

CHINA'S EXPANDING CROSS-BORDER E-COMMERCE RETAIL IMPORTS — AN OPPORTUNITY FOR JAPANESE COMPANIES TO CAPTURE CHINA'S CONSUMER POWER —

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SUMMARY

- With the spread of COVID-19 making it difficult to travel overseas, Chinese consumers are changing how they purchase overseas products. Typically, they purchased them during overseas trips, but they now tend to obtain those through cross-border e-commerce platforms, and cross-border e-commerce retail imports are increasing.
- Since 2020, China has launched a series of measures to promote cross-border e-commerce retail imports, and has expanded pilot projects nationwide. These policies have enhanced consumer convenience, and are expected to further reinforce the practice of purchasing overseas products through cross-border e-commerce platforms.
- The growth of the middle class resulting from China's "common prosperity" policy will no doubt be a positive factor for expanding cross-border e-commerce retail imports. The utilization of cross-border e-commerce will also be effective for Japanese and other overseas companies to capture China's consumer power.

As global demand for international tourism stagnates amid the COVID-19 pandemic, Chinese consumers are switching to cross-border e-commerce platforms to purchase the goods that they previously bought when traveling overseas. As a result, overseas companies are also accelerating the launching of stores on China's cross-border e-commerce platforms in the quest to recover the inbound consumption lost due to the pandemic. This report presents an overview of the current state of consumption in the expanding cross-border e-commerce market along with government measures to encourage it, and examines key strategies to capture domestic consumption in China with a view to the post-COVID era.

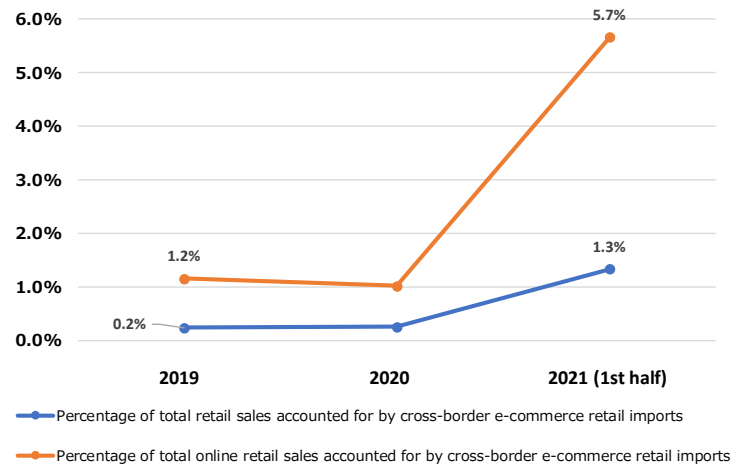
1. CROSS-BORDER E-COMMERCE EXPANDS RETAIL IMPORTS

1-1. The COVID-19 crisis has led to the expansion of cross-border e-commerce retail imports

According to data released by China's Ministry of Commerce, China's total retail import value from cross-border e-commerce trade in 2019, before the COVID-19 pandemic, stood at about 91.8 billion yuan (approximately 1.5 trillion yen), while in the first half of 2021 alone, it reached 283.1 billion yuan, equivalent to approximately three times the value for the whole of 2019. Moreover, since the total retail value of consumer goods in 2019 and in the first half of 2021 was 41 trillion yuan (of which the total retail value of online transactions was about 8.5 trillion yuan) and 21.2 trillion yuan (total retail value of online transactions of about 5 trillion yuan), respectively, it can be estimated that the share of the total retail value of consumer goods accounted for by cross-border e-

commerce retail imports rose from 0.2% in 2019 (1.1% of the total retail value of online transactions) to 1.3% in the first half of 2021 (5.7% of the total retail value of online transactions) (Figure 1).

Figure 1 Trend of China's cross-border e-commerce retail imports



Source: Compiled by MGSSI based on data published by the National Bureau of Statistics of China and the Ministry of Commerce of the People's Republic of China (<https://dzswgf.mofcom.gov.cn/yjbg/page1.html>)

1-2. Major cross-border e-commerce imports and import sources

Viewed by product, cosmetics have enjoyed unflinching popularity for the past three years. This was particularly true in the first half of 2021 when the cosmetics market share grew to over 40%. Clothing and jewelry also commanded a strong market share (Figure 2). Japan retains its position as the leading import source, accounting for 13.7% of the total value (transaction value basis) in the first half of 2021 (Figure 3).

