

Doing Business in Cina

*Dalla macro-analisi del mercato alle prospettive operative per
l'internazionalizzazione in Cina:
digitalizzazione, piattaforma FTZs, proiezioni di ripresa economica e commerciale
PostCovid*

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11 Maggio 2020

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Sinologo e Nippologo, con prima specializzazione post bachelor in comunicazione d'impresa e seconda in business administration su Cina e Giappone (Fudan University e Kanazawa University). Esperto in lingue e culture orientali, marketing e consulenza di sviluppo commerciale per i mercati asiatici, opera da 15 anni in quasi sessanta missioni commerciali e di assistenza sul campo fra Cina, Giappone e Corea

Dal 2011 è Docente NIBI (Albo ufficiale dei formatori qualificati) e coordinatore nell'ambito del Business Focus su China e Far East per il moduli di formazione executive.

Nel 2006 fonda Asian Studies Group – centro studi specializzato in formazione, consulenza, mediazione progettuale e marketing strategy su Cina, Giappone e Corea, con diverse sedi in Italia fra cui Milano e Roma che oggi presiede come direttore scientifico.

Presiede e coordina ECMO EUChina Market Relations Observatory, con sede a Milano, e desk di riferimento su Brussels e Shanghai con cui inaugura un filone di ricerca specialistica con colleghi ed ex dottorati.

Managing Director di ADMEA, Advisory for Development and Marketing on Eastern Asia, con presidi di monitoring commerciale in Japan (Tokyo), China (Hangzhou) e Corea del Sud (Inchon e Seoul)

Socio Fondatore, membro del consiglio di amministrazione e manager accreditato IMIT Associazione Italiana Managers per l'internazionalizzazione in collaborazione con AICE e Confcommercio.

E' professore aggiunto nella Facoltà di Economia e Commercio dell'Università LUM Jean Monnet per cui dirige il corso di Corporate Management in Asia and Pacific e regular professor in MIBC Master in International business development in China della Lum School of Management, campus di Milano.

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China, 76 days later...





23rd January - the beginning

25th of March - lockdown lifted for Hubei Province

8th of April - lockdown lifted for Wuhan City

On 2019, China represented, at current exchange rates, important percentages of the global economy:

- i) 16% of the gross domestic product (GDP);
- ii) 29% of manufacturing production;
- iii) 13% percent of exports.

In Q1-2020, the strict containment measures implemented to contain the epidemic have:

- 1) caused a *collapse in manufacturing production* and domestic demand;
- 2) induced a *sharp slowdown in economic growth*, with repercussions worldwide; and
- 3) interrupted the already fragile global supply chains, of which China is a *global supply hub*



The International Monetary Fund (IMF) predicts the global economy will contract by 3% in 2020, making the “great lockdown the worst recession since the Great Depression, and far worse than the Global Financial Crisis”.

China has achieved significant results throughout the years

- it holds the 13% of global trade of goods
 - 110 out of 500 Fortune Global companies are situated in mainland China
 - it is the 2nd world's country spending in R&D
 - it holds data of 802 millions of Internet users
- from 2015, 40 of most important areas (on top 100 list) for booming development in the world are in China



Except for the financial crisis of 2009, the value of import and export between EU and China *have always continued to increase*;

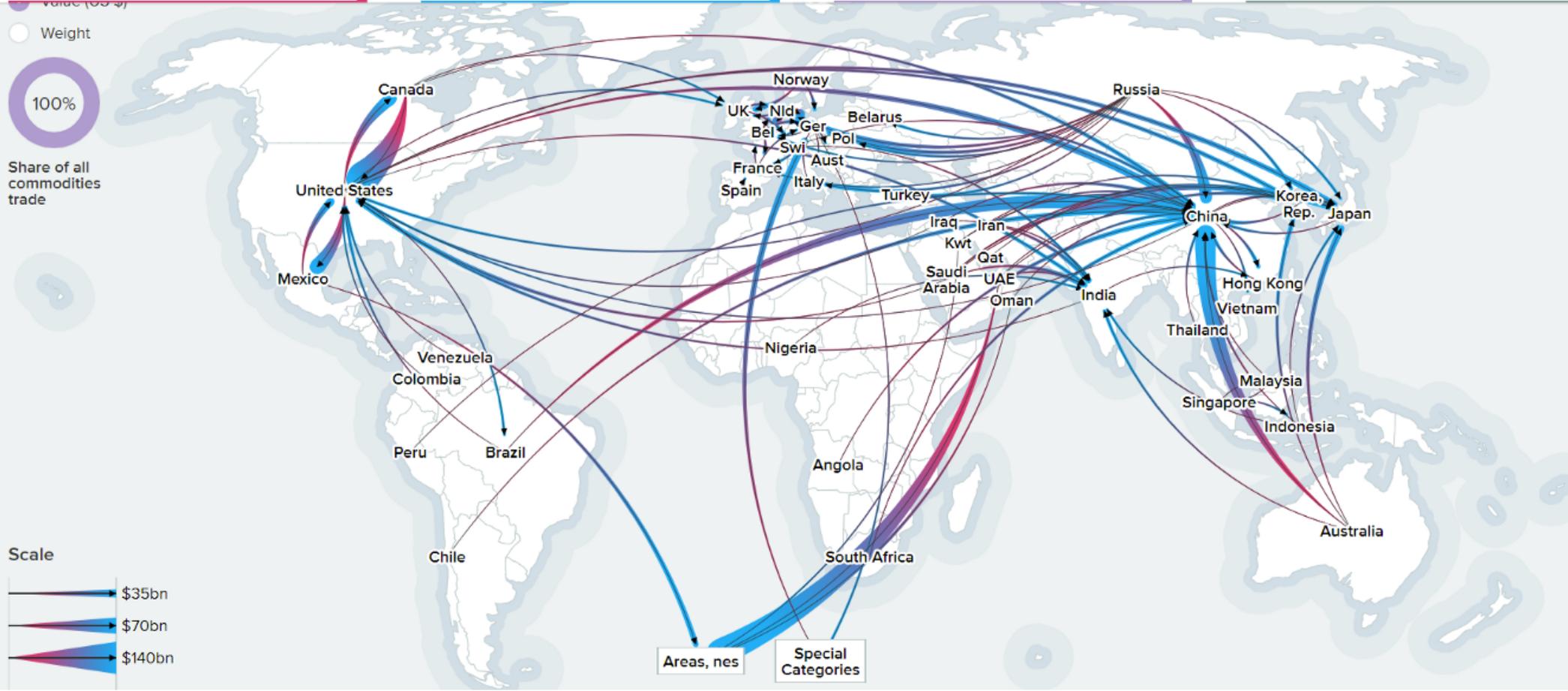
China is the first EU partner for import accounting the 20% of all EU imports,

and the second EU partner for export accounting the 10% of all EU exports.

Nevertheless, the important role played by China in terms of economic relations with EU do not only concern trade of goods, but also services and FDI.



Exporter **ALL COUNTRIES** Importer **ALL COUNTRIES** Commodity **ALL COMMODITIES** Year **2018**



Global Trade Map



The deglobalisation virus

definition by ECFR - European Council on Foreign Relations (on 18th march 2020)

3d Era

Deglobalisation

Decentralisation

Decoupling

many global firms seek to reduce their dependency on China



The acute stage of China's covid-19 crisis made it clear how essential China remains as a provider of inputs to such factories elsewhere in Asia and around the world.

“What people thought was a global supply chain was a Chinese supply chain,” says Mr Mahindra. The quest for supply chains independent of Beijing needs to go further, and deeper.

The tectonic shift

It's part of what Bank of America deems a "tectonic shift" in manufacturing that will bring parts of supply chains back into developed markets.

In a survey of the bank's analysts, who collectively cover 3,000 firms, Bank of America found that firms in over 80% of 12 global sectors have begun reshoring their supply chains.

Half of sectors in North America said they planned to reshore.





Joerg Wuttke, president of the eu Chamber of Commerce in China, says that if there is one lesson people are drawing from the pandemic in this regard it is that **“single source is out and diversification is in.”**

In other words, companies do not just need suppliers outside China.

They need to build out their choice of suppliers, even if doing so raises costs and reduces efficiency.

It means expectations of new demand for production in Vietnam, Myanmar, India

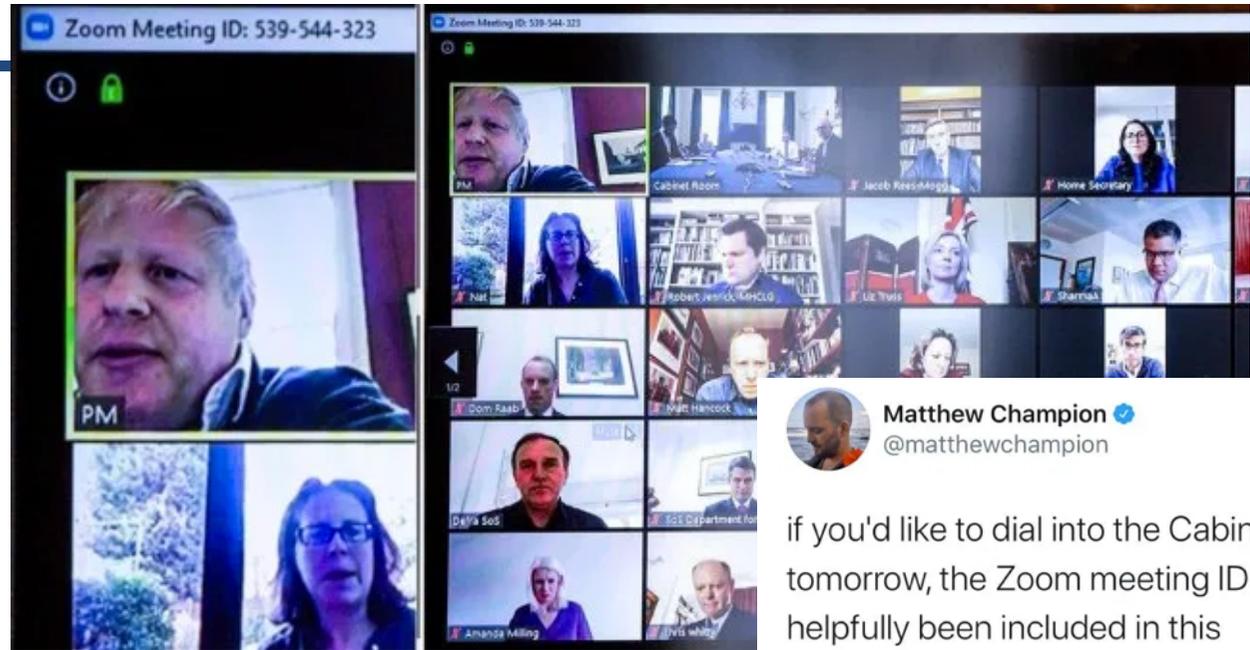
Source: The Economist - 20th of April

Less globalisation, more tech

while Covid-19 and the way of addressing it is slowing physical globalisation down, it is also promoting an ever more digital, online form of globalisation.

Zoom, an online videoconferencing service, was serving 10m customers a day at the beginning of the year, most of them in business meetings. Now it is providing 200m people a day a day not just with meetings, but with Tai Chi classes and “quarantinis” Slack

Restrictions put in place during the sars outbreak of 2003 helped accelerate China’s embrace of e-commerce. Covid-19 is having a similar effect, even in economies where e-commerce is already common.

