
Distribution Issues Analysis Team Research Report

New Expansion of Cross-Border EC:Focusing on China and the ASEAN Region

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1. Introduction

Growth in inbound consumption known as the so-called “shopping spree” continues in Japan. Both the number of international visitors to Japan and the amount of consumption by foreigners visiting Japan as announced by the Japan Tourism Agency hit record highs in 2015.

Factors for the increase in the amount of consumption above are rises in both the number of international visitors to Japan and the amount of consumption per visitor. In addition, in travel expenditure per visitor that consists of expenditure on services such as accommodation – the number of nights stayed is increasing – and leisure and expenditure on products sold, both components are deemed to be growing under the present circumstances.

However, how long will this situation continue? Concerns about the deceleration of the Chinese economy, which supports the shopping spree in Japan, are growing. While the Chinese government is trying to lead the economy to a soft landing on the “new normal,” some point out the possibility that the economy may head down the path of a hard landing if the government errs in its handling of the problems of excessive investment and excessive debt.

While the number of international visitors to Japan, not only from China but also from other countries, is also expected to continue to increase, its essence is changing significantly. For example, the number of repeat visitors is increasing, and even among first-time visitors to Japan, cases where they come to Japan with abundant local information are also increasing. These changes will have an impact on the content of their travel expenditure. The increase in repeat visitors is likely to boost the composition ratio of expenditure on services such as accommodation, leisure, medical services and beauty care, and in terms of products sold, investment (speculation) in real estate including tower condominiums and jewelry has come to stand out.

As a result, the style of their visits to Japan, such as purchasing a large amount of goods such as food, daily necessities, cosmetics and home electric appliances and packing them into several cases upon their return home will probably change rapidly. What is expected as an ideal style of purchasing goods down the road is cross-border electronic commerce (EC).

Japanese companies are increasing their interest in cross-border EC in the expectation that it will become a relatively low-risk mechanism to meet demand from fans of Japanese products who have existed in overseas markets such as China and the ASEAN region and for foreigners who have visited Japan for shopping sprees to continue purchasing Japanese products even after they have returned to their countries. In addition, looking at the circumstances in these countries, the Chinese

government, for example, is working actively to build a system for cross-border EC for the purpose of preparing the tax system for cross-border transactions of consumer goods. In addition, Alibaba, the largest EC company in China, and its rival JD Group regard cross-border EC with Japan, Europe and the United States as one of the most important business opportunities. On the November 11 Bachelor's Day, or online shopping day, the largest event in the Chinese EC industry, one of the focuses in 2015 was placed on overseas products.

Based on awareness of the above issues, I will organize and discuss the cross-border EC market in China and the ASEAN region in this paper based on research results obtained by the Ministry of Economy, Trade and Industry.

2. Development of the cross-border EC market in China

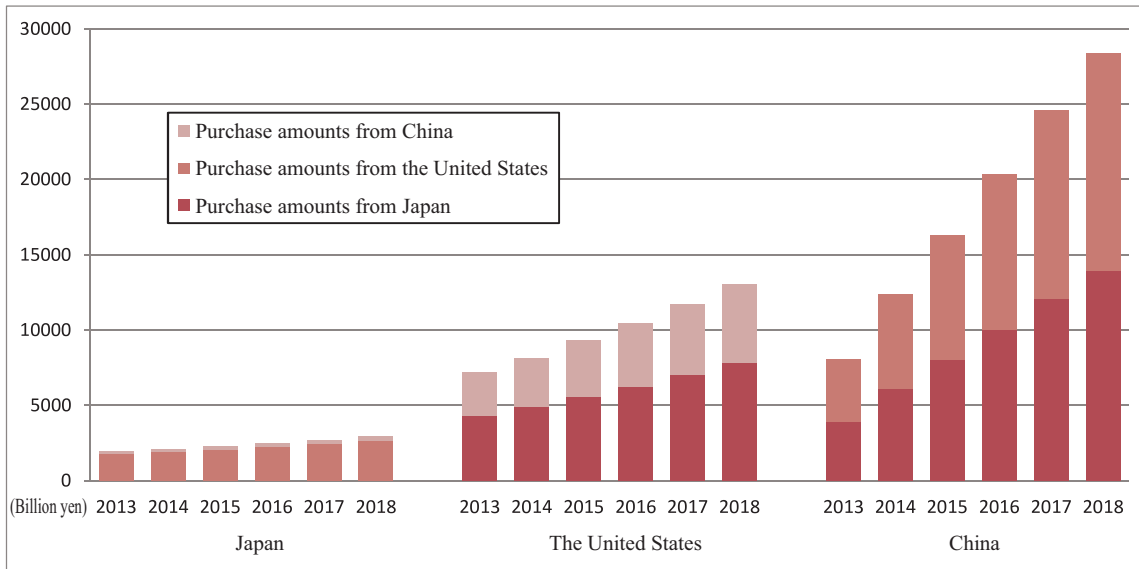
2-1 Utilization status of cross-border EC