Figure 2 China's cross-border e-commerce retail imports by product (as share of total transaction value)

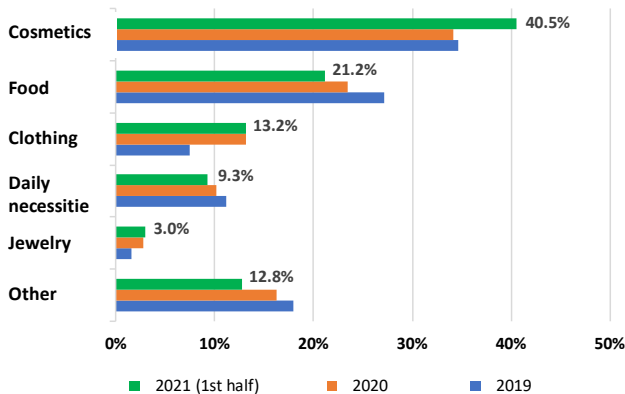
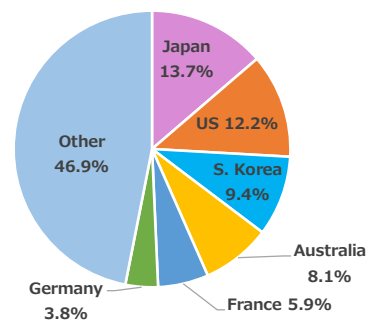


Figure 3 China's cross-border e-commerce retail imports by source country (1st half of 2021, as share of total transaction value)



Source: Compiled by MGSSI based on data published by the Ministry of Commerce of the People's Republic of China (<https://dzswgf.mofcom.gov.cn/yjbg/page1.html>)

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1-3. Overseas product purchasing methods and popular products

It is the persistent popularity of overseas products among Chinese consumers that lies behind the growth in cross-border e-commerce retail imports. This is clear from the fact that the value of their purchases has been increasing year by year. While there is currently a “national tide” boom (for products made in China and incorporating Chinese cultural elements) underway in China, particularly among young people, it is still limited

to certain items such as some clothing and sports goods, and overseas products remain highly popular due to their wide selection and high quality.

Various methods are used to purchase these products, including cross-border e-commerce, use of proxy purchasing services, overseas travel, and visiting the websites of overseas companies. Among these methods, cross-border e-commerce (especially B2C platforms) offers several advantages for consumers, including reliability, a wide range of products, low price, fast delivery, and after-sales service (Figure 4). A report published by the Chinese media research group iiMedia in August 2020 also notes that it is a major purchasing method¹.

Figure 4 Comparison of methods used by Chinese consumers to purchase overseas products

Method		Reliability	Variety	Low price	Fast delivery	After-sales service
Cross-border e-commerce	Main B2C platforms: Tmall Global, Kaola, JD Worldwide, SUNING INTERNATIONAL, Vipshop International	Excellent	Excellent	Excellent	Excellent	Excellent
	Main C2C platforms: Ymatou	Good	Excellent	Excellent	Excellent	Good
Proxy purchasing services	Services that purchase and ship products for customers at the customer's request, in return for a handling fee.	Average	Excellent	Good	Average	Average
Overseas travel	Overseas stores, duty free shops, etc.	Excellent	Good	Excellent	—	Average
Company websites	Purchases made directly from online shopping sites of overseas companies	Excellent	Good	Excellent	Average	Average

Source: Compiled by MGSSI based on information published by Baidu and SOHU

Most cross-border e-commerce retail imports are purchased through major domestic platforms, with Tmall Global, Kaola, JD Worldwide, SUNING INTERNATIONAL, and Vipshop International accounting for more than 80% of the market share. The Alibaba subsidiary Tmall Global is the largest of these platforms with approximately 30% of the market share. Overseas products that sold well on the platform in 2020 include beauty products, medical devices, health foods, and maternity and baby products (Figure 5). According to Tmall Global, growth in health foods and beauty products has been particularly strong as the COVID-19 pandemic has led to increased interest in health and beauty products among Chinese consumers. Sales of pet products are also growing. These trends are likely to continue in the future.

Figure 5 Popular foreign products on the Tmall Global platform

Category	Product
Beauty products	<ul style="list-style-type: none"> • Spreadable face packs (approx. 52-fold year-on-year increase in sales value) • Men's facial cleansers (approx. 2.5-fold increase)
Medical devices/health foods	<ul style="list-style-type: none"> • Colored contact lenses (approx. 21-fold increase) • Dietary/plant fiber (approx. 26.7-fold increase)
Maternity & baby products	<ul style="list-style-type: none"> • Prenatal laxative supplements (approx. 2,600-fold increase) • Postnatal body shaping devices (approx. 8-fold increase)
Food	<ul style="list-style-type: none"> • Plant protein drinks (approx. 2,100-fold increase)
Pet products	<ul style="list-style-type: none"> • Ear care products (approx. 8-fold increase)
Clothing	<ul style="list-style-type: none"> • Canvas shoes (approx. 2.8-fold increase)
Digital consumer electronics	<ul style="list-style-type: none"> • Electronic beauty devices (approx. 2.1-fold crease)

