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Shipping to China for Cross Border eCommerce

Part 2: The direct shipping model

Prepared by:
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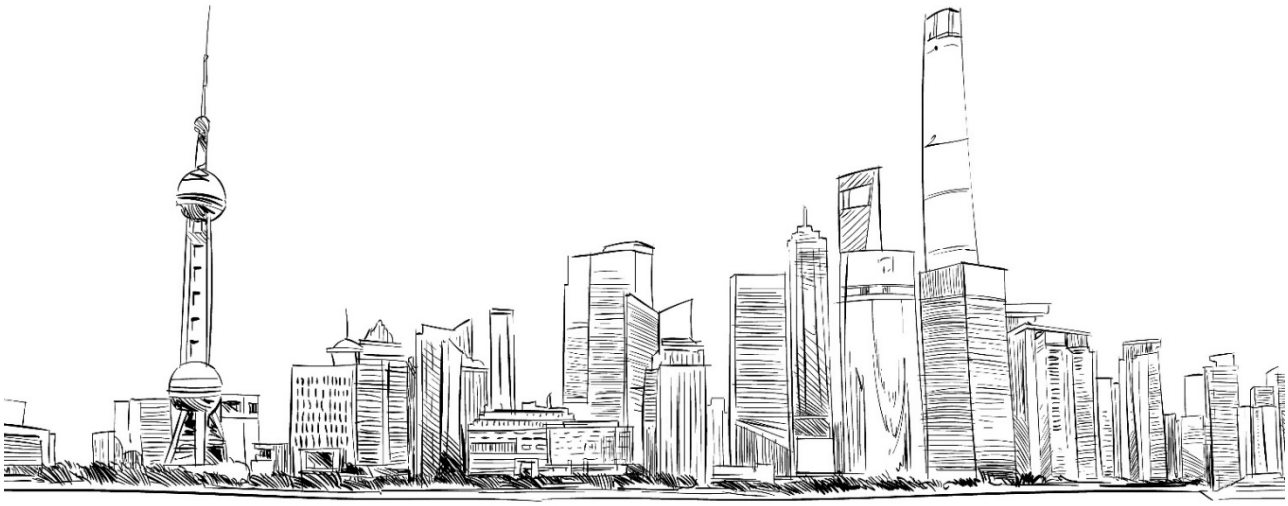

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The Direct Shipping Model

What is the direct shipping model?

With the personal parcel (e.g. when using CN Post, DHL) and the EMS model, you ship your products directly from overseas. A clear distinction and benefit with the direct shipping model is that packages don't necessarily need to be checked or taxed. That will only happen in case the customs do a random check and spot the package. A VAT will then be passed on to the end customer at the local post office, before the package can be collected.

Some of the benefits of the direct shipping model are:

- Packages are just randomly checked
- Taxes only apply occasionally
- No stock in China is needed
- Tax exemption if value < RMB 50
- No CIQ clearance needed

Clearly, there are some disadvantages by shipping via the personal parcel route. Shipping packages one by one from overseas results in higher costs and longer shipping lead times, that normally takes between 7 – 30 days. Still, some Chinese buyers are happy with direct shipping as it reduces the risk of receiving fake products. Yet, as short shipping lead times play a vital role in Chinese eCommerce, one should aim for a better long-term solution.

Tax implications for the direct shipping model

Products shipped with direct shipping, like China Post or EMS, are taxed in the same way. As of January 1st, 2019, you'll enjoy lower tax rates set to 15%, 25%, and 50%, depending on the products you plan to sell. Let's have a look at how the tax rates apply for different product types.

Tax rate of 15%

Metal products, food and beverage, telephones and other small electronic devices, furniture's, recording devices and digital storage, ear phones, computers and parts, books, magazines, prints, education materials, games, stationery toys.

Tax rate of 25%

Footwear, non-luxury watches, clocks & related parts, diamond jewelry, personal care, skin care, hair care, deodorant, cleansing products, textiles, clothes, textile accessories, home textiles, leather-made clothes & accessories, bags, suitcases, luggage, electrical appliances & parts, cameras (non-digital), camera accessories, art collections, sports products & related equipment, bicycles & bicycle parts.

Tax rate of 50%

Alcohol and alcoholic drinks, cigarettes, luxury watches, luxury jewelry (pearls, non-diamond gems), perfume, toilet water, cosmetics (lips, eyes, face, foundation, nails, powder, injected cosmetics), golf and related accessories.