China has the world's largest EC market, and its year-on-year growth rate is also extremely high, reaching 35.0% in 2014. In the EC market in China, cross-border EC is called *haitao*, and general consumers' use of Tmall, a BtoC-EC site of Alibaba, China's largest EC company, is rapidly expanding, as Alibaba established Tmall Global where only overseas companies can open stores in September 2013.

Looking at the actual results and future forecast of the cross-border EC market size in Japan, the United States and China based on the results of the "E-Commerce Market Survey" (May 2015) of the Ministry of Economy, Trade and Industry, we can see that the size and high growth rate of the cross-border EC market in China stand out, as shown in Figure 1¹. As a document on the part of China, the statistics of the China e-Business Research Center (CECRC) in Figure 2 show that the Tmall market reached approximately 150 billion yuan in 2014 and is expected to expand to 250 billion yuan this year.

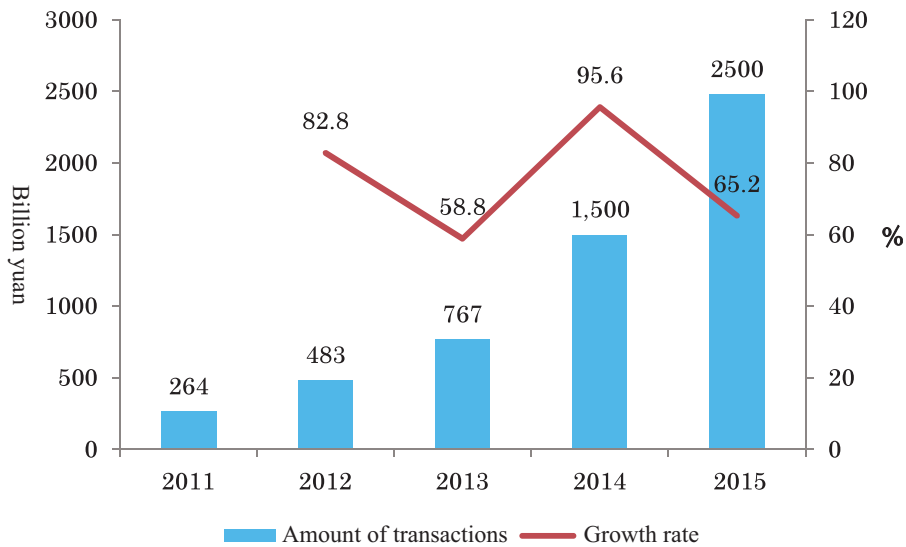
One of the factors for this high growth is the so-called fake goods problem. Domestic EC sites ask participants to submit their license for the handling of genuine products and require them to attach a certificate of confirmation of genuine products to their goods, while the Chinese government is strengthening the monitoring and detection of fake goods. However, it is difficult to completely eliminate fake goods from the EC market because some consumers accept them. For this reason, opportunities are increasing to use more reliable cross-border EC, where consumers who want to obtain genuine products will certainly be able to get them, despite some disadvantages such as higher prices and longer delivery times.

Figure 1: Actual Results (2013 - 2014) and Future Forecast (2015 - 2018) of the Cross-border EC Market Size



Source: Kitamoto (2015), page 13.

Figure 2: Amount of Transactions in the Tmall Market in China



Source: Statistics of the China e-Business Research Center. Figures for 2015 are estimates.

Various surveys have demonstrated that the actual purchase behavior of consumers has the following characteristics².

