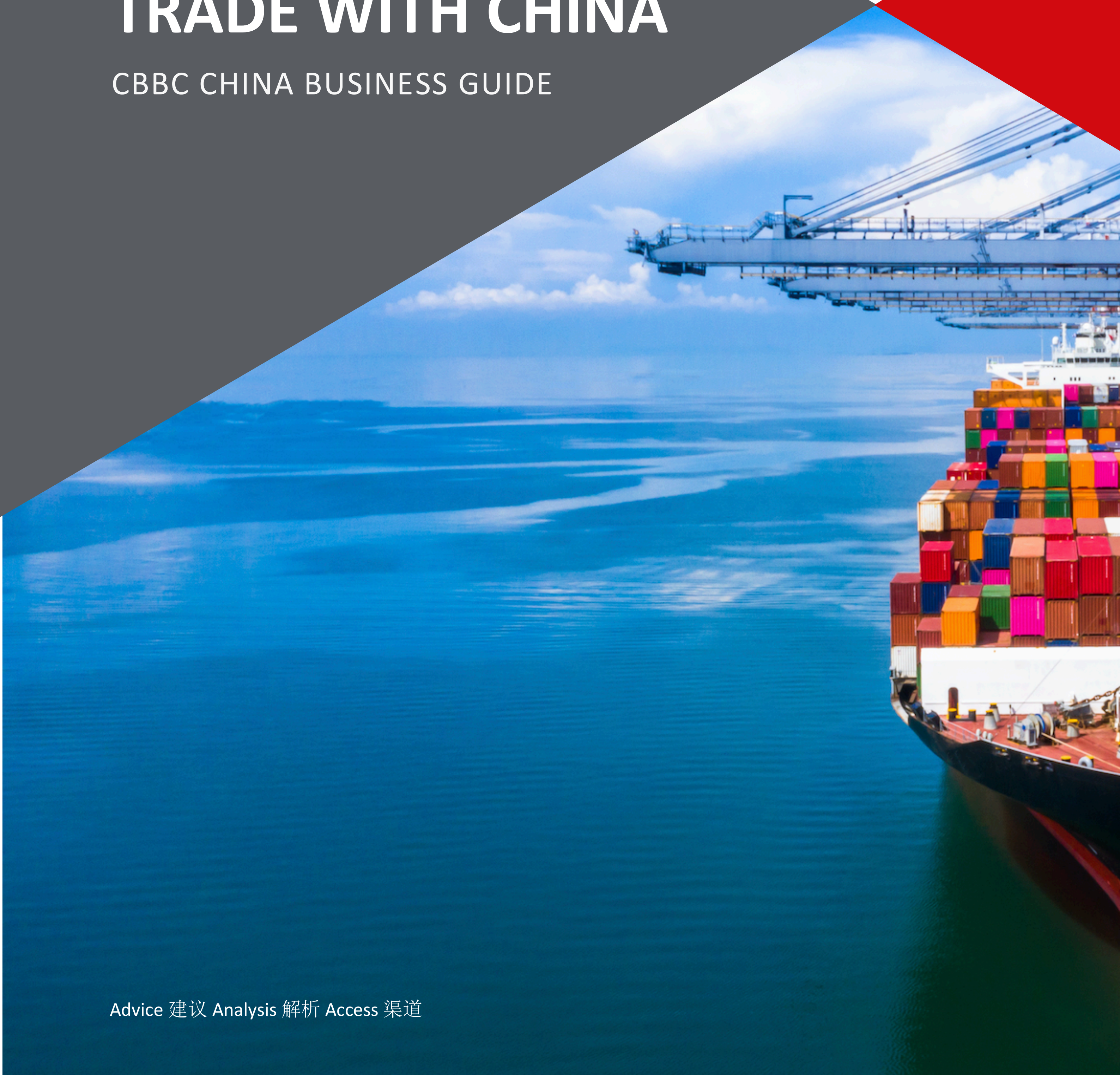
China-Britain Business Council
英中贸易协会

PREPARING FOR TRADE WITH CHINA

CBBC CHINA BUSINESS GUIDE



Advice 建议 Analysis 解析 Access 渠道

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ROUTES TO MARKET AND FINDING AND MANAGING DISTRIBUTORS

This section was written by CBBC

ROUTES TO MARKET

The Chinese market can be complex and challenging, and choosing the most suitable route to market is the first step to success. The key factors that often influence a decision on the correct route-to-market strategy are regulatory and market access, the identity of the target consumer(s), the required upfront investment, and supply chain and logistics issues.

REGULATORY AND MARKET ACCESS

Different routes to market have different regulatory requirements, so it is important to check whether the product in question is allowed to be imported into China and also to understand all relevant regulations, including the inspections required and their lead times.

In particular and most commonly, beauty products are required to be tested on animals if they are sold either on e-commerce sites or in stores, hence it is common for cross-border e-commerce (CBEC) to serve as an alternative route to market as it allows animal testing to be avoided.

Please subscribe to CBBC's newsletters to receive the latest updates regarding regulations, or consult our Sector Leads if you wish to get the latest information about a specific product.

THE IDENTITY OF TARGET CONSUMERS

Purchasing habits among different consumer groups vary: a company's target consumers might have a tendency towards certain channels, which will in turn help to determine the most suitable route to market. A selection of examples of common consumer groups are given in the table below:

Consumer group	Popular sales channels
Young people	E-commerce channels (including CBEC and social commerce channels)
Mothers	Supermarkets and stores that target mothers (including mother and baby product stores)
Premium clients	Department stores, buyers stores, and in-sector agents through the general trade route

THE REQUIRED UPFRONT INVESTMENTS

Hard costs and potential investments vary based on the sales channel used, hence these should also be taken into account when selecting the route to market. The table below shows the major costs associated with each sales channel:

Sales channel	Major costs
E-commerce	Third party (e.g. trade partner or online distributor) operating and media costs; ongoing maintenance costs (if the brand owns and operates an official social media retailing account)
Supermarket	Listing and trade promotion fees
Department store	Innovation costs and rent (if the brand owns a counter/store)
Buyer store	Sales commission to the buyer store
Professional chain/outlet	Sales commission, incentives, and marketing fees

COMMON BUSINESS MODELS

There is a diverse range of business models used in China and their attributes can change over time, therefore selecting the most suitable business model is one of the most important choices a brand makes when entering the China market. Common business models used when entering China are outlined below:

Business model	Examples of business model	Advantages	Risks
B2B (business to consumer)	» Consignment » Concession » Direct purchase	» Quick sales turnover and less upfront investment	» Brand presentation and brand building are sometimes overlooked
D2C (direct to consumer)	» Selling through an e-commerce flagship store owned by the brand itself, WeChat store, or website » Offline independent brand stores/counters	» More control and more flexibility over branding and sales	» Day-to-day operational costs can be high
B2C2C (business to consumer to consumer)	» Selling to existing opinion-leading users who then sell to other consumers	» The opportunity to use word-of-mouth promotional strategies targeting users	» Managing the pricing among users can be difficult
B2P2C (business to professional to consumer)	» Selling to industry professionals such as designers and doctors, who then sell to end consumers	» The opportunity to build up credibility in the industry	» Industry professionals may require logistics and stock support

POPULAR TYPES OF DISTRIBUTION

A FULL LOCAL PRESENCE (WFOE/FICE)

Some UK firms may wish to establish a full legal entity in China in order to carry out sales and distribution activities in house. This option offers the greatest level of control over sales activities in China, and is perhaps most suitable for companies that have existing customers in China and require a local team to service them and develop new business. There are a variety of types of entity that foreign companies can set-up for this purpose, for example: wholly foreign-owned enterprise (WFOE) or foreign invested commercial enterprise (FICE)

DIRECT RETAIL CHANNELS

Some retailers in China have their own import licences and will procure directly from overseas suppliers on a wholesale basis. However, the popularity of this varies according to the type of product being distributed, and in reality most UK brands still require a local importer to manage the import process. Likewise, most department stores in China operate using concession or consignment models rather than direct purchase models, which makes it necessary to either appoint a local franchise partner(s) or to sell directly to the company(ies) operating the outlet(s).

UK-BASED CONSOLIDATORS OR EXPORTERS

A further option for any UK business is to go via a British or European consolidation company that can handle exports from the UK. This option may seem to be the most straightforward, but a non-Chinese consolidator will often lack either the knowhow about the China market and/or need to use local agents and distributors in China anyway, which will increase costs. This option may be attractive to smaller producers that do not have the budget for market visits, or do not have the time required to compare or to carry out due diligence on Chinese distributors.

CBBC's Export Opportunities service also regularly lists direct retail export opportunities – subscribe to the relevant CBBC sector newsletter to receive regular updates on these opportunities.

CROSS-BORDER E-COMMERCE

CBEC channels have become a very popular way for Chinese shoppers to buy products from overseas. Equally, the Chinese government has recently introduced new legislation to encourage CBEC through legitimate channels and to improve the monitoring of products entering China through these channels. Whether offering China as a shipping destination from an existing UK website, or selling via a Chinese CBEC website, this can be an effective way for new-to-market brands to test the market and ship directly to end consumers. While this model removes some of the costs of working with distributors, there may be additional costs associated with making a UK website China-friendly, setting up on a cross-border e-store, and spending on the marketing required to bring traffic to an e-store.

DISTRIBUTORS AND AGENTS

A distributor generally purchases goods from the producer at a discount and sells them on at a profit. There are different ways to structure an agreement with a potential distributor, with the potential distributor acting as either the sole licensed distributor, a master distributor with a network of sub-distributors, or one of several distributors responsible for different geographical regions or industry verticals.

An agent will typically take responsibility for selling, promoting, winning orders, problem-solving, and debt collection in exchange for a commission. However, the agent does not usually actually handle goods, leaving the company to find another service provider to handle logistics and customs procedures.

Operating through a business partner such as a distributor or agent can have many advantages, including the reduction of time and costs accrued in entering the market and the benefit of the partner's local knowledge and network. Business partners not only help overcome entry barriers but can also assist with collecting market data, tracking regulatory updates, and providing local customer support. Distributors can also provide useful insight into market trends, especially if they work with several categories of product. They may be essential in heavily regulated market sectors, and can also enable companies to test the market before committing to a wholly-owned entity and employing staff directly in China.

Nevertheless, there are also drawbacks to working with a business partner. Finding suitable partners with aligned interests can be challenging, and employing a third party can result in additional costs in the supply chain. There is also the risk of losing some control over the marketing and image of the brand in the market, as well as of the product being copied or counterfeited. Furthermore, it is important to be aware that not all distributors will have their own import licences – those that do not they may have to employ another third party, adding to any intermediary costs.

HOW A CHINESE PARTNER CAN HELP

- Increase the speed of market entry;
- Access to local knowledge of logistics issues for imported products;
- Access to a wider geographical coverage;
- Knowledge and connections to deal with Chinese administrative issues, regulations, and customs;
- Management of relationships with sub-distributors, retailers, and customers;
- Well suited to companies for which little or no product adaptation is needed for the China market;
- After-sale service can be taken care of.

THE CHALLENGES OF HAVING A CHINESE PARTNER

- Loss of margin or increased shelf price;
- Loss of oversight and control of products' marketing and sales;
- The distributor may not prioritise the company's products and may be unwilling to invest in marketing and advertising;
- A distributor may request exclusivity, which increases reliance on their sales ability;
- There are increased IP risks and a need for due diligence when working with a partner;
- It is difficult to control prices if multiple distributors are used.

IDENTIFYING DISTRIBUTORS AND AGENTS

China's size and complexity as a market can make it difficult to know where to start when looking to appoint a local partner. It may be necessary to carry out some initial research to determine where end customers are likely to be based, and to identify specific industry clusters for the vertical markets targeted. Some typical channels via which foreign firms often find distributors include:

- Unsolicited enquiries via a company website
- Referrals from existing (trusted) contacts
- Internet searches
- Exhibition or published directories
- Bespoke research (via CBBC or other third party)

Some Chinese distributors may have no English language website, or can be difficult to find just using English language resources. Employing a native Mandarin speaker to undertake research helps to broaden the search, and can also be valuable in terms of establishing initial contact with potential partners.

CBBC's China Gateway service is a useful service for conducting market and consumer research, identifying potential partners, and organising a meeting schedule for a visit China. For more information please visit http://www.cbbc.org/services/chinagateway/.

Information about major industry trade shows can also be found on CBBC's website on individual sector's pages: http://www.cbbc.org/sectors/.

When choosing an agent or a distributor as a business partner, a company should consider the following:

- Background
  - Company size, history, and ownership (private or state-owned)
  - Prior or current representation of similar (but not competing) products
  - Quality and quantity of the sales force
  - Customer feedback and trade/bank references
  - Financial strength (including in regards to payment terms)
- Distribution channels
  - Nationwide or regional distribution coverage
  - Vertical sectors served
  - Types of outlets covered
- Service scope and competencies
  - Qualified licensing (e.g. in dealing with imports)
  - Customs clearance, transportation, and warehousing facilities
  - After-sales service
  - Ability to handle marketing operations and trade promotions
- Whether the partner is a good fit
  - Does the agent/distributor have a genuine interest in representing the product?
  - Can the partner benefit from actively promoting the product (i.e. is it a win-win situation)?
  - Does the partner also represent any competing companies or products?
  - Is effective communication easy with the partner?

