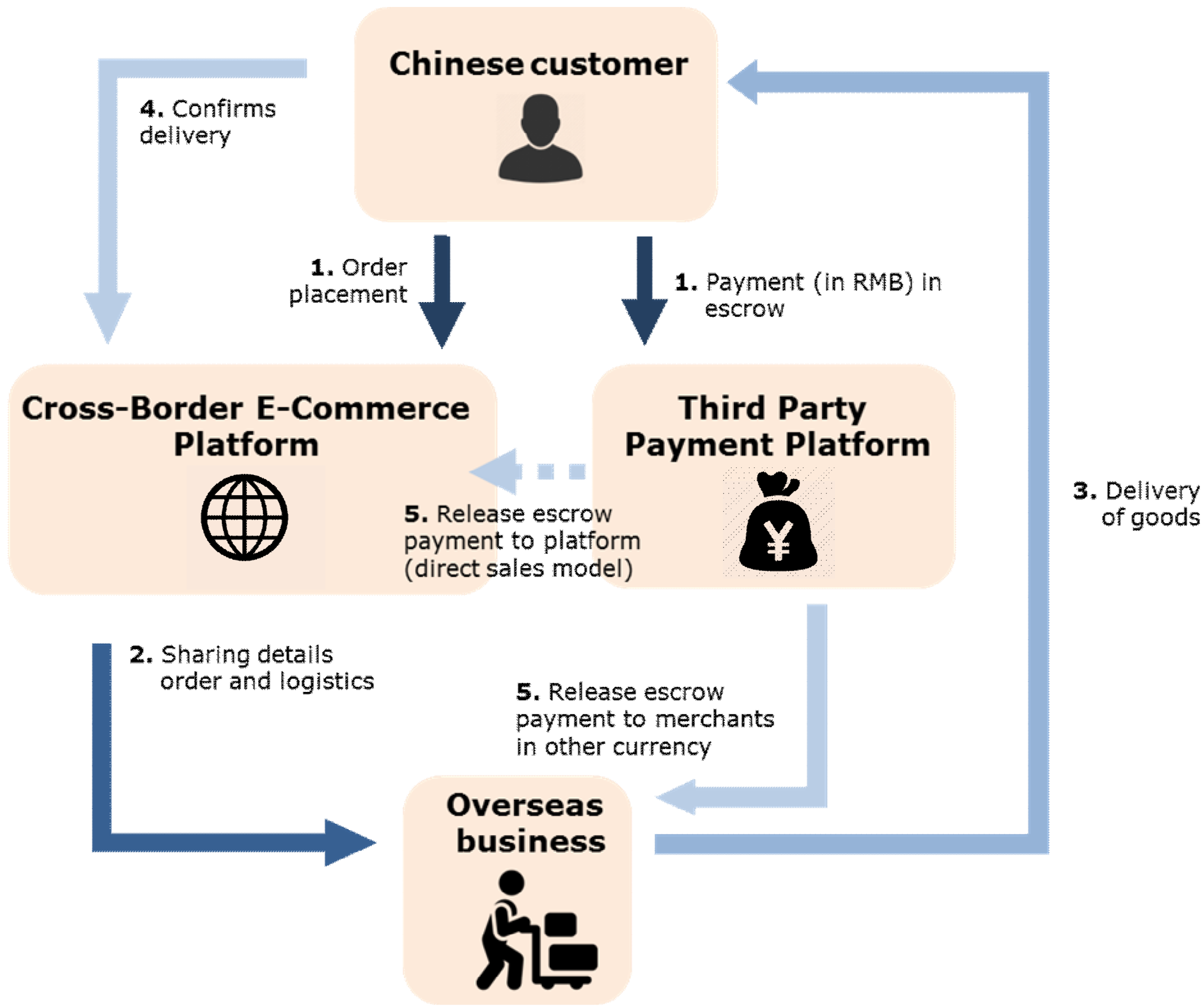
After product ordering, but before delivery, a customer's payment is put in an escrow account hosted by one of the third-party payment platforms. As soon as the customer receives the order and confirms the delivery on the online payment platform or marketplace, the online payment platform will release the payment to the merchants. Apart from the fewer risks suffered by the consumer, foreign companies selling via CBEC will also be protected from scams. When a malevolent consumer takes no action to confirm the receipt – the payment will not take place without confirmation – than the online payment platform will automatically confirm it after 7 or 14 days.[19]

For companies without a bank account in China Alipay and Tenpay, among others, offer cross-border e-payment solutions. This allows Chinese shoppers to pay in RMB for their CBEC purchases. Accordingly, once the RMB payment is converted into a foreign currency, the sum will be remitted into the company's overseas bank account. For these services no Chinese bank account is required.

[19] The online marketplace and online payment platform monitor the products' delivery status provided by the last-mile delivery company.

Sources: Dezan Shira & Associates, 2016 and Austrade, 2015.

Figure X: Escrow payments CBEC China



To sell on their marketplaces many CBEC platforms require a mandatory connection with their integrated online payment system. For example, opening a flagship store on Tmall Global requires a corporate Alipay account. Therefore, in order to get paid, foreign brands that seek to engage in CBEC in China should take into account what cross-border e-payment solutions they want to, should or can use when choosing for a CBEC marketplace.

Although all e-commerce platforms have integrated online payment systems, government regulation stipulated that e-payments have to be independent from e-commerce platforms as to ensure transaction safety. At the same time Dutch companies are advised to choose a licensed, certified third party payment service provider with a foreign trade license. Fourth or fifth party service providers should generally not be approached, because foreign brands have little resources to guarantee their credit background.

China's main payment solutions

Alipay is Alibaba's proprietary online payment system. With 400 million users, it has the largest market share[20] (43%) among all third-party online payment platforms in China.

Its cross-border website and mobile payment service currently supports 12 foreign currencies. The spot rate is determined by the Bank of China and China Construction Bank. Currently, applying for a cross-border Alipay account costs 1000 USD.

Foreign companies can settle payment by turnover, meaning that once a company's turnover accumulates to 5000 USD (lower limit), Alipay will transfer the payments to the company's bank account immediately. Alternatively, payment can be settled on a weekly, montly or quarterly basis. A transaction fee of 2,0%-3,0% of the transaction value applies. The higher the transaction value, the lower the fee.

Application: https://global.alipay.com/ospay/home.htm

Tenpay is an integrated payment platform launched by internet giant Tencent (founder of WeChat). It has 200 million registered users. Tenpay is often used by consumers on desktops to checkout at major CBEC platforms like JD Worldwide. Furthermore, Tenpay's payment portal *WeChat Pay* is highly popular among Chinese consumers for (cross-border) mobile payments - especially via WeChat.

The transaction fee for WeChat Cross-border Payment (WeChat Pay) is 3%, with a minimal settlement of 5000 USD, or on demand with a service charge. Settlement date is T +1 (T being the transaction date). Currently, applying for a cross-border WeChat Pay account is free of charge.

Application: http://global.tenpay.com/

Unionmobile Pay (UMP) was founded in 2011 and is a third party service provider that specialises in cross-border e-commerce payment solutions. According to iResearch 2016 it was the 4th largest facilitator of mobile payments in transaction volume. UMP is certified by the Chinese government and offers payment settlements within 1-3 days to companies from all over the world.

[20] By total transaction value in the second quarter of 2016 (source: China Internet Watch).

UnionPay (UP) is the only network authorised to handle (credit) card transactions in RMB in China. With more payment cards issued worldwide than Visa and MasterCard combined, China UnionPay is increasingly expanding its payment services across the world through its subsidiary, UnionPay International.

Although not currently the most popular payment method, UP facilitates cross-border e-commerce with strategic partnerships that integrate UP payment options on overseas e-commerce platforms. This allows Chinese e-consumers to purchase overseas products directly from foreign platforms. Moreover, UnionPay customers can already use its "Shop the World" CBEC platform to make cross-border purchases. Therefore, UP is a payment method well worth consideration for Dutch merchants engaging in CBEC with China.

Accordingly, the cross-border online transaction volume of UnionPay cards increased by nearly three times in 2015.

In the summer of 2016 China UnionPay and PayPal agreed to a partnership to nurture corss-border e-commerce between Europe and China.

For more detailed information on cross-border e-payments, please refer to the websites of the respective third-party online payment platform.

4.5(A) LOGISTIC SOLUTIONS

After placing the order for overseas products and having used their e-payment platform to deposit their payments in escrow, all Chinese e-customers can do is to wait for their products to arrive at their doorsteps.

In general, Chinese consumers are used to and expect reliable and quick delivery. In first-tier cities, locally warehoused products can be delivered the same day, though buyers are a little more patient for overseas orders.
Due to the integration of track-and-trace systems, Chinese online shoppers can follow the entire logistic process; from the moment their parcels are dispatched from the warehouse, to the minute the *kuaidi* last-mile delivery drivers park their electric-scooters and ring the doorbell.

Figure XI: last-mile delivery

JD.com local *kuaidi* distribution station in Shanghai.

In order to meet the expectations of demanding Chinese e-consumers whilst choosing the most convenient logistic model for themselves, foreign companies that want to sell their products via CBEC should develop a good understanding of the logistic options available to them. This chapter should give more insight on the logistic developments for CBEC in China.