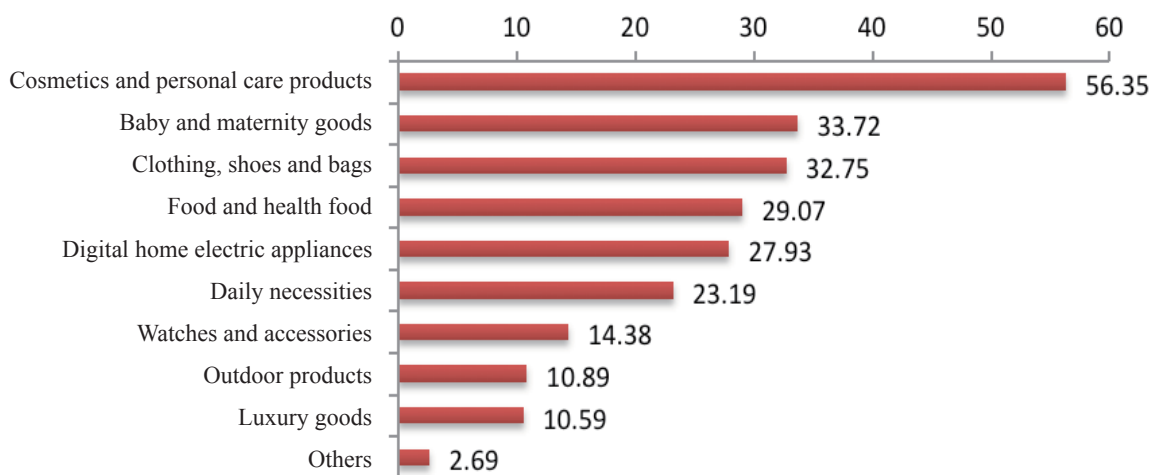
For example, according to a survey on the use of cross-border EC conducted in June 2015 by Fanli.com, an affiliate site in China, of its 70 million users, the methods of purchasing products from overseas included the following: Cross-border EC site, which makes up 48%, request to an individual proxy purchaser, which makes up 30%, and direct purchase on an overseas online shopping site, which accounts for 22%. Looking at the purchasers by age, those aged 18 or younger

make up 1.27%, those aged 19 to 25 15.09%, those aged 26 to 35 71%, those aged 36 to 45 11.12% and those aged 46 or older 1.62%, indicating that purchasers aged 19 to 45 account for approximately 97%. In terms of purchase amount in the most recent three months, 500 yuan or less makes up only 2.38%, while 500 yuan to 2,000 yuan accounts for 42.35%, and 2,000 yuan or more makes up 55.27% (500 yuan is equivalent to about 10,000 yen, assuming that one yuan is worth about 20 yen). Looking at the kinds of products that are actually purchased, the purchase rate of cosmetics and personal care products is the highest, at 56.35%, followed by baby and maternity goods, clothing, shoes and bags, and food and health food, each of which makes up about 30%, as shown in Figure 3.

In addition, according to the 2015 Cross-Border Online Shoppers Report published by YMT, a cross-border EC company, and ACNielsen, a research company, in September 2015, the categories of products purchased from overseas were concentrated on baby goods and cosmetics in the past. However, upon asking Chinese online shoppers about the categories of products they want to buy within one year, those who answered apparel products make up 60%, followed by cosmetics (53%) and bags (44%), and other items such as shoes, food, electronic products, health food, health care products, interior goods and kitchen goods, toys and books were also listed. In other words, we can say that the products they want to buy from overseas are diversifying.

For all these reasons, we can see that the users of cross-border EC in China are the so-called Post-80s and the Post-90s generations in their 20s and 30s, and that the products purchased are diversifying from cosmetics and baby and maternity goods, which are categories where purchases were concentrated in the past, to other categories.

Figure 3: Ranking of Products Purchased on Cross-border EC Sites in China



Source: “Fanli.com. Cross-border EC Users Research Report,” June 29, 2015

2-2 Tax system of the Chinese government to promote cross-border EC

In the past, the main method used by Chinese consumers to purchase products from overseas by cross-border EC was to ask an individual proxy purchaser, and consumers who understood the foreign language and had a credit card that enabled them to make foreign currency payments purchased products directly from overseas online shopping sites. However, requests to an individual proxy purchaser involved numerous problems such as fake goods, long delivery times, problems during delivery and an inability to return goods. In addition, as the number of international parcels increased along with a rise in requests to individual proxy purchasers, other problems such as responses during customs clearance, taxes and management and supervision surfaced.

