Understanding tax and customs policies for retail import cross-border e-commerce in China

Xiangyang Li

Abstract

As a new industry, cross-border e-commerce continues to boom and make significant contributions to economic development. China is an important participant and benefits from the fast development of the industry, especially in retail import of cross-border e-commerce. The tax and customs policies associated with this cross-border e-commerce have been adjusted dynamically with the development of the industry, especially in recent years.

This paper examines the evolution and possible problems of tax and customs policies for retail import cross-border e-commerce in China. Section one provides an overview of development of cross-border e-commerce in China; section two gives a detailed description of the evolution of the relevant tax and customs policies; section three explains why personal postal articles and the associated tax and customs regulations are related to retail import cross-border e-commerce and how tax issues and risks arise there; and section four provides a conclusion and outlook.

1. Overview

E-commerce has been booming in China for 20 years. After two decades of growth, the e-commerce industry continues to grow, while adopting various modes (e.g. B2B, B2C, C2C). China is leading the development of the industry internationally. Significant growth in both transaction volume and number of participants in cross-border e-commerce has been witnessed in the past five years (called 'the golden era'), and it is now an indispensable part of Chinese foreign trade (Wu & Ireland, 2018). The total value of China's cross-border e-commerce in 2018 was RMB9.1 trillion and the forecast value for 2019 is as high as RMB10.8 trillion. The number of China's cross-border online shoppers is also growing quickly and could exceed 200 million by 2020. The market share of retail import cross-border e-commerce is now highly concentrated, with China's top three retail import cross-border e-commerce platforms NetEase Kaola[1], Alibaba (Tmall Global[2]) and JD Worldwide[3] representing 27.1 per cent, 24.0 per cent, and 13.2 per cent of the total market share respectively. China's top five trading partners in this sector are Japan, USA, South Korea, France and Germany (iiMedia Research, 2019).

The rapid growth of this industry is largely due to the support of both the central and local governments of China. In addition to various stimulative policies, China now has 35 pilot cities for cross-border e-commerce (Table 1 and Figure 1). In each of these cities, a **Comprehensive Pilot Area** (CPA) was officially established to support the development of the local cross-border e-commerce industry. This CPA is concentrated with various resources in order to boost the cross-border e-commerce industry in that city and hence can be viewed as a kind of business incubator. The resources may include customs authorities, customs declaration agencies, logistics companies, express carriers, postal operators, banks and finance services firms, human resource companies, and e-commerce platforms. All these resources are dedicated to serve the needs of middle and small cross-border e-commerce in the CPA.

Table 1: Cross-border e-commerce comprehensive pilot city/area

Batch No.	City/Zone	Number	Birthday
1	Hangzhou (1)	1	7 March 2015
2	Tianjin (2), Shanghai (3), Zhengzhou (4), Chongqing (5), Guangzhou (6), Shenzhen (7), Hefe I (8), Chengdu (9), Dalian (10), Ningbo (11), Qingdao (12), Suzhou (13)	12	6 January 2016
3	Beijing (14), Hohhot (15), Shenyan (16), Changchun (17), Harbin (18), Nanjing (19), Nanchang (20), Wuhan (21), Changsha (22), Nanning (23), Haikou (24), Guiyang (25), Kunming (26), Xi'an (27), Lanzhou (28), Xiamen (29), Tangshan (30), Wuxi (31), Weihai (32), Zhuhai (33), Dongguan(34), Yiwu (35)	22	8 August 2018

Notes: The numbers in the parenthesis are used to number the cities only and do not reflect any ordering. Two more cities, Fuzhou and Pingtan, are added to the list of pilot cities for retail import cross-border e-commerce under the model of bonded import. These two pilot cities are different from CPA.

As we can see from Figure 1, the geographical distribution of all three batches of CPAs is imbalanced, with most of the cities concentrated on the nation's centre and east coast.

Figure 1: Geographical location of 35 cities with cross-border e-commerce comprehensive pilot area

Although the transaction size of import cross-border e-commerce is smaller than that of exports, import cross-border e-commerce is growing much faster than export cross-border e-commerce (Li, 2017). Hence, here we only consider import cross-border e-commerce, or more specifically, retail import cross-border e-commerce.