As the e-commerce ecosystem in China is continuously changing, so are the logistic solutions that come with it. The main complexity for logistics is the import custom clearance and regulations. Finding the optimal logistic solution for your China strategy can be quite challenging. Getting the goods from A to B is not very difficult, but due the required import licenses, product registrations and changing regulations it is not that easy and straightforward.

Cross-Border E-Commerce Comprehensive Pilot Zones

Cross-Border E-commerce import started mainly via sales of Chinese entrepreneurs living abroad offering foreign products on a *Taobao* store. The orders were bought overseas, packed as individual orders and sent by post to the Chinese consumer. When this kind of CBEC really started to thrive, many postal parcels sent from abroad could be qualified as B2C or even B2B and entered China without any legal registration, ownership and taxes.

In response to the outburst of semi-legal cross-border shipments from overseas *daigou*, the Chinese government started opening several Free Trade Zones in late 2013. They were designed to offer a more regulated and reliable Cross-Border E-Commerce solution. Accordingly, in January 2016 the State Council officially approved the establishment of *Cross-Border E-Commerce Comprehensive Pilot Zones* in thirteen Chinese cities (see Figure XII). The provincial and municipal governments are responsible for their issuance.

Figure XII. Cross-Border E-Commerce Comprehensive Pilot Zones across Mainland China

1. Shanghai
2. Hangzhou
3. Ningbo
4. Zhengzhou
5. Chongqing
6. Guangzhou
7. Shenzhen
8. Tianjin
9. Hefei
10. Chengdu
11. Dalian
12. Qingdao
13. Suzhou

The CBEC Comprehensive Pilot Zones are designated areas, generally near large trade ports, that provide a favourable business environment and infrastructure for CBEC activities. The main feature of these pilot zones are the so called *bonded warehouses*, which will be elaborated on below. Initially the advantages of these zones were that it made the physical distance between the product and consumer much shorter. Furthermore, no import licenses or test reports were required, and only a one-time company and product registration was needed. Moreover, lower (postal) taxes are applied for brands that used bonded warehouses, making CBEC Pilot Zones both an easier and cheaper launch mechanism for new and unknown products from abroad.

The Pilot Zones have boosted the growth in Cross-Border E-Commerce, but, as in practice the collection of government taxes was mostly avoided, new rules were introduced. As mentioned before, the most impacted changes happened in April 2016. These new regulations really revolutionised, but also paralysed the market for several months.

Logistic solutions for different import models

After the goods have been purchased online, cross-border e-commerce platforms will process the order in their own domestic distribution system. Generally, for sales on online malls, products will either be shipped from a manufacturer's overseas warehouse to a bonded warehouse in Mainland China, or be distributed via direct shipping.

In order to guarantee reliable and quick delivery service, many e-commerce websites operate their own logistics infrastructure. Overseas brands may outsource (part of) their logistics to the platform or a consortium of logistics providers recommended by them.

For self-operated distribution, companies that seek to export their products to China and sell them on e-commerce platforms have generally three ways to do so.

Choosing the most suitable logistic solution can control companies' risk, investment and operating margin. In China, more than in other countries, logistic solutions are dependent on rules and regulations. Which of the options mentioned below is most suitable to a particular merchant depends foremost on (the newest) regulations that apply to the type, weight and value of those goods. Moreover, the business model of the CBEC platform will have an impact on what logistic solutions a foreign company can opt for.

Bonded Imports (B2B2C)

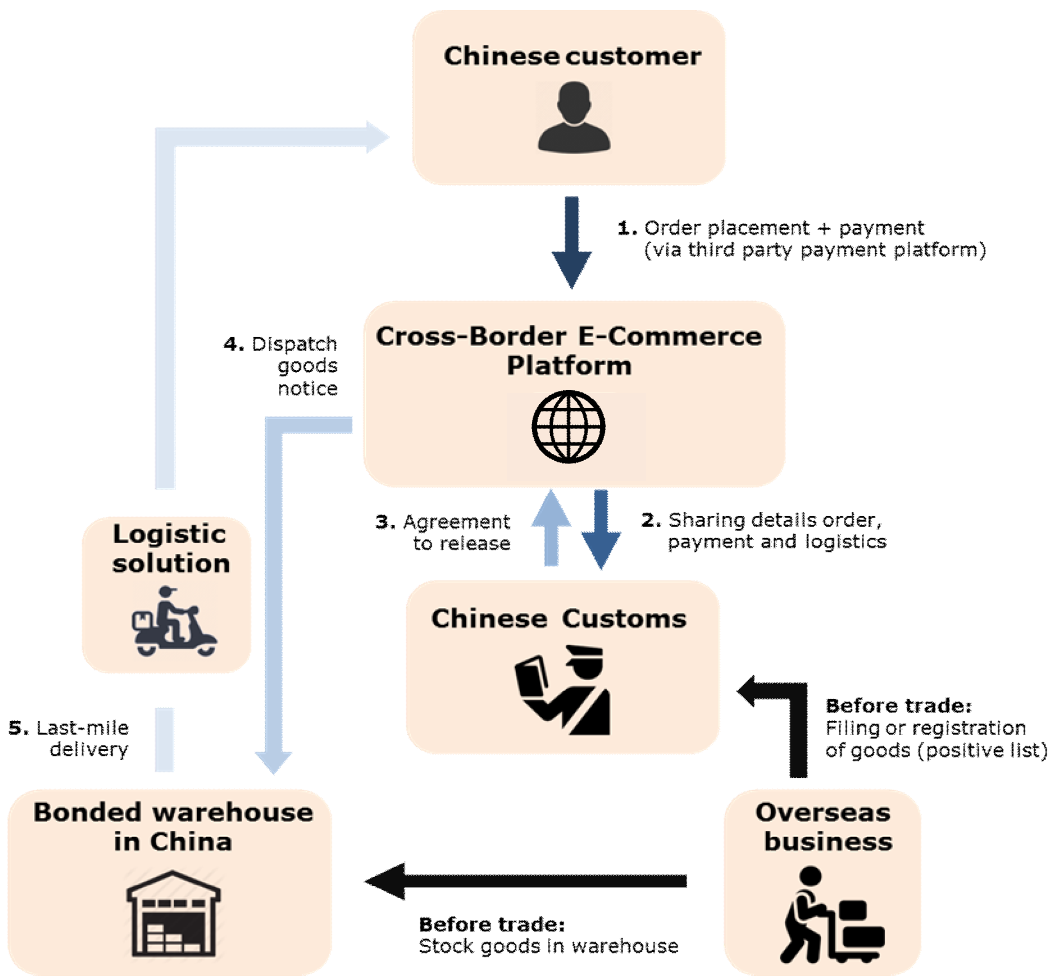
As introduced in 'Rules and regulations' chapter, bonded warehousing (B2B2C) is a quicker options in terms of logistics to sell products in China via cross-border e-commerce. A bonded warehouse is a building or secured area in a special customs supervision area in China in which dutiable goods may be stored without payment of duty. So, ordered products generally arrive quickly at the customer's home. Moreover, with new Cross-Border E-Commerce Zones in Chongqing, Chengdu etc. the Chinese hinterlands can more easily be served.

In case a brand's goods are on the positive list, it can consider holding its goods on stock in a bonded warehouse. Simplified and faster product registration will apply, overseas companies can postpone import duty and VAT charges and it is more convenient to move their revenue to a foreign bank account. Furthermore, no local Chinese business entity is required.

For these reasons, bonded import is an excellent method to test new products on the Chinese market. By stocking a small initial batch of goods in bonded warehouses, which can quickly be distributed to the Chinese consumer, companies can simulate selling CBEC in China without risking large losses as a result of high investment in stock.

Thus, for new to the market, medium turnover, or larger items with steady demand, reasonable stocking in China is advisable to decrease operational costs, logistics costs and turnaround time. For continuous and matured sellers high investments in stock (which may expire) and limitation in adaptability of one's transhipment are possible disadvantages to this mode of logistics.

Figure XII: Bonded Imports



Based on: HKTDC/TMO Group

Direct Purchase Imports (B2C)

Despite the majorly reduced delivery time for bonded imports, Chinese consumers generally accept longer delivery times for products coming from abroad directly. Direct shipping, and its longer service time, is often even considered more trustworthy because goods undoubtedly come from overseas.
After the goods have been ordered online, and the product, VAT and customs duty have been paid by the consumer, the goods (in individual parcels) will be dispatched from overseas warehouses by direct mailing.[21]
This solution is suitable for brands that seek to introduce new to the market products, small products, or low turnover, high value items.
There are three ways of direct mailing and each of them differs significantly. The expectations are that direct mailing will gain popularity with stricter customs rules on bonded warehousing.