For this reason, the Chinese government has been announcing policies for infrastructure development one after another in order to promote cross-border EC since 2012, so that the method whereby EC companies provide a cross-border EC platform will become the mainstream, instead of the method of asking individual proxy purchasers. This is not only meaningful as part of the policies for expanding consumption, but also aims to promote the openness, transparency and institutionalization of the cross-border EC market by guaranteeing genuine products and enhancing after-sales services by building of a rational and efficient system by reducing logistics costs and accelerating delivery speeds. With these measures, the rapid expansion of the cross-border EC market has been realized, as discussed in the previous section.

What attracts particular attention is tax measures to promote cross-border EC. In China, exported and imported goods are divided into “cargos” through general trade and “goods” by postal services (packages and mail articles) used by individuals. If goods are imported as cargo, import tax (the rate varies depending on the products), value added tax (17% across the board) and consumption tax (equivalent to the old commodity tax in Japan, with the tax rate between 0% and 30% for luxury goods) are imposed. For example, in the case of cosmetics, taxes of 57%, comprising import tax of 10%, value added tax of 17% and consumption tax of 30%, are imposed by simple arithmetic.

On the other hand, in the case of goods, taxes are deemed to be self-reported on the condition that the goods are used by an individual and do not exceed a certain quantity by the announcement of the General Administration of Customs in August 2013 based on the regulations on imports by individuals in the “Decree No. 43 of the General Administration of Customs in 2010.” Only postal tax (the tax rate varies between 10% and 50% depending on the products) is imposed on goods, and if the tax amount is 50 yuan or less, the goods are exempt from the tax³. The tax rates of postal tax are as shown in Table 1 and are generally lower than taxes on cargos, as indicated by the tax rate of 50% for cosmetics, for example. In China, therefore, the prices of overseas products purchased by cross-border EC are lower than their local prices in many cases, and this gives cross-border EC companies a significant advantage.

Table 1: Tax Rates of Postal Tax

Product category	Tax rate
Books, food, shoes, leather items, gold and silver items, sports goods, stationery, toys, etc.	10%
General apparel, home electronic appliances, bicycles, clocks and wristwatches (less than 10,000 yuan)	20%
Golf goods, luxury clocks and wristwatches (10,000 yuan or more)	30%
Cosmetics, tobacco, alcoholic beverages	50%

2-3 Business model of cross-border EC

Originally, it was common for cross-border EC to be conducted using a “direct shipment” (direct postal) model whereby an overseas business operator who receives an order from a domestic consumer sends the product directly to the consumer’s home, etc. However, given the delivery time and high costs, the Chinese government is attempting to diffuse a business model using the customs bonded area⁴.

For this reason, the Chinese government is promoting the designation of an experimental city to use the customs bonded area in parallel with the tax policy mentioned above. The General Administration of Customs held a cross-border EC trade experiment work conference in Zhengzhou in December 2012 and designated five cities as cross-border EC experimental cities: Shanghai, Chongqing, Hangzhou, Ningbo and Zhengzhou. In addition, the General Administration of Customs increased the number of designated cross-border EC experimental cities to eight by designating Guangzhou in September 2013, Shenzhen in July 2014 and Tianjin in September 2015. On top of this, the customs bonded area where the customs clearance of cross-border EC is possible is increasing in many parts of the country, including inland cities. They include cities in Shanxi Province, Heilongjiang Province, Guangxi Zhuang Autonomous Region, Shandong Province, Sichuan Province, Shaanxi Province, Xinjiang Uyghur Autonomous Region, Inner Mongolia Autonomous Region, Hubei Province, Jiangsu Province, Liaoning Province, Guizhou Province and Jiangxi Province, for example.

In the cross-border EC that uses the customs bonded area, there are two business models: the customs bonded collection model and the customs bonded inventory model. Of these, the customs bonded collection model is based on the customs supervision code 9610, which was put into practice in February 2014. When a consumer or an EC company in China purchases products directly from overseas by using the EC platform, the customs clearance method of “undertaking a review based on the list and making a declaration in bulk” is undertaken. The actual physical distribution operation commences after an order is received from the consumer. At that time, the costs will be different, depending on whether the sorting and packing work is conducted in an overseas warehouse or a customs bonded warehouse in China. If it is conducted overseas, the cross-border EC company delivers the products in bulk to a customs bonded area, undertakes customs clearance and delivers them to the consumer’s home. On the other hand, if it is conducted in a customs bonded warehouse,

the cross-border EC company delivers the products to a customs bonded area in a state in which they are not segmented into small groups, sorts them in a warehouse in the customs bonded area and sends them to the consumer's home after conducting the packing work.

