

## China Reduces Import Tariffs on Part of Consumer Goods

11 DEC 2017

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On 22<sup>nd</sup> November 2017, Customs Tariffs Commission of the State Council (hereinafter "CTCSC") promulgated "the Notice to adjust the import tariffs on part of consumer goods (Shuiweihui [2017] No.25) (hereinafter "the Notice")<sup>1</sup>", which takes effect from 1<sup>st</sup> December 2017.

### BACKGROUND

In recent years, with outbound tourism and cross-border e-commerce exponentially boosting, China's trade policy is faced with a new challenge. According to United Nation World Tourism Organization, in China the tourist number of going abroad on private trip was over 100 million, while the consumption spending was over USD 250 billion in 2016, respectively increasing 6% and 12% over last year. Furthermore, along with the enhancement of living standard, domestic consumers are chasing foreign consumptions goods with higher quality. According to China e-commerce research centre, in 2016 the transaction amount via cross-border e-commerce platform achieved RMB 6.7 trillion, 24% rose over 2015. Owing to its great accessibility and preferential price, cross-border e-commerce becomes a most popular and familiar way luring especially young generation who represents the main consumer group.

However, there is as well unevenness upon developments of cross-border e-commerce. For example, in regards of online shopping via overseas buyers, issues of tax evasion and problems of counterfeit consumer goods are found to be tackled due to the huge amount of transactions over the broad land.

On the other hand, since for a relatively long period China has been implementing high tariffs for protecting domestic products from overseas consumptions, causing a wide price gap between domestic and overseas, which is deemed unflavoured to both domestic consumers and competitiveness of consumer goods.

Therefore, with an aim of improving general consumer goods import and better serving domestic citizens' consumption needs, since 2015, China has begun to from time to time cut tariffs on part of goods such as cosmetics, bags, shoes, specific food and pharmaceuticals. Following June 2015, January 2016 and January 2017, it has been the fourth time for China to cut tariffs on foreign imported goods, which reflects China's direction towards expanding import trade and fuelling domestic consumption. The Notice is expected to enrich as much as possible options for consumers as well as promote foreign goods import via formal channels, which helps keep consumption and taxation inside China meanwhile ensure the quality and supplier management.

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<sup>1</sup> CTCSC (22<sup>nd</sup> Dec 2017).Retrieved from: [http://qss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201711/t20171123\\_2755506.html](http://qss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201711/t20171123_2755506.html)

## HIGHLIGHTS

By covering 187 categories, the Notice decreases the average tax rate from 17.3% to 7.7%. Especially the subject items released are popular goods and closely related to consumers' daily life such as cosmetics, household appliances, babies diapers and so on. (For details please refer to the Table below)

**[Table]** Import Tariffs under the Notice (Extract)

Category	HS Code	Goods	Most-Favoured-Nation Treatment in 2017(%)	Applicable Tax Rate Since 1 <sup>st</sup> December (%)
<b>Cosmetics</b>	33041000	Lip Make-up Preparations	10	5
	33042000	Eye Make-up Preparations	10	5
	33030000	Perfumes and Toilet Waters	10	5
	33043000	Manicure or Pedicure Preparations	15	5
<b>Beverages</b>	22011010	Mineral Water	20	10
	22083000	Whiskies	10	5
	22051000	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances, in containers holding 2L or less	65	14
<b>Household Appliances</b>	85167990	Electronic Smart Toilet Cover	32	10
	85167910	Electro-thermic Water Dispenser	32	16
	85167990	Other Electro-thermic Appliances (except for Electronic Smart Toilet Cover)	32	16
	85167120	Steam Espresso Makers	32	10
	85167110	Drip Coffee Makers	32	10
	85167130	Pump Espresso Makers	32	10
	85167210	Household Automatic Bread Makers	32	16
	85167220	Slice Popup Toasters	32	16
	85167290	Other Electro-thermic Toasters	32	16
<b>Childcare Products</b>	87150000	Baby Carriages and Parts Thereof	20	10
	96190011	Diaper and Diaper for Baby	7.5	0
	21069090	<ul style="list-style-type: none"> <li>▪ Special Infant Milk Powder of Partial Hydrolysis Formula of Lacto-protein</li> <li>▪ Deep Hydrolysis Formula of Lacto-protein</li> <li>▪ Amino Acid Formula</li> </ul>	20	0
<b>Feminine Hygiene Products</b>	96190020	Sanitary Towels(Pads) and Tampons, of Any Material	10	5

## COMMENTS

Overall, the Notice is anticipated to have some impacts to different kinds of parties. Firstly, for mainland side, it is regarded as a strong support to general trade and cross-border e-commerce's development. To lower the tariffs helps to expand categories of foreign goods imported, so as to better spur consumers to purchase goods via legal channels. On the other hand, it is predicted a hit to online shopping business via overseas buyers since the price gap will be narrowed down, which to some extent protects consumers from getting fake goods via grey channels.

On the other hand, most opinions of Hong Kong side are optimistic. As for retail industry, since the subject infant milk powder is limited to premature babies and babies who are allergic to milk, which accounts for minor shares in Hong Kong market, thus it is not considered as a big concern. In addition, as Hong Kong is equipped with strict custom examination system and well-built legal regime protecting goods quality, which is deemed as the key point appealing to consumers.

Last but not least, as an international free trade port, Hong Kong's practice of "0 import tariffs" is favourable even if mainland decrease tariffs on some goods. On the contrary, it may possibly bring Hong Kong retail industry a chance to adjust itself and catch up with the changes of mainland consumer market.

However, regarding to consumers, whether the price decreases finally depends on the market since the import tariffs only concern with the import price instead of the selling price. Whether the new policy brings influence to domestic market and Hong Kong market is to be observed after being practiced. And we will follow up the issues concerned.

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