1.1 Business models

There are two popular business models of retail import cross-border e-commerce: bonded import and direct purchase import.[4]

Bonded import is a standard model of B2C. It refers to the model in which e-commerce traders import goods into customs special supervision zones or supervised bonded warehouses in the consumer country[5], making it possible to promptly deliver ordered goods to consumers once orders are placed online. Special customs supervision zones provide a green channel to facilitate customs clearance of these items. Goods into and out of special customs supervision zones are under the strict supervision and control of the China Customs[6], which makes the process relatively transparent. Generally speaking, the overall delivery time under this model is about 1/3 or even 1/5 of that under direct purchase import. It is one of the reasons why it is so popular in China. However, this model has its limitations. It is the importer's responsibility to decide what kind of, how many and when the products are to be imported. Hence, for example, the range of product choice for consumers could be limited since importers cannot import everything into their bonded zone warehouses.

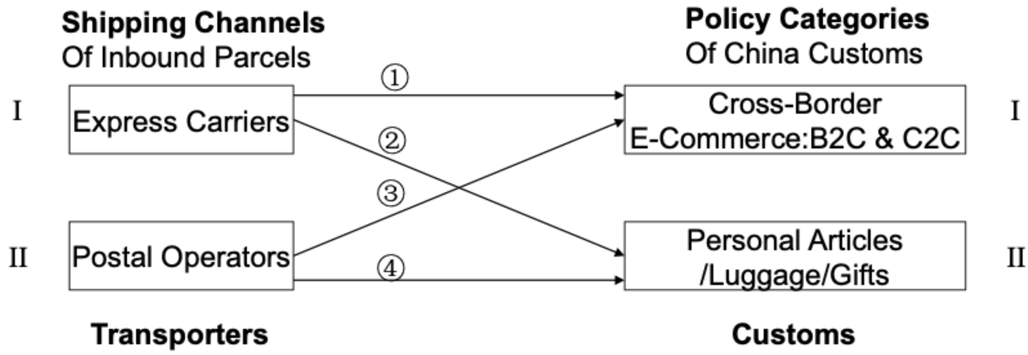
Direct purchase import is also known as overseas direct delivery. This is also a standard model of B2C. It refers to the model in which domestic consumers place orders and pay the related tax either themselves or through logistics companies on an overseas e-commerce platform. Sellers abroad then send the goods as parcels or courier items, which are then processed by customs authorities in the destination country. Under this model, delivery will usually take much more time than under the bonded import model, but the range of product choice for consumers is much larger.

In China, many cross-border e-commerce platforms like Alibaba, JD and Netease, are providing great shopping experiences for millions of Chinese consumers under the model of bonded import. At the same time, many consumers in China also order goods from overseas platforms, such as Amazon and eBay and other famous brand websites.

1.2 Shipping channels

The shipping channels of retail import cross-border e-commerce can be classified into two categories: **Category 1** is the express carriers channel and **Category 2** is the postal operators channel (Figure 2, Channel 1 and 3). Usually, the express carriers in China who are involved in cross-border e-commerce work closely with China Customs to share logistics and other related information. Examples of express carriers in China are SF express and YTO express. However, the postal operators both at home (China Post) and abroad are poorly equipped to share information with China Customs, although the situation improved in 2018, when an information system was deployed to improve the connectivity between China Post and China Customs (China Customs, 2018).

Figure 2: Possible shipping channels of cross-border e-commerce



However, personal articles, luggage and gifts, which are not deemed to be goods of cross-border e-commerce, share the same shipping channels (Channel 2 and 4) as illustrated in Figure 2. China Customs has different policies (tax and clearance procedures) for cross-border e-commerce and personal postal articles, which could pose a potential tax risk and needs further consideration (this will be covered later).