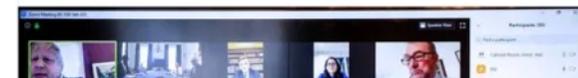


if you'd like to dial into the Cabinet tomorrow, the Zoom meeting ID has helpfully been included in this screenshot



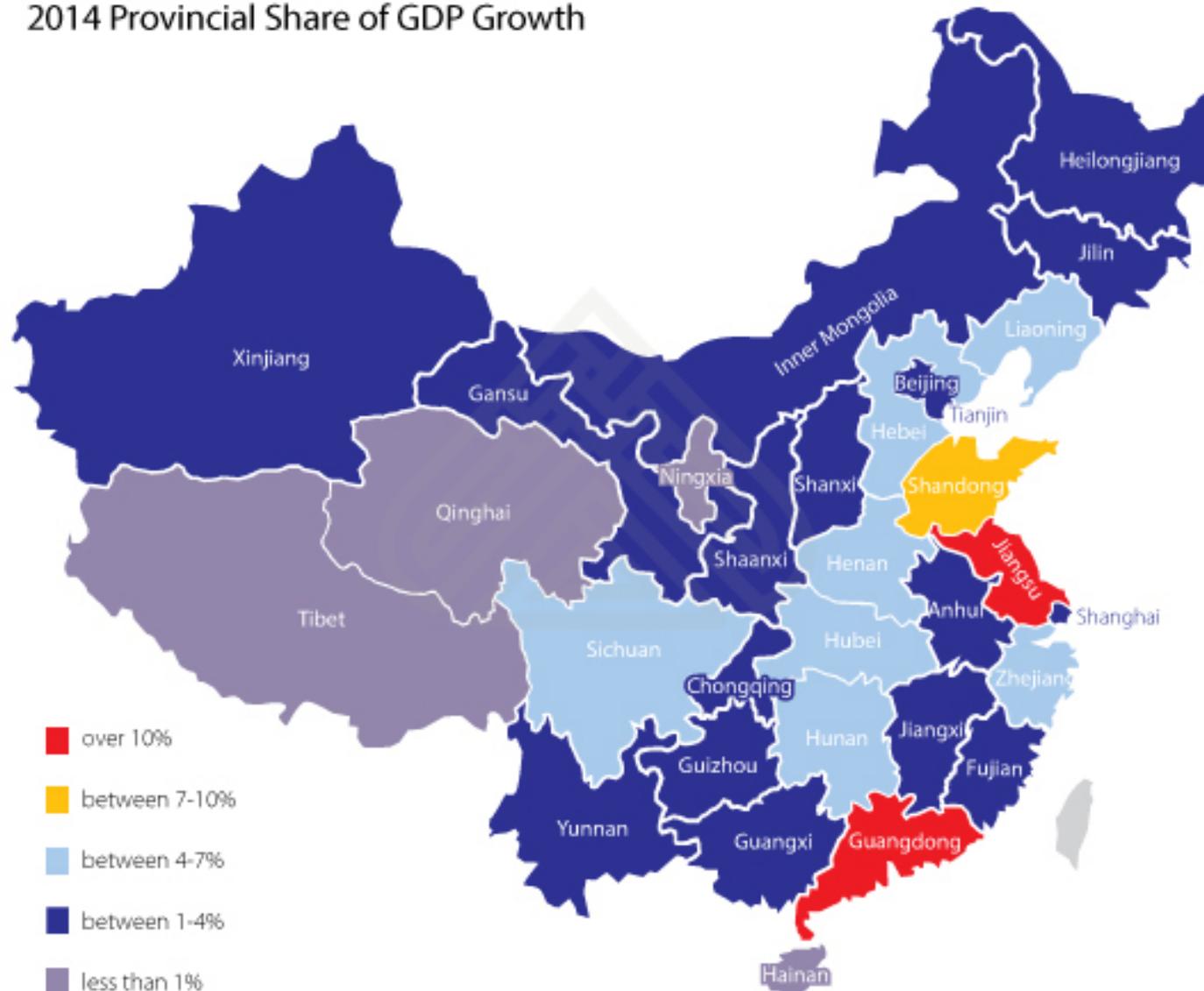
This morning I chaired the first ever digital Cabinet.

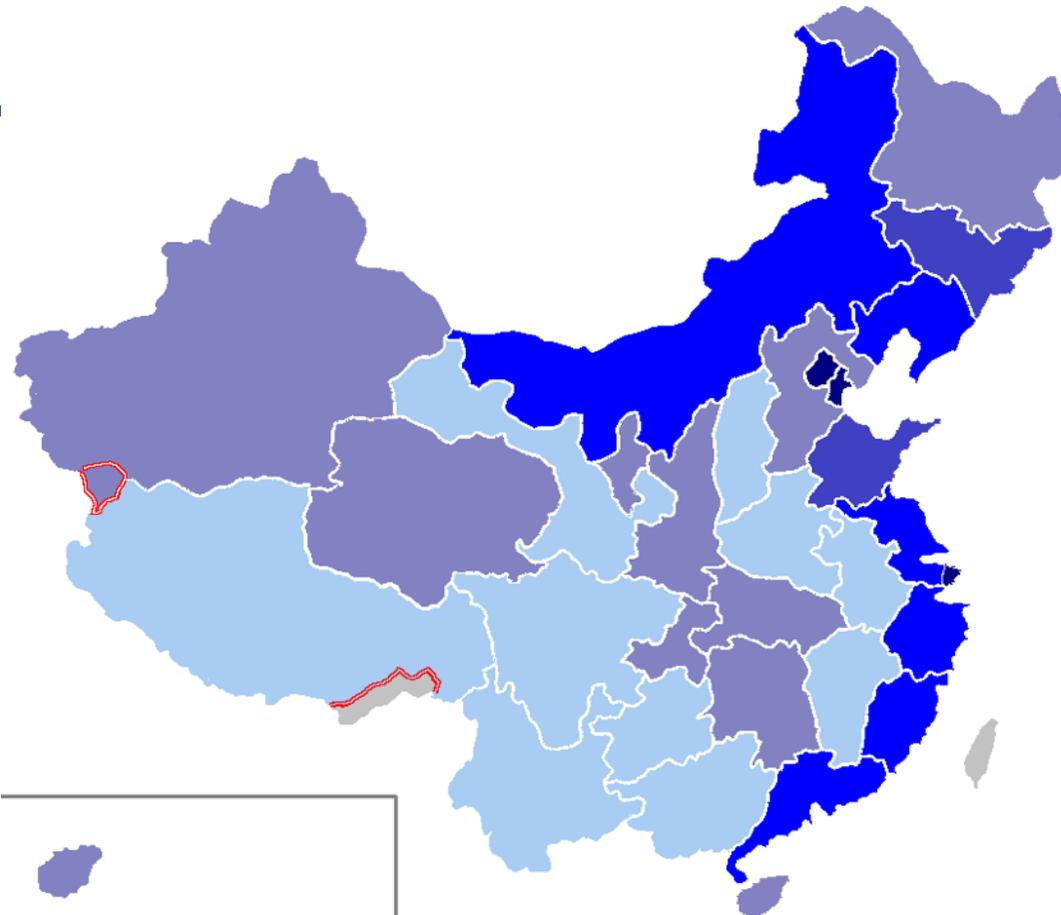
Our message to the public is: stay at home, protect the NHS, save lives.
#StayHomeSaveLives



The central Empire, 中国. The challenge for an equal development

2014 Provincial Share of GDP Growth





Huge internal gap for GDP per capita

China as destination's market for european production: east side

中国省级行政区人均GDP分布图（2012年，仅中国大陆）
 GDP per capita by province-level divisions of Mainland China in 2014
 Baesd on DATA of China NBS, 2014
 average exchange rate: CN¥6.1428 per US\$ 1 in 2014

人民币 CNY	美元 US\$
■ > 92,142	> 15,000 ■
■ 61,428 – 92,142	10,000 – 15,000 ■
■ 49,142 – 61,428	8,000 – 10,000 ■
■ 36,857 – 49,142	6,000 – 8,000 ■
■ 24,571 – 36,857	4,000 – 6,000 ■

