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China`s State Council issued guideline to promote development of the cross border e-commerce industry in China

On Jun 20 2015, China's State Council released new guideline[1] (hereinafter "the guideline") to support cross border e-commerce development. The guideline stated government support for e-commerce firms in China, both state-owned and private, to engage actively in international projects and overseas expansion via well improved e-commerce platforms. Also, it proposed to reformulate preferential tax policies on e-commerce retail imports and exports as well as pilot projects to promote settlement of payments in RMB for the online transactions. We will be introducing the highlights of the guideline of supporting e-commerce development in the following report.

I Background

Online shopping, which entails consumers taking to the Internet to buy products directly from retailers, is gaining popularity around the world with advancing technologies helping to reduce problems associated with international payments, long shipping times and language barriers. This phenomenon, known as cross border e-commerce, makes it possible for people to shop online anywhere and everywhere by computers and smartphones.

With the global e-commerce industry having continued to expand over the past decade, the e-commerce market in China has exploded more notably than other nations. A report, by China's biggest e-commerce company Alibaba, and consultancy Accenture, predicted that the nation's annual e-commerce imports and exports would increase more than ten-fold in the next five years, to reach $245 billion by 2020. Also, according to China`s Ministry of Commerce, the cross border e-commerce in China has reaped a turnover of RMB3.1 trillion in 2013, occupying 12.1% of total imports and exports. The cross border e-commerce turnover is estimated to reach RMB6.5 trillion in 2016, with 16.9 % of the total imports and exports trade.

Echoing the booming e-commerce market, China's regulatory framework for foreign investment in the e-commerce industry has undergone great liberalization. In May 2015, the State Council published "the Opinions on the Vigorous Development of E-commerce to Speed up the Cultivation of New Economic Drivers" (hereinafter "the opinions"[2]) to promote development of E-commerce, mandating government departments to develop policies to achieve a liberalized e-commerce market in China by the year 2020.The opinions also specified several policies regarding the e-commerce including the lowering of barrier for market access (by cleaning up the existing administrative pre-approval items) and the reduction of tax burdens. The newly released guideline further stressed government`s determination in supporting the development of cross border e-commerce market.

[1] http://www.gov.cn/zhengce/content/2015-06/20/content_9955.htm
[2] http://www.gov.cn/zhengce/content/2015-05/07/content_9707.htm

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II Highlights

China`s foreign trade will get a new growth engine when combined with the “Internet Plus” initiative, which strives to upgrade Chinese economy by the integration of Internet with other industries. The guideline proposed below points to boost a healthy and rapid growth of the e-commerce market:

- Support e-commerce retail exports companies to strength the cooperation with overseas companies by providing overseas warehousing services, experience centers and online distribution stores. Encourage quality companies with extensive capabilities to expand their overseas network;
- Improve the existing customs, inspection and quarantine and tax policies and facilitate the custom clearance process;
- Enhance the cross border e-commerce payment by domestic banks and payment institutions, promote RMB settlement of cross border e-commerce activities;
- Offer financial support to traditional companies to explore the international market via e-commerce platforms; Support relevant companies in providing effective financing and insurance plans;
- Set up an integrated system to significantly improve the levels of standardization, scale and clustering of domestic e-commerce companies with sound industry rules and regulations; perfect the law enforcement to supervise e-commerce business and better protect consumers` rights and interests;
- Strengthen multilateral and bilateral international cooperation on the e-commerce development; Deepen the cooperation of e-commerce with countries or regions along the “One Belt and One Road” proposed by Chinese president Xi Jinping to revive the ancient trade route and better connect the economies of Europe, Middle East, Africa and Asia.

Particularly, the guideline proposed to continue to implement existing tax refund or exemption policy on cross border retail exports. At the same time, relevant governmental bodies will cooperate to formulate proposals to reduce import tariffs in China on certain consumer products to boost domestic consumption and promote the e-commerce sector. Concurrent to government`s guidance on liberalization of import tariff and import polices in recent years, a number of the pilot policies have already been rolled out. For example, since 2013, Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou, Chongqing and subsequently Shenzhen have been selected as the pilot cities to implement bonded import for cross border e-commerce. For the purchasing purpose of personal use and at reasonable quantity, consumers can easily complete the customs clearance and tax settlement processes for imported goods purchased online in the pilot cities. Specifically, the actual purchase price on e-invoice can be used as dutiable value and the respective customs duty can be computed by reference to “postal tax”[3] rate. Transactions with customs duty payable of RMB 50 or below can be exempted. By using postal tax rate, the import tax cost is greatly reduced for the majority of high-demand goods imported by consumers like food and drink products, leather clothing and accessories, etc. These kind of import measures will increase the attraction of the high-demand goods to consumers hence further encourage cross border e-commerce market.

In practice, the interpretations of the guideline and the tax policies may differ but it is noticeable that when foreign investment is involved, the government is giving the favorable opinion towards opening up the e-commerce industry to foreign investors.

[3] Postal tax is short for luggage and postal articles import duties, which is levied on taxable luggage, personal postal articles carried by entry passengers and the personal items entered in other ways. It covers custom duties, consumption tax and import value-added tax.

III Comments

The issuing of policies for guiding the e-commerce development represents a positive sign for foreign invested companies doing e-commerce business in China and potential foreign investors. With a booming middle class and increased Internet access across the nation, China is expected to be at the forefront of e-commerce development. Yet it remains to be seen how the relevant governmental authorities cooperate and implement the actual directions. With more liberalization measures on e-commerce industry coming on the way, it is promising for foreign invested companies to operate unhindered in this newly opened up market.

What`s more, along with reform of reducing import tariffs and more detailed measures being released in the future, foreign investors can benefit from the operational model by using it as a new channel to directly reach the China market, as well as greatly reducing the cost by establishing a company in China. However, operating cost arising from the handling fees payable to online platform providers and logistics arrangements shall be noted.

The interpretation and actual implementation of the policies on e-commerce development in China should be worthy of attention. The up-to-date information will be provided continuously by our bank.