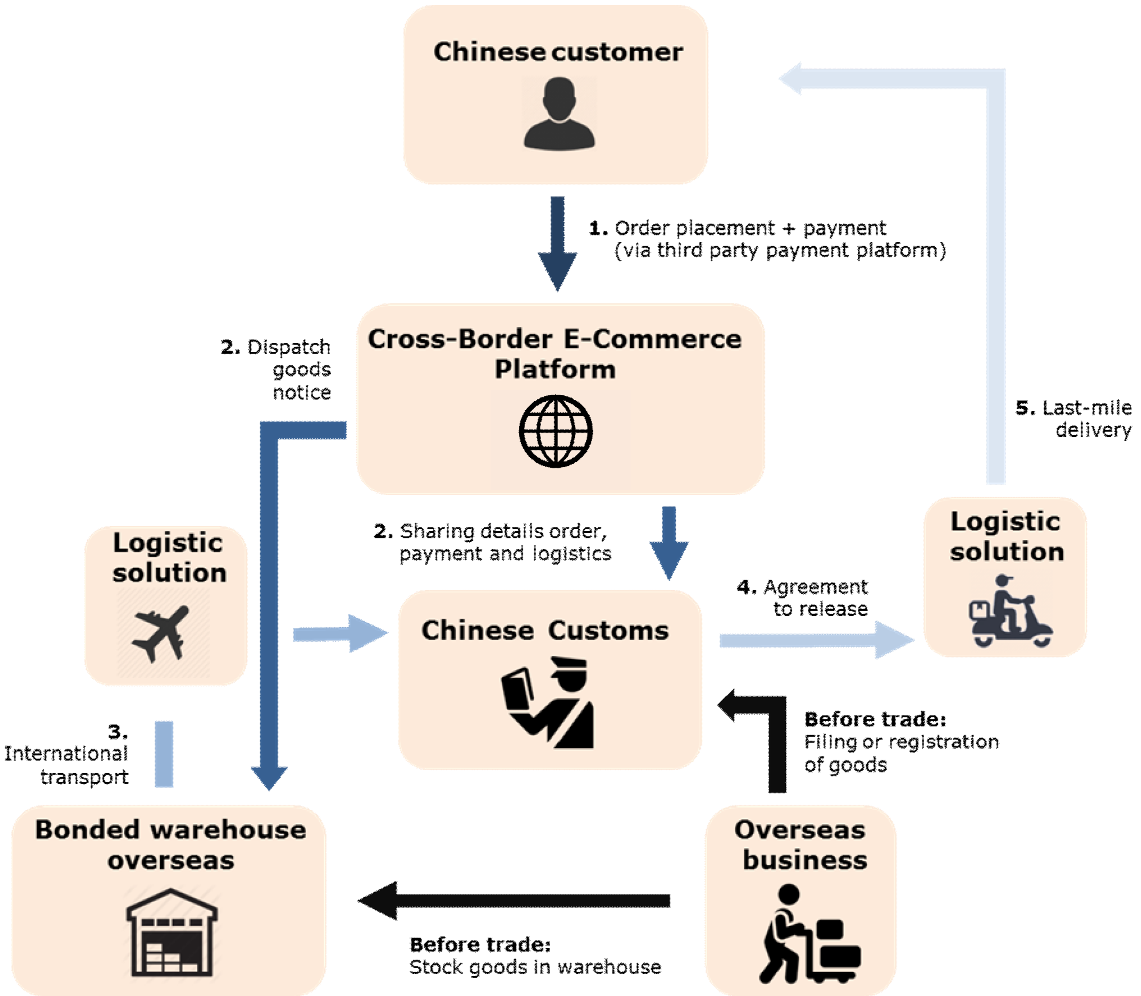
a. Postal
Postal was the most common way to send individual parcels into China before bonded warehouses were introduced. This mode falls under the postal import clearance rules as described on page 16. In this mode the goods are custom cleared by China Post or EMS. No data interface is required as clearance will be based on the description and value written on the postal label. The customs inspection will be done on a sample size, so there is a chance products will not be taxed. Since the introduction of the following two options the total volume sent by post has reduced significantly. The main reason is that international postal rates are higher than B2B freight charges combined with local solutions. Though, the convenience and lack of data requirements still renders postal a viable solution.

b. Commercial
While Postal and Personal Express fall under the postal clearance rules, the commercial model is run under the bonded import and direct mailing clearance as described on page 16. The goods are not physically stocked in a bonded warehouse, but the bonded warehouse is only used as a hub to arrange the custom clearance. All individual parcels are packed and labelled in an overseas location and put on pallets. The custom clearance is done by data exchange with data about shipping, product and payment information. This data is submitted in advance to determine the content and value of the goods upon arrival.
Finally, last-mile delivery to the consumer is taken care of by any preferred local express company.

c. Personal Express
The personal express solution is a mix of the commercial and postal options. This mode falls under the postal import clearance rules as described on page 19. Similar to the commercial option data about shipping, product and payment information is required, and companies can choose their preferred last-mile operator. In addition, besides the clearance rules, the main difference from the commercial mode is that a copy of the consumer ID is required for the clearance, making personal express much more difficult to implement as a logistic solution for CBEC.

[21] Please do note that the term "direct mailing" or "direct injection" are most commonly used. Some of the below solutions even go by this definition. This can be quite confusing so please take note of this.

Figure XIII: Direct Purchase Imports



Based on: HKTDC/TMO Group

General Trade Imports (B2B)

Although technically not CBEC, by means of general trade goods will be imported via regular import where, upon arrival in China, import duty and VAT will be paid for the whole bulk shipment. After the goods are cleared, they can be sold via local (i.e. non-cross-border) e-commerce platforms.

Warehousing and fulfilment will be done from a non-bonded warehouse and the revenue will be received on a local Chinese bank account.

To the Chinese consumer also a *fapiao* (official purchase invoice) can be provided for their online purchase.

This solution is suitable for established brands that are both focused on selling high turnover products online and offline, as well as for companies that have opted for a procurement strategy with domestic or CBEC platforms, essentially selling their products B2B2C.

Table V. Comparison main logistic solutions

	Bonded	Commercial	Postal	Personal Express
Customer lead time after placing order	2 – 7 days	5 – 12 days	7 – 21 days	7 – 15 days
Overall logistic costs	Lowest	Medium	Highest	Medium
First-mile	Boat	Air (bulk)	Air (post)	Air (bulk)
E-Commerce inventory location	Bonded warehouse in Mainland China	At country of origin	At country of origin	At country of origin
Last-mile	Free selection		China Post / EMS	Free selection
Customs clearance	Under CIQ supervision pre-approved; Tax paid by shipper		Manual by postal	Automised
Taxes	70 % of Consumption Tax and VAT; Temporary 0% import tariff		15%, 30%, 60%	
Customer experience	Reliable and transparent		Possible custom delay due to random inspection, ID-check, HS code-check	
Taxes applicable	CBEC taxes		Personal import tax (if checked)	

Source: MAiNS International

Advantages and disadvantages

Which of the above import options is most suitable entirely depends on the type, weight and value of the to-be-sold goods. As mentioned before, different taxes and duties apply to different goods. Therefore, companies should consider different import modes for different products if they want to take advantage of lower tax schemes. Again, goods not on the Positive List cannot at all be imported via the bonded mode as per the April 2016 regulations.

Nevertheless, despite the fact that certain products are eligible for lower tax schemes under bonded imports, this logistic solution may not be the preferred because of stocking concerns. For instance, for quick delivery and lower taxes and duties fresh products (e.g. yoghurt) may be very well be stored in (cooled) bonded warehouses in China. However, in this case, foreign sellers face the risk that if their products are not ordered online, they may expire and go to waste. Because they are stored in (bonded) warehouses on the other side of the world, it may be costly and less easy for them to move residual stock to customers elsewhere. Instead, in these cases, sellers could opt for general trade or direct mail solutions.

Companies should take into account that their import modes can change drastically over time. Infant milk powder, one of the main goods sent from Europe, exemplifies this well. Before the introduction of the CBEC Pilot Zones most infant milk powder products were sent by post by *daigou*. After the initiation of the pilot zones a lot of milk powder stock moved to bonded warehouses as it was cheaper and faster. Since April 2016, infant milk powder products are no longer on the Positive List. Increasingly infant milk powder is sent by the commercial or personal express solutions to lower the investment.

The advantages and disadvantages of each logistic solution are summarised in Table VI below.

Table VI. Summary advantages and disadvantages per operating model

	Advantage	Disadvantage
Bonded warehousing	- No Chinese business entity required - Taxes paid upon clearance - Simplified product registration	- High investment on stock - Risky for goods with expiration date - Limited product categories (positive list)
General trade	- Suitable for selling online and offline - Lower logistic warehousing costs - Taxes paid on CIF value	- Product registration and import licenses required - Duty and taxes to be paid upon arrival
Direct mail	- No stock in China required - Limited customs requirements - More products categories allowed for shipping	- Longer transit time until delivery - Higher costs
a. Postal	- High value single items are accepted - Tax exemptions < 50 RMB - No data exchange required - No 100% customs checks on goods	- Slower transit time - Lower customer experience - Highest costs
b. Commercial	- Faster customer clearance	- IT integration required - Customers' ID number required - No tax exemption possible
c. Personal Express	- Tax exemption < 50 RMB - Faster customer clearance	- IT integration required - Customers' ID number and ID copy required

Source: MAiNS International

4.5(B) FRESH FOOD AND COLD CHAIN LOGISTICS

The Chinese fresh food market has been startled by food safety scandals in recent years. Unsafe domestic food products, counterfeiting and cutting corners on hygiene or quality control, make news headlines and is often the 'talk of the town'. Benefitting from the harmful reputation of domestically produced foods, the increased access to foreign products via CBEC has proliferated imported fresh food products. Fresh Food includes fruits and vegetables, meat and poultry, dairy product, bread and bakery products, seafood etc. Fruit is the biggest category of fresh food, Mexican avocado, California cherry, New Zealand kiwifruit, South Africa grapefruit are the 'explosion' of fresh food category on Amazon in 2015. According to the statistical data, in 2015, the imported fruit at Shanghai port amounts to 1 million tons, the average daily import of more than 2,700 tons.