Uncommon prosperity

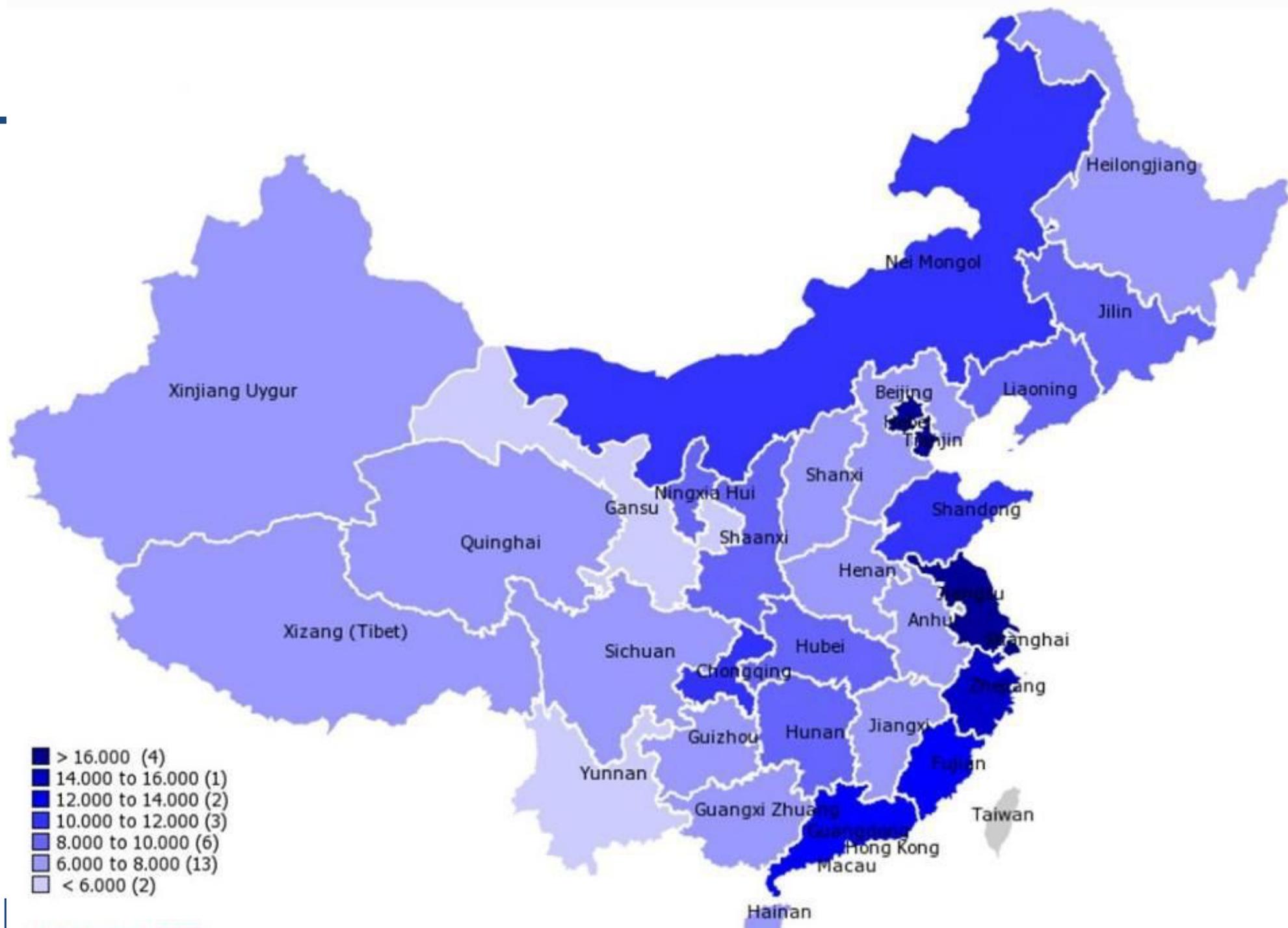
China's GDP per person, 2015



\$'000

- Over 14
- 12-14
- 10-12
- 8-10
- 6-8
- Under 6

Sources: CEIC; World Bank



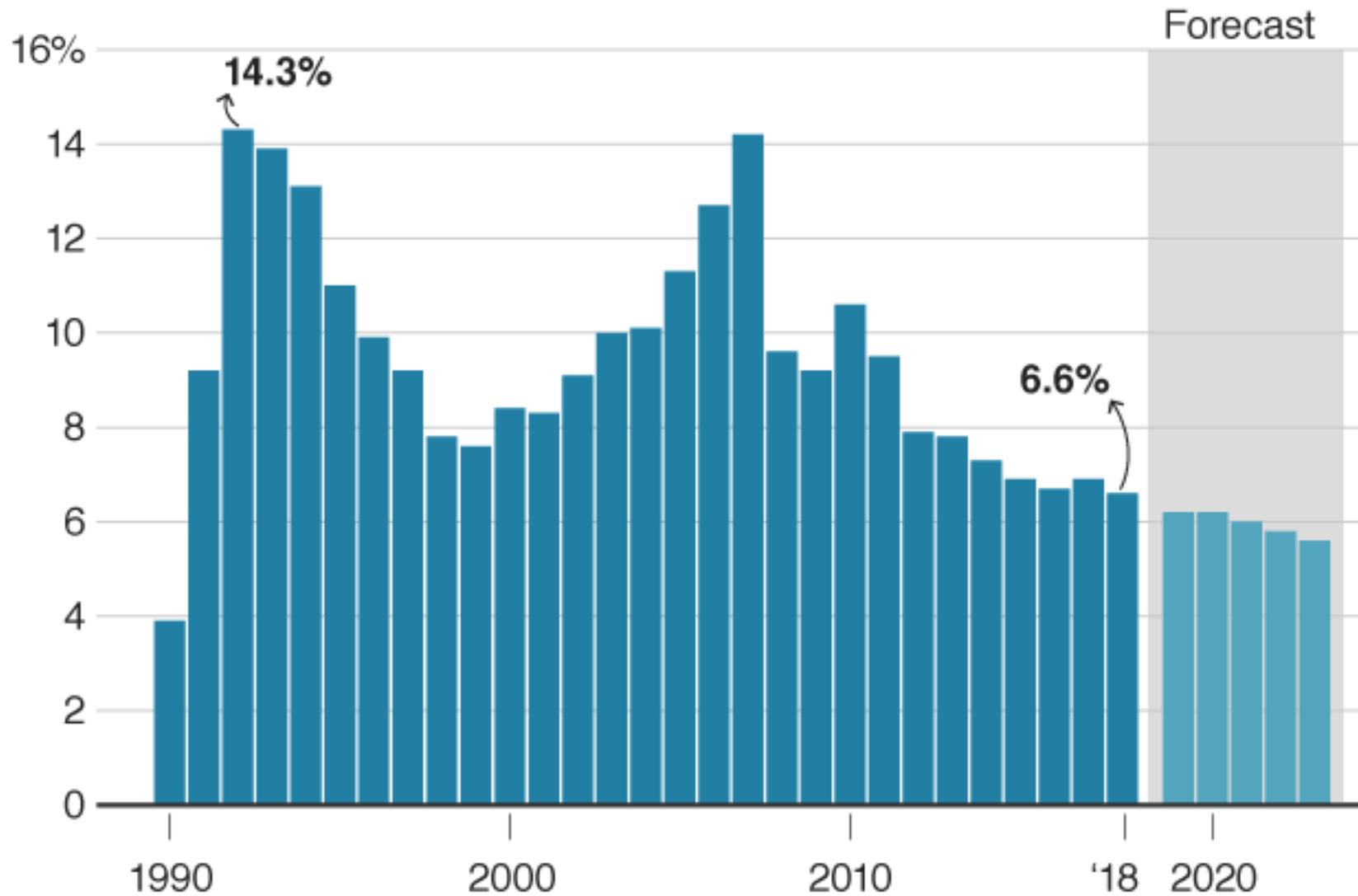
- > 16.000 (4)
- 14.000 to 16.000 (1)
- 12.000 to 14.000 (2)
- 10.000 to 12.000 (3)
- 8.000 to 10.000 (6)
- 6.000 to 8.000 (13)
- < 6.000 (2)

CHINA GDP PER CAPITA



SOURCE: TRADINGECONOMICS.COM | WORLD BANK

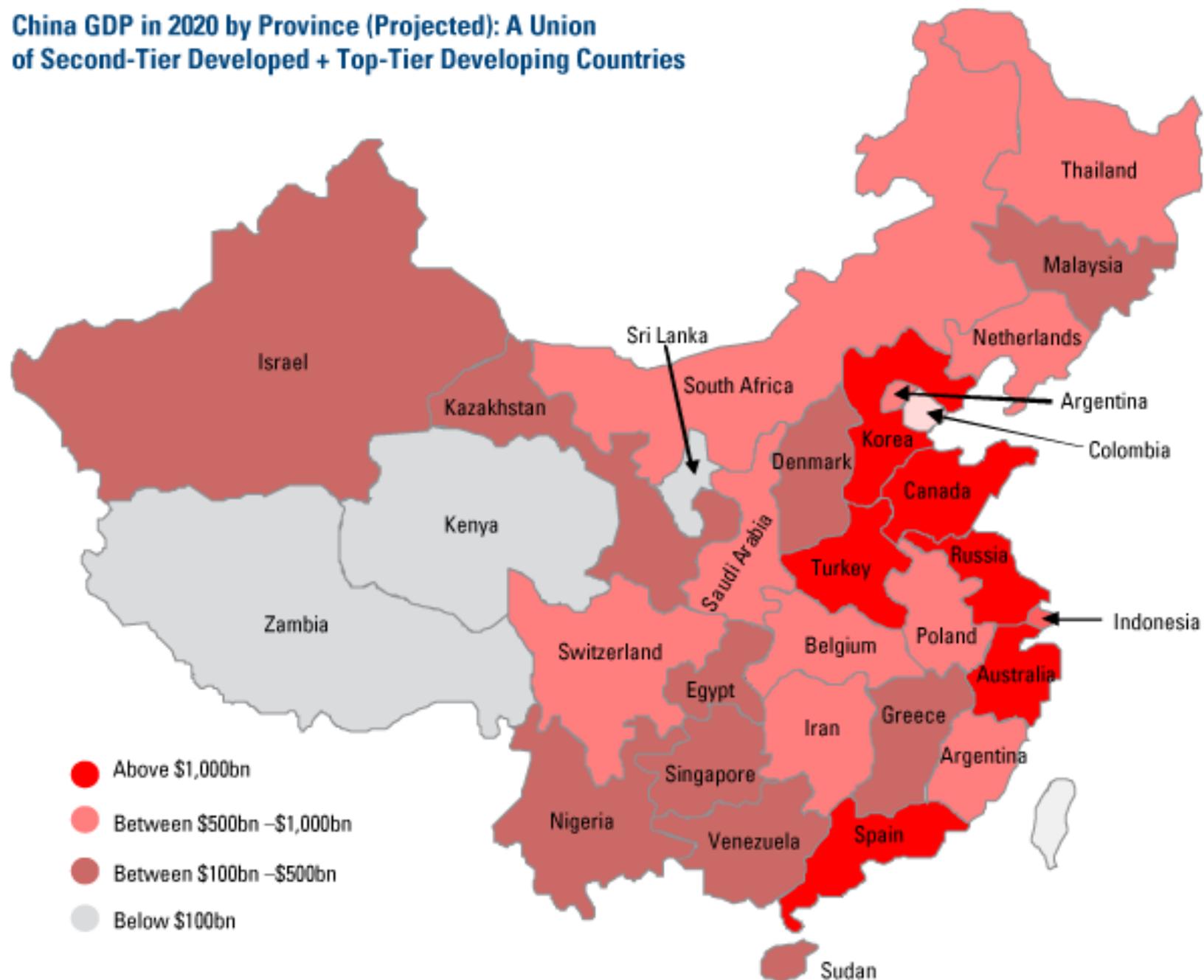
China's slowing economy



Source: IMF

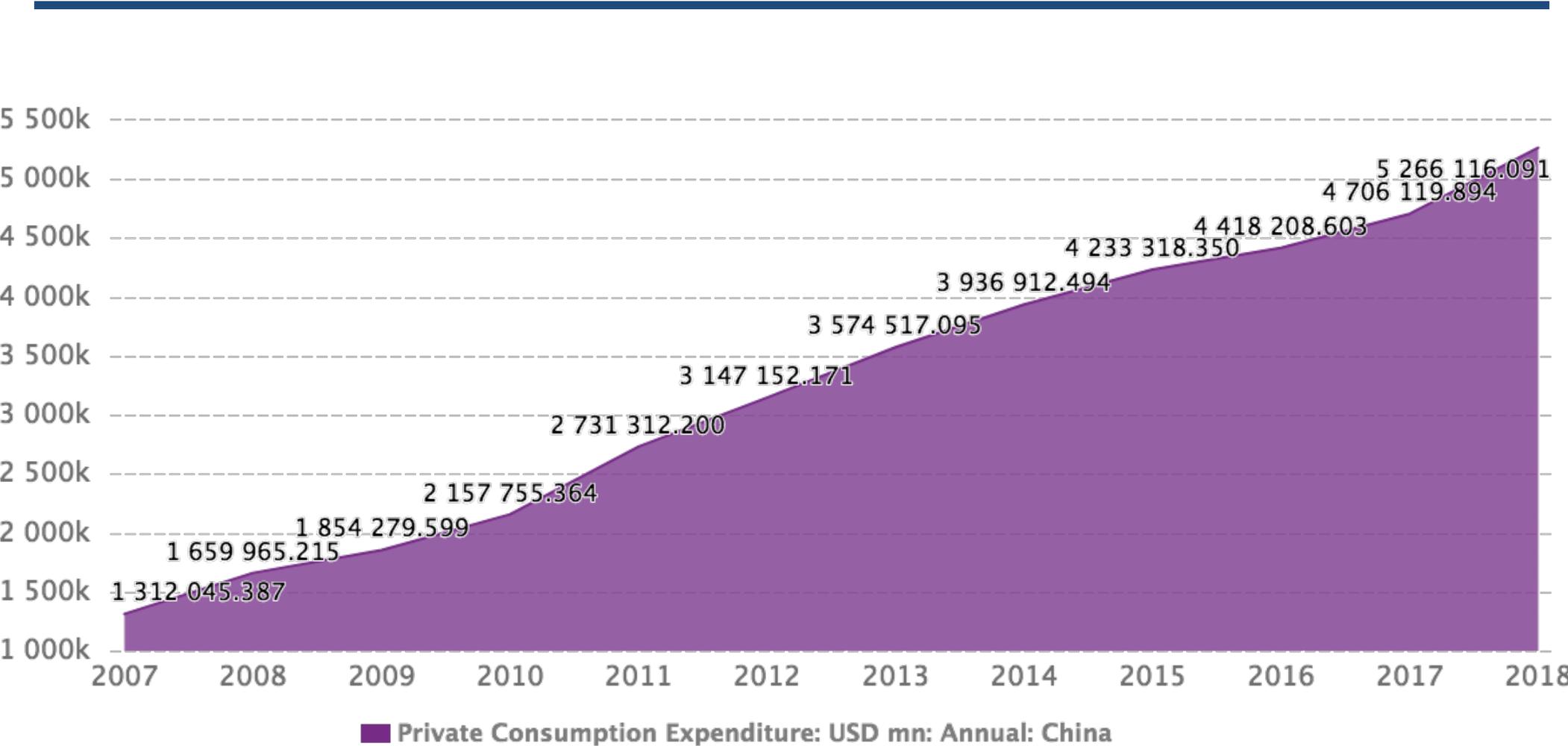
BBC

China GDP in 2020 by Province (Projected): A Union of Second-Tier Developed + Top-Tier Developing Countries