The customs bonded inventory model is based on the customs supervision code 1210, which was put into practice in August 2014. When a consumer or an EC company in China conducts a transaction using the EC platform approved by the customs office, the customs bonded inventory model will be applied to exported or imported goods stored beforehand in a special area that is managed and supervised by the customs office or a customs bonded area. The cross-border EC company registers product information in the customs office using system linkage with the customs office, and after an order is received from the consumer, a slip is prepared automatically based on the transaction information, the settlement information and the logistics information, ensuring that the products are shipped quickly from the customs bonded area.

In short, in the customs bonded collection model, a cross-border EC company places inventories overseas and undertakes customs clearance in bulk in a customs bonded area, while in the customs bonded inventory model, inventories are placed in a customs bonded area in China and a cross-border EC company undertakes customs clearance quickly based on the system linkage with the customs office. Organizing the three methods by adding the old-fashioned "direct shipment" model to these two models, they are as shown in Table 2. Cross-border EC companies need to build their own business model based on one of these three models (parallel use is also possible).

Table 2: Three Models of Cross-Border EC

	Direct shipment	Customs bonded collection	Customs bonded inventory
Location of inventory storage	Overseas	Warehouse overseas	Customs bonded warehouse in China
Delivery period	3 – 20 days	9 – 15 days	1 – 7 days
Cost structure	Postage, delivery cost of international distribution	Overseas delivery cost + Customs bonded warehouse (packing charge) + Domestic postage	Overseas delivery cost + Customs bonded warehouse packing charge + Domestic postage
Customs clearance procedures	General or 9610	9610	1210

Source: Li Xue (2015), page 39.

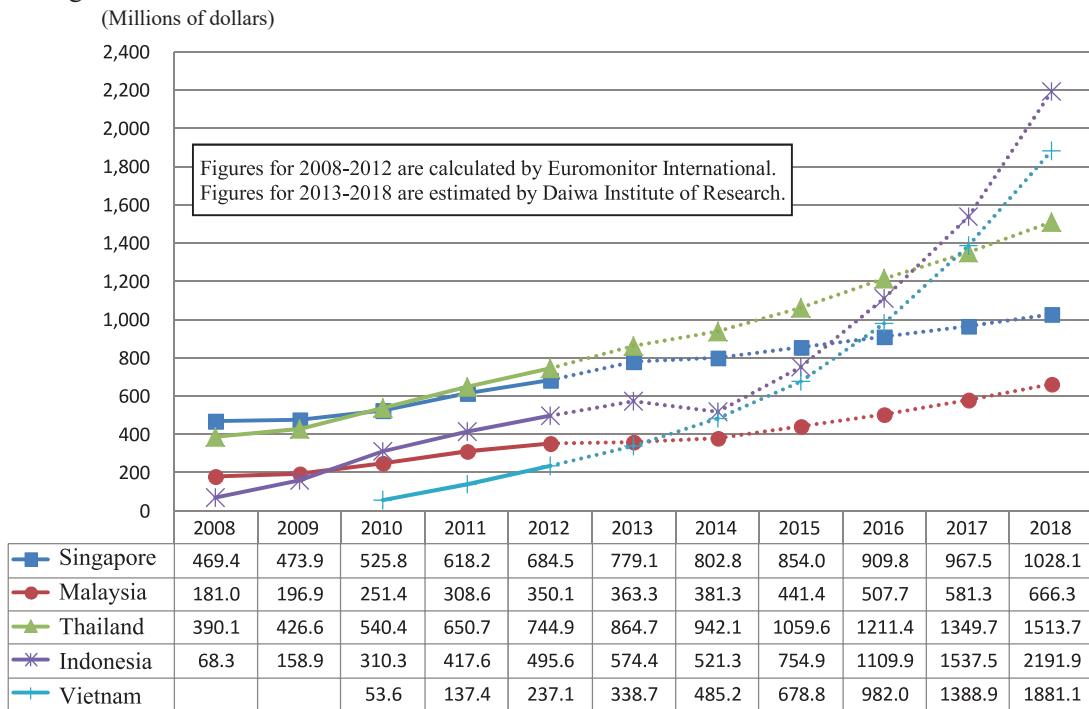
Because products that are allowed to be imported by individuals and their tax rates are largely left to the discretion of the person in charge of customs clearance under the present circumstances, different decisions could be made depending on the region in many cases. Such a situation can be an obstructive factor for the expansion of the cross-border EC market. However, because it seems that such regional differences will be eliminated and standardized in the future as the Chinese government will develop the mechanism and the system, the expansion of the cross-border EC market is expected to accelerate.