Most importantly, a thorough credit and reputation check should be made using media reports, court records, and suppliers' and customers' reviews to find out the reputation and track record of the distributor. It is important to avoid distributors that have previous records of financial difficulties, corruption, or other commercial misconduct.

DUE DILIGENCE AND CONTRACTS

Carrying out effective due diligence on potential partners is essential before entering into any kind of distribution agreement. This may involve checking company registration information and business licences, and asking for references from other suppliers or customers.

Prior to signing a distribution contract, it is essential to ensure that steps have been taken to register intellectual property (IP) rights (such as trademarks or patents) in China. It is also advisable to employ a Chinese lawyer to draw up any agreement in Chinese, and to keep the language of the contract as simple as possible, avoiding unnecessary legal jargon. In most cases, Chinese law would be the legal jurisdiction for a distribution agreement, therefore contracts should be drawn up in accordance with provisions under Chinese law.

There are a number of considerations to bear in mind when drawing up distribution agreement, including:

- Whether it is exclusive or non-exclusive;
- Whether sector coverage is territorial or vertical;
- Whether it covers online as well as offline channels;
- Whether it covers logistics, branding, and after-sales service to consumers;
- The specific products and services covered;
- The duration of the agreement;
- Margins, commissions, and KPIs;
- Pricing;
- Payment terms;
- The legal jurisdiction;
- IP usage rights;
- Dispute resolution.

MANAGING YOUR PARTNER

DO'S

Once a working relationship is established, distributors and agents need to be actively managed, which can be achieved through the following actions:

- Carrying out regular senior management visits in order to reinforce interest in, and commitment to, the agent and the market; this also provides opportunities to learn about the market and the popularity of any products;
- Providing help with marketing and sales strategy planning;
- Providing regular training for sales and after-sales staff;
- Linking performance to incentives and agree to milestone targets;
- Setting up brand guidelines (e.g. how any logos should be used).

DON'TS

- Work with just one distributor;
  Most distributors work with multiple brands, so it is unlikely that a distributor solely focuses on, and is only loyal to, one brand. Although there may be some benefits in terms of efficiency of communication when working with just one distributor, appointing multiple distributors and assigning them to different channels or scopes according to their strengths maximises their value.
- Neglect the protection of IP rights;
  It is important to register any IP, including trademarks and patents, before beginning a partnership with a distributor. The ownership and usage of any IP should also be made clear in the deal between the company and the distributor.
- Overlook price controls
  Setting up the value chain for the products and reaching an agreement with each distributor is crucial, as if there are multiple distributors in the market selling the same product at different price points the value of the product, and in turn the brand, will be damaged.

It may be beneficial for companies to have their own Chinese employee permanently based in China, so as to manage any distributors and support their activities. This can be done either by setting up a representative office or by using CBBC's Launchpad business incubator service. For more information on Launchpad please visit: www.cbbc.org/services/launchpad.

E-COMMERCE GUIDE

This section was written for CBBC by Azoya. For more information, please contact info@azoyagroup.com

China recorded total online sales of RMB 10.63 trillion (£1.2 trillion) in 2019, when, despite a slowing year-on-year growth rate, significant developments in social commerce, livestreaming e-commerce, and cross-border e-commerce (CBEC) all made it a more sophisticated and dynamic marketplace for market entry and brand expansion.

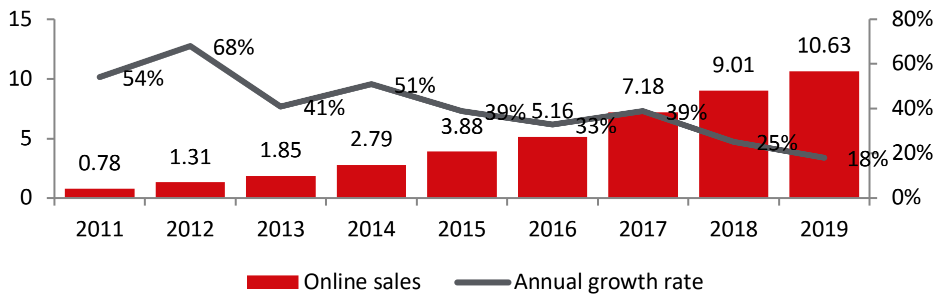
Social commerce has grown quickly in the past three years. In an average day, Chinese consumers spend much more time on social media and short video apps than on traditional e-commerce platforms, providing brands with opportunities to generate content on these platforms that can improve their brand awareness and directly target consumers, encouraging them to make purchases via embedded links.

Chinese consumers are no longer satisfied with straightforward sales promotions, and are instead looking for more appealing products and interactive communication before making online purchases. Total sales on all of China's e-commerce platforms during the 2019 Single's Day promotional event (11th November) smashed previous records, reaching RMB 410 billion (£47 billion), 31% more than in 2018. Taobao livestreaming by itself generated approximately RMB 20 billion (£2.3 billion) on Single's Day in 2019, and contributed to the sales growth of over a half of merchants, demonstrating the purchasing power of Chinese consumers as well as the potential of the combination of livestreaming and e-commerce.

With the implementation of China's new policies towards CBEC imports on 1st January 2019, an increasing number of international brands are choosing to enter the China market through CBEC platforms, either to establish standalone websites or open flagship e-stores on major platforms such as Tmall Global and JD Worldwide. CBEC offers an alternative route to the China market, especially for categories such as beauty and personal care products, and it eases the barriers related to animal testing requirements in China, thus allowing more cruelty-free brands to enter the market.

In this report, we answer the key questions about what brands and retailers should do, and how they should do it, in order to launch a successful online B2C business in China.

Online sales in China, 2011-2019 (RMB trillion)



Source: National Bureau of Statistics

UK brands launched on China's e-commerce platforms

Beauty	Apparel and accessories	Mother and baby	Personal care	Health and nutrition	Lifestyle
Charlotte Tilbury, This Works, ARgENTUM, Jo Malone, Miller Harris, Eve lom	Alexander McQueen, Mulberry, Boy London, All Saints, Fred Perry, Barbour, Corgi Socks, Ted Baker, Burberry, Cambridge Satchel	JellyCat, Trunki, Little Freddie, Silver Cross, Mothercare	Elvie, The Body Shop, Boots, Smoothskin, Femfresh, Lush	SlimFast, MyVitamins, MyProtein, Vitabiotics	Royal Crown Derby, Joseph Joseph, Emma Bridgewater, Wedgwood, Fulton Umbrella, Kent Brush, Victoria and Albert Museum, The British Museum

POLICY UPDATES

THE E-COMMERCE LAW AND THE WIDENING OF THE CBEC POSITIVE LIST

The E-commerce Law came into effect on 1st January 2019, and aims to improve the regulations covering China's e-commerce market. It specifies regulations related to operators, contracts, disputes settlements, and liabilities involved in e-commerce, and requires merchants on e-commerce platforms to obtain licences and register as businesses, aiming to further regulate daigou sellers (individuals who purchased products overseas and resell them to Chinese consumers) and improve the business environment of the e-commerce ecosystem. The E-commerce Law also stresses consumers' rights and interests regarding privacy and the right to know, and requires e-commerce operators to clarify tie-in promotions to consumers and assume consent is not given.

In order to encourage consumption, China has also raised the limit on the value of an individual's cross-border online purchases and expanded the Positive List, effective from 1st January 2019. The Positive List refers to products eligible for the special CBEC channel, in which items are preregistered for customs clearance and taxed at a favourable rate.

CBEC policy updates

Policy update	2016	2019
Individual annual quota on cross-border online purchases	RMB 20,000 (£2,300)	RMB 26,000 (£3,000)
Individual limit on a single cross-border purchase	RMB 2,000 (£230)	RMB 5,000 (£575)
One item exceeds the limit on a single purchase but is within the scope of the annual quota	Operate as general trade	Pay tariff, VAT, and excise duty
Items exceed individual annual quota	Operate as general trade	Operate as general trade

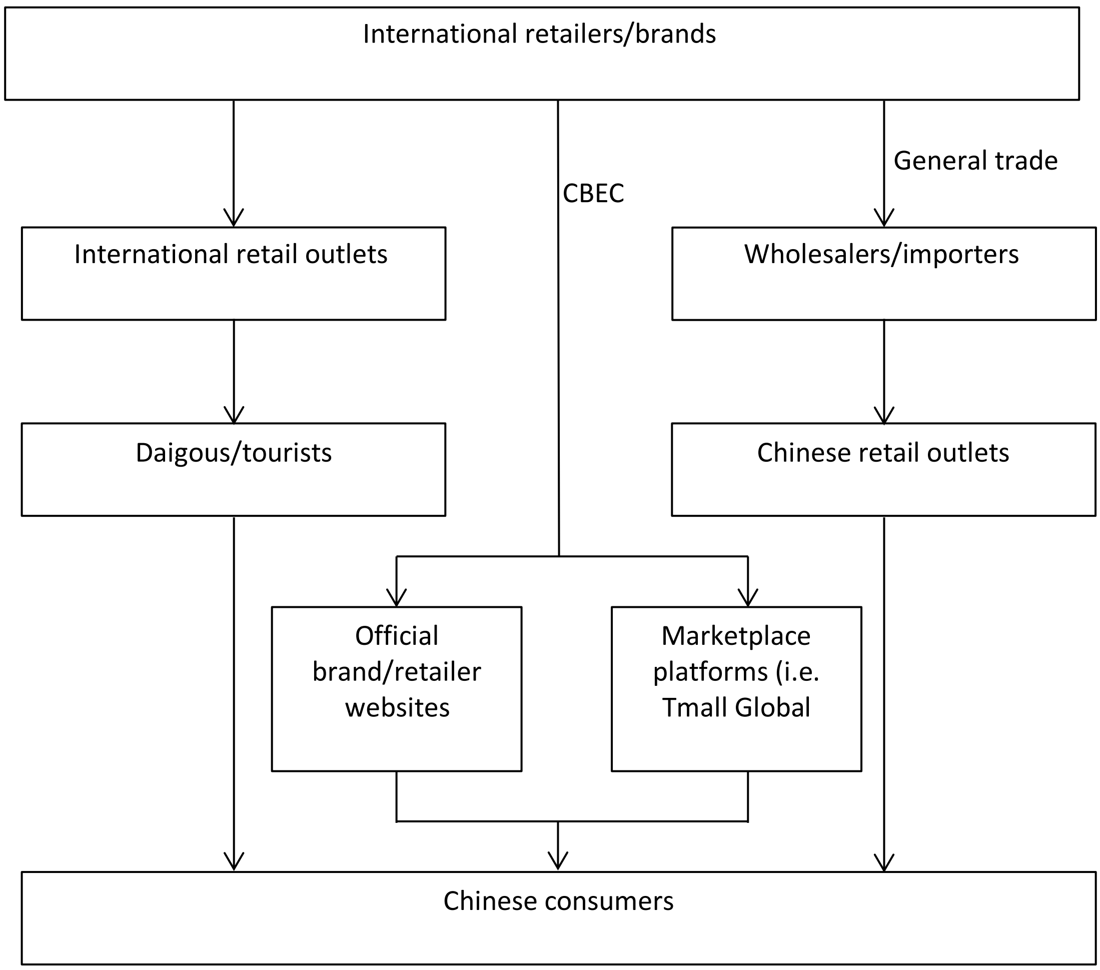
The Cross-Border E-Commerce Retail Import Commodity List that lists the commodities eligible for CBEC retail importing was further revised and expanded on 27th December 2019, with these changes effective as of 1st January 2020. The new list of duty-free CBEC products, which is available on the CBBC website, covers 1,413 items, of which 92 commodities have been new added due to strong consumer demand in recent years, including FMCGs such as frozen seafood products and alcohol, as well as electronic household appliances.

Since 2015, China has set up 59 CBEC comprehensive pilot zones, and plans to establish another 46 of these zones in the future. China's CBEC comprehensive pilot zones work with over 3,000 brands, with the number of CBEC companies – ranging from platforms and logistics companies to third parties – is growing rapidly.

E-COMMERCE ROUTES TO CHINA

THE DEFINITION OF CBEC

CBEC involves the sale of e-commerce products across borders, enabling merchants to sell directly to customers in another country without having to register a local entity or store inventory in a local warehouse. After customers make an order, the products are shipped one-by-one, and only legally enter the country after the order is made. The goods are typically located in a warehouse in the merchant's home country, Hong Kong, or a Bonded Zone in mainland China.