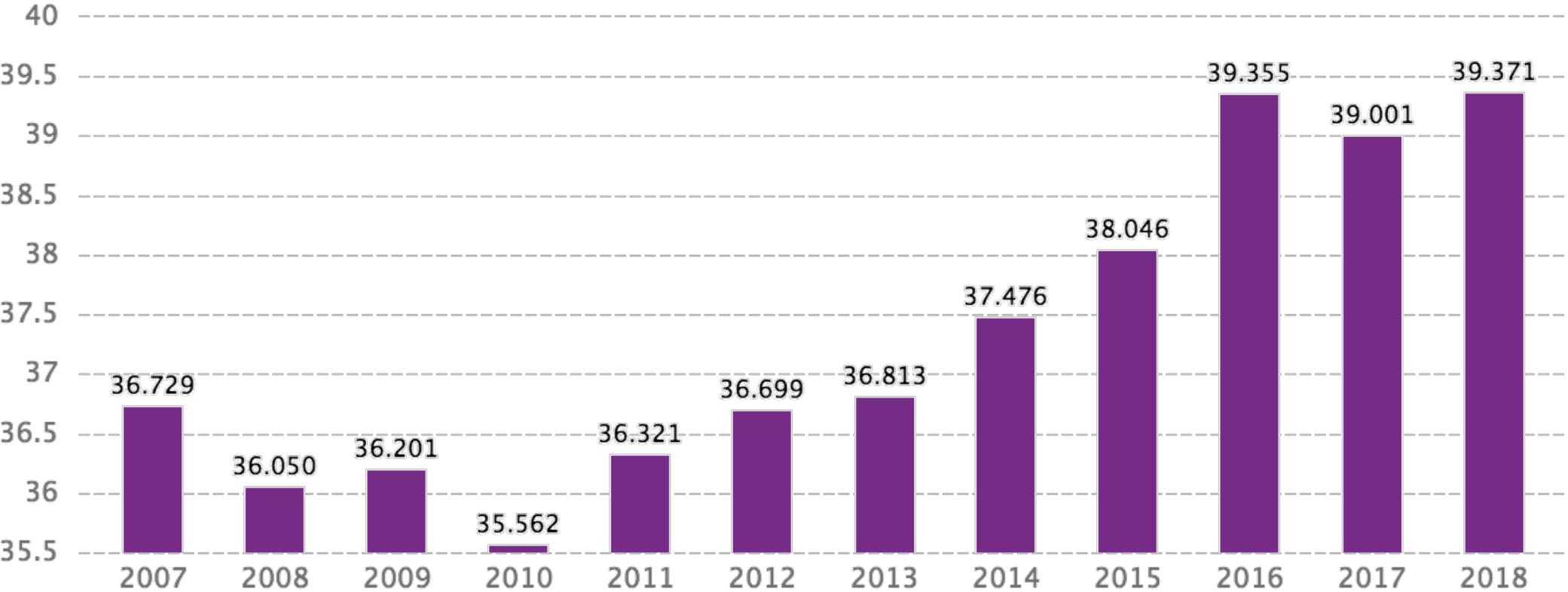
Source: HSBC, CEIC, IMF, CIA

even if GDP is slowing down....



SOURCE: WWW.CEICDATA.COM | CEIC Data

even if GDP is slowing down....



■ Private Consumption: % of Nominal GDP: Annual: China

SOURCE: WWW.CEICDATA.COM | CEIC Data

为什么这么情况

China's growth is slowing because capital-intensive investment in heavy industry that creates few jobs, but outsized GDP, is slowing while services, which use less capital and create more jobs, are growing.

Beibei Bao - economist



i servizi rappresentano ben oltre il 40% dei nuovi posti di lavoro ogni anno in Cina e dal 2012 ha superato il numero di impiegati nel settore agricolo

il partito sottopone questo dato a rafforzamento di una politica che vede nelle città e nei servizi la prospettiva di emancipazione sociale

Eterogeneità nella distribuzione della ricchezza - su 1,357,380,000

-65% della popolazione vive con un reddito molto ridotto → **lavoratori migranti**

- **Classe media** (circa 20% della popolazione) - 280 milioni di abitanti

- **Nuovi Benestanti**: 15% della popolazione entro il 2016 - quasi 200 milioni

- **Super ricchi**: oltre 1 milione entro il 2016 (tasso di incremento del 16% l'anno - analisi mc kinsey condotta con Peking Univ.)



projection for booming China in terms of PP

provinces	rank	CNY	Nominal (US\$)	PPP (int'l\$.)	Level of national GDP per capita (%)	Reference index	
						GDP (in millions)	Mid-year population (in thousands)
Mainland China		49,351	7,925	13,980	100	67,670,810	1,371,220
Tianjin	1	109,033	17,509	30,887	221	1,653,820	15,168
Beijing	2	106,751	17,143	30,241	216	2,296,863	21,516
Shanghai	3	102,920	16,527	29,156	209	2,496,504	24,257
Jiangsu	4	88,085	14,145	24,953	178	7,011,642	79,601
Zhejiang	5	77,644	12,469	21,995	157	4,288,650	55,235
Inner Mongolia	6	71,993	11,561	20,395	146	1,803,280	25,048
Fujian	7	68,260	10,962	19,337	138	2,597,980	38,060
Guangdong	8	67,897	10,903	19,234	138	7,281,260	107,240
Liaoning	9	65,454	10,511	18,542	133	2,874,340	43,914
Shandong	10	64,357	10,335	18,232	130	6,300,230	97,894
Chongqing	11	52,550	8,439	14,887	106	1,571,971	29,914
Jilin	12	51,861	8,328	14,691	105	1,427,410	27,524
Hubei	13	50,808	8,159	14,393	103	2,955,021	58,160
Shaanxi	14	48,136	7,730	13,636	98	1,817,194	37,751
Ningxia	15	44,015	7,068	12,469	89	291,180	6,615
Hunan	16	43,114	6,924	12,214	87	2,904,720	67,372
Qinghai	17	41,429	6,653	11,736	84	241,710	5,834

← I Tier

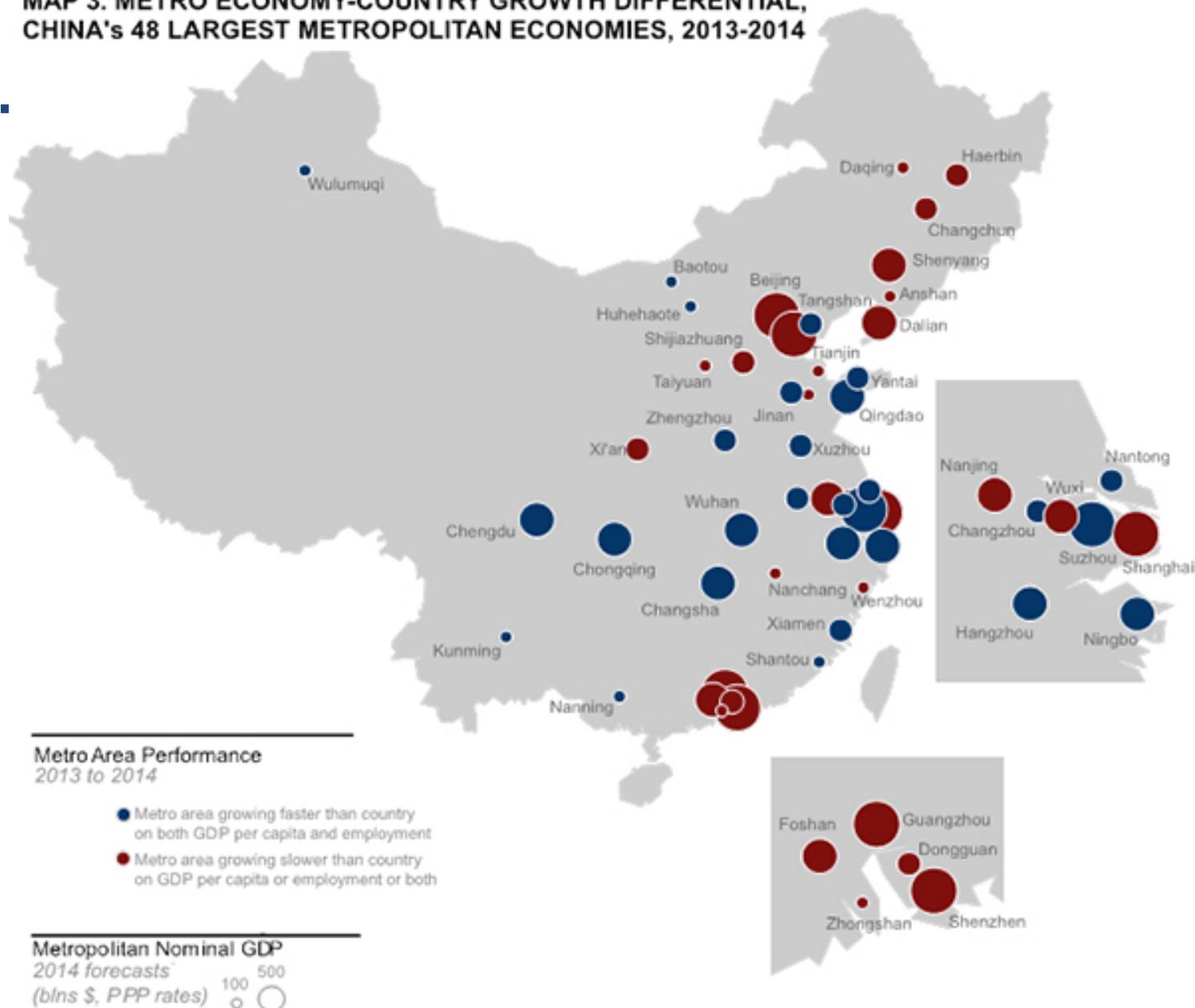
← II Tier

← III Tier

approx 15%
upper
middle
class: oltre
40 milioni di
abitanti con
oltre 36.000
dollari
income x
capita

approx 22 %
middle
class: oltre
60 milioni di
abitanti con
income fra i
16.000 e
25.000
dollari