Source: Compiled by MGSSI based on JETRO's *China's e-commerce market and how it is used* (https://www.jetro.go.jp/ext_images/_Reports/01/0f325ff0aaf3c1b8/20210012.pdf)

2. POLICY MEASURES TO SUPPORT CROSS-BORDER E-COMMERCE RETAIL IMPORTS

Government policy is also indispensable for supporting the expansion of cross-border e-commerce retail imports. Since 2020, a series of policies to encourage cross-border e-commerce has been launched (Figure 6). The number of pilot cities trialing cross-border e-commerce retail imports was increased from 37 in January 2019 to

¹ <https://www.iimedia.cn/c400/73899.html>

86 cities nationwide and the whole of Hainan Province in January 2020, and in March of the same year, the procedure for returning products purchased through cross-border e-commerce transactions was simplified. Furthermore, in March 2021, pilot schemes were expanded nationwide to cities and areas hosting pilot free trade zones (21 locations nationwide, including new zones established in Beijing, Hunan, and Anhui in 2020)², comprehensive cross-border e-commerce pilot zones³, comprehensive bonded zones⁴, import trade promotion innovation demonstration zones⁵, and bonded logistics centers (B-type)⁶. Consequently, it can be said that the pilot scheme has been expanded more or less nationwide.

Figure 6 Policies to promote cross-border e-commerce retail imports introduced since 2020

Policy	Introduced by	Date	Content
Circular on Expanding the Pilot Programme for Cross-border E-commerce Retail Imports	Ministry of Commerce, Development and Reform Commission, Ministry of Finance, General Administration of Customs, Taxation Administration, State Administration for Market Regulation	Jan. 2020	Expansion of the pilot locations for cross-border e-commerce retail imports to 50 cities, including Shijiazhuang, Wenzhou, and Shaoxing, and the whole of Hainan Island
Announcement No. 45 of the General Administration of Customs 2020 (Announcement on Issues Concerning the Supervision of the Return of Cross-border E-commerce Retail Imports)	General Administration of Customs	Mar. 2020	Simplification of the procedure for returning products purchased through cross-border e-commerce. (Consumers only have to return the goods as specified by the seller within a certain time limit. Consumers are not required to make an application for returns to customs.)
Circular on Expanding Trials of Cross-border E-commerce Retail Imports and Strict Implementation of Supervision Requirements	Ministry of Commerce, Development and Reform Commission, Ministry of Finance, General Administration of Customs, Taxation Administration, State Administration for Market Regulation	Mar. 2021	Expansion of cross-border e-commerce pilot schemes to all cities (and areas) hosting pilot free trade zones, comprehensive cross-border e-commerce pilot zones, comprehensive bonded zones, import trade promotion innovation demonstration zones, and bonded logistics centers (B-type)

Source: Compiled by MGSSI based on information published by the Chinese government (<http://sousuo.gov.cn/column/47995/40.htm>)

The “bonded area model”⁷ is applied in the above regions. Under the bonded area model, the seller stores goods in a warehouse in a bonded zone within China in advance, and upon receipt of an order from a customer, the goods undergo customs clearance and quarantine procedures and are shipped from the warehouse. Goods that are imported under the bonded area model are handled in the same way as privately imported items, eliminating the need for the new import approval procedures required for general cargo imports. As a result, sellers from overseas countries, including Japan, can take advantage of smoother import procedures when selling goods in China, and therefore expect to reduce costs through bulk transportation. At the same time, for consumers, this model has the advantage of significantly reducing the time it takes for a product to arrive after it has been ordered. For example, lead times, which used to be one week or more, are slashed to one to two days under the bonded area model. This system allows almost all consumers across the country to enjoy this advantage.

² Pilot zones designed to realize more efficient economic management by reducing the government’s licensing authority. Regulations are relaxed within the pilot zones in various areas such as trade, finance, and investment.

³ Pilot zones in which measures such as exemptions on value-added tax and consumption tax are trialed primarily for cross-border e-commerce exports. The pilot scheme covers 105 cities nationwide, including 46 cities newly established in 2020.

⁴ Bonded areas that are established inland and function as bonded port areas. They are already located in 31 provinces and autonomous regions nationwide.

