A Full Guide on Foreign Brands Entering Chinese Market via Cross-border Ecommerce (1-Policies)

By Mia C. Chen
CEO at OctoPlus Media, Go-to-China Expert, Google Coach, WeChat Smart Solution, China Data Bank™

Happy Asian family shopping in supermarket

Why would foreign brands want to enter Chinese market?

China's economy is steadily growing with progressive developing trends. With the rapid growth of urban and rural residents' income and the government reducing taxes and fees, and implementation of a series of policies to expand consumption, it is expected that the consumer market will maintain steady development trend. Some experts even predict that by 2022, China is expected to surpass the United States and become the world's largest consumer market.

In 2020, COVID-19 has slowed the global economy down. However, with the strong control measures and response strategies by the Chinese government, China has taken the leading role in controlling the epidemic and actively assisting overseas countries by delivering medical supplies and sharing their successful anti-epidemic experiences. The efficiency of Chinese government has brought the Chinese people to begin production and consumption restoration, and will further bring confidence to the restoration of global brand spending power. With the increase of Chinese national consumption capacity level, we believe that China would become a vital trading market which global brands are eagerly to enter.

How do foreign brands enter Chinese market?

Brands can enter Chinese market in two ways: general trade and cross-border e-commerce. Let’s take a look at the differences between these two methods at first.

1. Difference in import model

General trade refers to the basic retail and is usually used between enterprises. It needs to go through

Warehouse Goods Stock

A customs declaration

the supervision of departments like customs, General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), State Administrative of Foreign Exchange (SAFE), State Administration for Industry and Commerce (SAIC), etc. Commercial documents such as import and export contracts, invoices and a series of freight documents like bill of lading are also required.

The goods imported through general trade must have labels in Chinese on the original packaging; therefore, the foreign products sold in the Chinese physical stores are mostly imported through general trade. Just like Chinese domestic goods, they can be circulated in China domestic market.

While the rise of cross-border e-commerce is brought by the demand of China domestic consumption on foreign products. It is a B2C model, which usually is a direct transaction between cross-border e-commerce companies and individual consumers. These consumers prefer high-quality, diversified products, and also expect cost-effectiveness and high-efficiency in the buying process.

If using the general trade method, the process will take a lot of time and effort to resolve the various procedures of customs clearance. So, in consideration of time and effort, the cross-border e-commerce platform is much more efficient and convenient than general trade. Furthermore, the goods imported

Difference between General Trade and Cross-Border E-commerce

	General Trade	Cross-border E-commerce
Model	• Basic retailing and commonly used between enterprises • Goods can be circulated in China's domestic market	• Direct transaction between cross-border e-commerce companies and individual consumers • Reselling of the products is not allowed
Taxation	Three types of tariffs are involved, which are customs duties, value-added tax, and consumption tax	• Cross border e-commerce import tax
Customs Clearance	Strict regulations and complex documentation requirements	• Only requires uniformity of three bills (order bill, payment bill and logistics bill) Simpler procedure than general trade

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through cross-border e-commerce model are original products from overseas and purchased for personal use. Therefore, these goods will not be taxed in China. However, reselling of the products is not allowed.

2. Difference in taxation

The taxation is also different according to the different import models in China. For general trade, the tariff is based on China Tariff Schedule and applicable to all trading that involves importing products from or exporting products to China. There are three types of tariffs - customs duties, value-added tax, and consumption tax. You need to clear customs and pays duties and taxes on the CIF (cost, insurance, freight) price before the product is sold.

While for cross border e-commerce, there is a cross border e-commerce import tax and you clear customs only when there's an order from an online customer. The e-consumer pays duties and taxes on the retail price. Different taxes and duties are applied to cross border e-commerce trade and products have to comply with a different set of regulations from those via normal trade

3. Difference in customs clearance method

Let's take exporting food to China as an example:

General trade has to follow strict and complex documentation requirements. The process involves more than 10 documents for customs clearance, such as the certificate of origin, health certificate, food ingredients analysis, import license, import declaration for the company's first import of food, description of the packaging material, safety assessment, etc. The process not only is complicated, but also requires a long time. Moreover, most documents are required to be submitted in hard copy, and products that fail to meet the pre-approval conditions will not be allowed to enter China.

While for cross-border e-commerce model, it only requires the e-commerce platform to declare the goods that need to be imported in advance and provides the relevant order information, payment information and logistics information when the goods have arrived at the customs. Its procedure is much more straightforward than the one of general trade model. Not only that, most of the documents can be submitted in soft copy, which is more convenient, efficient and systematic.

Compared to the general trade model, the procedures of customs clearance of cross-border e-commerce model is much more simplified and efficient. Also, the lower involved tariff rate can help reduce the import costs and increase the profit margins.