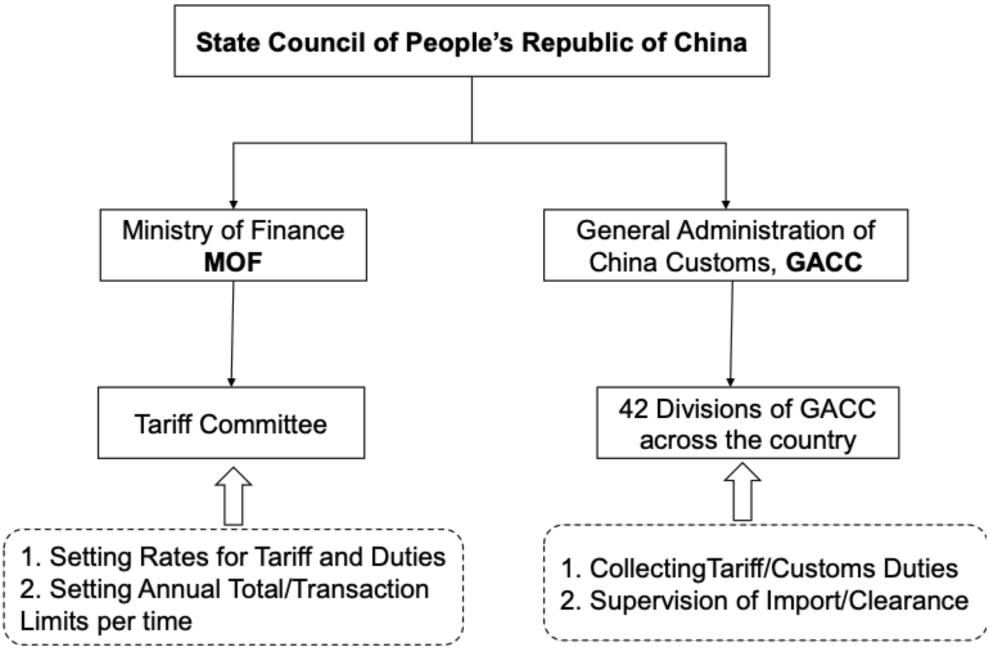
2. How retail import cross-border e-commerce is regulated

2.1 Regulatory bodies

There are 11 departments in State Council that are potentially involved in the administration of cross-border e-commerce in China, although only two of these departments are directly involved in regulation and supervision of cross-border e-commerce, as shown in Figure 3. These are the Customs Tariff Commission (CTC) in the Ministry of Finance (MOF) and China Customs – General Administration of China Customs (GACC). The CTC is responsible for setting the customs tariff and duty for imported goods, as well as the annual total limit and each transaction limit for individuals involved in cross-border e-commerce. GACC is responsible for enforcing the rules and policies set by CTC and collecting tariff and duty. To ensure the smooth supervision of imports and the legal and effective clearance of goods, GACC will set its own rules to be obeyed by all participating parties, including e-platforms, e-vendors, e-payment operators, e-platform providers (either self-run or a third-party), and logistics operators involved in cross-border e-commerce.

Circular No. 26 on Issues Concerning the Supervision of Retail Imports and Exports in Cross-Border E-commerce, issued by GACC in April 8, 2016, among other things, was the principal Customs regulation on cross-border e-commerce, although changes have been made since then. The circular applies to all individuals and companies that engage in retail imports and exports in cross-border e-commerce. GACC has created many clearance patterns to better fit different business models in cross-border e-commerce, as stated in Section 1.[7] GACC also deployed an information system called *Import Cross-Border E-Commerce Unified Edition* to further facilitate the supervision of clearance of goods in retail import cross-border e-commerce.

Figure 3. Regulatory bodies of import cross-border e-commerce



2.2 Evolution of tax and customs policies

In the last few years, the tax and customs policies of cross-border e-commerce have experienced dramatic changes. The tax and customs policy period can be roughly divided into two periods: before and after 8 April 2016. The policy before 8 April 2016 can be called the **old policy** since it is abolished now. The policy effective on or after 8 April 2016 can be called the **new policy,** or more popular, the **'April 8' new policy**. Although a few changes have been made to the **'April 8' new policy** since 8 April 2016, its essentials remain intact. This 'April 8' new policy is completely different from the old policy.

Three features of 'April 8' new policy[8]

Under the old policy, imported goods in cross-border e-commerce were treated as personal articles and hence subjected to personal postal article tax regulations (a kind of integrated tax system for different categories of personal articles)[9] and purchases were eligible for an exemption of payable duties up to RMB50 (also called 'de minimis threshold', DMT hereafter). The customs clearance was simple and there were no complicated procedures and documents needed for quarantine clearance purposes.