MAP 3. METRO ECONOMY-COUNTRY GROWTH DIFFERENTIAL, CHINA'S 48 LARGEST METROPOLITAN ECONOMIES, 2013-2014



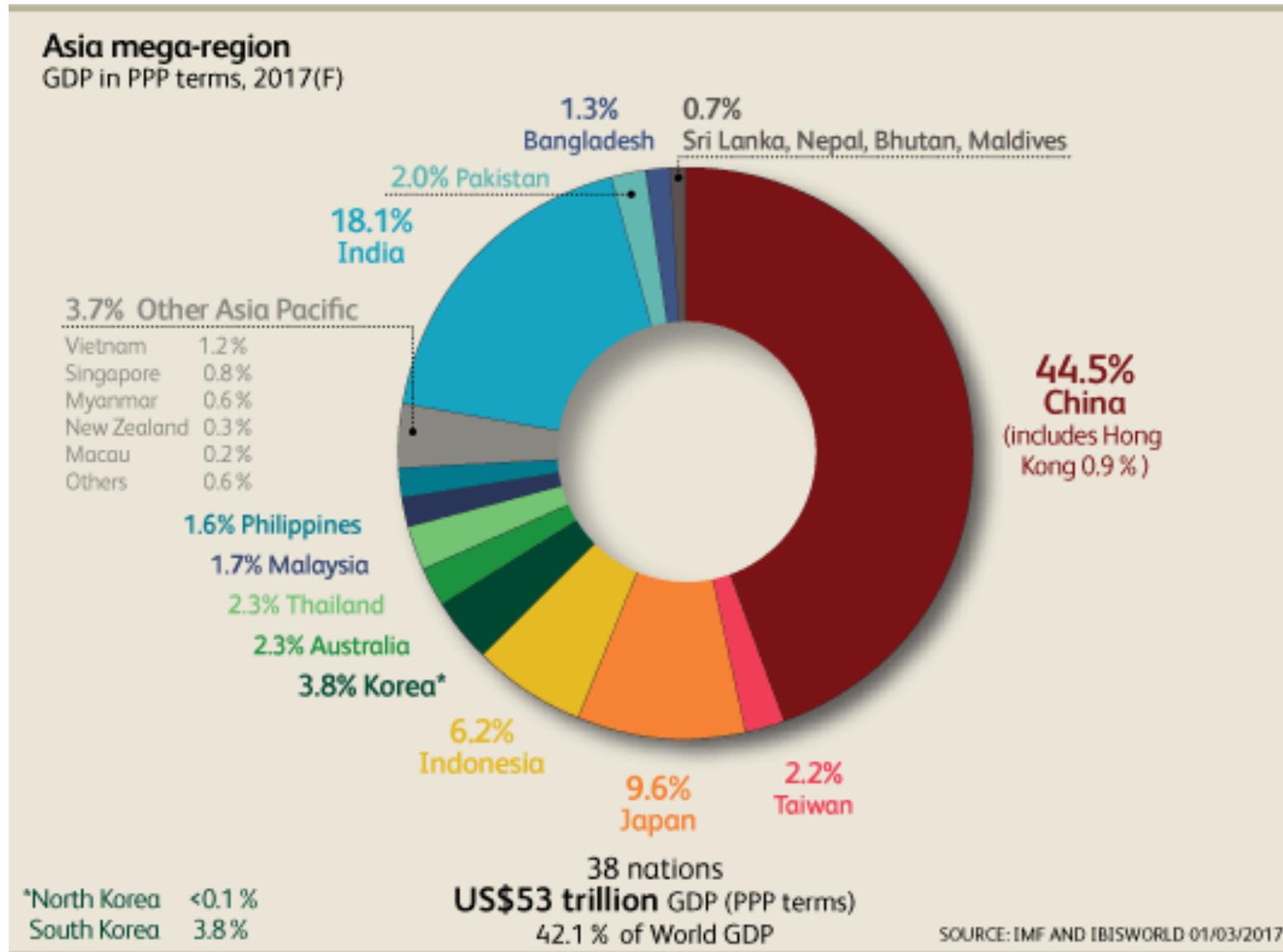
Source: Brookings analysis of data from Oxford Economics, Moody's Analytics, and U.S. Census Bureau

2014: La Cina che studia il proprio sviluppo - Qinghua University

- 1) Definite le 48 aree metropolitane in cui si concentra lo sviluppo economico della Cina
- 2) il 28% della popolazione abita le aree di intenso sviluppo
- 3) esse generano il 56% del GDP
- 4) rappresentano le aree di più intenso sviluppo al mondo in termini di crescita esponenziale annua: 40 delle 48 aree definite dalla ricerca sono nella top 100 delle aree di miglior performance economica al mondo per il 2014
- 5) ottima distribuzione dell'output GDP all'interno di queste metro-area: nessuna supera il 4% (mentre solo NY rappresenta l'8% di quello USA) - questa è una conquista della politica di contenimento e controllo GDP
- 6) 23 di queste aree considerate di seconda fascia hanno riscontrato il più alto incremento di GDP e di occupazione rispetto a quelle di prima fascia in soli 5 anni!
- 7) La politica del Go west iniziata nel 2011 conduce a risultati aspettati: la città più dinamica in termini di GDP in rapporto con la popolazione è stata Kunming seguita da Chongqing (dal 2000 al 2014 GDP cresciuto del 500%!).



China, worldwide leading continental economy



- **Studio Euromonitor International riportato dal Financial Times:**

- cresce il salario medio manifatturiero cinese;
- salari eguagliano quasi quelli di Portogallo e Grecia (tra i più bassi d'Europa);
- al 2016 un'ora di lavoro manifatturiero in Cina può arrivare a costare 4 dollari/ora;
- contribuzione a carico dell'azienda arriva quasi al 40% dello stipendio di un dipendente (20% fisso + fondo sanità, fondo maternità, fondo di disoccupazione, assicurazione sul lavoro)

- **studio del think tank governativo Pudong Innovation Research Institute di Shanghai:**

- nel 2016 il costo del lavoro cresce in media del 9%, di più nelle province centro-occidentali (anche se qui i salari sono sotto la media nazionale);
- a Shanghai e a Pechino l'aumento si attesta al 10%;

China as new continental economy 2013 - 2018

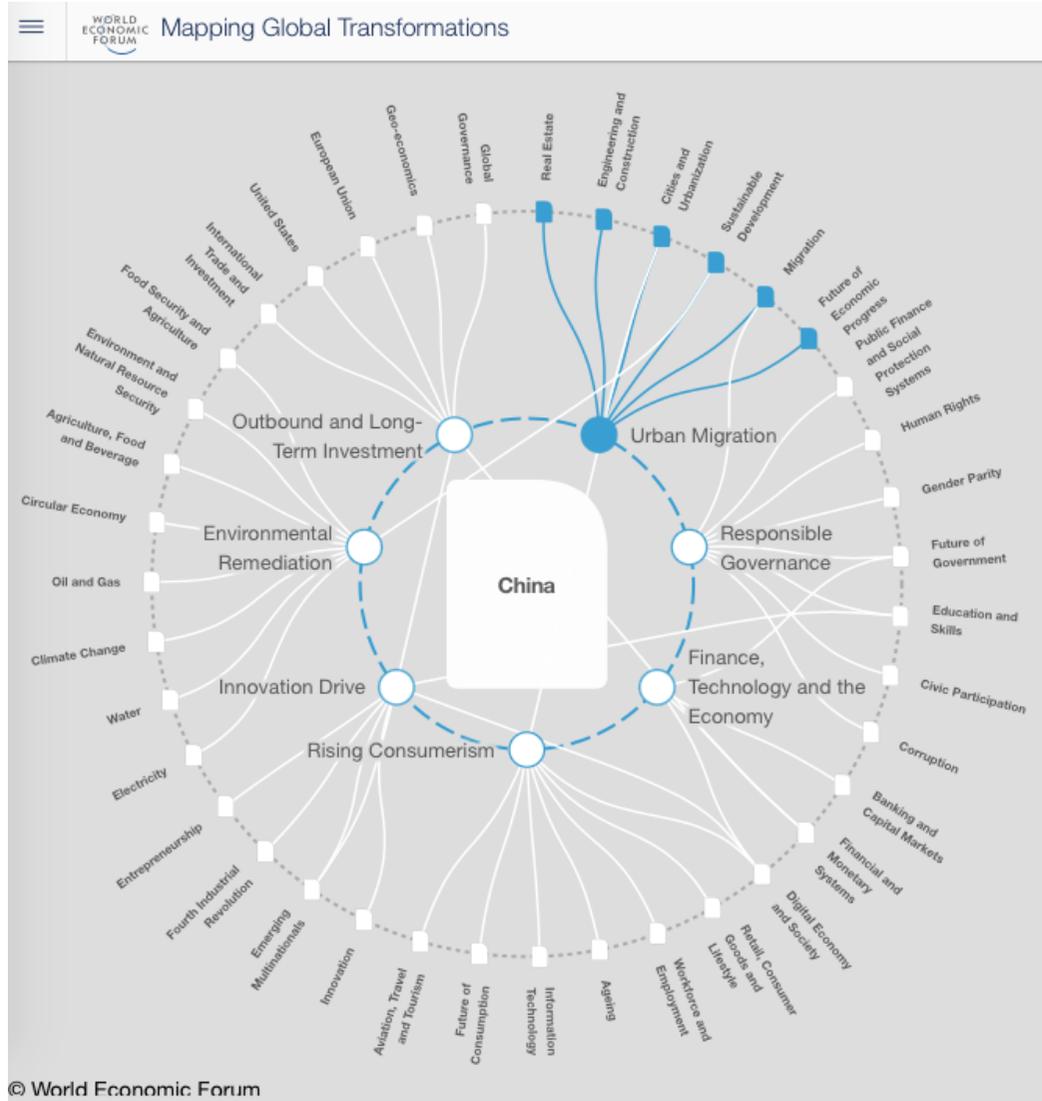
al di là del gap di reddito fra città e campagna la Cina segna un aumento costante pari circa al 10- 11% annue delle risorse economiche.

con il passaggio di dirigenza la Cina segnala l'uscita dalla soglia di povertà per la maggior parte della componente rurale (passa dai 100 dollari al mese a una media di 300 / 400 dollari al mese) -

China's National Bureau of Statistics (NBS)

i poveri con una soglia di risorse a di sotto dei 500 dollari l'anno sono circa 100.000.000 - dati The World Bank 2014

Key factor: Urban Migration / Urbanisation connecting 250 cities and more than 700 millions of people



Navigation: < > | English | Sign out

China

Economy

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Urban Migration

Key Issue

The majority of Chinese citizens now live in cities, and the government is adapting policy to follow suit

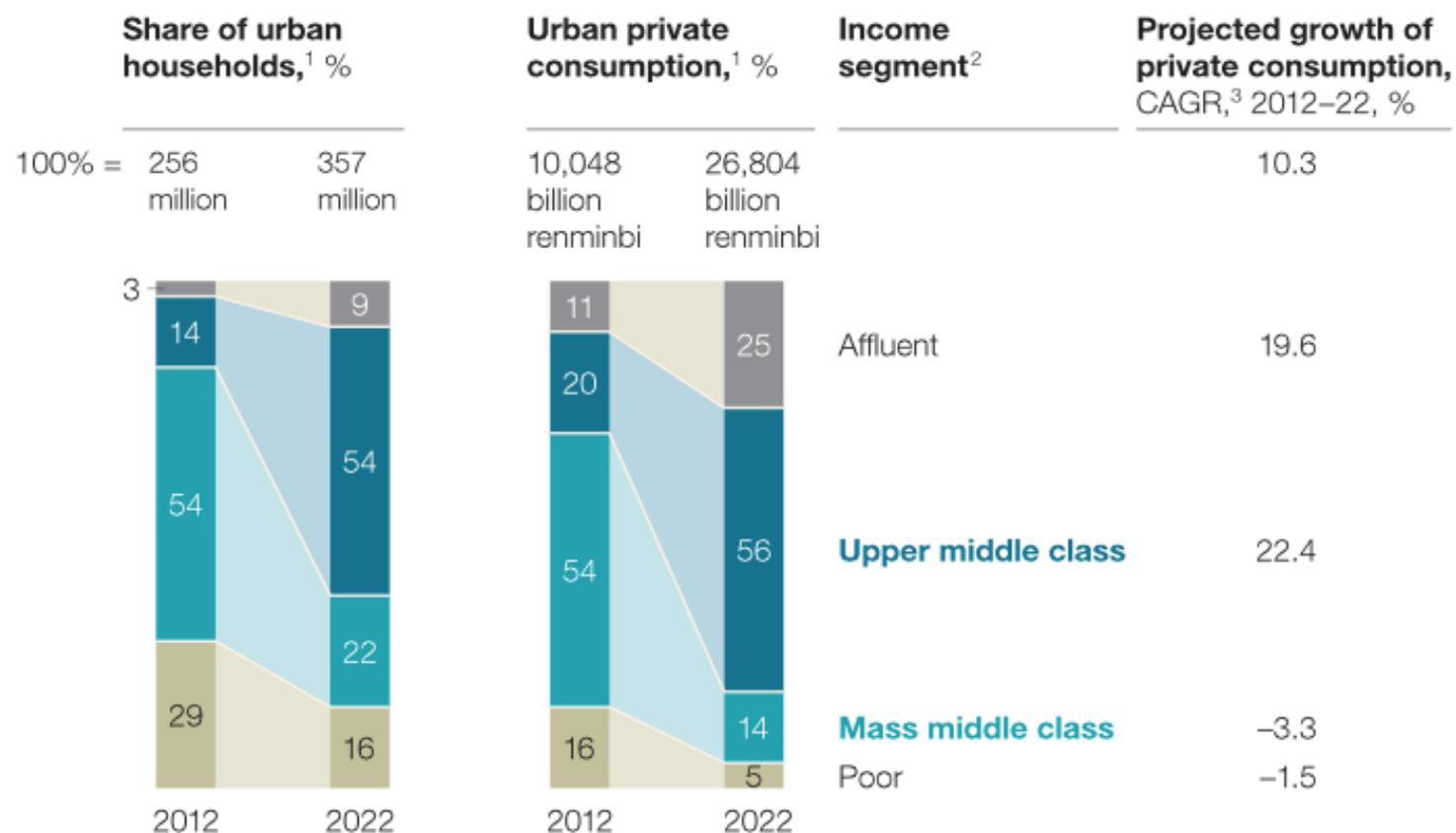
China's economic growth in the past three decades has lifted 700 million people out of poverty, according to government figures. During this period, China also witnessed the largest migration of people from rural to urban areas. The World Bank reports China's urbanization rate rose from 20% of the population in 1981 to 55.6% in 2015, with its urban population having officially exceeded its rural population in 2012. As reported in the National ... [read more](#)

Related Insights

- Real Estate
- Engineering and Construction
- Cities and Urbanization
- Sustainable Development
- Migration
- Future of Economic Progress

The magnitude of China's middle-class growth is transforming the nation.

