China’s E-commerce Sector
- Regularisation of “Haitao”

November 2014
WHAT IS “HAITAO”? 

Increasing numbers of Chinese shoppers have been engaged in international cross-border import trade over recent years.

Consumers buy products via overseas online shopping platforms and this is generally referred to as “haitao”.

The transaction value of China’s online shoppers buying on overseas online platforms reached 74.4 billion yuan in 2013, up from 12 billion yuan in 2010.

The transaction value is expected to reach 140 billion yuan by the end of 2014.

Average number of cross-border purchases per year

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>One purchase</td>
<td>17%</td>
</tr>
<tr>
<td>2-5 purchases</td>
<td>54%</td>
</tr>
<tr>
<td>6-12 purchases</td>
<td>20%</td>
</tr>
<tr>
<td>13-24 purchases</td>
<td>4%</td>
</tr>
<tr>
<td>24+ purchases</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Tmall Global

Transaction value of China’s shoppers buying on overseas online platforms, 2010-2014 (estimated)

Source: China E-Commerce Research Centre
Chinese “haitao” buyers mostly bought from the United States in 2013, followed by these locations:

Hong Kong
Malaysia
Netherlands
South Korea
Denmark
Japan
Taiwan
United Kingdom
Sweden

Source: Tmall Global
POPULAR PRODUCTS THROUGH “HAITAO”

- Cosmetics and skin care products
- Makeup products
- Women’s apparel
- Perfume
- Toys
- Health supplement products
- Milk powder and food supplement
- Miscellaneous products for women

Source: Tmall Global
"HAITAO" SHOPPERS' BEHAVIOUR IS DIFFERENT

"Haitao" shoppers buy more cosmetics and baby products when shopping abroad.

Source: iResearch

Source: Tmall Global
HOW DO CHINESE SHOPPERS BUY FROM OVERSEAS SHOPPING WEBSITE?
COMMON “HAITAO” METHODS

METHOD 1 – Purchase through “daigou” agencies

“Daigou” agencies purchase overseas products on behalf of consumers, provide assistance to consumers especially on payment and delivery.

PROS
• Agencies offer an overseas address for consumers
• Consumers can pay in RMB and agencies can help settle the payment in foreign currencies

CONS
• The process may take a long time to complete
• Agencies may import goods illegally (smuggling)
• Agencies may not be reliable
• Goods return is difficult
COMMON “HAITAO” METHODS (Cont’d)

METHOD 2 – Purchase directly from overseas shopping websites

Consumers place orders directly on overseas shopping websites. Payments have to be settled in foreign currencies.

PROS
• Reliable
• Authentic
• Legal

CONS
• Products are more expensive
• Consumers need to use PayPal or credit card that can settle payment in foreign currencies

* Product price, logistics costs, and customs tariff are usually included in the payment.
PROBLEMS OF THESE “HAITAO” METHODS
- Are consumers really satisfied?

According to a survey conducted by Tmall Global, many consumers are not fully satisfied with their “haitao” experience (see below).

Discerning Chinese consumers are now demanding for authentic importing methods that are not too costly.

**Dissatisfaction**
- Long delivery times (43%)
- Hidden costs (33%)
- Language barriers (31%)
- Uncertain reliability (27%)
- Difficult returns (26%)

**Desire**
- Product authenticity guarantees
- Customer service in Chinese
- Detailed product information
- Simpler shopping process
- Better after-sales support
- Faster, cheaper shipping
- Secure payment system

Source: Tmall Global, Fung Business Intelligence Centre
WHAT HAS THE GOVERNMENT DONE TO IMPROVE THE SITUATION?

In recent years, the Chinese government has launched several new regulations to bring order to the chaotic market for imported goods in China, and at the same time, to promote cross-border e-commerce.

For instance, pilot zones for cross-border e-commerce business have been set up, to allow consumers to shop on foreign websites and have their orders shipped under the supervision of China Customs. Meanwhile, qualified e-commerce companies are allowed to buy goods from abroad and store them in bonded warehouses in the pilot zones; tariff payments are made after the goods are sold to consumers.

In December 2012, the government has rolled out a pilot program and established pilot zones in Shanghai, Chongqing, Hangzhou, Ningbo and Zhengzhou. Guangzhou and Shenzhen Qianhai also joined the pilot program in September 2014.
Online orders, payment receipts and customs declaration forms are electronically transmitted to the relevant local customs when consumers place online orders for imported items. The customs then levies import duties on these orders at the rates applicable to personal items, i.e. Tariffs on baggage and articles accompanying incoming passengers and on personal postal articles. The tariffs are usually lower than the tax rates for general trade.