The 'April 8' new policy was completely different. There are three notable features that deserve detailed discussion.

1. Integrated tax was introduced and DMT was cancelled. Under the 'April 8' new policy, imports in cross-border e-commerce were no longer treated as personal articles.[10] Instead, they were treated as goods imported under the general trade system and hence were subjected to tariff, VAT and consumption tax, but not in full value. This integrated tax was called the preferential integrated tax. The preferential integrated tax (also called comprehensive rate) of cross-border e-commerce was only 70 per cent of that under general trade system and the tariff rate of cross-border e-commerce is temporarily set to zero.

To be specific, let R_{all}, R_{vat}, R_{tar}, R_{con}, denote the preferential integrated tax rate for the import goods in cross-border e-commerce, VAT rate, customs tariff and consumption rate for goods in the general trade system respectively, then we have: $R_{all} = 70\% * (R_{vat} + R_{tar} + R_{con})$

Under the 'April 8' new policy, customs tariff is set to zero, $R_{tar} = 0$. For most of items, consumption rate is zero too. So we assume that $R_{con} = 0$. The VAT rate in China has been subjected to a few changes since 2018. Before 1 May 1 2018, the VAT rate for most imported items was 17 per cent, hence $R_{all} = 11.9\%$. This means that most items imported in cross-border e-commerce are subject to an integrated tax at a rate of 11.9 per cent, which is lower than the adjusted personal postal article tax rates and also the integrated tax rate for goods imported under general trade. The VAT rate has been adjusted twice since 1 May 2018, first to 16 per cent and now it is 13 per cent. Hence, $R_{all} = 9.1\%$ now for most items, which is even lower than before.

DMT was cancelled under the 'April 8' new policy. This means that the integrated tax must be levied no matter how small it is. This cancellation was introduced due to the risk monitored by the government. Cross-border e-commerce importers usually divided large value orders into small value ones so that the duty payable fell below DMT and hence tax evasion occurred. The cancellation of DMT put an end to this tax risk problem.

At the same time, annual transaction limits and individual transaction limits for individuals were introduced. The annual transaction limit is RMB20,000 and each transaction limit is RMB2,000 (see Table 2). Single inseparable goods that exceed the maximum transaction value (i.e. RMB2,000), or accumulated transactions that exceed the annual total, are treated as traditional trade goods and the full value of customs tariff, VAT and consumption tax applies.

2. Customs Clearance Certificate and related documents were required for clearance. Before the 'April 8' new policy, commodities imported through cross-border e-commerce platforms were deemed to be personal postal articles and hence subjected to much simpler inspection and quarantine procedures in customs clearance than under the traditional general trade system. Under the 'April 8' new policy, when such goods were no longer treated as personal postal articles, the customs clearance procedures became complicated, much like the procedures for traditional general trade. As part of the customs clearance process, quarantine procedures for some of the products imported through cross-border e-commerce, like baby formula, cosmetics and medical devices, became much more complicated and sometimes impossible to satisfy. Importers needed extra certificates, like a certificate of origin, import licence, permits and registrations in related supervision departments in order to meet the requirements of import quarantine procedures. The application and acquisition process for licences and permits were very costly, both in time and money, and sometimes even impossible for small importers. In this sense, this new policy posed a great challenge to those who import products like baby formula, cosmetics and medical devices, especially to small importing businesses.

3. The 'Positive List' was introduced. Generally speaking, under the old policy, except for restrictive or prohibited items, like radioactive products, dangerous chemicals and waste, and used articles, almost all goods could be imported through cross-border e-commerce without any restrictions. However, the 'April 8' new policy brought this to the end. After the release of the *List of Cross-Border E-Commerce Retail Imports* (the so-called 'positive list', first batch) by 11 departments, including the Ministry of Finance, the National Development and Reform Commission (NDRC) and GACC, on 7 April 2016 (effective on April 8, 2016), only goods bearing the harmonised system (HS) codes shown on the list can be imported for cross-border e-commerce and sold through cross-border e-commerce platforms. Any goods that are not on list must be imported under the traditional general trade system. The list covers 1,142 tariff lines (commodities) under the 8-digit HS codes. These are mainly daily consumer goods that have a considerable demand in China. Included on the list were certain food products (fresh or dried fruit, dairy products, seafood, seasoning and dressing product for foods, rice, honey product etc.), beverages, garments, footwear and headgear, watches, home appliances and kitchenware, as well as certain cosmetics, paper nappies, baby formula, children's toys and thermal mugs.