Source: McKinsey



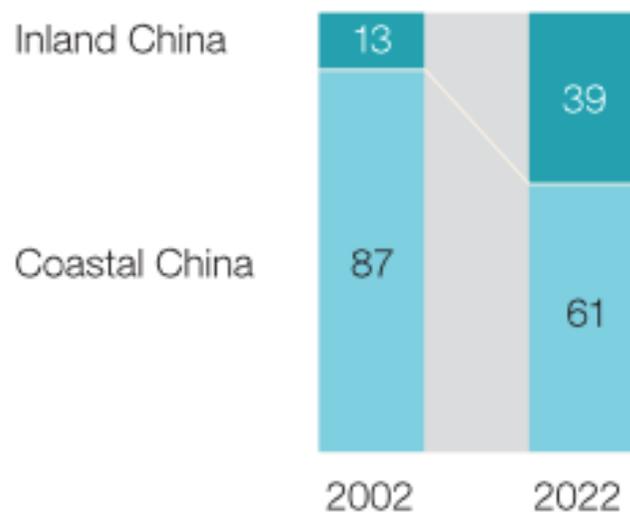
¹Figures may not sum to 100%, because of rounding; data for 2022 are projected.

²Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,000 renminbi (equivalent to >\$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to \$16,000 to \$34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to \$9,000 to \$16,000); poor, <60,000 renminbi (equivalent to <\$9,000).

³Compound annual growth rate.

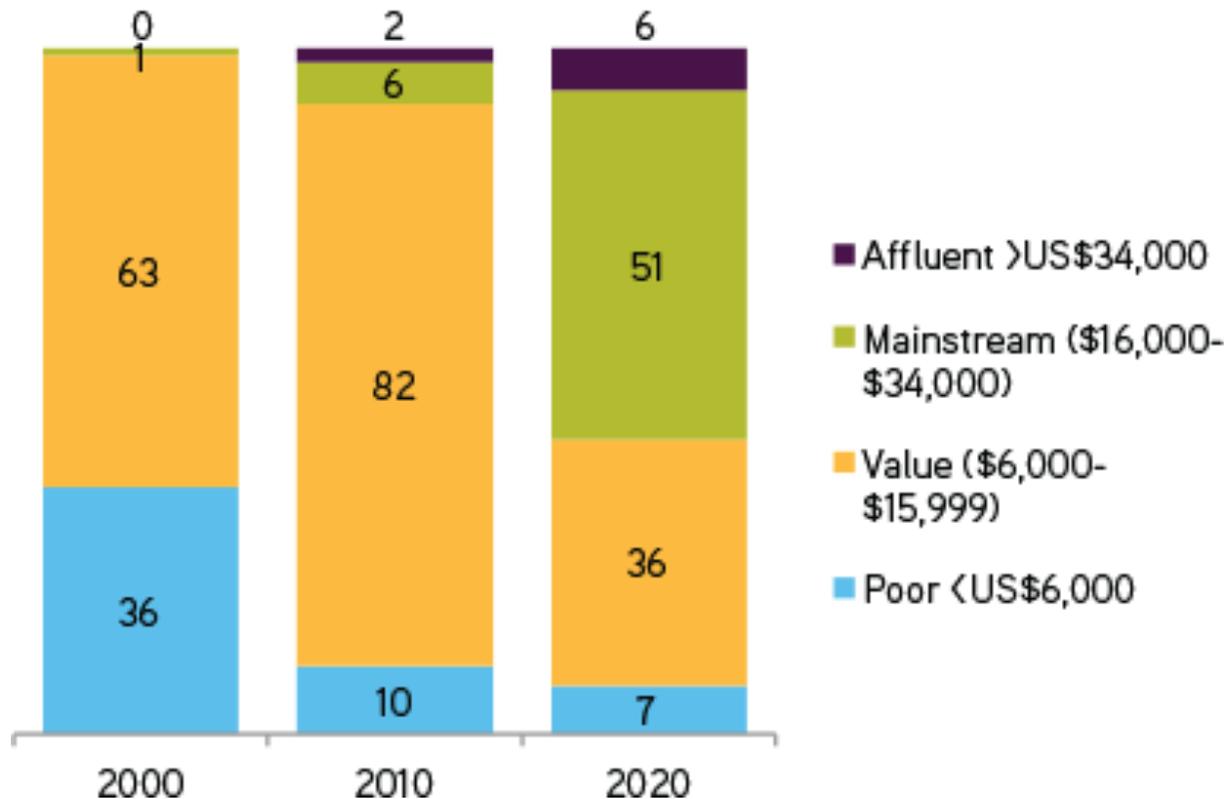
The geographic center of middle-class growth is shifting.

Share of middle class,¹ by geography, %



from 2010 to 2020 an interesting percentage... talking about urban households (covering approximately 500 millions of people)

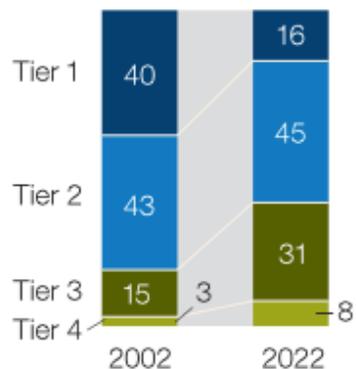
China: Share of Urban Households by Annual Household Income



Affluent:
approximately 6%

Poor:
less than 10% of
population
(approximately 7%)

Presenza middle class suddivise per città di prima, seconda, terza, e quarta fascia



1 fascia: GDP oltre 930 miliardi di RMB (oltre i 150 mld di \$)

2 fascia: GDP fra i 20 mld di e i 150 Mld di \$

3 fascia: dai 3,5 miliardi e mezzo di \$ ai 20 miliardi di \$

4 fascia: al di sotto dei 3,5 miliardi di dollari



Understanding chinese consumptions

1 - Consumi trainati da crescita, crescita determinata da fattori strutturali di sviluppo degli assetti produttivi e sociali di determinate aree:

Il criterio

determinare le aree in cui i consumi rientrano in un parametro attendibile di registrazione tale da poterlo assumere quale rappresentativo di un trend di area

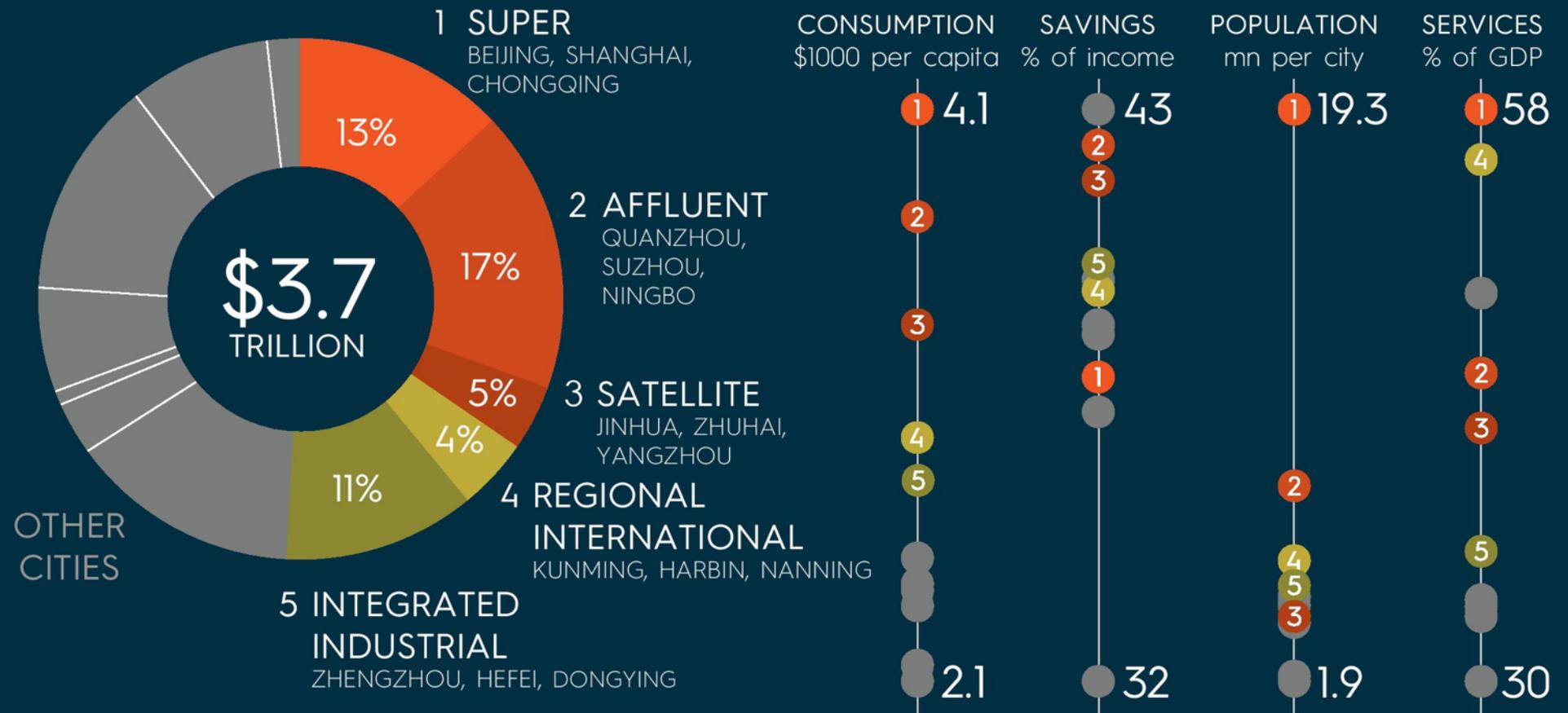
2- Identificare nuovi soggetti che nell'arco di un periodo che rientra in massimo due cicli quinquennali può essere assunto a termine di confronto per standard di consumo:

Il criterio

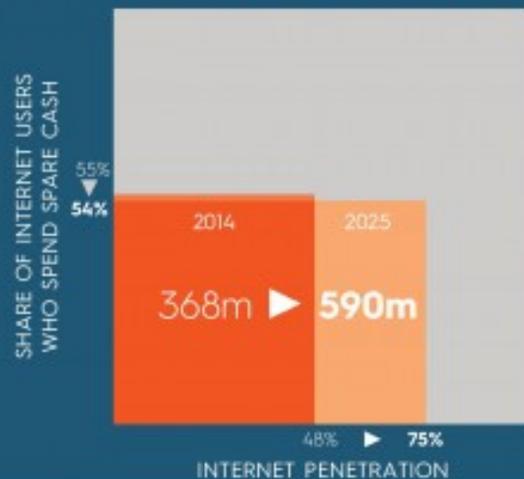
determinare soggetti che nelle aree definite dal criterio 1 evidenziano una profilazione negli stili di consumo tale da essere standardizzata

Which cities have the strongest prospects?