Accordingly, online platforms have jumped on the bandwagon and many specialized fresh food platforms have emerged: womai.com, sfbest.com, miao.tmall.com, to name a few. All of those platforms are continually searching for more varieties of fresh products from abroad to cater to the ever-changing and more demanding tastes of Chinese CBEC consumers.

Although CBEC creates excellent new opportunities for foreign businesses to sell easily to the yearning Chinese market, moving highly perishable goods is an interesting challenge - especially when potentially high value goods are to be shipped via CBEC to the other side of the world. However, this does not mean that Dutch companies should shy away from selling fresh or frozen products online in China. As the loss rate of fresh foods is relatively higher than other products, which requires that operating companies must be equipped with professional storage facilities and cold chain logistics. Further, experienced local partners (TP) can also help to determine the export volume based on their professional estimation on sales.

Figure XIV: cold chain logistics

Source: ExFresh

Fresh food import materialises both via the direct sourcing or procurement (B2B2C) models. Most e-commerce platforms rely on third party warehousing and logistic. At present, domestic third-party cold chain logistics enterprises are small, which has not yet resulted in a highly efficient and low-cost logistics network. This is mainly because the entire process involves too many different companies, besides, product quality control and delivery efficiency hardly meets the basic requirements of consumers either. Secondly, as most of the platforms are not involved in the operation, it is difficult for them to control the stability of the supply chain for overseas foods.

In view of above, overseas direct sourcing is the inevitable trend of fresh food CBEC development. However, direct sourcing business requires a large amount of capital input and sophisticated logistic and warehousing systems of the platform. Hence, only major e-commerce platforms are able to conduct such business. As an example, on January 11, JD and Yi Jiangnan announced a strategic cooperation in Guangzhou Baiyun Airport cross-border free trade zone, which officially opened the first domestic cross-border bonded cold-chain warehouse to provide a more optimised service in fresh food business. JD aims to reach overseas farms or manufactures via direct sourcing in order to control and reduce the cost of purchasing, logistics and the storage. Consequently, e-customers can receive imported fresh food as fast as in four days. The 'Farm to Table' concept is happening for real, Chinese consumers can enjoy safe, imported fresh food by direct overseas sourcing. It should be noted that currently the chilled bonded facilities are not represented sufficiently to cover demand in all of China.

Apart from direct souring model, the procurement model is fairly common in fresh food CBEC. For the procurement model, finding a right local partner is the key to success, as they will be responsible for entire operation including sales channel layout, logistics, chilled warehousing and customer services.

Rules and regulations

For fresh foods imports to China, whether via CBEC or normal trade, the first thing to note is that even though certain product categories may be present on the positive list for CBEC, they still cannot be imported under the AQSIQ regulations. Special rules apply to fresh produce, health food, cosmetics and infant formula. For fresh foods the AQSIQ list are categorized per country. Dutch companies are urged to check whether their fresh products are both on the positive list for CBEC, as well as on the AQSIQ list.

Thereafter they should apply via the Netherlands Food and Consumer Product Safety Authority (NVWA) to be a certified seller of AQSIQ approved goods under Certification and Accreditation Administration of the PRC (CNCA) regulation.

Useful links for rules and regulations

- Official AQSIQ lists [in Chinese];
- Official CNCA lists of companies that can export foods to China [in Chinese]
- Translated information on the AQSIQ list is provided by the NVWA [in Dutch].

Needless to say, 'freshness' is one of the principal pillars of fresh foods' product quality. Hence, the highest handling rate of inventory is demanded in order to decrease lead time as much as possible. The total time spend in storage should, therefore, be as low as possible to guarantee the highest quality and satisfaction of Chinese cross-border e-commerce consumers. Understandably, there is a preference for high speed warehousing options.

'Chilled' versus 'frozen'

For cold-chain logistics there are two options to deliver fresh products. Depending on the product and preference of the seller or consumer they are either stored 'frozen' or 'chilled'. For the quality of the product, chilled is the preferred option, though the margin of error compared to frozen products is higher.
Therefore, taking beef as an example, chilled beef is handled with priority since it is far more perishable compared to its frozen counterpart. Customers will pay for the higher priorities since the product is of higher value when it arrives - thus making chilled products more expensive. Apart from their more competitive prices Chinese consumers have developed a slight preference towards frozen delivery to ensure that the product is not perished - and therefore safe.

Last-mile delivery

Last-mile delivery is commonly executed by *kuaidi* on electric delivery scooters. In the area of perishable goods this mode of transportation forms an additional challenge. Even in the world's most populated country it appears hard to find a working business model in which a refrigerated truck, rather than an ordinary electric bike, commits to last-mile chilled delivery for a competitive price. This maintains to be a missing link in a value adding cold-chain logistics and is yet to be sufficiently solved in China. Currently, foreign-sourced timely delivery of chilled products (which require a quicker distribution) is insufficient to cover all parts of China. At this time, for chilled foreign sourced products, it is only possible to engage in last mile delivery to first tier cities. Several Chinese cold-chain logistic companies, like ExFresh (Yiguo's subsidiary) are rolling out nationwide coverage by establishing transportation hubs all over the country – see Figure XV.

Figure XV: Yiguo's cold-chain logistic hubs in Mainland China.

Source: Yiguo.com

Reverse logistics

The major influencer in cold-chain logistics currently is that of reverse logistics. In every shipment a margin of error exists, and perishable goods are no exception – unfortunately, fresh foods are sometimes sent back; and upon return there is no means to save them.

However, non-delivery (e.g. if a customer is not home to accept the order) forms a more pressing problem. Non-delivery usually results in the delivery being returned to non-cooled local distribution center. In a country like China where storage temperatures regularly hit 40+ degrees Celsius this is not preferred, and goods are bound to expire.

In order to cope with the nationwide coverage and reverse logistic challenge, many platforms have adopted a delivery appointment system, which means customers can choose the delivery time, and platform will deliver ordered products accordingly. This will help to reduce the delivery loss.

Experience teaches that economising on warehousing costs in China creates substantial risks often because of malfunctioning staff, language barriers or other unforeseen issues that accompany cheaper (cold-chain) logistic partners. Therefore, cooperating with a trustworthy local logistic partner or using the CBEC platforms integrated logistics will, in the end, result in higher return on investments and help overseas companies to succeed in the logistic challenges that CBEC business entail.

4.6 MARKETING AND LOCALISATION

For SMEs or startups yet unknown in China it might be challenging to conquer market share in the (over-)saturated marketplace. With tens of millions of SKUs on platforms like Tmall Global, standing out is no easy task. A search query for 'milk powder' on JD Worldwide results in around eight thousand products to choose from. Investing in marketing is the only way to be conspicuous and attract qualitative traffic, which will convert into sales.

With a potential audience of 292 million CBEC consumers in 2020, smaller brands need to choose a targeted and specific audience group before embarking on their Chinese cross-border e-commerce voyage. Doing so will generate more opportunities to connect with the Chinese audience, avoid unnecessary cost and enhance the chance of success. To this end, the home-market and the Chinese market are not to be compared. Both markets need a different approach and a different point of view to succeed. Needless to say, Dutch brands should focus on the demands of the Chinese CBEC markets.

This chapter will list some of the most decisive factors that need to be taken into consideration for a solid marketing strategy in China.

Brand equity

For brands planning to enter China (either via CBEC or through other channels) a very critical, but often overlooked, self-reflective question is: "why would a Chinese consumer buy this product/service?" Besides product quality and pricing the most imperative asset is brand equity.

Over recent years the market has become hyper-competitive in almost any industry and for every single product, many different alternatives are readily available. At the same time, international companies are flooding in. Foreign brands are not only competing with local vendors, but also with providers from all over the globe. Therefore, finding a unique selling point is the only way to differentiate oneself from countless competitors. Indeed, a very clear proposition of one's brand image and target audience is most essential.

Accordingly, overseas brands are encouraged to use a storytelling approach to communicate their unique selling points through all of their channels they are present on.

Many foreign companies are striving to localise their brand image and products as much as possible. Though, whilst localisation to the Chinese market is a 'must-do', overseas brands should be wary to overdo it. Or it will result in suspicion from Chinese CBEC consumers about the origin of the products/brand. The outcome of this suspicion could be losing the main asset of overseas products, namely the fact that they are foreign. The 'international gene', most of the times, still helps to establish an image of good quality and 'broad vision'.

Thus, leveraging between one's (overseas) brand image and the Chinese market is both essential and challenging.

A good approach to accommodate both one's brand image and cater to the Chinese market is to launch exclusive products or limited editions just for the Chinese (cross-border) e-commerce consumers.

Pricing

Pricing also affects brand equity. Most foreign brands believe that their foreign nature allows them to ask for a higher price for their products — this is only partially correct. On the one hand, Chinese e-consumers tend to associate high prices with good quality. Traditionally they have been willing to pay high prices for these foreign quality and luxury items; and foreign vendors do need the additional charge to compensate for import fees.