International retailers/brands
International retail outlets
CBEC
General trade
Wholesalers/importers
Daigous/tourists
Chinese retail outlets
Official brand/retailer websites
Marketplace platforms (i.e. Tmall Global
Chinese consumers

The key differences between general trade and CBEC

	General Trade	CBEC
Product registration	Imported products should obtain a registration permit from the relevant ministries.	Products do not have to be registered with local ministries but may have to be pre-registered with China Customs, depending on the clearance channel.
Logistics	Bulk shipped to China from another country or territory.	Shipped one-by-one to Chinese customers, either from a warehouse in the merchant's home country, Hong Kong, or a Pilot Free Trade Zone in mainland China.[1]
Advantages	Per-unit shipping costs are low for large bulk shipments. Countries which have signed a free-trade agreement with the Chinese government can benefit from reduced import duties (e.g. Australia). Products can be sold offline in China.	Comparatively low upfront investments with regards to inventory stock and bulk shipping/warehousing costs. Does not require the merchant to own a Chinese entity. Selling straight to the Chinese consumer is possible, giving merchant valuable insights and data.
Limitations	Higher upfront investments/risks due to procuring and moving bulk inventory to China. Import registration, duties, taxes, and layers of distribution network could result in higher prices and longer market entry timelines.[2] The need for a Chinese entity to import the goods (either a distributor/wholesaler or the merchant's own Chinese entity)	Longer shipping times and higher per-unit shipping costs. Difficult to handle returns. Cannot be sold offline.

LOGISTICS, CUSTOMS, AND TAXES FOR CBEC

Cross-border logistics routes can be affected by various factors, including product categories, taxation level, value, and features. This section provides some general guidance for retailers designing their cross-border logistics route to China.

[1] *The choice of warehouse location depends on the product category, price, weight, and shipping regulations. For example, heavier, low-priced items such as sparkling water should be located in Hong Kong or a Pilot Free Trade Zone in mainland China to reduce the per-unit shipping costs.*

[2] *Import and registration of certain products can pose issues for certain product categories. For example, imported cosmetics need to pass animal testing procedures, and health products have to be approved by the Department of Special Food Safety Supervision of SAMR, which can take a number of years.*

INTRODUCTION

- CBEC differs from general trade in that it enables merchants to sell directly to Chinese consumers, instead of having to go through distributors and retailers in the middle.
- CBEC is divided into two channels: direct shipping from overseas merchants to customers, and bonded importing, in which inventory is stocked in warehouses in Pilot Free Trade Zones to enable faster fulfilment.
- Subsequently, direct shipping is divided into two customs clearance channels: postal clearance and business commercial (B2C) clearance.

DIRECT SHIPPING

- Postal clearance (UPU)
  Under the Universal Postal Union (UPU) framework, the Chinese postal authorities work with postal services around the world to provide international parcel delivery services to customers. For example, postal services in the United States handle the US-China leg of a package posted in the United States, while the Chinese postal authorities handle last-mile delivery.
  Under postal shipping, items are imported as personal items. However, if there are too many items in a shipment and China Customs suspects that it is a commercial item, the parcel may be spot checked and have postal tax applied to it, the value of which varies depending on the product category. Currently, around 5% of parcels are checked.
  Some merchants may choose to use private couriers to ship personal items to customers. The costs under this channel are higher but delivery may be faster.
- Business commercial clearance
  Business commercial clearance is the official CBEC model, in which products are pre-registered with China Customs to ensure a quicker clearance processes, resulting in a superior customer experience. It requires three different records (covering payment, order, and logistics information) of each purchase to be submitted to China Customs before the parcels arrive at the point of entry. This process is typically handled by the logistics company and transmission of information is possible because the sales platform is typically linked to China Customs.

BONDED IMPORTING

The bonded import route, also known as the Pilot Free Trade Zone import route, is an official e-commerce import route. The first Pilot Free Trade Zone for CBEC opened in Shanghai in 2013, and today there are 18 cities that offer this clearance channel. This route adopts the “stock first, order later” model, whereby large quantities of foreign goods are stored in special customs supervision areas or bonded customs supervision areas that lie within Chinese territory. The main features of bonded warehouses are:

- They can be located within Pilot Free Trade Zones (although some are not located within Pilot Free Trade Zones);
- They offer real-time automated clearance;

» They are suitable for merchants which sell popular products and can forecast demand more accurately.
» Bonded items are taxed under business commercial tax rates.

The shipping and customs clearance options for CBEC

Cross-border shipping model	Type of tax	Tax rate(s)			Tax exemption	Order value caps	Customs requirements	Suitable categories
Postal shipping (UPU)	Personal postal articles tax	13% (lowered from 25% in April 2019) for: Food products and beverages Electronics Games and toys	20% (lowered from 25% in April 2019) for: Footwear, apparel, and accessories Personal care items (not high-end ones) Bags and suitcases Most categories	50% for: High-end cosmetics and personal care items Alcohol Tobacco	Tax waived if the tax amount is less than RMB 50	Only some parcels will be inspected No more than six SKUs allowed A value limit of RMB 1,000/order	National ID number	Food products and beverages Skin care products Kitchenware Clothing
Personal parcel express shipping								
Business commercial (B2C) shipping	Import taxes (tariffs + VAT + consumption tax), affected by the Positive List	6.3% (lowered from 7% in April 2019) for: Pet food Cooking oil	9.1% (lowered from 11.2% in April 2019) for: Mother and baby products Health supplements Food products and beverages Personal care items and most cosmetics Most categories Accessories (not high-end ones)	23.05% (lowered from 25.53% in April 2019) for: High-end cosmetics Luxury skincare products and perfume Alcohol (17.9%) High-end jewellery (17.9%) High-end watches (28.9%)	No waived amount	Every order is taxed with no exceptions A value limit of RMB 5,000/order Annual limit of RMB 26,000.person	National ID authentication Three purchase order records: Order Shipment Payment	Food products Cosmetics High-end consumer products
Bonded imports (B2B2C)								FMCGs Low-value and high-weight products Personal care products such as shampoo

CBEC SALES CHANNELS IN CHINA

TMALL AND TMALL GLOBAL

Tmall is a Chinese-language B2C e-commerce platform that was spun off from Taobao and operates under the Alibaba Group. It is a platform on which Chinese consumers can buy branded products, either directly from a brand store or from a multi-brand seller store.

Tmall Global is Tmall's CBEC arm, and has its own section on Tmall's main page selling products from over 20,000 brands from 77 countries and regions around the world. The largest CBEC platform in China, Tmall Global also benefits from the traffic it receives via Tmall, which has over 600 million monthly active users.

Sellers can apply to open a store on Tmall Global and in some cases can sell in bulk to Tmall Global's direct purchasing team. One particular benefit of launching a store on Tmall Global is that the seller in question does not need to have a Chinese corporate entity.

The advantages and disadvantages of Tmall Global

Advantages	Disadvantages
» Traffic is generated through Tmall. » It is the largest CBEC platform with a wide reach due to its general e-commerce user base. » It offers extensive advertising and marketing tools. » The e-merchant does not require a Chinese corporate entity. » Tmall products show up in Taobao search results, enabling access to a significantly larger user base.	» It has higher requirements than other platforms in terms of the investment and manpower required to set up a store, and also in terms of carrying out operations and marketing promotional activities. » The e-merchant is required to pitch to Tmall in order to obtain an invitation to apply for a store. » The e-merchant is required to compete with local Tmall sellers (Chinese brands) for customers, with competition becoming increasingly fierce.

The fees and commissions for Tmall Global are:

- Security deposit: RMB 50,000-800,000 (£5,700-92,000), depending on the product category and type of store;
- Annual fee: RMB 30,000 or RMB 60,000 (£3,400-6,900), depending on the product category;
- Commission: 0.5-5% of goods value (incl. shipping costs), depending on the product category;
- Alipay payments fee: 1% of each transaction.

More information for merchants can be found on Tmall Global's English-language website.

JD.COM AND JD WORLDWIDE

JD Worldwide is JD.com's CBEC platform, where Chinese customers purchase imported products. International brands, franchisees, retailers, and trading companies registered overseas can sell imported products on the platform, even without a Chinese entity.

JD.com is different from other e-commerce platforms in that it has an in-house logistics company that handles last-mile delivery for its sellers, which in turn means greater transparency and faster shipping times, as JD.com itself has control over the delivery process.

The advantages and disadvantages of JD Worldwide

Advantages	Disadvantages
» Traffic is generated through JD.com. » Partnerships with Tencent's WeChat enable JD.com and JD Worldwide to better reach WeChat users. » Lower annual technical service fees and deposits for sellers than for operating on Tmall/Tmall Global. » The e-merchant does not require a Chinese corporate entity.	» It is historically difficult to sell premium, female-oriented products such as luxury, fashion, and cosmetics products on JD.com and JD Worldwide. » Fewer advertising tools when compared to Tmall/Tmall Global. » It has a smaller user base than Tmall/Tmall Global. » The platform favours sellers that have been established for a relatively long time.

The fees and commissions for JD Worldwide are:

- Security deposit: US$15,000 (£11,500) or US$30,000 (£23,000), depending on the product category;
- Annual fee: US$1,000 (£770);
- Commission: 0.5-6.5%, depending on the product category;
- More information can be found at JD Worldwide's official website (in Chinese).

KAOLA

Launched in 2015 by Chinese gaming company NetEase, Kaola is China's second largest CBEC platform, behind Tmall Global. In October 2019 Kaola was acquired by Alibaba. Because it purchases most of its inventory in bulk using a B2B2C model it can secure low prices and pass on savings to the end customer.

Kaola is different primarily because it is a standalone platform focused on CBEC, as opposed to Tmall Global and JD Worldwide, which are owned by the same companies as Tmall and JD.com, respectively. This means that the user base is more knowledgeable about CBEC, and consists of premium customers such as daigou sellers and upper-middle class parents in first- and second-tier cities.

For less standard, slow-moving SKUs and emerging brands, third-party suppliers have the opportunity to set up their own store on Kaola.

The advantages and disadvantages of Kaola

Advantages	Disadvantages
» It is willing to purchase top-selling SKUs in bulk. » It is a standalone platform so does not have to share traffic with a non-international counterpart in the same way that JD Worldwide and Tmall Global do. » It has a more premium user base than many of its competitors, such as daigou sellers and upper-middle class parents in first- and second-tier cities.	» Very aggressive direct sales business, hence strong competition between third-party sellers, retailers, and other re-sellers. » Its customer base of younger females with relatively high incomes tends to be price-sensitive, therefore Kaola generally has lower prices than competing platforms. » Its requirements affecting the user experience are becoming stricter (e.g. e-merchants may need to stock more inventory closer to China and ship faster). » Its user base is more niche, hence does not have as wide a reach as Tmall Global.

The fees and commissions for Kaola are:

- Deposit: US$1,500-$15,000 (£1,150-£11,500), depending on the product category;
- Commission: 5-7%, depending on the product category.

MOBILE AND SOCIAL COMMERCE

China has one of the world's largest mobile e-commerce markets. As a lot of Chinese customers never purchased desktop computers and had their first experiences of making online purchases using smartphones, many of them have developed the habit of carrying out their e-commerce transactions on their phones.

To facilitate mobile commerce, social media platforms such as WeChat, Douyin, and RED have become an increasingly important part of the e-commerce ecosystem. Their influence on e-commerce in China is described in this section.

WECHAT AND WECHAT MINI-PROGRAM STORES

WeChat mini-programs, launched by Tencent in early 2017, are mini-apps within the WeChat ecosystem. Brands can set up interactive WeChat e-commerce stores that benefit from WeChat's billion-plus users and social media platform. Similarly, consumers can learn more about a brand and order products without having to leave WeChat or download a separate app.

Brands can set up a closed-loop transaction, where the user starts with product discovery and progresses through product research, ordering, and finally payments (using WeChat Pay). It combines content with commerce, and in the process customers can involve friends and family who may be interested in making a purchase as well.

The advantages and disadvantages of WeChat mini-programs

Advantages	Disadvantages
» Quick, convenient ordering process due to WeChat Pay integration. » 2MB webpages, so fast loading times. » The mini-program can be shared easily with friends and family, enabling brands to go viral. » E-merchants can leverage content from official accounts, KOLs, and other creative campaigns/games to drive traffic. » There is more space for banners, videos, and other promotional content when compared to e-commerce marketplaces. » It offers direct access to consumers and consumer data, and the ability to create loyalty programs.	» It is still difficult to drive traffic; PPC advertising is still low and ROI and KOL marketing is expensive. » It is less customisable than official websites, in that customers can only pay with WeChat Pay. » E-merchants cannot send push notifications. » Mini-programs cannot be shared on WeChat Moments (WeChat's newsfeed function). » WeChat is a private network, therefore users cannot view the news feeds or profiles of those that they are not friends with.

RED

RED (also known as Little Red Book) is a content community and CBEC platform. It is a mobile-only platform app with over 100 million registered users and 30 million monthly active users. The company originally began as a platform focused on overseas travel, and gradually shifted towards content about e-commerce products and brands. Users post Pinterest-like posts that contain both images and text content; there are over 2 billion posts on the platform.

RED's e-commerce business now boasts over RMB 400 million (£46 million) in monthly GMV. Its user base is primarily female (88%) and young; 30% of users are below the age of 24 and over 60% are below the age of 30. Furthermore, these users are highly active, purchasing at least twice a month.

Brands can set up brand accounts under which they can publish content, and user posts tagging them can be aggregated. Brand accounts can interact directly with users and also comment on other user posts, with this type of responsiveness helping brands to stand out. The platform is also a popular avenue for influencer marketing: many brands hire influencers to post about their products.

