



China's Cross-Border E-Commerce Expands Further Across China

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Broader horizons for foreign business to export to China

Businesses looking to enter the Chinese market can take advantage of China's Cross-border E-Commerce Pilot which has recently been expanded twice in 2020 alone covering more cities and regions, with promise to expand further into regions and cities across China.

As of January 1, 2019, the Cross-border E-Commerce Pilot was implemented only in 37 cities, including Beijing.

Since then, the program has had an enormous success, and the Chinese State Council has decided to expand the pilot program further.

The State Council approved the first expansion on January 17, 2020, and later April 27, 2020 made the second expansion and the extent of the extensions will open opportunities to a total of 105 cities and regions across the country including Shijiazhuang, Hainan and Xiongan.

Within the one year of operations, the various government ministries had bolstered the program with policies to tackle issues related to standardization of procedures, quality control, and protection of consumer rights and interests.

Last year's figures from the Chinese customs statistics show that in 2019 the cross-border e-commerce retail imports increased by 16.9% year on year, totalling \$12.95 billion US dollars.¹

Economically the positive impact in the country has seen an enriching of domestic product supply, the development of new business, more consumption, and satisfying the population's needs.

Cities which have been chosen for the expansion of the Cross-border E-Commerce Retail Import Pilot contain newly established cross-border e-commerce zones, proactive support for cross-border e-commerce to expand consumption and can accept assistance in the development of the region.

Furthermore, the State Council on April 7th, 2020, improved the pilot program stating that retail export goods under all pilot zones will be exempted from VAT, Consumption Tax and Enterprise Income Tax.²

With this year's expansion and added incentives to the pilot program will inevitably produce an even greater economic return, leading to the realization of the suggested further 86 cities expansion.

Who is this pilot program for?

The Cross-border E-Commerce Pilot provides a perfect opportunity for foreign business interested in introducing their products or services to the Chinese market and seeking to expand globally, without necessarily having to establish an HQ in the country.

Alternatively, this pilot program can make sure that foreign businesses which might be struggling to maintain operations in China because of economic circumstances can still supply their products or services to the Chinese market.

¹ <http://english.mofcom.gov.cn/article/newsrelease/significantnews/202002/20200202934796.shtml>

² http://www.gov.cn/premier/2020-04/07/content_5499975.htm

However, before entering the Chinese market, business owners and decision-makers must do their due diligence and take all precautions beforehand.

China's vast and profitable market can offer success only to those who carefully choose their partners, and online platforms while registering their products, trademarks and intellectual property, since China applies a first to file versus first to use system. Trademarks should include the company name, all of a company's brands, even if there are brands that will not initially be sold in China, to reduce the risk of malicious filing and TM squatting.

Lastly, another critical step to make before entering the market is to create a realistic market strategy for the specific product, service, or market which the business intends to promote. Good market research should be done in advance to understand foreign and local competition in the marketplace, and where the market is within China's vast market. Proper research and market entry can lead to successes but doing homework in advance is crucial.

Accessing the Cross-Border E-Commerce Pilot

By using a hypothetical UK Company, which has taken all precautions: registering their trademark or intellectual property and has done their due diligence finding a trustworthy agent in China, businesses can understand the process needed to access the Cross-border E-Commerce Pilot.

The first step would be to have an agreement authorizing a company in China to act as an agent to sell the UK Company's product in China.

Chinese companies must not necessarily be a Chinese E-Commerce Platform Company; it can merely be a Chinese company which is active in the Chinese E-Commerce sector.

Once the agreement has been signed, the agent company will register the UK company to the Cross-border E-Commerce pilot. Typical registration will include the company, goods, tax guarantee and account book registrations.

Afterwards, a deal would have to be made taking into account the goods declaration for entry, warehousing, E-platform services, declaration for delivering parcels, taxation and any other regulations which might be required by each region, city and local government.

Overall the standard documents required are an agency agreement, agent's customs declaration registration certificate of import and export, the agreement with the Chinese e-commerce platform, ICP license of the affiliated platform, goods information and other documents required by the local government.

The entire process would typically take between two to six months to complete the registration procedures; however, the times greatly depend on the requirements and processing times of the different regions or cities.

Going further, if hypothetically the UK company has a subsidiary WOFE in China, they would still need to find a Chinese company to act as an agent to access an e-commerce platform for selling the products or services, the reason being WOFEs are not allowed to apply for ICP license which is a must

to set up an e-commerce platform. Whilst there is a new Negative List currently at the review phase, unfortunately it will include the ICP licenses as restricted to foreign ownership, something that it is hoped will change soon.

How can LehmanBrown Assist you?

For businesses interested in taking advantage of the Cross-border E-Commerce Pilot, LehmanBrown can assist companies through the entire process from start to finish taking into account any needs and hurdles they may face to make sure all necessary precautions have been taken for them to achieve success.

If you are unsure and would like to find out more, please do not hesitate in sending your enquiry to enquiries@lehmanbrown.com



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如需为个人或企业获取更多的增值服务及业务协助信息，请与我们联系。

Beijing 北京

6/F, Dongwai Diplomatic Building, 23 Dongzhimenwai Dajie,
Beijing 100600, China
中国北京市朝阳区东直门外大街 23 号东外外交办公大楼 602
Tel: + 86 10 8532 1720
Fax: + 86 10 8532 2746
Email: beijing@lehmanbrown.com

Shanghai 上海

Room 1501 & 1504, Wan Tai International Building, No. 480
North Urumqi Road, Shanghai 200040, China
中国上海市静安区乌鲁木齐北路（华山路）480 号万泰国际大厦 1501 & 1504
Tel: + 86 21 6249 0055
Fax: + 86 21 6288 1636
Email: shanghai@lehmanbrown.com

Guangzhou 广州

Room 3317, China Shine Plaza, 9 Lin He Xi Road, Guangzhou
510610, China
中国广州市林和西路 9 号耀中广场 3317 室
Tel: + 86 20 2205 7883
Fax: + 86 20 2205 7880
Email: guangzhou@lehmanbrown.com

Shenzhen 深圳

Room 3206, News Building 2, Shennan Middle Road, Shenzhen
518027, China
中国深圳市深南中路 2 号新闻大厦 3206
Tel: + 86 755 8209 1244
Fax: + 86 755 8209 0672
Email: shenzhen@lehmanbrown.com

Tianjin 天津

Unit 2901-04, The Exchange Tower 2 189 Nanjing Road, Heping
District Tianjin 300051, China
中国天津市和平区南京路 189 号津汇广场 2 座 2901-04 室
Tel: + 86 22 2318 5056
Fax: + 86 22 2318 5001
Email: tianjin@lehmanbrown.com

Hong Kong 香港

Suite 03, 16/F, Sino Plaza, 255-257 Gloucester Road, Causeway
Bay, Hong Kong, China
中国香港铜锣湾告士打道 255-257 號信和廣場 16 樓 03 室
Tel: + 852 2426 6426
Fax: + 852 2426 6427
Email: hongkong@lehmanbrown.com

Macau 澳门

Level 20, AIA Tower, Nos 251A-301 Avenida Comercial De Macau,
China
中国澳门商業大馬路 251A-301 號友邦廣場 20 樓
Tel: + 853 8294 2434
Fax: + 853 8294 2399
Email: macau@lehmanbrown.com



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