Table 2: Evolution of policies

	Old policy: before 8 April 2016	New policy: effective 8 April 2016, 'April 8' new policy	Amended 'April 8' new policy: effective 1 January 2019
Payable duties RMB 50 or less (De minimis Threshold, DMT)	Exempted	No exemption	No exemption
Maximum value allowed per transaction	RMB 1,000	RMB 2,000	RMB 5,000
Annual total/limit per person	Not applicable	RMB20,000	RMB26,000
Applicable tax rate	10%, 20%, 30% and 50%, depending on the category of goods	Comprehensive rate = 70%* (Tariff rate temporarily set at 0% + VAT 13% + consumption tax rate depending on the category of goods)	
A single inseparable goods that exceeds the maximum value in a transaction	Will be treated as traditional trade and therefore subject to 1. Customs duty 2. VAT 3. Consumption tax		Comprehensive Rate = 100%* (Tariff rate of the goods as general trade +VAT 17% + consumption tax rate depending on the category of goods)
Positive List	–	1142 tariff lines – first batch 151 tariff lines – second batch	1321 tariff lines

Notes: Customs tariff, consumption tax and VAT are all cumulative taxes. The tax base for customs tariff is the goods price (including shipment cost and insurance, i.e. CIF). The tax base for consumption tax is the goods price plus customs tariff. The tax base for VAT is the sum of goods price, customs tariff and consumption tax.

Market response to 'April 8' new policy

The cross-border e-commerce industry was completely shocked after the release of the 'April 8' new policy, especially as a result of the second and third features (or requirements).

The first requirement, the wholly new integrated tax policy, was not the most lethal one to the industry, although there were some negative impacts due to the annual limit for each consumer, the per-transaction limit for each consumer and the cancellation of DMT. These negative impacts were not that big and were still acceptable to the industry. Furthermore, the actual tax burden of the new integrated tax policy was not necessarily higher than that of the previous tax policy and, depending on the type of goods, was sometimes lower.

The second and the third requirements, however, were lethal to the industry. For the second requirement, numerous cross-border e-commerce platforms or operators found that they were unable to clear some commodities through Customs due to the requirement of quarantine procedures. This is because most importers/operators in cross-border e-commerce were unable to obtain documents, like certificates of origin, import licences, permits and registration filings in related supervision departments. As such commodities were in high demand by Chinese consumers, many operators in the industry were unable to conduct their business anymore.

The third requirement, the 'positive list' was another lethal blow to the industry. Though the positive list (first batch) has tried to cover a lot of commodities that can be imported and sold through cross-border e-commerce, there were still some commodities not covered. Immediately, some importers found themselves being unable to import the products they used to sell. This was the reason why the second batch of the positive list was released shortly after the first batch.

The whole industry was trembling after the release of the new policy. Something had to be done immediately to tackle the problem.

What has the government done since 8 April 2016?

Due to the strong and unexpected impact, the government acted quickly and effectively to minimise the impact on the industry and finally achieved a smooth transition.

First, the government announced a second batch of the 'positive list' to try to include more commodities and reduce the negative impact. On 15 April 2016 (effective 16 April 2016), 13 departments (including MOF, GACC and the NDRC) jointly released the *List of Cross-Border E-Commerce Retail Imports* (the so-called 'positive list', second batch). The list covers an additional 151 tariff lines (commodities) under the 8-digit HS codes and included more food (fresh or dried fruit, fish oil product, rice, vegetable oil etc.) and other products (some medical products).