The advantages and disadvantages of RED

Advantages	Disadvantages
» It is good for brand marketing and working with KOLs. » It is a good platform for smaller, niche brands to get noticed. » New short video and livestreaming e-commerce features can create more options for brands.	» It is a relatively small platform and its 150,000 SKUs pale in comparison to its billion-plus posts. » Reportedly weak logistics and fulfilment experiences have detracted from the customer experience. » The buying intent of users remains low: many users browse but shop on other platforms like Taobao stores.

DOUYIN

Also known as TikTok in the West, Douyin is China's largest short-video platform with over 500 million MAUs. It is owned by internet giant ByteDance, one of the largest private internet companies in the world. Douyin began incorporating e-commerce functions towards the end of 2018, linking its videos to Taobao items that customers can purchase.

To access the e-commerce features on Douyin, users swipe up and down on the main interface to watch different short videos recommended by the platform, and can click on Taobao/Tmall e-commerce links inside the video and make purchases without leaving the Douyin app. Short videos are often posted by influencers, with whom brands must partner with and negotiate a cooperation model separately.

For newly-introduced e-commerce features, Douyin allows brands to set up official accounts and purchase advertisements to drive traffic. The primary benefit of selling on Douyin is to enable product discovery and drive users from content to purchases in a closed-loop transaction.

The advantages and disadvantages of Douyin

Advantages	Disadvantages
» Brands can create a prompt and hire leading influencers to create content based upon it, driving traffic from a loyal user base. » 80% of the users are Generation Z users aged under 24 who are more open to splurging on e-commerce and may receive spending money from parents. » Attention-grabbing videos enable customers to discover products and their selling points within a short period of time. » It is well suited to more visual items such as fashion goods and cosmetics.	» It is still in its early stages, and links are currently only to existing Taobao/Tmall stores. » The marketing ecosystem on Douyin is less mature than that seen on Weibo and WeChat. » The 15-60 second limited length of videos is often not enough to fully explain the attributes of a product/brand. » It is harder to sell less visual items.

SELLING THROUGH A COMPANY'S OWN WEBSITE

In China, customers are used to shopping on mobile e-commerce platforms such as Alibaba's Tmall and JD.com. Indeed, Alibaba was the first company of its type to create an e-commerce experience that incorporates mobile payments: Alipay.

It is relatively rare for a Chinese customer to purchase on an independent brand/retailer's official China website or app, though category-specific retailers such as Feelunique and Lookfantastic have been able to set up CBEC websites for products/brands that are hard to find in China. Such behaviour is because Chinese consumers are not always aware of whether or not a brand has an official website in Chinese and platforms offer the ability to more easily compare different brands' products, then pay for them in a more convenient manner.

Whilst it is unlikely for customers to purchase on a single brand's website, it is still recommended that brands set one up for brand-building and product information purposes.

A standalone e-commerce presence (i.e. an official China brand website) can consist of:

- A desktop website
- A mobile H5 website
- A mobile app

The primary benefits of operating a standalone e-commerce presence are freedom and independence: the brand or retailer has full control over how the store is designed and operated as there is more space for banners, content, and designs that convey a brand's visual image. This is particularly important for premium brands.

This is also why many luxury goods brands prefer to operate their own independent stores – so they can create a unique luxury experience that makes the consumer feel special. Selling a handbag, for example, on the same platform as a pack of nappies may otherwise dilute the brand value.

The margins of operating an independent site are also higher, as high commissions to a third-party platform do not need to be paid. In addition, brands own any customer data they collect and have direct access to customers' personal information. They can also run loyalty programmes, dictate their own shipping routes, return policies, and customer service operations, amongst other things.

Some brands may wonder whether they can just translate their current website into Chinese. This could be done but the downside is that the user experience won't be localised enough. E-commerce in China is more advanced than it is in western countries and Chinese customers are used to mobile payments, pages that load quickly, and fast delivery services. Without these features, customers are unlikely to return to a website. Instead, a truly localised CBEC website should:

- Be based on cloud infrastructure based in in Hong Kong, integrated with the merchant's existing inventory and ERP systems and augmented with CDN acceleration for faster loading pages.
- Feature products pre-registered with China Customs for faster CBEC clearance.
- Be supported by a China marketing customer service team to handle day-to-day operations.
- Be equipped to accept WeChat Pay, Alipay, and Union Pay.

The advantages and disadvantages of selling through a company's own website

Advantages	Disadvantages
» Independence. » E-merchants can set own pricing strategies and have higher margins than on a platform. » E-merchants have the freedom to implement different merchandising, marketing, and operational strategies. » Brands and retailers have direct access to consumers and their data, and can run their own loyalty programmes. » Flexibility » Set-up costs can vary depending on size of store and traffic acquired. » It is compatible with different payment providers and logistics providers. » It can facilitate omni-channel marketing campaigns. » It can be scaled for long-term growth.	» Localisation requirements. » E-merchants need to invest resources or hire a professional third-party agency to build and maintain a sophisticated, localised platform. » Difficult to draw traffic. » Attracting user traffic can be difficult, especially for new and emerging brands. » Complexity. » Complex supply chains and logistics operations need to be managed. » E-merchants need to resolve issues relating to payments and customer service, amongst others.

E-COMMERCE MARKETING

KEY OPINION LEADER (KOL) AND KEY OPINION CONSUMER (KOC) MARKETING

KOLs are the equivalent of influencers in China. They have a disproportionately high impact on customers' purchasing decisions and are essential for brand-building in the China market. Reasons for this include:

- Social media advertising is weak in China. The ROI on WeChat and Weibo advertisements is much lower than that of Facebook and Twitter, therefore brands have shifted most of their social media advertising budgets towards KOL marketing.
- Chinese customers are distrustful of new brands. There are many fake and low-quality products in the China market, and there is such a high number of new products in the market that customers need advice when making purchasing decisions.
- KOLs help personalise a brand. As the China market becomes increasingly competitive, brands need to do something to stand out and better connect with their audience, and KOLs are one way to do this.

To work with KOLs, brands typically contact their agents or KOLs' multi-channel networks, after which they work together on a marketing campaign for a promotion. KOLs typically charge a fixed fee plus commission, and can post text articles and short videos, and even do livestreaming sessions on Taobao Live.

KOCS AND HOW THEY DIFFER FROM KOLS

KOCs are different from KOLs in a number of key ways:

- They are smaller but more targeted and have a loyal fan base: KOCs may have only a few hundred to a few thousand followers, but these consumers are more likely to think and act like them. KOCs may focus on certain niches and develop stronger product expertise.
- They are paid less or not paid at all by brands, and followers are more likely to trust KOCs because of this. It is common for brands to send free samples to KOCs in exchange for independent reviews on social media.
- They leverage private domain traffic to reach consumers. KOCs are more likely to reach their followers through private WeChat groups which contain a maximum of 500 users. There is more interaction in these groups when compared to platforms like Weibo, where the interface is more like Twitter and accounts may have many followers but low engagement rates.

The differences between KOLs and KOCs

	KOL	KOC
Traffic source	Public traffic	Private traffic
Follower base	Large	Small
Conversion rate	Medium	High
Engagement rate	Medium	High
Promotional costs	High	Low

It is common for brands to integrate the use of KOLs and KOCs in their marketing campaigns. KOLs often grab customers' attention and set the tone for future discussions, while KOCs add their own commentary and engage their smaller fan bases much more closely.

LIVESTREAMING E-COMMERCE

Livestreaming and e-commerce became popular in 2019 as platforms and merchants alike began looking for better ways to engage customers. Sellers typically hire KOLs to help them present products during a livestreaming video session, though some sellers may choose to livestream themselves. Taobao and Mogujie were the earliest e-commerce platforms to launch livestreaming features but, starting in 2019, competitors such as JD.com, RED, and WeChat began to launch their own livestreaming features.

Inside a livestreaming video session, users can see how many other users are present. They can also engage in a live public chat with the host and ask questions about product fit, colours, materials, and other features. There is no limit on how long a livestreaming session can be, though most range between 30 minutes and two hours.

Once users are ready to make a purchase they can click on a link, upon which a purchase window appears. Users can then make a purchase with Alipay or WeChat Pay, depending on the platform, and go back to the livestreaming session. This works because the user's personal information and address are already saved by the e-commerce platform.

Tmall Global product views brought in through Taobao Live jumped 309% to reach 35.03 million in 2019, and the number of products purchased jumped 430% to reach 2.36 million. On Tmall, over 100,000 brands and merchants used livestreaming to market their products on Singles Day in 2019, a new record. Kim Kardashian collaborated with livestreaming influencer Viya to sell 15,000 bottles of KKW Beauty perfume on Singles Day, while Viya and Austin Li, who started his career as a L'Oreal counter attendant, were two of the top livestreamers.

NEW OPPORTUNITIES AND CATEGORIES IN 2020

China's e-commerce market is rapidly changing and trends come and go very quickly. To keep international brands and retailers updated on the state of the market, four sub-categories to pay particular attention to are detailed below.

OTC PHARMACEUTICALS

On 30th December 2019, government authorities announced that Beijing would be the first pilot city to allow the importing of OTC pharmaceutical products through CBEC channels. This will be the first time that online sales of imported OTC pharmaceutical products will be allowed as up until recently, the sale of OTC products online had been heavily restricted.

China's OTC pharmaceutical market has been growing at an annual average of 17% in recent years, with some analysts expecting it to surpass the US market in size within a few years. Products in particular demand include children's cough medicine, laxatives, and nicotine patches. However, there are still significant government restrictions on the advertising of such products, especially regarding certain claims of effectiveness in advertising. Some social media platforms restrict content and advertisements on such health products, and many KOLs refuse to help market them as well.

ANIMAL AND PET CARE

The pet care market in China is predicted to be worth RMB 214 billion (£25 billion) by the end of 2020, up from RMB 122 billion (£14 billion) in 2016. China now boasts the world's third largest number of pet owners, behind only the United States and Japan, with over 100 million pets now in Chinese households.

Chinese consumers are spending an unprecedented amount of money to ensure the health and well-being of their pets. For instance, natural and organic pet food products are gaining popularity and are now seen as a necessity by an increasing number of pet owners. Furthermore, this market is still in its early stages of development and there remains a lot of uncertainty and misinformation around pet care products. Many clinics and veterinarians may dispense false information to make short-term profits, therefore pet owners often do not know whom to trust.

This means that the demand for imported products has been growing, making pet care products a fast-growing CBEC category.

SCIENCE-BACKED DERMACEUTICALS

Beauty and cosmetic product customers in China place a lot of focus on ingredients and spend a great deal of time and effort to research them. In recent years, science-backed dermaceutical brands like Martiderm, Filorga, and Atopalm have risen in popularity, marketing themselves as products that have been sponsored by doctors and tested in medical laboratories. They emphasise their niche ingredients that may be all-natural or difficult to find in mainstream products, and their product pages typically consist of highly detailed graphics that show how such ingredients affect the skin from beneath the surface. Brands such as Filorga have set up offline VIP spa centres to appeal to upper-class consumers, which also helps to convey the premium nature of these products.

TRENDY SPORTSWEAR

Upscale sportswear is now a lifestyle trend among Chinese millennials. The Chinese sportswear market grew by 11% to be worth RMB 230.8 billion (£26.5 billion) in 2018, and it is not uncommon to see Chinese customers wearing sporty Balenciaga t-shirts, Lululemon yoga pants, and limited-edition Nike trainers when they go out at the weekend. In addition to leading foreign brands such as Nike, Adidas, and Lululemon, local brands such as Particle Fever and Maia Active are also proving to be popular. Luxury brands such as Balenciaga have launched their own trainer lines, and other luxury brands are partnering with Adidas and Nike to roll out co-branded collections.

This trend is also driven by a growing consciousness of the need for a healthy lifestyle. Chinese millennials are more active than in the past, which is reflected in the popularity of fitness influencers and apps, as well as a wave of new gym openings in China. China now has over 37,000 fitness facilities, and over 104 million people have at least one fitness app on their phone. Indeed, it is not uncommon for young millennials to post selfies of themselves at the gym through social media apps such as WeChat and RED.

2020 CHINESE E-COMMERCE MARKETING CAMPAIGNS (EVENT CALENDAR)

MAJOR CHINESE E-COMMERCE HOLIDAYS

Singles Day **11th November**	Biggest e-commerce holiday of the year
618 Festival **18th June**	Biggest mid-year e-commerce campaign
Black Friday **November (date based on Thanksgiving in the US)**	Most popular holiday for imported CBEC products; less competition for traffic and logistics
Double 12 **12th December**	Initiated by Alibaba; good for clearing out inventory left behind from Singles Day and Black Friday

OTHER CHINESE E-COMMERCE HOLIDAYS

Chinese New Year **January-February (date based on the lunar calendar)**	Most important holiday for Chinese family reunions; customers tend to buy food and gifts for loved ones
Valentine's Day **14th February**	A holiday for couples; chocolate and jewellery are popular gifts
Women's Day **8th March**	A holiday for women; all women get half a day off from work and many companies give gifts to their female employees
520 Festival **20th May**	"520" sounds like "I love you" in Chinese; another occasion for couples
Qixi Festival **August (date based on the lunar calendar)**	China's traditional Valentine's Day; another occasion for couples
Mid-Autumn Festival **13th September**	China's Moon Festival; people tend to buy mooncakes and gifts for loved ones
National Week **1st-7th October**	China celebrates the founding of the nation; most Chinese consumers travel and shop during this time period
Christmas **25th December**	While Chinese people still have to work during Christmas, it has become a commercial holiday with many promotions and sales, especially for imported products

CHECKLIST

CHINA E-COMMERCE CHECKLIST

Are you ready to expand to China? Is your business right for CBEC? Here is a checklist that can help you consider all the potential factors in your decision.