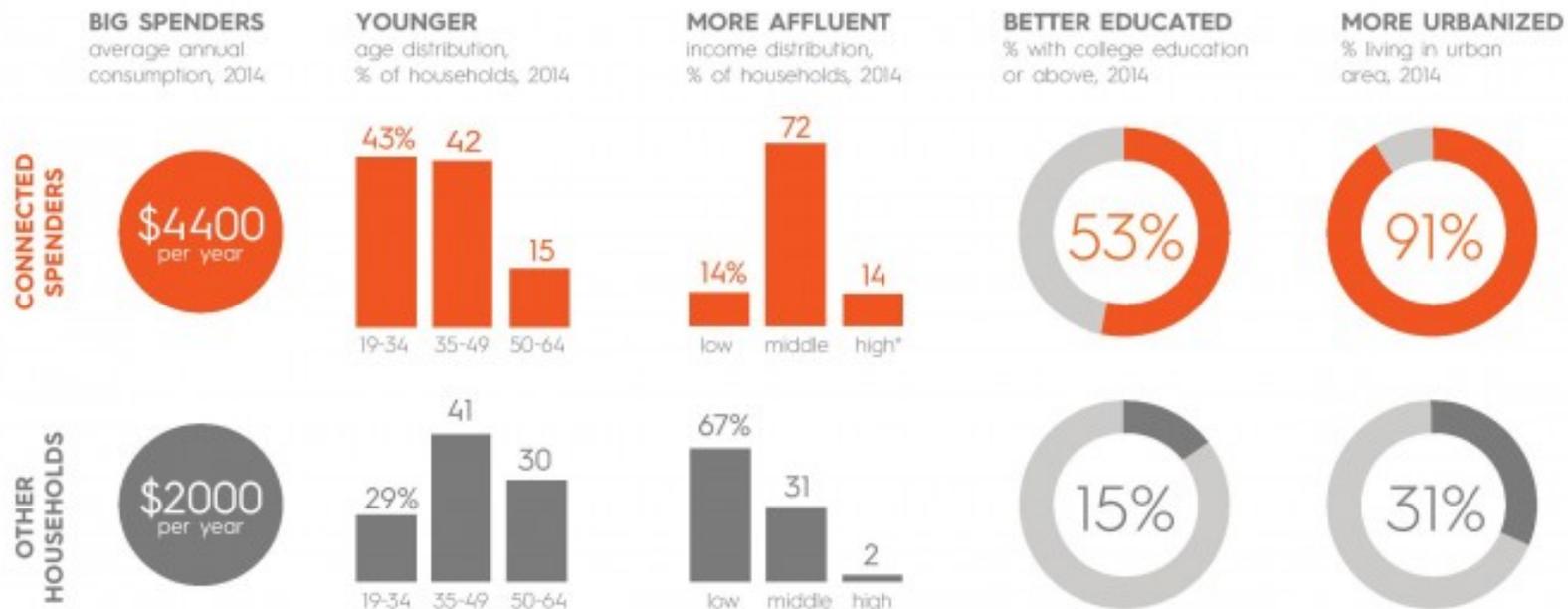
CONSUMPTION BY STRATA (2014)



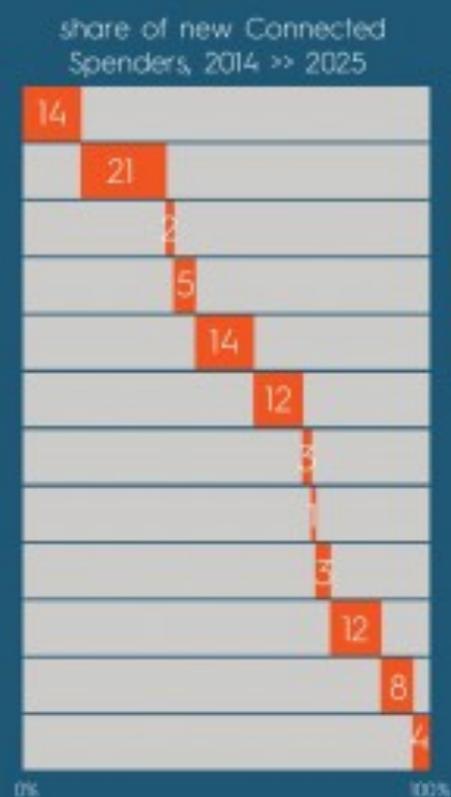
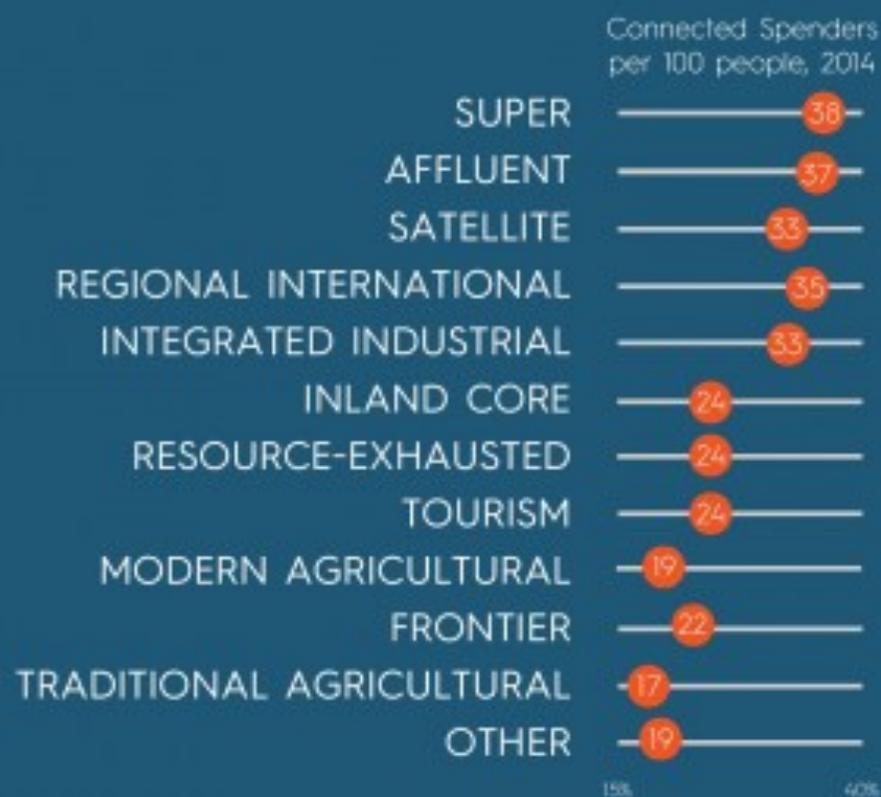
CONNECTED SPENDERS WILL DRIVE GROWTH OF CHINESE CONSUMPTION.



WHO ARE CHINA'S CONNECTED SPENDERS?



WHERE ARE CHINA'S CONNECTED SPENDERS?



MORE THAN HALF OF NEW CONNECTED SPENDERS WILL COME FROM THE TOP 5 CITY STRATA

Memorandum about Consumptions until 2025 - provided by Demand Institute - think tank of Nielsen group.

Despite a slowing economy, consumer spending in China will hit \$6.4 trillion by 2025, up from \$3.7 trillion in 2014, and total consumer spending in the decade between 2015 and 2025 will be \$56 trillion, according to the report.

Average annual consumption is going to be around 28,000 yuan (\$4,400) in China, which is far below the US average of \$32,000 a year, said the report, emphasizing "how little hundreds of millions of Chinese actually consume".

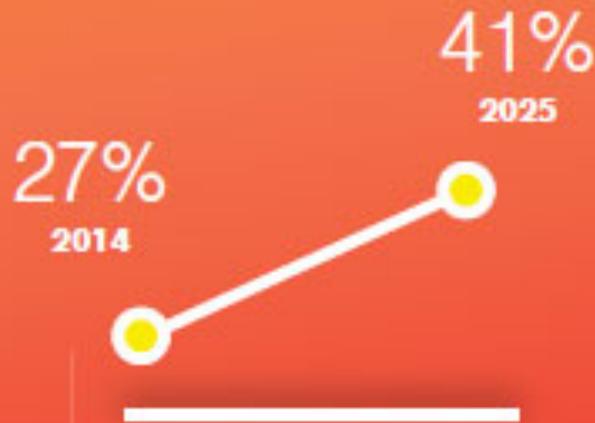
companies might look at per capita consumption being \$4,400 and consider it low, but that the report wanted to emphasize that within that number, "there are still people who are very affluent, that are consuming the way Western consumers do, and that number two, over time, there's going to be more and more of those consumers as China continues to grow and develop."

spending growth will be driven by the "connected spender" - people with spare cash to spend and who are connected to the Internet so they have access to more information that influences their spending decisions. A connected spender spends about \$4,400 per year, compared to \$2,000 spent by those in other households, the report said.

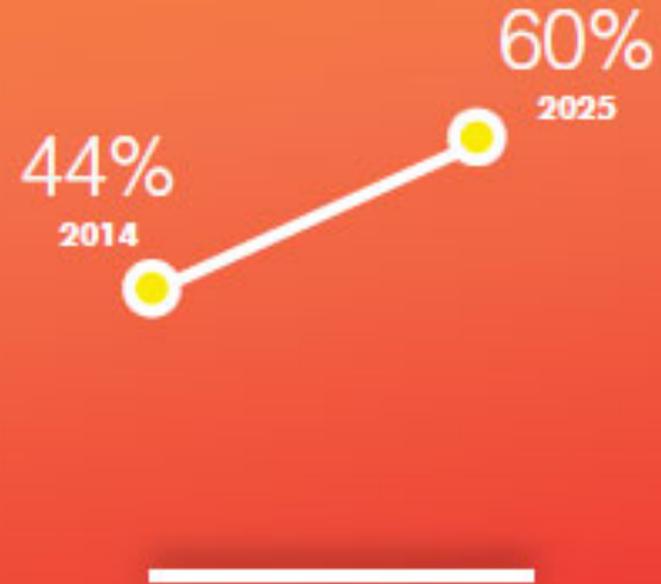
in 2014 there were approximately 368 million people - 27 percent of the total population - in connected-spender households, and they accounted for 44 percent of all spending, approximately \$1.6 trillion

Connected spender

Share of population



Share of consumption



Connected spender: people who spare cash to spend and are connected to the Internet, took 27% of the total population and accounted for 44% of all spending last year.

Source: *The Demand Institute*

Kenny Zheng / China Daily

GDP growth, CAGR, 2010–20¹

- >12% (existing clusters)
- ~8–12% (existing clusters)
- ~6–9% (emerging clusters)



¹Real industrial CAGR (compound annual growth rate); government plans include the four emerging clusters—Hohhot, Kunming, Lanzhou, and Urumqi—though they currently have much smaller urban populations and economic bases.