### Tariffs on baggage and articles accompanying incoming passengers and on personal postal articles

<table>
<thead>
<tr>
<th>Product category</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, leather clothes and accessories, bags and shoes, gold, silver and jewellery, home medical supplies and equipment, kitchen equipment, furniture, cameras, books and periodicals, stationery and toys, instruments, sports equipment</td>
<td>10%</td>
</tr>
<tr>
<td>Apparel and accessories, textile, watches, home electronics, audio and video equipment, bicycles</td>
<td>20%</td>
</tr>
<tr>
<td>Luxury watches, golf and golf equipment</td>
<td>30%</td>
</tr>
<tr>
<td>Cosmetics, alcoholic beverages, tobacco</td>
<td>50%</td>
</tr>
</tbody>
</table>

Source: China Customs. March 2012

Photo: New York Post
WHAT HAS THE GOVERNMENT DONE TO IMPROVE THE SITUATION? (Cont’d)

In July 2014, the China Customs announced the No. 56 and No. 57 notices to regulate the import and export of merchandises relating to cross-border e-commerce business, which clarify the existing grey area of cross-border e-commerce.

<table>
<thead>
<tr>
<th>Announcement from the General Administration of Customs of China (GACC)</th>
<th>Effective date</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announcement No.56, 2014 on Cross-Border E-Commerce Trade Supervision*</td>
<td>1 August, 2014</td>
<td>E-commerce enterprises shall process an e-commerce business filing with Customs for imported goods. Further, enterprises or individuals engaged in cross-border e-commerce, payment and logistics shall submit orders, payments and logistics information to Customs before declaring goods to enter or exit China.</td>
</tr>
<tr>
<td>Announcement No.57, 2014 Adds &quot;1210&quot; Customs Supervision Code**</td>
<td>1 August, 2014</td>
<td>Add the customs supervision code &quot;1210&quot; for &quot;bonded cross-border trade e-commerce“ to accelerate the customs clearance process.</td>
</tr>
</tbody>
</table>

* [http://www.e-to-china.com/tariff_changes/Policy_Focus/2014/0805/112380.html](http://www.e-to-china.com/tariff_changes/Policy_Focus/2014/0805/112380.html)
EMERGENCE OF NEW “HAITAO” METHODS

On account of the government’s efforts to promote cross-border e-commerce business, two new “haitao” methods have been emerged recently:

METHOD 1 – Qualified cross-border e-commerce platforms and e-tailers ship imported goods to bonded warehouse in pilot zones before consumers place orders. Tariff on baggage and articles accompanying incoming passengers and on personal postal articles are levied.

METHOD 2 – Qualified cross-border e-commerce platforms and e-tailers ship imported goods to China after consumers place orders under the supervision of China Customs. Tariffs on baggage and articles accompanying incoming passengers and on personal postal articles are levied.

Examples:
Kuajingtong (跨境通) [http://www.kuajingtong.com/](http://www.kuajingtong.com/)
Kuajinggou (跨境购) [http://www.kjb2c.com/](http://www.kjb2c.com/)
Emaoe (郑州跨境E贸易) [http://emaoe.net/](http://emaoe.net/)
EMERGENCE OF NEW “HAITAO” METHODS (Cont’d)

ADVANTAGES OF THE NEW “HAITAO” METHODS:

• More convenient payment methods
• Faster delivery (goods can be shipped to consumer in less than 7 days)
• Cheaper prices

It is reported that the prices of imported goods purchased through the new “haitao” methods can be three times cheaper than using the old methods due to:

• Lower distribution costs (bypass intermediaries)
• Lower tariffs (Tariffs on baggage and articles accompanying incoming passengers and on personal postal articles are generally lower than the tax rates for general trade)
• Lower shipping costs (consumers can choose to combine orders for shipping)
To streamline the payment methods, several cross-border e-commerce platforms or overseas shopping websites have partnered with Alipay or Tenpay, leading domestic third-party online payment providers, to settle payments. Customers can pay in RMB, and these third-party payment services providers will then help convert the money to foreign currencies to respective overseas brands or retailers. 2-5% commissions will normally be charged as service fees.

Borderfree, a market leader in international cross-border e-commerce, announced its collaboration with Alipay, China’s leading e-payments service provider, to launch five iconic American retailers on a new pilot program leveraging Alipay ePass to help US brands reach online shoppers in China in November 2014. The program will be available throughout the holiday season. The five retailers include Saks Fifth Avenue, Bloomingdale’s, Macy’s, Ann Taylor and Aéropostale.

ShopRunner, an online shopping service platform that offers members shopping deals from over 100 retailers in America, also announced the partnership with Alipay in November 2014, which will pave the way for Chinese online shoppers to buy directly from US e-tailers.
An increasing number of foreign retailers have sought to tap into the Chinese market by offering a Chinese website. Some of them also allow consumers to settle payment by Alipay. Examples include Rakuten (http://global.rakuten.com/zh-cn/), a leading online marketplace in Japan, and Gmarket (http://global.gmarket.co.kr/), a leading e-commerce platform in South Korea. Their products are shipped to China by direct shipping.
EMERGENCE OF NEW “HAITAO” METHODS
- What do the “haitao” consumers think?