3. Development of the cross-border EC market in the ASEAN region

3-1 Status of the cross-border EC market

Let us now look at the EC market and the cross-border EC market in the ASEAN region. There are research data by Euromonitor International on the size of the B2C-EC market in the five ASEAN member countries, namely Singapore, Malaysia, Thailand, Indonesia and Vietnam. According to the data, the total market size in the five countries was approximately 2.5 billion yen in 2012. Figure 4 shows the results estimated by Daiwa Institute of Research based on the data, and the market size in 2018 is projected to expand 1.6 times in Singapore, 1.8 times in Malaysia, 2.2 times in Thailand, 3.0 times in Indonesia and 6.8 times in Vietnam compared with 2012, reaching about 7.3 billion dollars in total in the five countries.

Figure 4: Estimated BtoC-EC Market Size and its Forecast in the Five ASEAN Countries



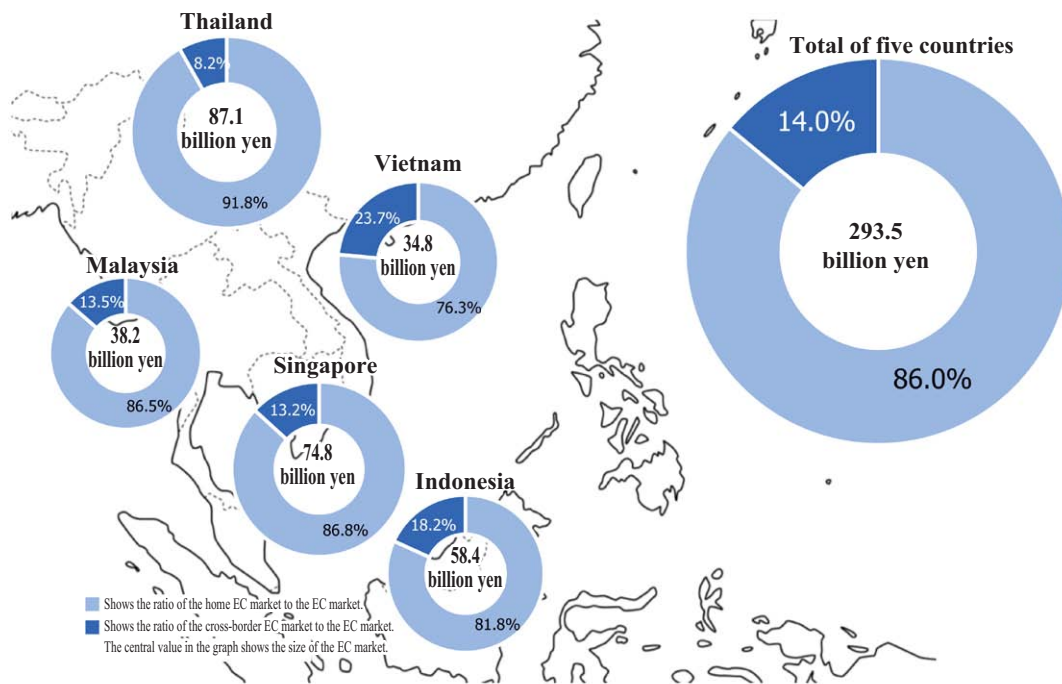
Note: Figures for 2008-2012 are calculated by Euromonitor International, and figures for 2013-2018 are estimated by Daiwa Institute of Research.

Source: Kitamoto (2015), page 15.