On the other hand, many local brands are catching up and even leading the market, leaving the premium positioning infeasible. At the same time, now that the Chinese middle-income consumer base has increasing interest in making purchases via CBEC affordable foreign quality products are ubiquitous. In this case, the pricing should be both competitive to similar imported goods and reflective of the product quality.

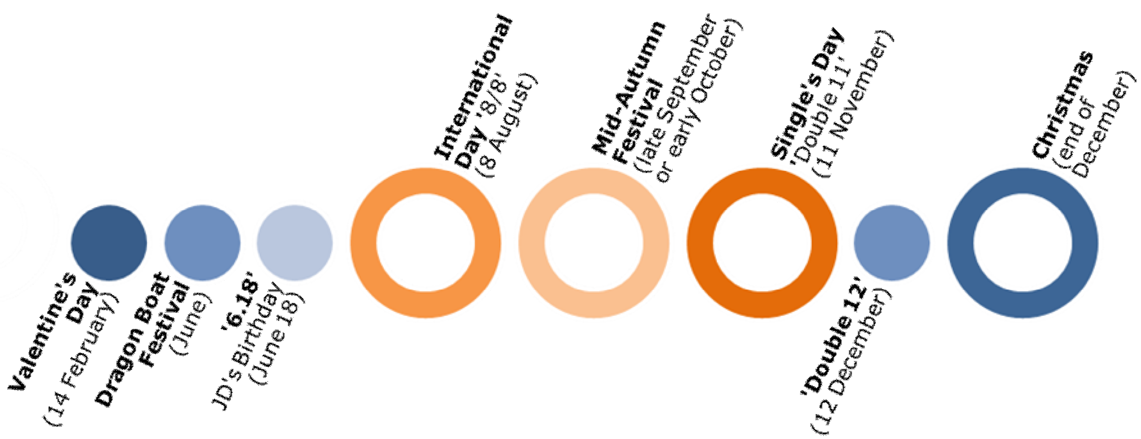
Moreover, periodic promotions and participating in nationwide campaigns like '11/11' is a valuable tool to attain more exposure.

Consider that CBEC platforms will often pressure foreign brands to lower their product prices upon market entry as to create attractive prices for their customers and attract more visitors. Again, a clear proposition on brand image is fundamental. Dutch companies are advised to refrain from inconsistent pricing because once brand equity is established, this impression is often irreversible.

Promotions

Discounts are not only for those merchants selling on flash sales websites. In fact, in order to stay competitive and be noticed brands on all CBEC platforms merchants should adopt attractive promotions throughout the year – especially during key seasonal events. Displayed below are the most important Chinese (e-commerce) holidays.
Notably, during Spring Festival ('Chinese New Year') e-commerce activities are very limited due to the fact that all last-mile delivery services also take days off.

'Double 11' '双十一', or 'Single's Day' is the world's biggest online shopping holiday, dwarfing 'Black Friday'. Initially instigated by Alibaba 11/11 developed into a nationwide shopping spree with high discounts on all major (CB) e-commerce platforms. In 2016 Alibaba saw a whopping 120 billion RMB (16 billion EU) of gross merchandise volume within 24 hours (Alibaba, 2016).



Consumer psychology

In order to develop a market entry strategy tailored for the Chinese CBEC market it is first and foremost imperative to recognise its unique ecosystem. The Chinese online environment and consumer journey are unique and require companies to rethink their marketing approach and business strategy.

Purchase cycle

In most European markets, users often start their online customer journey through a search engine. Even if they know the website they want to go to, or the product they are looking for, the search engine is the default entry-point. In China this is not the case. Because the Chinese internet space developed in its own distinctive way, search engines are not a major part of the purchase cycle. Product discovery will mainly happen through social media, while product research is done directly on the big platforms like Tmall Global and JD Worldwide.

It is still useful to have a marketing presence on the regular search engines, however most companies will need to rethink their strategy if the majority of their online marketing investment usually goes to Search Engine Marketing.

Social Media and KOLs

For Chinese consumers social media are the 'go to places' for product discovery. Chinese e-consumers use their friends and online influencers as a natural barrier to filter new trends and products. This also means new products and concepts can spread incredibly fast once they are picked up by influencers in certain communities. Social media can therefore be a logical starting point for companies entering the Chinese CBEC market. Unlike other media channels, social media offers solutions on all investment levels.

To be able to promote products, it is important to understand the nature of the social media space. Unlike most global social platforms, Chinese social platforms like Weibo and WeChat have not (yet) optimised their target-advertising tools for companies.

It is for now not possible to simply define a narrow audience and target them effectively on these platforms. In China this gave rise to individuals and companies that help commercial players find their target audience and communicate with them. They fall under the umbrella name; key opinion leaders (KOLs). This name is generally used for any social media account with a follower audience that can be relevant for companies; from individuals with a very niche hobby and a loyal follower group, to commercial companies broadcasting to wide audiences, or online celebrities who endorse products from e-commerce platforms. They can leverage the potential of the local market. The e-commerce social platforms will help brands to understand what is most preferred and popular among Chinese consumers (e.g. Japanese and Korean cosmetics).

Trustworthy recommendations by famous KOLs, as alternative sources of information, are highly valued among customers. The published reviews contain short descriptions, reviews and a demonstration. For a higher fee and larger audiences, live sessions can be organized for interactive contact with their audience. Using KOLs can be a very cost effective way of getting in touch with the right target audience. The KOL industry, however, is still very fragmented and will require management and strong coordination.

Third party service providers can assist foreign companies to reach out to KOLs.

Personalised communication

Similar to the western world, social media and online advertising are playing an important role in marketing to the mass public. However, in recent year, many enterprises realised that Chinese

Figure XVI: WeChat branding on 'Moments'

Source: personal image

consumers are so diversified that no single message fits everyone — this is the logic behind content personalization (and KOLs).

1-to-1 communication in China is mainly delivered through email and SMS. Customers' online behaviour[22] is tracked and stored in a CRM system. Based on this information, companies are able to send out the right information to the right person, at the right time and through the right channel. As for SMS, companies are able to personalize the text by adding a unique signature, so that the recipients immediately know who the sender is. In the message, you can also include a URL directing to a webpage and track which recipients actually clicked on it.

Social Branding

The biggest advantage of using unique messaging apps such as WeChat is that companies can both sell to, and, engage with their customers/followers on one overarching platform which is deeply embedded into everyday (Chinese) lives. Furthermore, WeChat provides a promotion possibility for businesses with interactive accounts competing for higher customer engagement via engagement points, promotions, coupons and product announcements.

Cost-per-click (CPC) campaigns

More traditional, but not less effective, are CPC campaigns, which continue to be a low cost investment for a diverse public. Unlike the use of KOLs or personalised communication, these campaigns are often static and not tailored to diverse audiences on a personal level.
On the other hand, this entails that CPC is relatively cheap. Needless to say, brands can attract a wider audience than by means of KOLs if the quality of the CPC campaign is sufficient to attract many people to click on one's advertisement. Subsequently, after redirection, this may result in more diverse traffic on a brand's web-store. The payment settlement is usually handled via fixed payments per click.

On WeChat brands can, besides being present in users' contact list via Subscription of Service Accounts target potential consumers with ads on their 'Moments' (an oft-used timeline function where friends post updates).

ICP License

If you want a serious web presence in mainland China to ensure your message is getting across to Chinese consumers and clients, you'll need an ICP (Internet Content Provider) License. Applying for

[22] For instance, the products the consumer purchases, at what time and through what device.

ICP license is a mandatory step before your website goes public.

Customer service

The Chinese user expects and demands personal service. In China customer service is available at least 7 days a week, 16 hours a day - much wider coverage then consumers are used to in the Netherlands. 83 percent of all customer service happens via web-chat or WeChat and customer service by email is nearly non-existent.

Besides the availability of customer service, another important distinction can be found in the way e-consumers actually use customer service in China. In Chinese (cross-border) e-commerce a whopping 85% of all customer services take place pre sales. Indeed, 90 percent of consumers, prior to purchasing products, will inquire with customer service staff about the product they consider purchasing. These enquiries range from questions about product origin and authenticity to contemplations about size and delivery of the goods.

Figure XVII: Customer Service

Are you there?

I am, what can I help you with? We have a WeChat account: Yangbinsun "New items have arrived! *[name of Taiwanese snack + link]*"

If I buy something now, what time will it be sent out?

This afternoon.

Oh, how many days will it take to Shanghai?

About 2-3 days

For brands that offer less coverage, conversion rate (and thus revenue) will be seriously affected. As such, companies will need to be able to accommodate these customer services standards and integrate it in their cross-border e-commerce strategy, in order to succeed in China. TPs specialised in customer care may assist foreign companies with a customer service team in China.

SMS Integration
Chinese consumers would like to know where their package is at every moment. Some TPs offer cross-border e-commerce SMS integration that keeps Chinese customers up to date on the ordering, payment and delivery process.

Design

Finally, due to hyper-competitiveness the overall look and interaction of any product or service offering in China needs to be optimised to perfection. Chinese consumers are not used to anything less than that. In general overseas companies should adopt Chinese design and UX guidelines from Tencent and other leading Chinese tech companies as to make sure users feel familiar and 'safe'.