I can purchase my favourite Korean apparel products in a more reliable and cheaper way than through “daigou” agencies in the past.
- 25 years old, female, white-collar worker, Beijing

I like to buy imported milk powder for my newborn child on Kuajingtong as it provides detailed product information in Chinese.
- 35 years old, female, housewife, Nanjing

“Haitao” is more convenient now as I can use my Alipay account to settle payment even when I shop in some foreign websites.
- 23 years old, female, student, Shenyang

Source: Fung Business Intelligence Centre
SNAPSHOTS OF SELECTED “HAITAO” WEBSITES
SNAPSHOTS OF SELECTED “HAITAO” WEBSITES

KUAJINGTONG (http://www.kuajingtong.com/)
- A government-backed e-commerce platform registered in the China (Shanghai) Pilot Free Trade Zone*

Kuajingtong was launched on 28 December, 2013.

Major product categories:
Apparel and shoes, luggage and handbags, skincare and cosmetics, imported foods, health products, baby products, household products, etc.

Payment:
• Domestic credit cards
• Orient Electronic Payment – a third-party payment system backed by the Shanghai government

Delivery:
• Direct shipping from overseas
• Imported to bonded warehouse in China (Shanghai) Pilot Free Trade Zone for storage before consumer place orders.

* China (Shanghai) Pilot Free Trade Zone is one of the first pilot zones for cross-border e-commerce trade.
AMAZON (http://www.amazon.cn/b?node=1403206071)

- Provides direct shipping from six overseas Amazon websites to Chinese consumers
- Launches “Amazon Overseas” website in China

In August 2014, Amazon signed a memorandum of cooperation with China (Shanghai) Pilot Free Trade Zone and Shanghai Information Investment to facilitate cross-border e-commerce development.

1. Amazon provides direct shipping from six overseas Amazon websites to Chinese consumers; delivery time can be as fast as three days.

2. Amazon China has officially launched the “Amazon Overseas” on 11 November, allowing Amazon customers in China to browse and purchase products available at the US Amazon store from within an all-Chinese user interface. It also offers after-sale services of such products in China.

   Major product categories:
   Baby and kids’ products, toys, clothing, shoes, sports equipment, beauty products, and health products.

Delivery:
- Direct shipping from overseas
- Imported to bonded warehouse in China (Shanghai) Pilot Free Trade Zone for storage before consumer place orders.
SNAPSHOTS OF SELECTED “HAITAO” WEBSITES (Cont’d)

TMALL.HK (http://www.tmall.hk/)
- Global B2C marketplace under Alibaba

Alibaba launched Tmall.hk in February 2014. The website is in Chinese and it provides Chinese customers with 100% authentic overseas goods imported with original packaging and delivered from foreign countries and areas.

Major product categories:
Healthcare products, baby and maternity products, cosmetics and skin care, apparel

Delivery:
• Direct shipping from overseas
• Imported to bonded warehouse in Hangzhou and Ningbo* for storage before consumer place orders.

Tmall also announced an agreement with the Hangzhou Customs in March 2014 to streamline import clearance process, while providing a favorable tax rate to discourage smuggling.

Notes:
Tmall.hk management revealed that currently brands can only enter its platform by invitation. Well-known overseas brands and retailers are at the top of their list. Different amounts of annual fees, deposit and commission fees are levied based on the product categories.

* Hangzhou and Ningbo are pilot cities for cross-border e-commerce trade.
SNAPSHOTS OF SELECTED “HAITAO” WEBSITES (Cont’d)

SUNING USA (http://usa.suning.com/)
- Offers products from the United States; provides by direct shipping

Suning has launched the USA Overseas Shopping Flagship Store on Nov 11, 2014, to bring US merchants and products to Chinese customers.

Major product categories:
Healthcare products, baby and maternity products, cosmetics and skin care, etc.

Delivery:
Suning offers door-to-door delivery in China through SF Express US. Customers can collect the products in 7-10 days after placing orders.

Return:
Online orders (except for food products) can be returned to any Suning offline stores.
BUSINESS IMPLICATIONS

• As Chinese customers are increasingly favouring “haitao”, overseas brands or retailers that want to tap into the China market can consider setting up online stores on cross-border e-commerce platforms. By doing so, they can not only bypass the intermediaries and reduce costs, but also leverage the high footfall of cross-border e-commerce platforms.

• That said, many cross-border e-commerce platforms are new startups, and their business models need to be tested and validated.

• Comprehensive rules for “haitao” have yet to be released. Companies need to keep abreast of the latest policy and regulatory developments.

• It is noteworthy that some domestic online retailers such as Yihaodian, a domestic B2C platform in which Wal-Mart is the majority owner, and Suning have launched overseas purchase services, this may intensify competition in the cross-border e-commerce marketplace.

• While the potential “haitao” market is getting bigger; domestic retailers are facing more competition from their overseas counterparts. To survive the competition, retailers are advised to focus more on key functions such as products and pricing, as well as marketing.