MARKET DEMANDS AND CHINA READINESS ASSESSMENT

- How big is the market opportunity in my subcategory?
- How competitive is my subcategory? Who are the other competitors and what prices are they selling at?
- Are daigous and C2C sellers selling my product on the grey market via Taobao or WeChat?
- Have I registered my trademark(s) in China?
- Can my brand be found in Baidu search results? Are there articles about my brand?
- Can my brand be found on Chinese social media platforms? Are people talking about it on platforms like WeChat, Weibo, and RED?

LOGISTICS

- How many parcels can I pack per day?
- How flexible are my logistics capabilities? Packages to China may need extra packing material for international transport.
- Am I willing to cover cross-border shipping costs for major sales campaigns?
- Is my warehouse big enough to stock more products? Is there a way to increase my warehousing capacity?
- How long does it take to replenish inventory when it sells out? Do I have the flexibility to stock inventory for big campaigns such as Singles Day?

PRICING

- Are my prices competitive enough? How do my prices compare to those of my competitors?
- What added value can I offer Chinese customers? Why should Chinese customers buy from me? What are my unique selling points?
- How much of a discount am I willing to provide for normal sales campaigns and larger ones such as Singles Day?

SALES CHANNELS

- Do I want to sell on an e-commerce platform such as Tmall or use my own channels (such as a website or WeChat store)?
- Am I willing to pay the fees and commissions associated with launching on an e-commerce platform?
- Can I handle the high standards involved with operating a store on an e-commerce platform? If not, am I willing to hire a service provider to operate it for me?

MARKETING

- » Which social media platforms do I want to build a presence on? Am I willing to invest in influencer marketing to accelerate this process? Am I willing to try localised tactics to build my brand?
- » Where can I find my customers and how can I retain them?
- » Am I willing to tailor my brand image to the Chinese market?

BUDGETING

- » Do I have enough margin to cover CBEC expenses? These expenses include import duties and taxes, cross-border shipping costs, platform fees, and agency fees, amongst others.
- » Am I willing to invest in China for the long term, even if that includes losing money in the first one or two years?
- » Is the potential opportunity in China worth the risks of failing?

ABOUT CBBC

CBBC has been at the heart of the UK-China trade relationship for 65 years – we are the UK business network for China and the independent voice of business within this relationship. We are the leading bilateral business network with longstanding and deep relationships and access to both the UK and China Governments. As such, with our membership of over 800 organisations, we help UK companies develop and grow their business with China, and Chinese companies expand and invest in the UK.

CONTACT AZOYA

Azoya Group is a borderless commerce group based in Shenzhen with over 200 employees worldwide. We help international brands and retailers launch and set up e-commerce stores in China, managing everything from marketing to logistics, payments, IT integrations, and customer service. For more information, please visit our website or contact us:

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CROSS-BORDER TRADE TRANSACTIONS

This section was written for CBBC by Santander. For more information, please contact dennis.lin@santander.co.uk

A major concern for UK companies when doing business with their Chinese counterparts is how they will make and receive payments.

While China's international currency transfer system has liberalised in recent decades, there are still a number of regulations and limitations that apply to cross-border transactions. Although these currency controls are not an obstacle to doing business in China, it is important that companies understand their potential impact and ensure they obtain proper guidance to help them avoid potential problems.

There are several options offered by Chinese banks and companies to foreign groups looking to make and receive payments. These range from letters of credit to telegraphic transfers and documentary collections – all methods commonly used in international trade. Chinese banks also offer escrow accounts, which are a typical method of payment for international trade and can be used for certain projects. The most suitable option for a particular business will depend on multiple factors, such as the relationship between the bank and the company in question, the sector, the size of the transaction, and the amount of risk the UK company is willing to take.

FOREIGN-EXCHANGE RESTRICTIONS

It is possible to make and receive payments for transactions with Chinese companies in foreign currencies such as sterling or US dollars, but there are limits that companies must take into consideration.

Broadly speaking, the trade of goods in foreign currencies – as well as those carried out in renminbi (RMB) – is permitted provided it is supported by the correct documentation, such as executed sales agreements, customs declarations, and invoices.

For services, there is no limitation on foreign currency transactions for amounts up to US$50,000 (£38,500), but higher-value transactions must be supported by the correct documentation.

The Chinese government operates sector- and region-specific cross-border payment rules: for companies trading in certain goods or in certain parts of China, transactions could face stricter controls. It is therefore important to consult with experts such as a bank based in China before agreeing to specific payment terms. For example, Santander's team based in Bank of Shanghai could help UK companies identify issues that may affect their ability to receive or make payments.

CROSS-BORDER RMB PAYMENTS

The Chinese government is encouraging the use of RMB for international trade, a fact that is worth bearing in mind when negotiating sales agreements. The controls placed on cross-border RMB transactions are generally less strict than on foreign-currency exchange. For example, approval from the authorities only needs to be sought for China-to-UK transfers worth more than RMB 5 million (£574,713).

Agreeing to do business in RMB may also enable UK companies to negotiate more favourable terms with Chinese partners, as the latter will face less foreign exchange risk.

UK-based companies which receive payment in RMB will need a domestic bank account denominated in the currency. Santander UK can provide off-shore RMB accounts and support cross-border payments and receipts in RMB.

MITIGATING TRADING RISKS

While dealing with currency fluctuations is part of international trading, so too is the risk that agreed payments or shipments of goods may not materialise.

LETTERS OF CREDIT AND ESCROW ACCOUNTS

Letters of credit and escrow accounts are available to businesses trading with China and offer a form of insurance for each party in a transaction. A letter of credit is essentially a guarantee underwritten by the buyer's bank that the sum agreed for a particular shipment of goods will be paid provided the seller meets certain conditions.

Setting up both will typically involve providing documents such as the original sales agreement, commercial invoices, and proof of shipping and/or delivery. When a letter of credit is issued, the seller no longer has to worry about the buyer performing on the contract; this responsibility has essentially been passed to the buyer's bank. At the same time, the buyer receives assurances that the seller will deliver the documents required by the letter of credit on time.

An escrow account is an account run by a trusted third-party in which payment for certain goods is held until the buyer receives them or other pre-agreed conditions are met.

Letter of credits are popular as they offer a high level of guarantee and can be more flexible than escrow services. For example, letters of credit can include terms that allow discounts for payment in advance.

TELEGRAPHIC TRANSFERS AND DOCUMENTARY COLLECTION

For transactions where there is less need to mitigate the risk of non-payment or non-delivery, banks in China offer telegraphic transfer of funds, available in both RMB and foreign currency. These are direct electronic transfers of cleared funds. The main advantages of telegraphic transfers are that they are secure and fast, with money arriving in the payee's account more or less immediately. Fees for transfers are typically lower than for payment methods that require banks to check documentation like letters of credit.

Banks in China also provide documentary collection services, meaning that that they take responsibility for checking the documentation on a deal. No matter the payment method used, it is vital that documents are completely error-free. A mistake as apparently trivial as misspelling a company name on a letter of credit could result in funds being blocked.

Santander's relationship with Bank of Shanghai and other trusted consultants in China could help UK companies check documentation and ensure such problems do not arise, as well as guiding UK businesses through other parts of the payment process.

CHINESE CUSTOMS COMPLIANCE

This section was written by CBBC

Regulations and bureaucracy both score very highly as obstacles faced by British businesses in China. Getting goods in and out of China in particular can provide a complex set of challenges and there is considerable risk of disruption to business. UK businesses need to be aware that Chinese non-tariff barriers, such as import regulations, restrictions, licensing, quality, and quarantine procedures, sometimes vary from WTO standards. They can be both ambiguous and extensive and there is regional variation in the way that China Customs interpret and implement rules and regulations. Furthermore, as with many aspects of Chinese law, rules and regulations can change unexpectedly and quickly. It is essential that companies understand the specific requirements in place for their goods and can take the appropriate action. Shipments that fall foul of these can be detained and confiscated at the port of entry, creating costly delays often with the additional cost of having to re-export goods. China Customs can also levy fines and downgrade an enterprise's customs credit rating.

UK companies need to:

- Understand the operational risks and commit resources to planning and preparing documentation;
- Establish effective communication with the importer in China;
- Map out the import requirements for goods well in advance of shipping to China.

Due to high complexity and risk it is often advisable to seek assistance. CBBC can provide initial advice and guidance and can also refer enquiries to our member companies for specialist services.

CHINA CUSTOMS

There are two levels of customs office in China:

- General Administration of China Customs (GACC)
  The GACC is a ministry-level authority positioned directly under the State Council. It is tasked with the supervision and control of all import and exports in to/out of China. More information about the GACC can be found on its website:
  http://www.customs.gov.cn/ (Chinese)
  http://english.customs.gov.cn/ (English)
- Regional/Local customs offices
  There are 47 regional Customs districts reporting directly to the GACC and a total of 678 customs offices and 4,000 customs clearance control stations throughout the country.

CLASSIFICATION OF GOODS

China classifies imports into three categories:

- Permitted
  These account for the majority of goods. Import requirements are generally basic but there may be specific regulations and requirements to adhere to, depending on the type of good (see below).
  Please note: cross-border e-commerce (CBEC) channels provide an alternative route to market for certain types of consumer retail products that are on a Chinese government-approved "positive list". These products enjoy a lower tax regime and many of the strict import requirements that exist for general trade are waived.
- Restricted
  These goods can be imported into China but require more stringent licensing and are often subject to volume quotas. They are deemed sensitive to the Chinese state and, as such, only a small number of companies (often state-owned enterprises) are permitted to import them. UK exporters will need to develop commercial relationships with these companies in order to access the China market.
- Prohibited
  Goods that are generally outside the scope of what foreign companies can import into China.

The following are a standard requirement by China Customs regardless of which category of goods are being imported.

- Exporter documentation:
  - Bill of lading
  - Packing list
  - Commercial invoice
  - Certificate of origin (certain goods only)
- Importer documentation:
  - International sales contract (signed and stamped by a registered company in China)
  - China business licence
  - China import licence

An importer of record is needed in China to receive goods – this will most likely be a corporate customer such as a distributor. However, it can often be the case that a third party (IoR) is brought in where the customer does not have the requisite import licences or where they choose not to be involved in the import clearance process.

It is vitally important that all paperwork be accurate and consistent, and that it meets the standards of China Customs. Any anomalies can be grounds to delay clearance and it can be difficult, costly, and time consuming to find a resolution. Ultimately, refused shipments may need to be transported back to the country of export. In severe cases China Customs may impose fines and penalties and it can lead to the blacklisting of shippers and importers.

IMPORT TARIFFS

There are three types of duty and taxes that are levied at import into China: the precise rates payable depend on the value of the goods, the tariff classification (HS code), and the country of origin.

CUSTOMS DUTY

Dutiable value = transactional price + insurance + freight

Applied on an ad valorem basis and varies by the type of goods. It is important to be aware of the country of origin of goods as this will have an impact on the customs duty rate and whether there are additional tariff arrangements. At present, the majority of goods originating from the UK and being exported to China will fall under the most-favoured-nation (MFN) rate. China Customs monitor declared prices and will challenge if sufficiently inconsistent with its own valuation database.

VALUE ADDED TAX (VAT)

Import VAT = (declared value + customs duty + consumption tax, if applicable) × VAT rate

Applied to almost all products and levied at 13% or 17% depending on the type of goods.

CONSUMPTION TAX

Consumption tax = (declared value + customs duty) / (1-consumption tax rate) × consumption tax rate

This only applies to certain goods such as tobacco, alcohol, luxury items, and high-end passenger vehicles. Rates can vary widely between 1% and 56% depending on the type of goods.

HS CODES

Harmonised system (HS) codes are used to classify goods and determine the relevant duty rates and regulatory requirements. It is crucial that the correct HS code is used in order to facilitate customs clearance and avoid non-compliance issues.

Chinese HS codes can appear different to those used by other countries. The first six digits in a Chinese HS code are consistent with the WTO's internationally adopted HS coding system. However, China uses a different scheme for the last set of digits. Check with your importer, they should be able to advise on which HS code to use.

Applications can be made to China Customs to verify appropriate HS codes. These should be made to the local China Customs office at the intended port of entry, three months before the actual importation of the goods.

More information on which HS code can be found at the European Commission Market Access Database:
https://madb.europa.eu/madb/datasetPreviewFormATpubli.htm?datacat_id=AT&from=publi

IMPORT INSPECTION AND QUARANTINE REQUIREMENTS

China's trade and customs laws include complex inspection, licencing, and certification requirements for certain types of products. Many of these require pre-market approval and need to be in place prior to any shipment to China. The procedural timeline can be lengthy and companies need to allow for sufficient time for all requisite steps to be completed, in order for goods to be allowed to clear at import in China. China Customs conducts routine checks on shipments and there are penalties for non-compliance. The benefit of working with an experienced distributor or importer in China that already understands these complexities cannot be underestimated.