Second, the government announced a transitional period to address the problems caused by the second requirement. A one-year transitional period (May 2016 to May 2017) was offered for supervision requirements, especially for the quarantine procedures in customs clearance stipulated in the *List of Cross-Border E-Commerce Retail Imports* (both in the first and second batch). Until 11 May 2017, 'bonded imports' entering the bonded zones in the 10 cross-border e-commerce pilot cities were exempted from checks of their customs clearance certificates. Import permits, registration or filing was not required for first-time imported cosmetics, baby formula, medical equipment and special food products (including health food product and food for special medical purpose). Import permits, registration or filing requirements were also exempted for 'direct purchase imports'.

The transitional period was extended twice until a new policy came out at the end of 2018, following the State Council's decision to adopt an expanded cross-border e-commerce regime. The latest policy[11] (effective 1 January 2019) is an amendment of the 'April 8' new policy. There are also some notable features that deserve mentioning (see Table 1).

First, the goods in cross-border e-commerce are no longer deemed as goods under the general trade system. They are now officially deemed as 'personal articles' again, as in the old policy.[12] This means that there is no need for customs clearance certificates and related documents at customs clearance. This is a special category of 'personal articles' since the goods are still subject to the preferential integrated tax under the 'April 8' new policy and not subjected to personal postal articles tax regulations as in old policy.

Second, both the annual limit and per-transaction limit for each individual have been increased. The annual limit has been raised 30 per cent up to RMB26,000 per year, and the transaction limit has been raised from RMB2,000 to RMB5,000.

Third, the 'positive list' has now been updated to include 1,321 tariff lines to meet the needs of consumers.[13]

Fourth, comprehensive provisions have been laid out for customs supervision of goods in the positive list. GACC released two more specific announcements for supervision purposes a few weeks after the release of the amended ‘April 8’ new policy.[14]

Finally, the impacts of the ‘April 8’ new policy on the market are greatly relieved by the amended ‘April 8’ new policy. The transition of the ‘April 8’ new policy has gone smoothly, without causing too much harm to the industry.

3. Personal articles regulations

Since personal articles and retail import goods in cross-border e-commerce share the same shipping channels, it is hard to determine whether an inbound parcel is a personal article or goods in cross-border e-commerce. This is the case especially in poorly regulated channels like the postal operator channel, although the situation is improving. Since personal articles still enjoy the preferential tax policy (DMT policy) while goods in cross-border e-commerce do not, evasion of tax by importers could still potentially exist. This is the essential reason why regulations for personal articles are reviewed here.

3.1 Evolution of personal articles tax regulation

The term ‘personal article’ or ‘personal postal article’, also known as luggage and postal articles, can be referred to as inward/outward passenger baggage, mail packages, and gifts exchanged between relatives and friends, deemed as for personal use only.

All such inbound personal articles must be limited to a ‘reasonable quantity’. China Customs does not give an exact quantity limit for different kinds of personal articles, but an overall value limit and also a DMT of RMB50 is set.[15]

First, China Customs levies an import duty on personal articles mailed from outside the mainland, with a DMT of RMB50. This is a so-called ‘personal postal article tax’, which is a type of integrated tax rate. Different categories of personal articles have different integrated tax rates as indicated in Table 3).[16]

Second, personal articles mailed from or to Hong Kong, Macau or Taiwan should be worth no more than RMB800, and personal articles mailed from or to other countries and regions, should be valued at no more than RMB1,000. Within this limit, import duty will be levied according the Schedule of Import Duty Rates in Table 3.

Third, in the case of personal articles with an overall value exceeding the above-mentioned limit, the mail may be returned or cleared by Customs in line with the traditional general trade regulations. If, however, any mailing consists of just one item and still exceeds the specified value limit, the import of the package must firstly be approved by China Customs first. If it is indeed for personal use only, the tax rates in Table 3 are applicable.

Due to the quick growing demand of consumers in China, the personal articles regulation (tax rates and categorisation) also evolved quickly, especially in recent years. The policy period can be roughly divided into four periods (see Table 3).

The trend for the policy evolution is clear. The categorisation for personal articles becomes simple for easier clearance and the tax rates are generally decreasing to encourage more import and consumption.