⁵ First established in November 2020 at the opening of the 3rd China International Import Expo. These are model areas for promoting imports into China and improving the ease of importation. They have been established in the ten provinces and cities of Shanghai, Guangzhou, Dalian, Xi’an, Liaoning, Fujian, Shandong, Anhui, Zhejiang, and Jiangsu, providing a balanced regional distribution across China’s eastern, central, western, and north-eastern regions.

⁶ Sites for centralized customs control and supervision for the bonded storage of import and export goods and other goods for which customs clearance has not been completed. As of the end of June 2020, they had been established at 92 locations nationwide.

⁷ <https://www.businesslawyers.jp/practices/984>

A series of promotional policies has contributed to the expansion of cross-border e-commerce retail imports by making the importation of goods easier for Chinese customers who have been unable to indulge in shopping sprees when traveling overseas as a consequence of the COVID-19 pandemic. With such a highly convenient method of shopping spreading across the country, purchasing through cross-border e-commerce platforms is likely to become a firmly established consumption pattern for Chinese consumers. If the number of overseas products that can be purchased on these platforms increases, the purchasing power exerted worldwide by Chinese tourists prior to the COVID-19 pandemic would help to boost domestic consumption. In the future, it is likely that there will be further progress in the development of related sectors, the enhancement of convenience for consumers, and the establishment of rules from the viewpoint of consumer protection.

3. CROSS-BORDER E-COMMERCE CAN CAPTURE CHINA'S CONSUMER POWER IN PLACE OF INBOUND DEMAND

According to the Japan Tourism Agency's 2019 Consumption Trends of International Visitors to Japan Survey, retail consumption by Chinese visitors to Japan in 2019, prior to the COVID-19 pandemic, totaled one trillion yen. This is equivalent to about 60% of total retail consumption by all overseas visitors to Japan (approximately 1.7 trillion yen). Cosmetics and perfumes rank highest among the products purchased by Chinese visitors to Japan, with over 80% of visitors making such purchases, and the amount spent per person on these goods is also high. Clothing and food also feature high in the ranking (Figure 7). These items are also the most popular cross-border e-commerce retail imports, which suggests that Japan's inbound consumption, which has stalled as a result of the spread of COVID-19, could be restored by utilizing cross-border e-commerce. Moreover, there are many other Japanese products that are highly popular with Chinese consumers. Ninety-two new popular products, including frozen seafood, alcoholic drinks, and home appliances, have been added to China's Positive List of Cross-border E-commerce Retail Imports (a whitelist of goods imported through cross-border e-commerce)⁸, which came into effect in January 2020, and these items, too, could become a part of the strategy to capture China's consumer power. As seen with the example of Tmall Global mentioned above (Figure 5), health foods and pet products are also attracting attention.

Figure 7 Most popular purchases by Chinese visitors to Japan (2019)

Rank	Item	Purchase rate	Spending per person (yen)
1	Cosmetics, perfume	81.9%	52,142
2	Confectionery	76.6%	9,639
3	Pharmaceuticals	50.8%	21,760
4	Clothing	38.5%	28,512
5	Food, drink, cigarettes	37.1%	10,440
6	Shoes, bags, leather goods	25.0%	49,810
7	Health products, toiletries	22.2%	20,203
8	Electrical goods	14.7%	33,110
9	Alcohol	12.8%	11,777
10	Folk & traditional craft products	8.4%	9,243

Source: Compiled by MGSSI based on the Japan Tourism Agency's 2019 Consumption Trends of International Visitors to Japan Survey (<https://www.mlit.go.jp/kankochou/siryoutoukei/content/001345781.pdf>; Slide 24)

This measure to promote cross-border e-commerce has enabled the bonded area model to be used more or less nationwide, thereby greatly improving distribution costs and delivery speeds and increasing the

⁸ <http://cws.mofcom.gov.cn/article/swcjzc/202001/20200102929369.shtml>

convenience of cross-border e-commerce. In some cases, oysters harvested in the morning in Japan end up on Chinese dinner tables in the evening. By utilizing cross-border e-commerce, it will be possible to easily export fresh produce and other kinds of goods that would be difficult for inbound travelers to purchase and bring home. Export of such products to the Chinese market can be expected to grow in the future.

President Xi Jinping has proclaimed the goal of “common prosperity” for all Chinese citizens, promoting concrete measures in an attempt to reduce income disparity, a process that is very likely to result in the further expansion of the middle class. There can be no doubt that this would be a positive factor contributing to the expansion of cross-border e-commerce retail imports in China. The utilization of cross-border e-commerce will be effective for Japanese and other overseas companies to capture China’s consumer power both during the COVID crisis and the post-COVID eras.

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