Products with specific requirements include food and drink, electrical items, pharmaceuticals, and cosmetics. It is not possible to include detailed guidance for all product types, but two of the main ones are given below for reference:

GOODS REQUIRING CHINA COMPULSORY CERTIFICATION (CCC)

The CCC is a compulsory safety mark that is equivalent to the CE mark system in the EU and other countries. It applies to both imported goods and products made in China, and it ensures compliance with China's Guo Biao (GB) national standards. Many of these standards are equivalent to international standards.

See below for a limited list of product types requiring CCC accreditation. Companies are advised to seek professional advice on whether products and components require CCC as per the most up-to-date implementation rules. The CCC list is regularly updated to reflect amendments to the relevant GB standards. It is worth noting that there can be cases where importing products as a set under a single HS code, circumnavigates the need for individual components to have CCC.

Applying for a new CCC can take 60-90 days and may require:

- Testing at accredited laboratories in China;
- Submission of numerous technical documents;
- Submission of product samples to an accredited Chinese testing laboratory;
- A factory inspection by Chinese officials at the applicant's expense;
- Follow-up inspections every 12 to 18 months.

CCC PRODUCT CATEGORIES

- Electrical wires and cables
- Circuit switches
- Protective and connection devices,
- Low-voltage electrical apparatus

- Small power motors; electric tools
- Welding machines
- Household electrical appliances
- Audio and video apparatus
- Information technology equipment
- Lighting apparatus
- Telecommunication terminal equipment
- Motor vehicles
- Motorcycles and safety parts
- Motor vehicle tyres
- Safety glass
- Agricultural machinery (equipment for crop protection)
- Latex products (condoms)
- Medical devices
- Firefighting equipment
- Detectors for intruder alarm systems
- Toys, prams, and baby buggies

The above list is by no means exhaustive. Companies are recommended to check for the specific requirements for their products. Contact a CBBC advisor for guidance.

FOOD AND DRINK

China continues to develop and improve its legal framework regarding food safety. All imported food and drink products must be compliant with China's national GB standards on food safety and labelling. Furthermore, UK exporters are required to pre-register online with the GACC. This generates a unique registration number which is required by importers in China to complete customs clearance.

(See CBBC F&D reports for detailed guidance on the relevant procedures and requirements, available on our sector home page.)

PROCESSING TRADE

Companies looking to import materials into China for production and subsequent re-export may benefit from a processing trade arrangement. Processing trade allows for duties and VAT to be waived on the strict provision that all the imported goods leave China once completed.

Each processing trade application is thoroughly evaluated by China Customs. Precise inventory records are maintained and cross-checked at re-export to ensure full compliance.

There are two processing trade models available:

IMPORT PROCESSING MODEL

Raw materials purchased by the Chinese manufacturer from the overseas supplier are exempt from duty and VAT at import into China. The title of these materials passes from the overseas supplier to the Chinese manufacturer, who then manufactures and exports the finished goods to an overseas party.

CONTRACT PROCESSING MODEL

Import duties and VAT are still exempt, but this model differs in that the overseas supplier provides the raw materials free of charge to the Chinese manufacturer. The title of the materials is not transferred and the manufacturer is compensated by the overseas party with a processing fee. The finished goods are still exported to an overseas party.

LOGISTICS

This section was written for CBBC by JAG UFS. For more information, please contact gary.wilcox@jagufs.com

JAGUFS™
Worldwide Logistics Solutions

Logistics is an essential consideration for any buyer or seller considering trading goods with the Chinese market. As logistics can be an expensive process, once you have made a decision as to what product you want to ship, it should be one of your first considerations.

INCOTERMS

Incoterms are globally recognised rules which define the responsibilities of sellers and buyers under the purchasing contract of your shipment. It is vitally important to understand these terms, as it will have a bearing on the charges you are responsible for.

The following table shows the financial obligations which the buyer and seller are responsible for the under different Incoterms:

Incoterm	Cost/Risk	Packaging	Loading	Transport	Customs Export	Handling	Freight	Handling	Customs Import	Transport To Destination	Unloading
COUNTRY. CITY. PLACE OF ORIGIN							TRANSPORT	COUNTRY. CITY. PLACE OF DESTINATION			
Incoterms* 2020 ICC - Rules for any of modes of transport											
EXW	Cost	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
FCA	Cost	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CPT	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CIP	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
	Insurance			Seller	Seller	Seller	Seller	Seller			
DAP	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Buyer
	Risk	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Buyer
DPU	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Seller
	Risk	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Seller	Seller
DDP	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer
	Risk	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Buyer
Incoterms* 2020 ICC - Rules for maritime transport and inland waterways											
CFR	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
FOB	Cost	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
FAS	Cost	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer
CIF	Cost	Seller	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer
	Risk	Seller	Seller	Seller	Seller	Seller	Buyer	Buyer	Buyer	Buyer	Buyer
	Insurance			Seller	Seller	Seller	Seller				

SELLER BUYER

Negotiating which Incoterm will be used with the buyer/seller should be a priority. The two most commonly used Incoterms are free on board (FOB) and ex works (EXW), as it will affect the cost per product sold:

- FOB: This means that the seller is responsible for getting the goods to your designated forwarder. The buyer will be responsible for shipping the goods from the port of origin and all charges at the country of destination. This is the most commonly used Incoterm.
- EXW: Ex works favours the seller, as the buyer is responsible for local charges at origin, as well as domestic and international freight costs to destination and all destination charges.

Whether you are shipping by air or sea, the buying terms free carrier (FCA, for air) and FOB (for sea) are the most commonly used by those importing from China. These terms allow the buyer to control the shipment from early in the process. Furthermore, local charges in China will generally be the responsibility of the seller, thus allowing the buyer to accurately forecast the costs of the shipment without any hidden costs. The export licences, commodity inspection certificates, and other relevant documents will be the responsibility of the supplier, who is typically more familiar with local requirements.

CONTROLLING COSTS WHEN IMPORTING FROM CHINA

It is important to control your costs; this is why the recommended terms of purchase are those on an FOB basis. With the help of a reputable freight forwarder, you will be able to move your goods with the most cost-effective method, within the timelines that you need your goods to arrive.

Many UK importers have been caught out by allowing the supplier to deliver the goods to the UK free of charge. Although this sounds very attractive, when shipments arrive, the local charges in the UK are hugely inflated and more often than not more expensive than controlling the freight by yourself.

You also need to consider duty rates on the products you are buying and be aware that duty is payable on the freight charges as well, as it is considered by revenue and customs to be part of the value build-up of your goods.

Once you have decided upon a commodity that you wish to import and have found the supplier you wish to work with, there are certain things you need to consider which are further explored below.

REGISTERING FOR VAT AND EORI

You will need to register for VAT. This is a simple procedure and the necessary forms can be found at: https://www.gov.uk/government/publications/vat-application-for-registration-vat1. You can apply to be registered for VAT online.

Even if you have a registered VAT number, you will also need to make sure that you have registered for an Economic Operator Registration Identification (EORI). For details on applying for an EORI number, please follow this link:

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageLibrary_ShowContent&id=HMCE_PROD1_028517&propertyType=document

If you have applied online for your VAT registration, this automatically applies you for an EORI too, and you should receive your EORI number with three days of your VAT registration number being issued. You can check whether your EORI number has been validated by using the following link: https://ec.europa.eu/taxation_customs/dds2/eos/eori_validation.jsp?Lang=en

Once you have this you are ready to start importing.

TRANSPORTATION CHARGES

Once you have chosen your preferred buying terms, it is important to consider the costs of shipping your consignment to the UK, as each type of transport has its own set of advantages and disadvantages. While sea freight is the cheaper option, it takes much longer than air freight and therefore requires greater consideration for production times and deadlines.

There are two main options for sea freight. The first is the purchase of a full container load (FCL), which involves the purchase of a full container – ranging from 20ft to 40ft in size. The second is the employment of a groupage service, which is often referred to as a less than container load (LCL). For LCL shipments, the minimum charge is for either 1 ton in weight or a cubic metre. This can be a very cost effective way of sending your shipment, but can take four to six weeks depending on the location of the supplier.

Though air freight is a lot more expensive than sea freight, for smaller consignments it can be as cost effective as sea. For larger shipments the price can grow dramatically, outweighing the benefits of the quicker shipment time. There are direct services in addition to slightly cheaper services that take a deferred route via another country. Deferred services can take three to five days to arrive at UK airports.

Another thing to consider is UK charges once your shipment has arrived. These are also easy to pre-advise on FOB and FCA shipments. Please refer to your forwarder for local charges as these do vary, dependent on service chosen.

DUTY RATES AND COMMODITY CODES

When calculating the final costs of your product, you must also consider the duty rate applicable to your commodity. There are various ways of checking this. Customs offer an advice line on 01702 366077 which allows you to get quick, non-legally binding advice with a simple description of your goods. You can also check online for yourself using the following link: https://www.gov.uk/trade-tariff

You can also apply for a "BTI Ruling" which is legally binding throughout Europe and valid for six years. This takes away any possibility of any post clearance queries from HM Revenue & Customs on duty rates. It will require a short form to be completed, accompanied by either a sample of the product or technical literature. All samples can be returned after the ruling has been issued. BTI rulings can be applied for at this link: https://www.gov.uk/guidance/apply-for-a-binding-tariff-information-decision-notice-600

EXPORTING TO CHINA

The importation process in China is quite complex and varies depending on the province. It is up to the buyer of your products to ensure that they are legally set up in China with the necessary import licences and compliant with other local regulations. It is recommended that you sell using EXW, FOB, or C&F (to arrival designated port or airport). It is vitally important that the Incoterms are agreed at the beginning of negotiations.

PROFESSIONAL GUIDANCE AND FREIGHT FORWARDERS

As the above processes can be very daunting, the guidance and assistance of a good freight forwarder who can provide assistance and advice on the entire process is recommended. It is further advisable to insure your goods from the moment that you become legally responsible for them as dictated by the terms of your chosen Incoterm.

You should not be frightened to ask questions. A reputable freight forwarder should have most of the answers for you, and if not, should be able to advise a governing body which will be able to give you the advice and information you need.

Though there is very little advice available on how to choose the right forwarder for your business, there is an abundance of good freight forwarders who will genuinely care about ensuring your shipment arrives without problem. They will ease the pressures of any uncertainty that you may have and ensure that you are fully aware of any restrictions on your product and any complications that may arise in the course of transit.

It is often said that one of the disadvantages of using a freight forwarder is that they have little control over schedules and only contract out third parties, e.g. airlines and shipping lines. Although this is true to an extent, as very few freight forwarders own aircraft or container vessels there are other considerations that outweigh the negative implications of this. Good freight forwarders can offer knowledge and expertise of the various services available and should be able to find you the best, most economical solution that is appropriate for your specific needs. They should also maintain strong relationships with airlines and shipping lines and be able to offer you competitive prices.

It is essential that you do some due diligence and seek recommendations where possible. A good record is a good sign of credibility, but you should also meet them face-to-face and ensure that questions are asked which test their knowledge. There is always a leap of faith involved in selecting new service providers, but by meeting the company you can gain a proper understanding of them, and, just as important, they can also gain a full understanding of your requirements.

TRAIN FREIGHT

The beginning of 2017 saw a great deal of attention in a new train freight service launched from the city of Yiwu in China to London. The official reception for the arrival of the first train was held at the St Pancras Renaissance Hotel, London on 18th January of that year. A subsequent return train departed from the London Gateway terminal on 10th April and also received widespread media coverage. Although this was expected to be the new mode of transport from China, the service is still very limited.

SOURCING FROM CHINA AND QUALITY ASSURANCE

This section was written for CBBC by SinoScan UK. For more information, please contact steve.haworth@sinoscan.com

BACKGROUND

During the past 40 years China has become the world's primary manufacturing centre, offering mature and well-developed capabilities in a wide range of technologies and leading the world in some areas. With ongoing very high levels of investment in research and development, many technologies are advancing faster in China than elsewhere.

Traditionally one of primary benefits of sourcing from China is lower product manufacturing costs. Notwithstanding increasing labour costs in recent years, Chinese suppliers still offer competitive prices compared to that available from western factories.

With increasing technical capability and technical skills in China, higher level added-value product design and development services are now readily available, as well as manufacturing capabilities. Consequently, sourcing from China offers great opportunities for business development, but it is not without challenges.

Opportunities include:

- Creation of a platform for selling to markets in China;
- Access to competitively priced products;
- Taking advantage of China's burgeoning technological developments;
- Direct shipment to international markets;
- Full development for new products.

Challenges include:

- Cultural and business practice differences;
- Communication misinterpretations;
- Selection of suitable suppliers;
- Intellectual property security.

SOURCING STRATEGY

Drivers for sourcing from China are varied and dependent on many factors including, but not limited to price, quality, technical complexity, target market location, logistics, and resource availability. The primary objective will be to find dependable manufacturing partners that can consistently produce products on time, within budget, and to the required quality.