Moreover, as the vast majority of Chinese CBEC shoppers purchase on their mobile phones, all information, websites and webstores should be easily accessible on a mobile device. To accommodate the tailored fit for CBEC customers hiring (at least) one full-time designer is recommended. The designer will need to design the shopfront, create product details pages, promotions and other marketing campaigns.

It is evident that the Chinese market requires a dedicated and tailored marketing approach. The marketing landscape and online ecosystem demand companies take a holistic approach and assess the different channels and audience groups before making the big step to China.

4.7 INTELLECTUAL PROPERTY RIGHTS IN CROSS-BORDER E-COMMERCE

Risks

Intellectual Property Rights (IPR) violation has been a concern for many international companies that do business in or with China. Even those overseas companies that have acquired a business entity in China indicate that IPR violation is one of the most pressing challenges they face – despite being familiar with Chinese IPR regulations and having registered their IPR in an early stage of their business entrance to China.
Therefore, brands that use Cross-Border E-Commerce as their initial entry point to the Chinese market should be extra alert to the risks they may face in this regard.

It goes without saying that if brand owners do not register their IPR in China, they run the risk of copycats abusing these unregistered trademarks, logos, designs, etc. for counterfeit products. Furthermore, trademark squatters may attempt to rush-register these brands in China under their own names, with the aim to sell the registrations to the highest bidder. New brands, luxury products (e.g. fashion items, cosmetics, jewelry) and imported food (e.g. milk powder, pet food) are frequent targets.

Dutch companies - the true brand owner - will face difficulties when they enter the Chinese market if their brands, trademarks and possible domain names (.cn) are already registered by an infringer. When a true (Dutch) brand owner imports products into China via CBEC, those products may be detained by customs for reasons of trademark infringement. In fact, the infringer (the official trademark registrant in China), may even sue the true Dutch brand owner and its distributors.

In addition, leading e-commerce platforms, such as T-mall and JD require potential shop owners to present their China IPR registrations before they allow an online shop to open, regardless of whether you are the true brand owner or not. Therefore, if someone else registers a trademark before the true brand owner, this can severely complicate the registration process of the true brand owner when starting its cross-border e-commerce business.

Since social media like WeChat and Weibo play a central role in Chinese e-commerce, the rapid distribution of infringing information presents another problem for those brand owners seeking to engage in cross-border e-commerce business. It is difficult to trace online infringers, because they can easily operate through different and smaller e-platforms and marketplaces that do not have strict (IPR) requirements. These infringers might use fake business licenses and ID information, and can frequently change their sales channels.

Trademark Registration

In order to avoid any of the above complications, even if a brand owner does not have any business plans for China in the near future, companies would be well advised to register their trademarks sooner rather than later. This is because, besides a relatively long application process (an average of 12 months)[23],

[23] However, it might be possible to make use of EU or international registrations to antedate the trademark application date in China (with a maximum period of 6 months) to the date a previous trademark application procedure is started in the EU or a member of the World Intellectual Property Organisation (WIPO). I.e. if the applicant starts an application in the EU on 1 January and starts an application in China on 1 March, the applicant can request to change the application date in China to 1 January.

China follows the 'first-to-file principle'. This means that, in principle, authorities will not check if applicants are the true brand owners. Accordingly, Dutch companies may face competition by infringers to register their own trademarks at the Trademark Office in China.

Foreigners and foreign companies can only register through a trademark agent. Trademarks are to be registered with the Trademark Office of The State Administration for Industry & Commerce of the People's Republic of China (link).

Accordingly, the first steps of trademark registration include choosing relevant classes (product categories) in which to register one's trademark and checking the current register for possible copycats and/or trademark squatters. Trademark agents have access to a more elaborate register than the public register in Chinese. The new trends in IPR infringement are the trademark registration of domain names, slogans and search machine key words. Therefore, these forms of trademarks should also be included in the check.

In addition, it is strongly advised that brands prepare and register a Chinese version of their IPRs which includes not only the brand's names in Chinese, but also the Chinese company's name. Companies should also be aware that distributors or the public may have already created a Chinese name for their brand; therefore they should consider registering this name as well.

If an IPR has already been registered by an infringer, the true brand owner can take legal measures against this registration. Conducting possible legal proceedings (and other measures) depends on the status and phase of the registration or application by the infringer and the identity of the infringer.

For instance, it is possible to try to have the registrations cancelled based on bad faith by providing adequate evidence of the true brand owner's historical and international use of the trademark. Moreover, foreign companies can provide evidence of earlier registrations elsewhere and how the trademark was developed. They may also demonstrate possible ties between the true trademark owner and the (Chinese) infringer, or show other registrations in the infringer's name.

Preventing IPR violations through CBEC-platforms

If counterfeit products are found on (leading) e-commerce platforms like Tmall Global or JD Worldwide, foreign brand owners can turn to the platform's trademark infringement help centers. These platforms have an obligation to take remedial measures. If such measures are not taken, the platforms can be held jointly liable for the infringement. Unfortunately, it is not always easy to prove a violation. Even if a brand owner provides all the relevant trademark registrations, the platform may decide that a violation has not taken place because it believes the counterfeit product is not similar to the brand owner's registration. Gathering of evidence in this respect usually includes the notarization of webpages and infringing products by a Chinese notary public.

Companies are advised to do regular checks on e-commerce platforms and search engines to identify potential infringers and to search the database of the China Trademark Office for new filings that may constitute an infringement. Some trademark agencies and law firms provide such a "trademark monitor service".

Please refer to the Customs IPR Enforcement website: https://english.customs.gov.cn/service

Methods true brand owners can utilise to prevent IPR violations:

1. **Add an IPR clause in agreements with local agents, suppliers, producers or distributors**

It is critical to have well drafted IP clauses in agreements with other parties. It should be made clear that involvement in the production, distribution, logistic channel, etc. does not grant such parties use of the IPR and that such parties are not allowed to register the trademarks under any circumstances. If the brand owners decide to work with a local factory, it is important to include a non-disclosure, non-use and non-circumvention ("NNN") arrangement.

2. **Register the IPR at the local customs**

By registering the IPR (usually trademarks, designs and patents) at the local customs, the Chinese customs can take action by checking imports and exports for infringement and detaining fake products at the border. For more information on customs IPR registration, please refer to the Customs IPR Enforcement website: https://english.customs.gov.cn/service

3. **Turn to the governing authority, the State Administration of Industry and Commerce (SAIC)**

If a company producing or providing infringing products can be identified, the true brand owners can (1) start an trademark invalidation application with the Trademark Office, (2) file a claim with the local AIC to take action against an infringer or (3) sue the infringer in court based on trademark infringement. These authorities may take remedial measures if it decides the scale of infringement is significant.

4. **Issuing cease and desist letters**

The true brand owner can issue a cease and desist letter demanding that infringers take down the infringing webpages and/or stop providing the infringing products and services.

In the past few years, the Chinese government has made efforts to improve IPR protection. This is demonstrated by the amended laws and legislation, shorter registration procedures, specialized courts and judges etc. Although such measures have proved helpful, active involvement by the true brand owners is still required to protect their IPRs when engaging in CBEC in China.

Furthermore, The China IPR SME Helpdesk supports European Union (EU) small and medium sized enterprises (SMEs) to both protect and enforce their Intellectual Property Rights (IPR) in or relating to China, through the provision of free information and services. For free expert advice on China IPR, EU SMEs can e-mail questions to enquiries@china-iprhelpdesk.eu, and they will receive a reply from one of the Helpdesk experts within seven working days. The China IPR SME Helpdesk is funded by the European Commission's Directorate-General for Enterprise and Industry (DG ENTR) under the Competitiveness and Innovation Framework Programme (CIP).The China IPR SME Helpdesk Webpage can be accessed here: www.china-iprhelpdesk.eu

4.8 THIRD PARTY SERVICE PROVIDERS

One of the core advantages of entering the Chinese market via CBEC is that foreign merchants will not have to acquire their own Chinese business entity to sell their goods from abroad or employ costly trade agents. Nonetheless, that is not to say that overseas brands can take full advantage of CBEC without cooperating with local (Chinese) third party service providers - so called 'TPs'. These agencies offer foreign companies without a business entity in China, access to Chinese cross-border e-commerce platforms. In fact, these third party service providers are a vital part of one's business strategy and, therefore it is essential to choose a trustworthy and suitable TP

This section will deliver a brief overview of the tools and benefits that third party service providers (can) offer foreign merchants. Furthermore, it will address the potential risks of cooperating with a local TP. Finally, it presents foreign companies with advice on how to choose a trustworthy and suitable local service provider.

Introduction to TPs

Third party service providers offer easier access to (cross-border) e-commerce platforms. In fact, large platforms such as Tmall Global and JD Worldwide only accept foreign merchants to sell on their platforms if they cooperate with approved TPs. To ensure quality and authenticity of both sellers and service providers, TPs are certified by these e-commerce platforms after meeting certain requirements, such as several years of experience with CBEC, (overseas) bonded warehousing options, multilingual staff etc.

Besides lobbying for a presence on the platforms, TPs can assist in a wide range of secondary services related to all the topics mentioned before. Though, the expertise they provide depends on the needs and product categories of the foreign counterpart and, therefore, differ widely per TP.

Some TPs offer one-stop solutions that encompass the entire chain of online cross-border selling, from brand building, logistic solutions, to daily operations and everything in between. Others offer specific solutions.