The size of the cross-border EC market of the five ASEAN countries in 2013 (estimated by the Ministry of Economy, Trade and Industry) is as shown in Figure 5. The total size of the cross-border EC markets of the five ASEAN countries is 41 billion yen, and their cross-border EC makes up 14% of their EC market. This percentage in each country is in a range between just under 10% and just over 20%⁵. Given that this percentage in Japan in 2013 is estimated to be around 2%, the percentage in the five ASEAN countries is much higher than in Japan⁶.

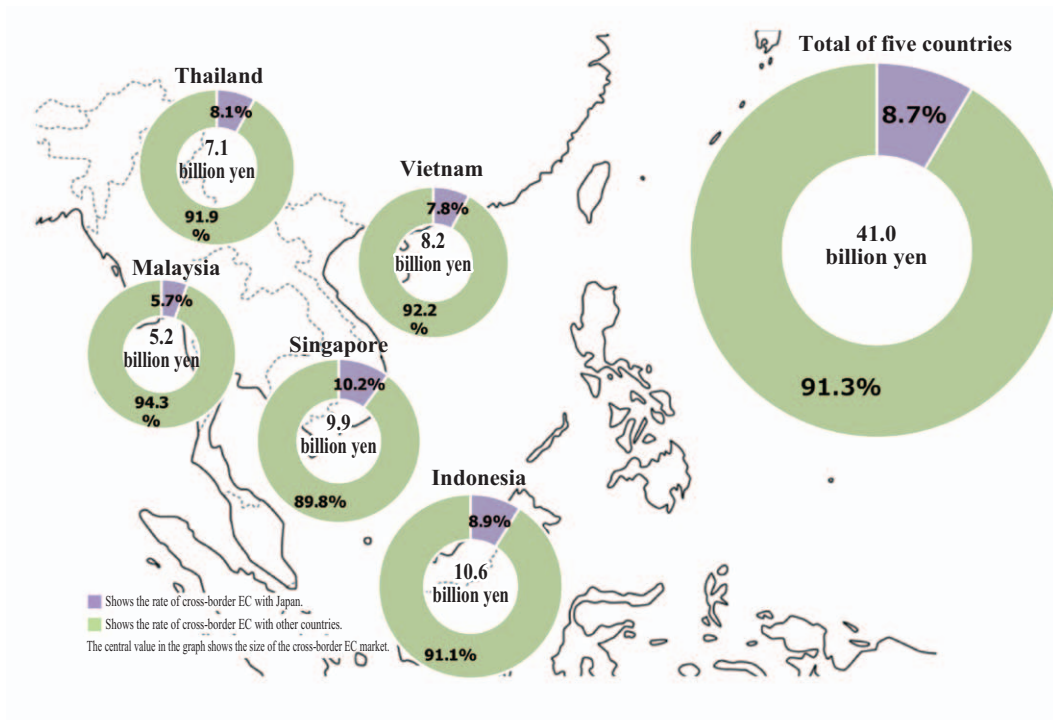
In addition, looking at the purchase amount from Japan and the purchase rate from Japan in the cross-border EC market in the five ASEAN countries, the total purchase amount and purchase rate of the five countries are 3.47 billion yen and 8.7%, respectively, as shown in Figure 6, and we can see that the rate for each country is only about 5% to 10%. This ranks only fifth after the United States (8.09 billion yen), China (6.07 billion yen), Europe (4.82 billion yen) and South Korea (3.55 billion yen).

Figure 5: Sizes of the Home and Cross-border EC Markets in the Five ASEAN Countries and Their Composition Rates (2013)



Source: The Ministry of Economy, Trade and Industry (2014), page 11.

Figure 6: Rate of Purchase from Japan in the Cross-border EC Market in the Five ASEAN Countries



Source: The Ministry of Economy, Trade and Industry (2014), page 107.

3-2 Utilization status of cross-border EC

Let us now look at the results of a questionnaire survey on the utilization status of EC by consumers in the five ASEAN countries. The category of products purchased by consumers in the five ASEAN countries in the most recent year with the highest response rate is “clothing and accessories” in both domestic EC and cross-border EC, followed by services such as “financial services” and “travel services” in domestic EC, and “PC, communications equipment and peripheral devices” in cross-border EC.

Regarding the factors for purchasing products by cross-border EC, responses are concentrated in the three items of “lower price,” “better quality (functions, specifications)” and “brand.” Regarding concern in cross-border EC, items specific to cross-border EC such as “burden of customs duty,” “delivery period,” “unable to view the actual product” and “burden of delivery charge” are ranked high if the partner country is not specified, but if limited to cross-border EC with Japan, “site language” is ranked the highest, and the rate of response showing concern is high in almost all items.