Preparation for embarking upon a sourcing initiative requires planning and should consider:

- Purchase price targets
- Demand forecast and batch sizes
- Product technical requirements
- Intellectual property
- Security of supply
- Inventory management
- Currency exchange rate variation
- Product destination and distribution

SOURCING METHODS

There are three main ways to source products from China:

SELF-MANAGED

This approach requires conducting the investigation, identification, and due diligence of potential suppliers yourself. In addition to language and distance barriers, further challenges include negotiation of contractual agreements, product quality, and security of supply. You will need to arrange for export, transportation, and import into the destination country. Although there may be some benefits with potentially lower costs, of all three methods this one carries the greatest risk in terms of investment of time, effort, and likelihood of a successful outcome.

SOURCING AGENTS

This is the most common method of sourcing from China. There are many agents to be found on the internet. Their range of capability is wide, and you need to confirm that the agent will provide the level of service you require. Many agents claim they are the actual manufacturer but are often merely trading companies, and your order will be subcontracted to other companies for manufacture. Sourcing agents will arrange logistics and export administration but the overall technical and commercial risk will be yours.

FULLY MANAGED SERVICES

This is by far the most secure method of sourcing from China and the one with the highest probability of success. These companies provide a complete sourcing solution, taking responsibility for supplier identification and audit, manufacture, quality assurance, and shipment logistics. Some companies have the capability to be actively involved in your product design and development. There will be additional cost for their services but this is normally more than compensated by their competitive purchasing power (achieved by volumes of scale with their portfolio of manufacturers) and your significantly lower resource commitment to the sourcing activities.

RELATIONSHIPS AND CULTURAL CONSIDERATIONS

There are many aspects of conducting business in China that may be unfamiliar to western companies. Although modern business practices have been adopted in China, particularly with younger generations, centuries-old traditions remain and the business culture of China today is a mixture of old and new.

The ancient philosophy of Confucianism is very much alive and promotes loyalty, a sense of duty, respect for age and seniority, as well as sincerity. The concept of "guanxi" provides the underlying structure for social networks and is still a major influence in establishing trust and mutual obligations. Often companies still retain hierarchical management structures in which the owner is the primary decision maker. Also, distinctly different approaches to business may be adopted by younger and older managers.

Building trusted relationships is crucial to doing business in China, so local partners and organisations that have established supplier bases can be crucial in achieving successful sourcing. Face-to-face meetings are fundamentally important in establishing a solid start and growing business relationships.

Close cooperation with suppliers is essential with a need to:

- Avoid absolute adherence to western business practices;
- Adopt a solutions driven approach;
- Ensure good communication practices;
- Actively engage with suppliers to build relationships;
- Treat suppliers as partners in the venture.

MANUFACTURER SUITABILITY AND CAPABILITY

There are thousands of potential suppliers in China and so the investigation to find the most appropriate one can be difficult and onerous, particularly if being attempted directly from the West. The due diligence process should include a review of the supplier's suitability by conducting a supplier audit covering as a minimum: business management; commercial history; technical capability; quality assurance facility; health and safety; employee welfare; and environmental policy.

Specialist quality management companies can be employed to perform this task, but if you have a primary business partner, or are using a managed sourcing company, they will have a closer understanding of your product and/or service requirements when performing the audit.

Some tier 1 suppliers in China have similar exceptional capabilities and track records that match, or exceed, the best in the world. Similarly, there are many tier 2 and 3 suppliers that have invested heavily in advanced manufacturing technologies and business and quality management processes. Larger higher tier factories may have particular specialisations and/or require specific demands in terms of minimum order quantities and other commercial constraints. Under these circumstances, it is worth considering suppliers that may not be in the top echelon of their industrial sector but have the capability and experience to meet your supply requirements and at a more competitive price.

Annual demand quantities and batch sizes are determining factors to the attractiveness of your business to suppliers. Hence, your forecasts need to be realistic and not inflated. If your quantities are relatively low it may be difficult to engage suppliers, but it may possible to take advantage of the purchasing power of sourcing companies, if you are working with one, to enable your product to be accommodated.

PRODUCT REQUIREMENTS

Your product requirements need to be specified accurately, and with sufficient detail to allow the product to be made. This will typically include: technical descriptions; drawings; material grades; dimensional tolerances; formal qualification tests; and finish and packaging requirements. It is also important to ensure that dimensional tolerance and other product performance requirements are practicable and achievable, without being unnecessarily over specified.

Although English is becoming more commonly used it is preferable for documentation to be translated into Chinese.

When evaluating the potential for supply, it is worthwhile considering the relative benefits of just sourcing components or the manufacture and test of sub-assemblies, or complete products, including, where appropriate, packaging to a retail ready condition.

An important factor when embarking on a remanufacturing exercise based on existing designs, or for new products, is to take the opportunity to perform a design-for-manufacture exercise in cooperation with the suppliers. This will yield benefits in terms of manufacturing efficiency, product quality, and cost. This may be difficult to complete effectively working directly with the supplier from the West, but can be completed effectively when working with a primary partner, or managed sourcing company.

When obtaining quotations, where possible, it is advisable to provide target prices and obtain proposals from multiple suppliers to enable commercial and technical offer comparisons to be made.

PRODUCT DEVELOPMENT

With increasing design capability and creativity in China it is now practicable to conduct a complete product development from initial design through to prototype and volume manufacture.

During product development it is often useful to make rapid prototype parts, for which China now has extensive capabilities. For volume production, tooling is sometimes required to enable parts to be made, for example for plastic injection mouldings. Tooling costs in China are low but are of high quality.

To avoid misunderstandings and subsequent delays in product development it is critical to ensure that the processes related to the manufacture of the product are appropriate, and capable of meeting the agreed technical requirements. These can be difficult to describe in some instances, particularly where quantitative measures are not available; for example, for aesthetic finishes where there is a subjective/qualitative element to the acceptability of the item.

PRODUCT MANUFACTURE

Once a design has been completed, sample components or products need to be made. Before starting, it is essential that the approval criteria for the product is documented in the form of an inspection and test specification and agreed with the supplier.

Sample manufacture and approval is a critical stage, requiring proactive engagement to inspect and provide timely feedback to the supplier. Once samples have been approved, "golden" samples must be retained for all components and complete products. These will form the references for future discussions related to manufacture and quality.

Following sample approval, it is strongly recommended that a test order is completed to fully exercise production tooling and processes before starting volume production.

Once all manufacturing processes have been agreed and proven, the control of the consistency of manufacture needs to be maintained. Hence, it is of great value to agree and implement a manufacturing process control plan. However, it is important to match the level of detail in the plan to correspond with the essential requirements of the item and avoid over-specifying controls.

When starting volume production for the first time it advisable to ensure that extra precautions and monitoring are put in place to ensure consistency of product quality and that the agreed requirements are met.

PRODUCT QUALITY

It is reasonable for you to expect high standards of product quality are consistently delivered. Over time there have been negative comments about quality issues with goods manufactured in China, which to an extent have been justified. However, when embarking upon sourcing programmes it is important to recognise that you have a crucial role in adequately describing, explaining, and agreeing the quality requirements with the supplier.

Many suppliers implement well-established formal quality management standards and practices that are familiar to western manufacturers, including ISO9001, ISO 14001, IATF 16949, and other quality related methodologies. However, suppliers that have limited formal certification should not be dismissed as they often are able to meet customers' requirements using unsophisticated but pragmatic and effective processes and controls.

Each production batch must be inspected in accordance with the agreed inspection and test procedure before shipment from the supplier. It is strongly advised that the supplier's inspection should be supplemented by your own inspection arrangements. This could be provided by a third party inspection company or, if you are using a fully managed sourcing company, this should be part of their service.

However, it needs to be emphasised that although inspection is very important, it is not possible to inspect quality into a product. The focus must be on process control during manufacture to ensure that requirements are consistently met.

STANDARDS

China's Guo Biao (GB) national standards system is similar in scope to British and other national standards. This includes standards that provide the basis for the testing that some products must undergo for the China Compulsory Certificate (CCC) certification for goods sold in China, which is similar to CE marking in Europe.

Generally GB standards are closely aligned with ISO and other international standards. However, there are some differences, which may need to be taken into account, for example when selecting materials, specific material grades may be readily available in the West that are not readily available in China. Hence, it is important to be prepared to accept alternative compositions that are close equivalents.

COMMERCIAL AND CONTRACTUAL CONSIDERATIONS

A formal agreement with the supplier must be put in place and include as a minimum, with terms covering: scope of supply; technical requirements and applicable standards; quality requirements; and product acceptance criteria, including certificates of conformity and material certification; claim handling for non-conforming product; price variation; tooling manufacture, ownership, storage, maintenance, and replacement; packing and packaging requirements; compensation for late delivery; product change and configuration control procedures; minimum/maximum stock levels of finished goods; and confidentiality clauses.

With the selection of a good supplier, the aim would be to maintain continuity of supply and grow the relationship. However, it is sensible to prepare for the possibility that the supplier could encounter problems or your relationship with the supplier could experience difficulties. In this instance, you need to understand the indications that things are not as they should be, for example: a lack of effective communication; a decline in product quality; unreasonable demands for price increases; and/or extended lead times.

In the event that you need to find alternative sources of supply then due consideration needs to be given to the transfer of any tools from the supplier. Hence, it is important to ensure that a clause related to this is included in the supplier agreement.

PAYMENT AND PRICES

Often suppliers will seek prepayment for goods before manufacture. This will particularly apply if the supplier has not conducted business with you before. In time and with growing confidence in the strength of the business relationship, the prepayment requirement may be set aside. However, full payment for the goods will be required before shipping. This is partially due to the need to comply with export regulations and VAT refund procedures.

One of the key considerations is price variation, and suppliers will apply price changes according to changes to raw material prices, and other factors such as labour and sub-supplier costs. In recent years labour costs have been increasing in China, and this has been compounded by the Chinese government's initiatives to address environmental improvement, which has resulted in closure of many factories and significant investment in new processing equipment for others.

INTELLECTUAL PROPERTY

Historically, China has had a reputation for compromising intellectual property (IP) rights and inappropriately using existing patents. However, IP rights have been acknowledged and protected in China since the 1980s, and laws have been established by government legislation in the areas of design, trademarks, copyright and patents. IP rights enforcement is improving but progress is still required and currently the laws in place exceed their actual enforcement.

Hence, notwithstanding these improvements it is vitally important to make appropriate precautions to ensure your IP rights are secure. For example, even if your product is not patentable, it is strongly recommended that designs and trademarks are registered in China.

One way of providing extra protection is to arrange for component parts for your product to be made at separate, and unrelated, suppliers and then assembled and tested at a trusted company facility that may be your business partner or fully-managed supply company.

LOGISTICS AND DISTRIBUTION

China has a well-developed and increasingly effective transportation infrastructure. However, if suppliers are based in locations that are a long way from the main ports additional time will be required to transport goods.

You need to accommodate the lead times for shipment by sea to your designated destination. Hence, alternative inventory management strategies may need to be considered to enable manufacture and delivery times to match product demand.

Having complete products manufactured in China allows for their distribution to worldwide market destinations.

IN SUMMARY

The supply chain infrastructure and manufacturers in China offers a flexible, robust, and technically capable source of components and complete products for a diverse range of commercial, industrial, and technological business sectors. Providing good practices are followed, successful sourcing is readily achievable by using suppliers in China.

The primary keys to success are:

» Understanding business culture differences;
» Complete and accurate product specifications;
» Realistic projected order quantities;
» Reasonable product quality expectations;
» Meetings with, and audit of, suppliers.

SMES: TRADE ADVICE AND AVAILABLE SUPPORT

This section was written by CBBC

This document explains the opportunity in China for small and medium-sized enterprises (SMEs), provides advice for those considering it as an export destination, and contains a checklist of issues to consider and where to get help.

OPPORTUNITIES FOR SMES IN CHINA

SMEs may find China daunting and some are put off by the challenge. CBBC has therefore developed a host of programmes, services, and advice for SMEs looking at China, so as to make the journey easier to navigate.

There are many opportunities in consumer and hi-tech sectors as China increases its demand for high-quality imported goods and services, the middle class expands (creating a more sophisticated consumer market), and Chinese manufacturers move up the value chain. China's new thirst for innovation represents significant opportunities across the ICT, clean energy, biotech, e-commerce, new materials, and robotics sectors.

As Chinese companies internationalise, they are also increasingly looking to make strategic investments overseas. This presents opportunities for UK SMEs to partner with Chinese companies in the UK or in third markets, and/or receive investment which can help you to grow.

ADVICE FOR SMES IN CHINA

Having supported SMEs in China for many years, CBBC has significant experience of the opportunities and challenges they face. While challenges vary between businesses and sectors, based on our experience we have summarised some the most common themes:

» You will most likely need a Chinese partner. Regulatory barriers, cultural differences, and China's sheer size and complexity often make it essential to have a local China partner. The right local Chinese partners can help to navigate the complexities of the market and accelerate business development.

» It is difficult to compete on price. China is an extremely competitive market, and it can be difficult for foreign companies to compete in low-end goods. It is therefore best to understand your unique selling point in China – is it quality, original design, safety, reliability? Does your brand tell a compelling story? Try to compete in areas other than price.