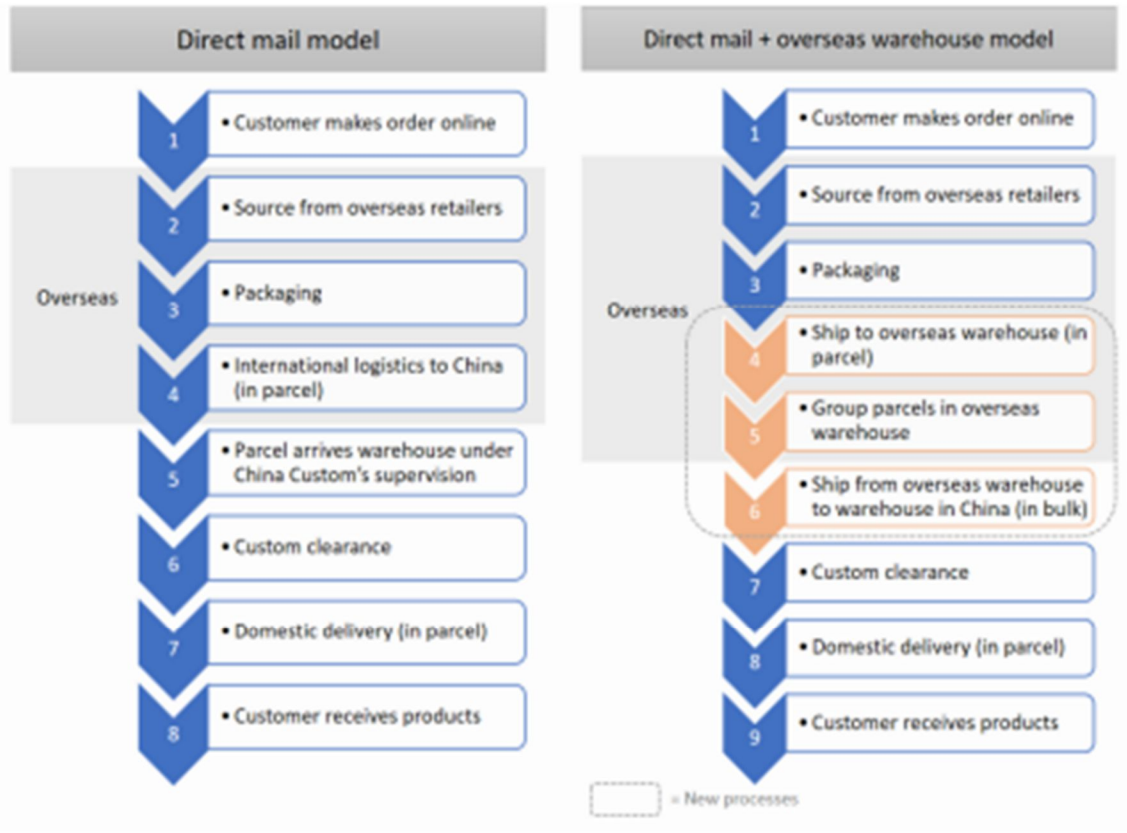
Conclusion of Direct Shipping Model

- Overall, direct shipping is not a scalable option for companies wanting to do significant business with China.
- It is however a good option if you are conducting a small test and are looking for a simple way to ship a handful of items sold after your first promotion.

What is the direct shipping model WITH overseas warehousing solutions?

Some leading cross-border eCommerce (CBEC) such as JD.com, VIP.com, NetEase Kaola and Xiaohongshu are ramping up efforts to build overseas warehouses to facilitate cross-border shipping. For example, in May 2018, VIP.com announced that its CBEC arm VIP International will cooperate with JD Worldwide in operating CBEC supply chain and overseas warehouses. VIP.com will provide overseas warehousing and logistics services to JD Worldwide, including 12 overseas warehouses (of which 8 of them are self-operated by VIP.com). This allows VIP.com to better utilize its overseas warehouses as well as its shipping services, while reducing costs and improving efficiency. Indeed, the setting up of overseas warehouses by CBEC operators can be regarded as a modification of the direct shipping model. After customers place orders on a registered CBEC platform, overseas retailers will ship the products to the overseas warehouse instead of sending them directly to the warehouse in China. The CBEC operator will collect and store the parcels in the overseas warehouse before shipping them in lots to warehouse in China. For customers, a major advantage of using overseas warehouses is that logistics costs will be cheaper than that of the direct shipping model as more recipients (customers) can share the logistics costs. However, shipping time will be longer than the direct shipping model. For CBEC operators, setting up overseas warehouses involve substantial investments. They also need to spend some time to understand and adapt to local practices.

Here below are the flow diagrams for review on both of these types of direct shipping models.



Source: *Fung Business Intelligence*

Join us next week for Part 3 of this cross-border eCommerce business models.

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