Secondary services include:

- Anti-counterfeiting solutions
- App/Web development
- Business strategy development
- Cold-chain logistic solutions
- CRM
- Cross-border payment solutions
- Data analysis
- Digital marketing
- Digital media support
- Industry market scans
- Legal solutions
- Multilingual customer service
- O2O integration
- Operations
- Order fulfilment solutions
- Platform integration
- Procurement solutions
- Sales promotion
- Store design
- WeChat integration

Source: Dezan Shira & Associates, 2016; TMO Group

Additionally, TPs can act as authorised store owners. In this case, the foreign brand sells products directly to a TP, like the vertical hypermarket and specialty market models, which then re-sells the products on its own online storefront or via affiliated authorised re-sellers.

As the local team will understand the Chinese online market best, they can assist with quick responses to demands from the big platforms. They speak the local language and help tailor one's brand(ing) to the Chinese market, whilst leveraging between a brand's image abroad and the Chinese market. In short, they are the local handhold for one's CBEC strategy.

In general, TPs charge either a fixed monthly service fee, a commission on sales, or both.
Merely collaborating by revenue sharing is usually not the most beneficial cooperation model. This is because TPs cannot guarantee that they will spend a fixed amount of time on a brand's shopfront. Reality teaches that for this kind of collaboration TPs tend to focus on the low hanging fruits and if a foreign companies' products are not a direct sales hit, their focus will be switched to the products that are currently popular.

Depending on the additional services and commission employing a TP may bring extensive costs, which are often overlooked when determining the budget for CBEC.
A resourceful TP charges anywhere between 20.000 to 100.000 RMB per month and charges a revenue share percentage of 5 to 10%. This excludes CBEC platform fees and commissions. Though, depending on their reputation, services and size of their clients' online sales, the annual costs of enlisting a TP can be a multitude thereof.

These costs might seem very high for entering the Chinese market via a seemingly low-cost entry options like CBEC. However TPs will help foreign companies to be able to achieve economy of scale.

Companies are advised to contact TPs directly to enquire about the costs of their individual services.

Possible risks when employing TPS

Despite being a vital and valuable part of one's CBEC ventures into China, Dutch companies should take into account that besides extensive costs, engaging TPs may also bring additional challenges.

The necessity to cooperate with TPs to set up a flagship store on one of the big platforms has complicated the process of expanding foreign business. Firstly, the burgeoning cross-border e-commerce market has resulted in the mushrooming of a massive amount of TPs without an extensive track record or experience. Secondly, foreign companies are increasingly dependent on them, even if they boast their own e-commerce operations and branding departments. In fact, being certified does not warrant quality of service.

As mentioned before, one of the most important challenges overseas brands encounter is directing a sustainable amount of traffic to their online stores and products. Although most TPs offer solutions such as business strategy development, sales promotion and digital marketing to advance the traffic, a complaint often heard from companies that already sell in China is that eager TPs can sell traffic only. However, the sustainable traffic that results in the conversion brands are looking for often lacks.

More extreme, but not unheard of, are stories about unreliable Chinese TPs that engage in selling their clients sales and consumer data, counterfeiting or other abuse of IPR.

Choosing a trustworthy TP

As can be understood from the aforementioned paragraph, one major factor that will determine the success of cross-border e-commerce is to partner up with the right TPs. Experts advise that brands themselves should first create their own long-term CBEC strategy. Subsequently, they should let their TPs determine the best local execution thereof to maintain in control of their CBEC business in China.

Some key considerations:

1. **Select on type of marketplace**.
   Some TPs specialise at procurement on *flash sales platforms*, whereas others predominantly facilitate operations on online malls. Select according to one's CBEC business model.

2. **Select on platform**.
   The strength of the relationship between one's TP and the CBEC platform will determine the ease of communication with the platform and effectiveness of cooperation. Some TPs only deal with Tmall Global, whereas others also certify for JD Worldwide or Suning Global.

3. **Select on service expertise**.
   TPs often offer myriad of (one-stop) solutions, though they may have limited experience in some of them. Determining one's secondary service needs and selecting a TP based on expertise accordingly, will ensure the solutions' quality.

4. **Select on product category**.
   E-commerce platforms often assist brands by classifying their lists of certified TPs by product category. For instance, TPs that deal mainly with foodstuffs have different expertise (e.g. on cold-chain logistics, fresh food regulations etc.) than those handling mother and baby products.

5. **Select on geographical location**.
   Despite uniform national regulations, CBEC Pilot Zones may have their specific procedures. Supply chains and logistic solutions may also depend on the foreign company's preferred mode of import. Needless to say, regional differences are a valid selection criteria for TP cooperation.

Execution of one's e-commerce strategy is impossible without a reliable TP. Choosing a trustworthy and suitable TP is not straightforward and foreign brands looking to establish an online presence on one of the earlier mentioned platforms would be well advised to invest sufficient time and resources in establishment consultation. Foreign companies could ask for recommendations from other companies that already operate in the same region, on the same CBEC platform or sell products in a similar category.

5. ASSISTANCE FROM DUTCH DIPLOMATIC MISSIONS

Foreign companies may find it challenging to verify the credit background of potential third party service providers. The Dutch diplomatic network in China can assist Dutch companies to carry out basic background checks[24]. Moreover, in the area of (cross-border) e-commerce the economic network can deliver matchmaking with well-known platforms and experienced service providers.

In the past and present, Dutch companies cooperate in online campaigns on *Juhuasuan* and the *Holland Pavilion* and Holland Center on Tmall Global to have a greater impact on the vast Chinese online market. In 2016 the *Holland for China* initiative was started to create a platform especially for Dutch products on JD.com.

By joining forces and taking up the opportunity to promote a diversified range of Dutch products they created more interest from Chinese consumer. Making use of the momentum for Dutch products, some brands were able to triple its daily sales during the campaign.

The Dutch diplomatic network highly encourages these initiatives of joint efforts among Dutch companies and individuals. The missions in China have a nationwide bird-eye view on such collaborations. To this end, entrepreneurs who are considering selling their products to China through (cross-border) e-commerce are encouraged to directly contact the missions.

Figure XVIII: Juhuasuan Campaign 2015

Source: Philips

[24] For example, is the Chinese partner legally registered, have they be involved in law suits. Checks are carried out via the provincial Administration of Industry and Commerce (AIC).

6. FEATURED THIRD PARTY SERVICE PROVIDERS

A number of Dutch companies are active in China, which offer technical support in cross-border e-commerce and online marketing. This report has been created in cooperation with the DigiDutch platform. A special thanks to their contribution for this report.

DigiDutch Contributors

DigiDutch
WE HELP YOU SELL ONLINE IN CHINA

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DigiDutch is a Shanghai-based collective of Dutch companies all specialised in e-commerce in China. Combined they have 50 years of experience and 200 employees at your service. DigiDutch helps foreign brands to sell their products and services online in China.

Key services offered by DigiDutch fully focus on eCommerce of which; E-commerce Strategy & Market Entry, Brand & Online Marketing Planning, Online Channel Development & Operation and Online Marketing & Customer Service.

7. DIGIDUTCH COMTRIBUTORS

The following DigiDutch members contributed to their topics of expertise in this guidebook.

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MAiNS International enables foreign companies to do business in, from or to China. The core of the business is Cross-Border E-commerce ranging from B2B trade, Online Sales, B2C Logistics and Office representation. With offices in the Netherlands and China (Shanghai & Shenzhen) we have been the driver of developing business and account management for both SME's as well as Multinationals.

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Bonnard Lawson International Law Firm has offices in Geneva, Lausanne, Luxembourg, Paris, Dubai and Shanghai. The Shanghai office has been operating since 2007. Our multicultural lawyers, who can give support in different languages, are well placed to advise clients, both cost effective and practical, on transnational businesses. Bonnard Lawson can cater to different types of clients including start-ups, SMEs or MNEs. Since our establishment, many companies and individuals from around the world have worked with us successfully to realize their objectives in the Chinese market in various industries including the sale of consumer products through e-commerce.

Marketing and Branding solutions

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The George, with offices in Milan, Barcelona and Shanghai helps multinational companies to connect and engage with their audience. The George helps them build and nurture relationships. Their experience ranges from Education and B2B, to fashion and FMCG. Well-known brands like Nestle, Microsoft and Wall Street English trust The George for their marketing activities.
In China, The George specializes in brand building for overseas companies and integrated marketing campaigns. Projects range from brand identity and web development to celebrity campaigns and WeChat games. All the activities have as goal to improve the bottom-line by creating a deep, long-lasting relationship between the brand and the user.

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Webpower is a leading provider of marketing automation. The company was founded in the Netherlands in 1999 and entered the Chinese market in 2006. Up to now, Webpower has established 10 offices in Europe and Asia.
During the past decade, Webpower China has proudly served thousands of companies in over 14 industries. The company strives to help clients achieve personal communication with Chinese consumers. Email, SMS and mobile marketing are integrated to create an intelligent and multichannel approach.