Table 3: Schedule of import duty rates for personal articles

Policy 1: before 8 April 2016[17]	**Tariff Category No**	**1**	**2**	**3**	**4**
	Applicable categories of goods	• Books & magazines • Educational films & slides • Audio & visual recording tapes • Gold & silver products • Computers • Video recorders • Digital cameras • Food & beverages • Other goods not included in category 2, 3 & 4.	• Textiles • TVs, cameras & other electrical appliances • Bicycles • Watches, clocks & their parts & accessories	• Golf clubs & equipment • High-end watches	• Tobacco • Wine • Cosmetics
	Tax Rate	10%	20%	30%	50%
Policy 2: Effective after 8 April 2016[18]	**Tariff Category No**	**1**	**2**	**3** Note 1	
	Applicable categories of goods	• Food & beverages • Books & magazines • Educational audio-visual products • Gold & silver products, • Computers, video recorders, digital cameras • Furniture • Toys, games, festive & other recreational articles	• Sports goods (excluding golf clubs & equipment) • Fishing tackle, • Textiles & textile products • TVs, cameras & other electrical appliances • Bicycles • Other goods not included in category 1 and 3.	• Tobacco • Wine • Cosmetics • Golf clubs & equipment • High-end watches • Precious jewellery & jade	
	Tax Rate	15%	30%	60%	
Policy 3: Effective after 1 November 2018[19]	**Applicable categories of goods**	The same as Policy 2 plus medicines Note 2	The same as the Policy 2	The same as Policy 2	
	Tax rate	15%	25%	50%	
Policy 4: Effective after 9 April 2019[20]	**Applicable categories of goods**	The same as Policy 2 plus medicines Note 3	The same as Policy 3	The same as Policy 3	
	Tax rate	13%	20%	50%	

Note 1: Items listed under category No. 3 in Policy 2, 3 and 4 falls within the scope where consumption tax levied.

Note 2: Imported cancer drugs, which are subject to VAT at a reduced rate of 3% according to state regulations are levied at the same level as standard rate for dutiable goods.

Note 3: Imported drugs, including cancer drugs, which are subject to VAT at a reduced rate of 3% according to state regulations are levied at the same level as standard rate for dutiable goods.

3.2 Personal articles regulations

As shown in Figure 2, inbound personal articles and cross-border e-commerce share the same shipping channels. Since the personal articles (non-traded goods) and cross-border e-commerce goods (traded goods) are subjected to different tax policy systems, tax risks may arise, particularly tax evasion by importers who illegally claim cross-border e-commerce goods to be personal articles. The reason for this is that DMT was cancelled for cross-border e-commerce goods but still applies to the personal articles. The importers or the sellers have the motivation to do so to by dividing large value orders into several small value orders so that the duty payable on each small order is below DMT. By disguising the small value goods as personal articles, payable duties will be incorrectly waived. Another reason is that the two kinds of goods share the same shipping channels, which makes the deception easy to carry out.

Under the direct purchase import model, numerous goods are sent through postal channels as personal articles and DMT policy may apply naturally in these cases, and hence the tax evasion problem is greater under the direct purchase import model.

This potential tax evasion risk is yet to be fixed. China Customs should endeavour to establish connections with overseas sellers to exchange order and logistics information.[21] This will be helpful in dealing with tax evasion problems and may assist in addressing the problem.

4. Way forward

The ‘April 8’ new policy in 2016 (in Table 2) is a milestone policy for retail import cross-border e-commerce. After three years of transition and long discussions and debates among the industry and the government, the goods of retail import of cross-border e-commerce retail imports are finally being treated as special ‘personal articles’ (amended ‘April 8’ new policy in Table 2). This means that the amended ‘April 8’ new policy abolishes the second requirement and retains the first and third requirement of the ‘April 8’ new policy. This amended new policy, which came into effect on 1 January 2019, has minimised the negative impact on the market caused by the ‘April 8’ new policy. It was widely accepted by the industry and so it is likely that it will be at least a few years before any further changes are made.

However, as long as the DMT policy is applicable to imported personal articles and not to goods in cross-border e-commerce, tax evasion problems may still be unavoidable, although the situation is improving with the increasing connectivity between participants such as logistics firms and China Customs.