» Register your trade mark before someone else does. Put simply, China uses a "first-to-file" trade mark registration principle. This means there is a risk that others can register your company's name/logo/image and block you from using it in China. It can be very difficult and expensive to get your trade marks back again.

- Understand the market and tailor your offering. Taking time with initial research will help you to understand whether there is a market for your product, which similar products already exist in the market, and how you may need to adapt your product for competitive edge. Research can also be used to identify target regions, demographics, and to better understand any regulations that may prevent your product from being sold in China. Doing your homework on the market as well as on potential partners is essential.
- Make your marketing China-friendly. Preparing marketing materials in Mandarin with photos will help to bridge the gap when presenting your company and products in China.
- Be clear about your business plan. Expect to present during meetings and remember that the Chinese counterpart will want to understand whether the offering makes commercial sense for them to proceed.
- Overcoming cultural barriers. Relationships in China are very important and so making the effort to understand cultural differences, getting to know contacts, and building relationships in the market is invaluable. Chinese companies respect face-to-face meetings; regularly visiting partners and customers in China demonstrates your commitment to the market.
- Be patient. In many cases, time is required to build-up relationships with partners and customers. It is rare to win business on a first trip to China, and it is often necessary to invest time in building partnerships that lead to success over the longer-term. Some things may take longer to set up than you think (especially if they involve bureaucracy) so allow for this in your preparations.
- Make a strategic commitment. Entering China will take time and resources. Make sure you have a clear China strategy and the full commitment of your board and investors. Consider your resources, your past exporting experience, and your willingness to commit significant time to China.

ADVICE FROM A BUSINESS ADVISER

UK companies can access CBBC's experienced team of China Market Business Advisers (CMBAs) from across our network of 10 UK offices and 13 China offices. China Market Business Advisers provide you with the local access, knowledge and insight that your business needs.

Follow the link here to find your nearest adviser: http://www.cbbc.org/contact/.

CBBC also works closely with the Department for International Trade's (DIT's) International Trade Advisers to support companies with the China market and a broader export strategy. To contact your local International Trade Advisor please see: http://www.cbbc.org/contact/.

Please note that this service is only available for registered UK companies.

VISITING CHINA

This section was written by CBBC

Travelling to China can be an enjoyable experience. In order to make sure your trip goes smoothly, CBBC has prepared a list of things to watch out for. While not exhaustive, it is important that you take these points into consideration both before and during your stay in China.

BEFORE YOU LEAVE: PREPARING FOR THE TRIP

REMEMBER TO APPLY FOR A VISA

Most travel to China necessitates obtaining a visa. There are two main types of visa depending on the nature of your trip: M visas are issued to those who intend to go to China for commercial and trade activities; while F visas are issued to those who intend to go to China for exchanges, visits, study tours, and some other activities. The processing time for most Chinese visas is typically four working days (although this can be expedited for a premium service fee). The visa fee for regular service is currently £151 (as of April 2020).

There are four Chinese Visa Centres in the UK (London, Manchester, Edinburgh, and Belfast). For more details, please visit: https://www.visaforchina.org/. If you are willing to pay a premium, a visa agency can handle the entire process instead. Agents can be particularly useful in making sure all the documentation is in order, and especially helpful for companies not located near to a visa centre.

For very short trips there is also now the option for visa-free transit. With valid international travel documents and tickets to a third country, foreigner visitors can enjoy visa-free access to China and stay for up to 144 hours depending on the transit region/city. This option is available for nationals of 53 countries (including the UK) in 30 ports of 23 cities with limited stay areas (as of 1st Dec 2019), of which Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu, Chongqing, Shenyang, Dalian, Xi’an, Kunming, Wuhan, Xiamen, Nanjing, Shijiazhuang, Qinhuangdao, Qingdao, Tianjin, Ningbo, Jieyang, and Hangzhou permit transit without visa within a 144 hour period, and Changsha, Guilin, and Harbin within a 72 hour period.

In January 2018, the Chinese government issued new regulations to facilitate the issuance of R visas for overseas talents, allowing up to 180 days stay in China with multiple entries on a visa valid from five to 10 years. The talents can be top scientists, international entrepreneurs, and other talents whose skills are in urgent demand.

CHANGE MONEY

China’s currency is the Renminbi (¥, also yuan/RMB). It is a good idea to change some money before you go to China. It is also important to note that outside large hotels and some international shops, vendors will rarely accept international credit/debit cards. However, most of the large banks have ATMs that accept international credit/debit cards (at a fee).

PACK WISELY

Weather varies dramatically across China. Some parts of the country can be extremely warm/humid or cold depending on the season. It is important to look up the relevant forecasts to ensure a decent level of comfort throughout the duration of your stay.

BRING POWER ADAPTERS

China operates on a 220V/50HZ system. Chinese sockets are similar to those found in the USA:

KEEP IN MIND THAT INTERNET ACCESS IS RESTRICTED

You will experience restricted access on certain foreign websites and apps. This includes Google, Gmail, Facebook, YouTube, and Twitter. However, some paid subscriptions to virtual private networks (VPNs) can allow for smooth access to these sites.

DOWNLOAD WECHAT

WeChat is a Chinese instant messaging app that has become very prevalent in business communication on the mainland. Everyone who has a smartphone will use WeChat, and it is therefore a very convenient way to stay in contact with any connections you have in China. The interface is available in English and accounts are not necessarily linked to your phone number, making it very easy to set up and use.

ARRANGE TRAVEL INSURANCE

It’s better to be safe than sorry, so you should arrange travel insurance before your trip to China. Ideally, make sure your travel insurance covers international hospitals (where staff speak English), visits to which can be very expensive if self-funded.

REMEMBER THE TIME DIFFERENCE

The whole of mainland China is under one time zone - China Standard Time, CST (GMT+8) – all year round. CST is eight hours ahead of GMT. This is important to keep in mind when phoning business partners or your prospective hosts in China. Given the time difference, it is a good idea to allow for some time to get over your jet lag too.

HAVE EMERGENCY CONTACT INFORMATION PREPARED

This could be a personal contact of your choice, or your CBBC relationship or project manager if you have one. Keep the Embassy's contact details on hand in case you encounter a situation that requires consular support. The UK has a presence in the following locations:

» North China: Beijing (British Embassy): +86 (0) 10 5192 4000
» East China: Shanghai (Consulate-General): +86 (0) 21 3279 2000
» Southern China: Guangzhou (Consulate-General): +86 (0) 20 8314 3000
» Western China: Chongqing (Consulate-General): +86 (0) 23 6369 1400/6369 1500
» Central China: Wuhan (Consulate-General): +86 (0) 27 8270 3600

ARRANGE AN INTERPRETER

As English is not widely spoken in China, arranging an interpreter may be useful. CBBC can arrange this for you.

BRING PLENTY OF BUSINESS CARDS

Exchanging business cards is a common activity when conducting business in China. It is recommended to print double-sided English/Chinese cards, and hand them to your Chinese counterparts with both hands.

RESEARCH CHINESE LOCAL CUSTOMS/PRACTICES

You will impress your guest if you familiarise yourself with some of the more nuanced traditions of the cities you will be visiting, e.g. in Guangdong, it is customary to wash bowls and cutlery before eating – this is typical even in very clean restaurants as well.

ONCE IN CHINA: PRACTICAL ISSUES

TAXIS

Have the address of your hotel and destination written/printed in Chinese characters (汉字). Taxi drivers will usually not be able to understand written English or Romanised Chinese written with the Latin alphabet (hànyǔ pīnyīn), and won't know where to take you. Additionally, remember that it is very difficult to get a taxi on rainy days and during rush hour, and big Chinese cities can get very congested at these times. Never take unlicensed taxis (known as "black taxis" in reference to their being illegal rather than their colour) and always ask to use the meter. Note that Uber's counterpart, DiDi, can be another option.

ACCOUNT FOR IRREGULAR TRAVEL TIMES

Whether travelling within a large city or cross-country, it is a good idea to account for delays and longer than usual travel times. This is especially true in cities such as Beijing or Shanghai, where traffic can increase transit times considerably. Generally speaking, the trains in China run on time, but planes are sometimes delayed. The high-speed rail network (with an average speed of 200 km/h) is a fast, comfortable, and reliable choice.

ROAD SAFETY

Crossing the road can be precarious for someone unfamiliar with Chinese traffic regulations and how they are applied. Cars do not have to stop at zebra crossings, and they are allowed to turn right through red lights even if there is a green man at the pedestrian crossing. Many roads have cycle and motorcycle lanes. Be careful, and when in doubt follow a local.

ONCE IN CHINA: BUSINESS MEETINGS, COMMUNICATIONS, AND SOCIAL ETIQUETTE

BUSINESS CARD ETIQUETTE

Always give and receive business cards with both hands and a short bow. When receiving a business card, do not put it immediately in your pocket as this may be portrayed as flippant. Instead, take a moment to inspect it.

SPEAK SLOWLY AND CLEARLY

English will not be your counterparts' first language. Speaking slowly and in a simple (but not patronising) manner will help ensure that you convey your message effectively. Try also to limit using British humour or sarcasm as Chinese people will likely find this strange or rude.

AVOID TABOO SUBJECTS

It is unwise to bring up politically sensitive subjects such as Taiwan, the South China Sea, Hong Kong sovereignty, Tibet, Xinjiang secessionist movements, official bribery, human rights, or democracy, nor are jokes of an adult nature recommended.

GIVE YOUR HOSTS "FACE" AT ALL TIMES

Saving face is one of the most important aspects of Chinese culture. Even inadvertently causing your host/business partners to lose face – e.g. by showing them up or correcting them in front of their peers – can be disastrous for your relationship with them, even if they do not show embarrassment at the time.

PHYSICAL CONTACT

Although shaking hands has become the norm for business greetings in China, it is often deemed unnecessary on social occasions. Avoid physical contact such as hugs and back patting, particularly with the opposite sex.

BE PATIENT

Business negotiations can be drawn out considerably longer than in the West. Concession and agreements may be saved for right at the last minute.

ONCE IN CHINA: HOSPITALITY AND DINING

CHINESE FOOD IS SHARED

In most situations, food is ordered for the whole table for everyone to share. It would be considered very odd to keep the tastiest dishes to yourself (this rule does not apply when eating western food).

CHOPSTICKS

Be aware that many restaurants do not have western-style cutlery. Some visitors choose to bring their own.

ALCOHOL AND SMOKING

Drinking alcohol is common at business dinners in China, as alcohol is thought to show an individual's "true face". If you do not wish to drink, make this clear to your host before dining (although be prepared to hold your ground). The traditional Chinese liquor is the grain-based spirit baijiu, though beer and wine are very common very common, and they are often drunk with a small toast. Smoking is also common in restaurants, especially outside of Beijing and Shanghai.

GUESTS EAT FIRST

Your host may insist that you, as the guest, be the first to try each dish.

ARGUING TO PAY THE BILL

At the end of the meal, Chinese people will usually fight over paying the bill. This is done to demonstrate their generosity.

EXPECT YOUR HOST TO OFFER YOU EXCESSIVE AMOUNTS OF FOOD

It is considered hospitable to invite your guest to eat to excess but they will understand that everyone has their limits.

IF INVITED TO A PRIVATE DINNER, BRING A GIFT

Gift giving is part of Chinese culture, including at business meetings. If invited to somebody’s home for dinner, bring something for the host (some fruit or chocolate, for example, will suffice). Ideally, any gift should be presented in a gift box or a gift bag. Do not be disappointed if your host does not immediately open it and comment on its attractiveness/practicality. It is common for them to do so in private later to avoid looking greedy.

At the same time, some gifts have negative connotations in China and should be avoided. Items which may raise eyebrows include clocks (indicating death), cards written in red ink or umbrellas (indicating the severance of relations), and books (indicating losing). Very expensive items may also cause your hosts to worry about how others would perceive the nature of your business relationship, with this point being especially important in the light of recent anti-bribery campaigns.

BASIC MANDARIN

The written language is uniform throughout China but China's spoken dialects vary from region to region. The standard language, Putonghua (often called Mandarin), is similar to the Beijing dialect and is spoken by most people across the country. This is the language of business and if you would like to speak some Chinese, Putonghua is usually the one to study. There are numerous free-to-access websites designed to help you learn Putonghua, and some simple phrases are below.

English phrase	Pinyin romanised Chinese	Phonetic pronunciation	Chinese characters
Hello	Ni hao	Nee how	你好
How are you?	Ni hao ma?	Nee how ma?	你好吗？
Goodbye	Zaijian	Sigh jyen	再见
Thank you	Xiexie	Share share	谢谢
You're welcome	Bukeqi	Boo ke chee	不客气
Sorry	Duibuqi	Dway boo chee	对不起
No problem (it's okay)	Mei guanxi	May gwan shee	没关系
I would like to go to…	Wo xiang qu…	Wor sheang choo	我想去
Hotel	Jiudian	Jeew dyen	酒店
How much is…	Duo shao qian	Dwo shao chee-yen	多少钱
Too expensive	Tai guile	Tie gway-la	太贵了
Toilet	Cesuo	Tsir swor	厕所
Cheers	Ganbei	Ganbay	干杯

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VISITING CHINA

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