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TMO Group is an eCommerce Agency with representations in Shanghai, Hong Kong and Amsterdam which service medium & large enterprises with cutting-edge solutions on eCommerce, WeChat, O2O, Mobile and Cloud value-added services. TMO has been engaged in Cloud-based (Cross-border) eCommerce Platform Solutions since 2014. For WeChat it has developed standard & custom solutions for medium & large companies to sell Cross-border including direct Custom filling and Payment gateways. Payment gateways supported are Alipay, WeChat Pay & UnionPay covering Hangzhou, Shanghai, Guangzhou and Qianhai Customs. TMO guides their clients from initial strategy, planning, design, development, hosting and long-term support. Clients include Mannatech (NASDAQ), Organic Nordic (Denmark) and NZ1mall (New Zealand) which sell goods via direct clearance or Free Trade Zone ware house mechanism. More clients we are serving include: VISA, Philips, Allianz Pernod Ricard, Nu Skin (NASDAQ), BMW, Hilton, Osborne, Mannatech (NASDAQ), Bugaboo, Flora Holland, Torres, and Kerry Logistics.

Cold chain logistics solutions

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Arctic Solutions is a (cross border) e-commerce service provider focusing on temperature controlled products for the Chinese market. Our specialty is imported fresh food. Arctic covers everything from (cold store) logistics, custom handling, last mile delivery, customer service and marketing. We can handle the day to day activities that are necessary to successfully run your e-commerce operations in China.

Dr2 Consultants

DR2 CONSULTANTS

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Dr2 Consultants is an international firm assisting organisations to navigate through the regulatory landscape in China and Europe. With offices in Shanghai, Brussels, and The Hague our international team of consultants provides and executes tailored market access-, public affairs-, and communication strategies. For over 17 years we have been committed to delivering high-quality services allowing us to work for leading retailers, service providers, multinationals, governments and trade associations in worldwide e-commerce

8. OTHER E-COMMERCE SERVICE PROVIDERS CHINA

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WebshopinChina assist companies to enter the Chinese online market or to improve the current business results in China. Most of the operations are executed in China. The team in China consists of Chinese designers, marketing experts, Chinese customer service and social media experts. WebshopinChina will open an office in Shanghai in 2017.

Sovereign (China) Limited

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Sovereign offers a range of high value advisory and support services to assist companies of all sizes to understand their market opportunities, develop actionable market strategies and establish business operations successfully in foreign markets. Their services for China entail market entry, corporate formation and accounting & payroll. Sovereign has branches in Beijing and Shanghai.

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The services of Vistra cover general business advisory, corporate services & company formation, company secretarial services, financial services and HR services. Vistra has offices in Beijing, Shanghai, Shenzhen and Guangzhou.

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Solutions Lab Ltd is a consultant for online marketing strategies and market introductions focuses on omni-channel retail and services industries in Asian and EMEA markets. Solutions Lab Ltd is responsible for all aspects of international online operations, marketing and software development of Vitaminstore.nl and its affiliates.

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Mirabeau combines marketing and innovative technology to provide the best digital experience from content management to e-commerce, CRM and analysis for their clients mainly in aviation or retail business from their long last work relationships with Air-France-KLM, ING, Transavia,…..etc. Mirabeau has commenced their Guangzhou office in September 2016 to enhance their work relations with Chinese State owned- and privately owned enterprises.

Blue Arca

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Blue Arca's Cyber Security experts have been in the information risk management field for more than 10 years. Blue Arca is certified according to the cyber security industry standards. Blue Arca has protected a large number of companies globally by advising, implementation and test security governance structures, processes, education programs and technologies.

CAC Holdings Ltd

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CAC Holdings Ltd and its affiliates deal worldwide in bulk and value-added food products to the retail, foodservice, and processing industries. CAC Holdings Ltd provides one stop shop for all your requirements in the agro-food and meat packing industry.

Guangzhou

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Second Company is specialised in software development in Xiamen for mainly Dutch clients, including responsive web-apps and portal development.

RB2 (Kooboo)

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RB2 is a Dutch web development company with its headquarter in Purmerend (The Netherlands) and a development center in Xiamen. Kooboo is a product developed by RB2. Since Kooboo is more well-known in the Chinese market than RB2, the company sometimes also presents itself under its name Kooboo.

APPENDICES

APPENDIX: Positive lists

- **CBEC positive list one (released 08 April 2016):**

  Chinese
  Source: Ministry of Finance (official)
  http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201604/t20160401_1934275.html

  English
  Source: Swiss Global Enterprise
  http://www.s-ge.com/sites/default/files/censhare_files/list-imported-commodities-retail-cross-border-e-commerce.pdf

- **CBEC positive list two (released 15 April 2016):**

  Chinese
  Source: Ministry of Finance (official)
  http://gss.mof.gov.cn/zhengwuxinxi/zhengcejiedu/201604/t20160406_1939013.html

  English
  Source: Swiss Global Enterprise
  http://www.s-ge.com/sites/default/files/censhare_files/list-imported-commodities-retail-cross-border-e-commerce-nd-batch_4.pdf

TERMINOLOGY

Alibaba – China's largest e-commerce company.

Alipay (支付宝)– Alibaba's proprietary online payment system.

Aliwangwang 阿里旺旺 – Alibaba's proprietary messaging tool used on all Alibaba e-commerce platforms for real-time communication between customers and customer service.

API – Application Programming Interface, a set of routines, protocols and tools for building software applications.

AQSIQ – General Administration of Quality Supervision, Inspection and Quarantine.

Baidu (百度) – China's largest and most popular search engine.

Baokuan (爆款) – Currently most popular products.

Baoyou (包邮) – Shipping costs included in the price.

Beihuo (备货) – stock up (in bonded warehouse).

Bonded warehouse (关栈) - a customs-controlled warehouse for the retention of imported goods until the duty owed is paid.

Baozun (宝尊)-is a leading, digital and e-commerce service partner in China.

Cainiao (菜鸟) – Alibaba's own logistics network, linking Alibaba with a consortium of logistics providers.

CIF – Cost, Insurance and Freight is a trade term requiring the seller to arrange for the carriage of goods to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier.

CIQ – Bureau of Entry and Exit Quarantine and Inspection.

CFDA – China Food and Drug Administration.

CNCA – Certification and Accreditation Administration of the People's Republic of China.

Consolidated shipment - A distribution method whereby an agent (a consolidator) combines individual batches of goods from various companies into one shipment. The benefit of this combined shipment to individual shippers is the preferential rates.

Daigou (代购) - agent buying, whereby a third party (often a friend or relative) purchases and dispatches overseas merchandise.

Dianpu (店铺) – shopfront on online mall or hypermarket.

Escrow – a monetary arrangement in which a third party receives and disburses money or documents for the primary transacting parties, with the disbursement dependent on conditions agreed to by the transacting parties. For e-commerce: Alipay, WeChat Pay etc.

ExFresh (安鲜达) - China's largest cold-chain logistics service company.

Guanzhan (关栈) – bonded warehouse.

Haitao (海淘) – overseas purchases, often used for cross-border section of e-commerce platforms.

Holland Pavilion – Dutch country-focused shop on Tmall Global.

ICP License – ICP license is a legal requirement for all websites hosted in the People's Republic of China.

Jiesuan (结算) – checkout process.

Jingdong (京东) – JD.com.

Juhuasuan (聚划算)– owned by Alibaba, this website offers goods at a limited-time discount.

KOLs - Key Opinion Leaders are online influencers with a big following on Chinese social media. They are widely used to promote products through *word of mouth*.

Kuaidi (快递) – express, last-mile delivery (mostly electric scooters).

Kuajie (跨界) – cooperation to promote products from different sectors or industries.

Kuajing (跨境) – cross-border sales.

Lenglian (冷链) – cold chain (logistics).

Miaosha (秒杀) – a time or volume-limited flash sale. Websites like VIP.com make use of this model.

Peisong (配送) – distribution.

Personal postal articles tax - a kind of import tax levied by Chinese Customs on inbound parcels. It includes import VAT and consumption tax.

Pingtai (平台) – e-commerce platform or marketplace.

Qin (亲) – term used by Customer Service to address customers (see in-text example).

Ruanwen (软文) – to invite KOLs or other influential celebrities to promote products on social media or WeChat.

SF Express (顺丰快递) – the largest domestic logistics company in China.

Shangou (闪购) – a time or volume-limited flash sale. Websites like VIP.com make use of this model.

Taobao (淘宝) – Chinese C2C online marketplace, often regarded as China's first CBEC platform.

Tencent – Popular provider of website portals, software and mobile applications such as WeChat and QQ.

Tenpay 财付通 – proprietary online payment system developed by software company Tencent; the software behind WeChat Pay.

Tmall (天猫) – China's largest online mall (B2C) operated by Alibaba Group.

Tmall Supermarket (天猫超市) – Supermarket based on Tmall.com. Fresh food section is solely operated by Yiguo.com.

Tmall Global – Tmall's cross-border e-commerce platform.

Tuan Gou (团购) – group purchasing.

Weibo (微博) – Chinese social media platform, equivalent to Twitter.

Weidian (微店) – a social sales store operated on the WeChat social media application, either by an individual or company.

WeChat (微信) – instant messaging and social media application developed by software company Tencent.

WeChat Pay (微信支付) – proprietary online payment method on WeChat and in offline stores.

Weixin (微信) – see WeChat.

Xiao'er (小二) – customer service representatives, especially those on Taobao and Tmall.

Yushou (预售) – presales.

Zhuizong (追踪) – parcel tracking.

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