As consumer demands continue to grow in China, so will retail import cross-border e-commerce.

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Notes

1 NetEase Kaola: www.kaola.com

2 Tmall Global: https://import.tmall.com

3 JD Worldwide: https://www.jd.hk

4 Here we only consider the B2C models. The C2C model is not of interest since it is not under the control of customs authorities and the data and statistics about this model are not available. 'Retail' here means '2C', i.e. the goods are sold to final consumers. China Customs code for bonded import model is 1210 and for direct purchase import model is 9610.

5 This import from overseas to domestic warehouses is usually carried out under the traditional general trade system, which is the first part of B2C. For the second part of B2C, i.e. the '2C' part, is usually carried out through cross-border e-commerce system.

6 Now the Quality Supervision, Inspection and Quarantine Bureaus of China is part of the China Customs due to the institutional reform of State Council in 2018.

7 Two popular business models for import cross-border e-commerce will be introduced later.

8 These three notable features can also be viewed as requirements by the government that must be fulfilled or obeyed by the industry.

9 Personal postal article tax regulations will be introduced in Section 3.

10 Personal articles are subjected to personal postal article tax regulations that are different from the tax regulation on the goods imported in traditional general trade system. Generally speaking, the personal article or personal postal articles is deemed as **non-traded goods,** contrasting to **traded goods** in traditional general trade system. More details will be covered later.

11 Circular on Issues Concerning Improvement of Supervision of Retail Import of Cross-Border E-Commerce (No. 486 [2018]), http://www.gov.cn/xinwen/2018-12/01/content_5345041.htm (in Chinese). This circular was jointly released by six departments of State Council.

12 The characteristic of the goods under cross-border e-commerce now is somewhere between goods under general trade system and personal articles.

13 The positive list will continue to be updated according the consumer needs and other factors.

14 First, GAC Announcement No. 219 (2018) (Announcement on Matters Pertaining to Customs Registration of Cross-Border E-Commerce Enterprises), http://www.customs.gov.cn/customs/302249/302266/302269/2163193/index.html (in Chinese); Second, GAC Announcement No.194 (2018) (Announcement on Matters Pertaining to Regulation of Cross-Border E-Commerce Retail Imports and Exports), http://www.customs.gov.cn/customs/302249/302266/302269/2140731/index.html(in Chinese).

15 Circular on Issues Concerning the Adjustment of Supervision Measures of Inbound and Outbound Personal Postal Articles (No.43 [2010]), http://www.gov.cn/fwxx/sh/2010-08/10/content_1675428.htm (in Chinese). For personal articles carried back to China by individuals will subject to a different tax regulation. Here we only consider personal articles mailed back to China.

16 There are twenty kinds of goods that will not be exempted from payable duty no matter how small it is.

17 Circular of Issues Concerning the Adjustment of Import Tax on Personal Articles (No. 3 [2011]), http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201101/t20110126_429432.html (in Chinese).

18 Circular of Issues Concerning the Adjustment of Import Tax on Personal Articles (No. 2 [2016]), http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201603/t20160324_1922971.html (in Chinese).

19 Circular of the State Council Customs Tariff Commission on Issues Concerning the Adjustment of Import Tax on Personal Articles (No. 49 [2018]), http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201809/t20180930_3033433.html (in Chinese).

20 Circular of the State Council Customs Tariff Commission on Issues Concerning the Adjustment of Import Tax on Personal Articles (No. 17 [2019]), http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201904/t20190408_3216190.html (in Chinese).

21 Though it is required that overseas sellers should be registered in GACC before they can carry out retail import cross-border e-commerce in China, there are still some sellers that may not be able or unwilling to do so.

Xiangyang Li

Dr Xiangyang Li is a lecturer and graduate supervisor in the Department of Economics at Shanghai Customs College in China. He received his PhD degree in Economics from Shanghai University of Finance and Economics and now teaches courses in economics and statistics. He is also a visiting scholar of University of Notre Dame in USA (2013–2014, 2019–2020). He has presided over research projects in the fields of macroeconomics, trade facilitation and tax and customs in cross-border e-commerce and has been an active participant researcher in projects sponsored by the National Social Science Foundation of China, General Administration of China Customs.