These evaluations by consumers resulted in the low rate of purchase from Japan in cross-border EC in the five ASEAN countries, as mentioned above. In other words, there is a challenge for Japanese cross-border EC companies in terms of their business with ASEAN in these aspects.

4. Conclusion

In this paper, I have discussed the cross-border EC market in China and the five countries in the ASEAN region based on the results of surveys undertaken by the Ministry of Economy, Trade and Industry.

In China, the government is embarking on the development of an institutional framework for cross-border EC, such as “customs bonded collection” and “customs bonded inventory,” and the number of companies entering the cross-border EC market is increasing, resulting in intensifying competition. Attention is being given to which companies will be able to present their own features going forward after large EC companies such as Alibaba, the largest EC company in China, and the JD Group, the second largest. In addition, for Japanese companies, there is concern that the structure of trade practice⁷ in which they had difficulty making profits through the physical store channel due to problems such as “admission fees” is also emerging in a different form in the channels of EC companies, although the cross-border EC market in China is very attractive in terms of its size and growth rate. In other words, looking from the side of the product supplier, it is also becoming difficult to make a profit in the EC channels because sales promotion costs are expensive. An investigation in this regard remains as a future research topic.

In the five countries in the ASEAN region, the cross-border EC market is arising in tandem with the overall EC market, which is beginning to grow. However, the rate of purchase from Japan in their cross-border EC is ranked only fifth after the United States, China, Europe and South Korea. As the factors for this, problems such as “burden of customs duty,” “delivery period,” “unable to view the actual product” and “burden of delivery charge” are listed, led by the problem of “site language,” rather than problems with the products supplied. In other words, this suggests that Japanese companies that intend to sell products to the ASEAN region through cross-border EC need to begin by addressing these customer concerns. I would like to discuss countermeasures against these problems in the future.

References

¹Based on the Ministry of Economy, Trade and Industry, Commerce and Information Policy Bureau, Information Economy Division, the “FY2014 Research on Infrastructure Development in Japan’s Information-based Economy Society (E-Commerce Market Survey),” May 2015 and Kenta Kitamoto (2015) “Efforts of the Ministry of Economy, Trade and Industry for Environmental Improvement for Cross-border EC,” *Journal of Distribution & Marketing* No.517 (Vol. 47 No. 4).

²The following is based on Li Xue (2015), “Development of Cross-border EC in China: Focusing on the Government’s Promotion Policies and Efforts of EC Companies,” *Journal of Distribution & Marketing* No.517 (Vol. 47 No. 4), pages 40 through 42.

³ The General Administration of Customs “Announcement No. 59 Regarding Issues Related to Bonded Import Model for Cross-Border Experimental Cities” (August 2013) makes the following stipulations: (i) Products able to be handled by cross-border EC shall be consumer goods for individuals except for goods prohibited by the state or import-restricted goods; (ii) The purchase amount for each transaction shall be limited to 1,000 yuan (800 yuan in the case of Hong Kong, Macau and Taiwan) based on the principle of

“personal use and rational quantity,” and if this limit is exceeded, the customs office shall undertake customs clearance procedures according to the personal goods regulations for only one parcel and for undividable goods after confirming that the goods are for personal use; (iii) If the tax amount is 50 yuan or less as a result of the calculation of the purchase amount and the postal tax rate, the tax will not be payable.

⁴ The following is based on Li Xue (2015), pages 38 and 39.

⁵ The Ministry of Economy, Trade and Industry, the “FY2013 Research on Infrastructure Development in Japan’s Information-based Economy Society (Japan-ASEAN Cross-border E-Commerce Market Survey),” May 2014.

⁶ Based on the Ministry of Economy, Trade and Industry, Commerce and Information Policy Bureau, Information Economy Division, the “FY2014 Research on Infrastructure Development in Japan’s Information-based Economy Society (E-Commerce Market Survey),” August 2015.

⁷ Please refer to Chapter 2 of Tatsuro Watanabe (2015), “Distribution and Marketing Revolutions in China and Southeast Asia: Market and Competition under Inner Globalization,” Hakuto Shobo.