3 great forces changing China's consumer market



First Force: the rise of upper-middle-class and affluent households as the drivers of consumption growth

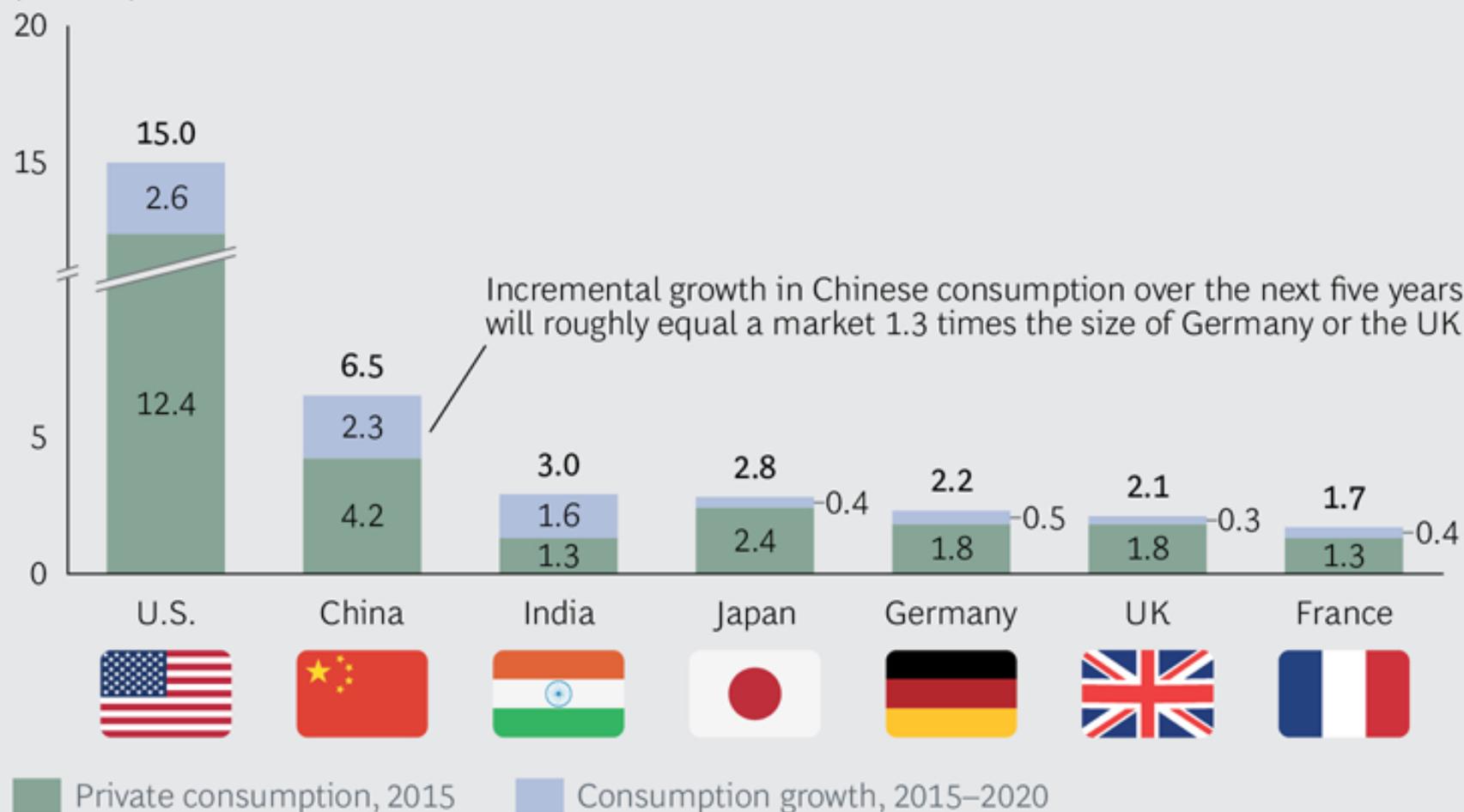
Second Force: a new generation of freer-spending, sophisticated consumers

Third Force: increasingly powerful role of e-commerce.

Through 2020, 81% of consumption growth will come from households whose annual income is more than \$24,000. Furthermore, consumers 35 or younger will account for 65% of growth. E-commerce will become a far more important retail channel, driving 42% of total consumption growth, 90% of that growth coming from mobile e-commerce.

EXHIBIT 1 | By 2020, Chinese Consumption Will Have Grown by \$2.3 Trillion—Even if GDP Growth Slows to 5.5%

Nominal private consumption, 2020
(\$trillions)

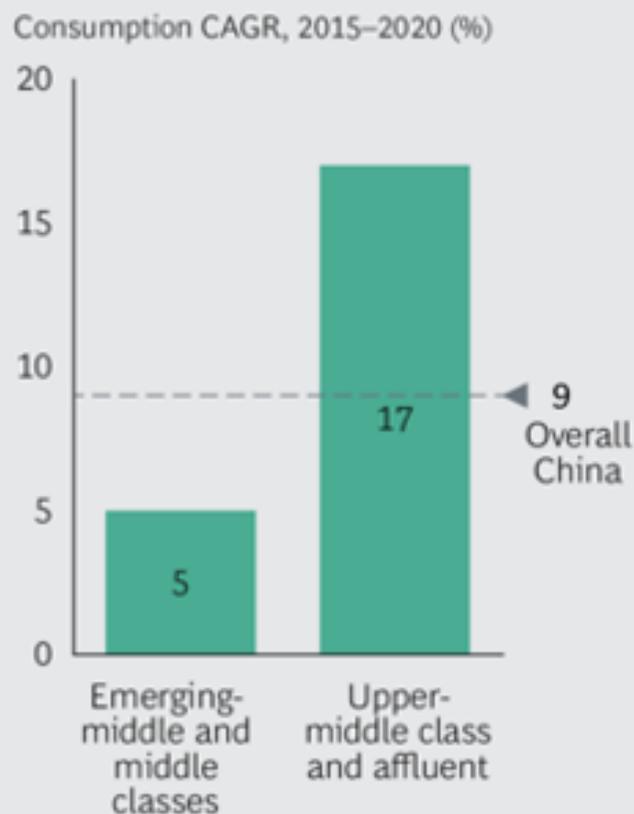


Sources: Economist Intelligence Unit; BCG analysis.

Note: Assumes annual GDP growth rate of 5.5%. Because of rounding, not all numbers add up to the totals shown.

EXHIBIT 2 | Three Great Forces of Change Are Creating a Two-Speed Consumer Economy in China

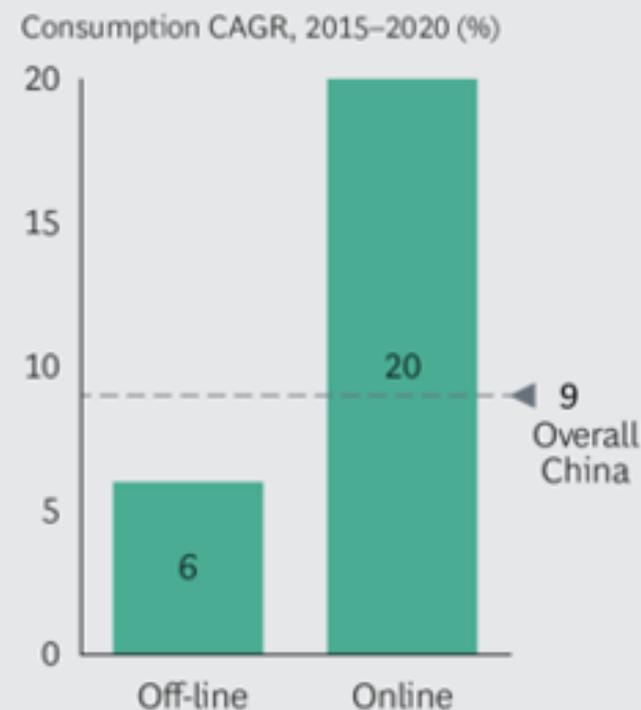
UPWARD MOBILITY



GENERATIONAL SHIFT



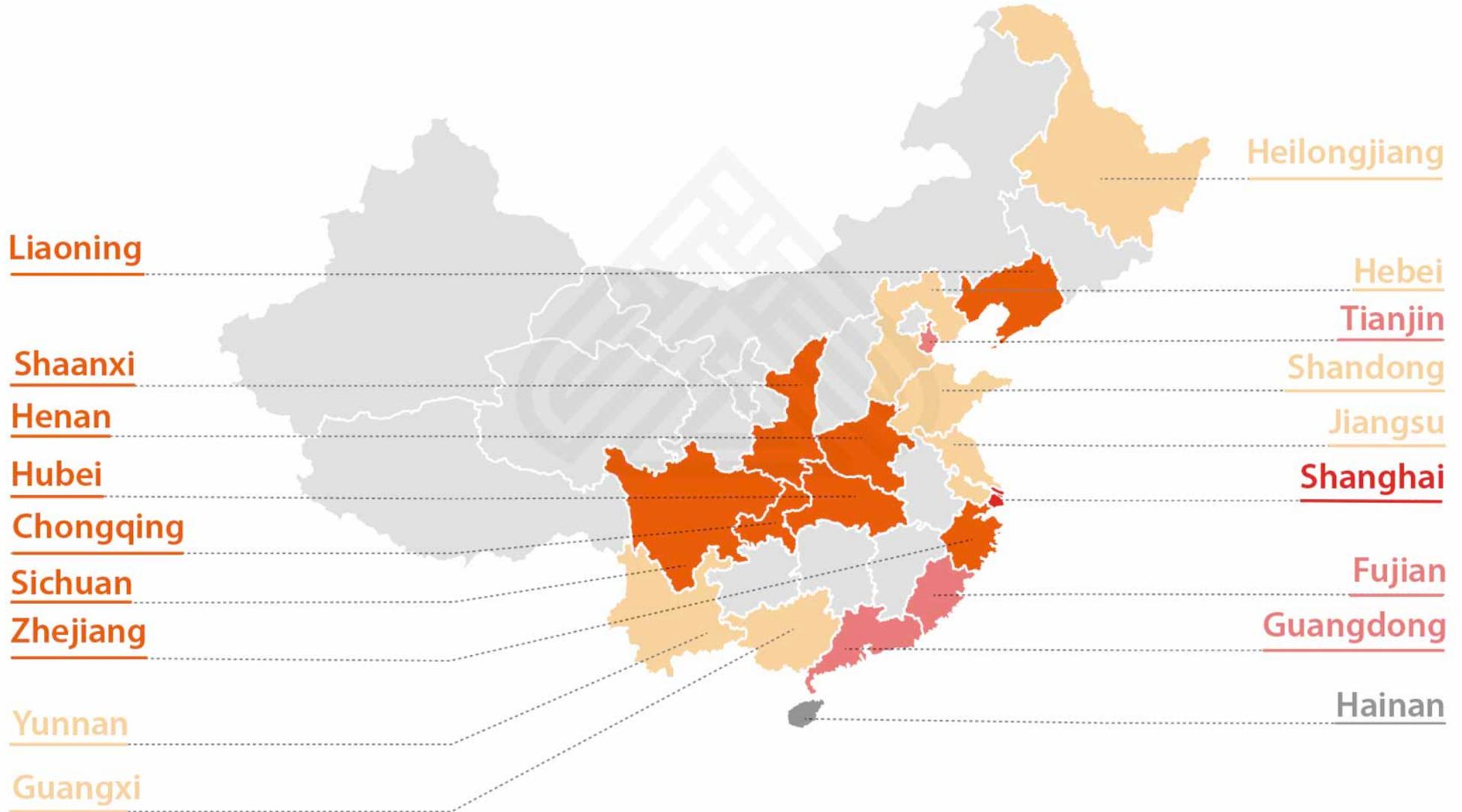
GROWTH OF E-COMMERCE



Source: BCG analysis.

Note: CAGR = compound annual growth rate. Emerging-middle and middle classes include consumers whose annual household incomes range from \$10,001 to \$24,000; upper-middle class and affluent include consumers whose annual household incomes exceed \$24,000.

China Free Trade Zone



From 2013 to 2020 an escalation of developments for China's business environment

FTZs play an important role in modernizing China's business landscape, serve to stimulate domestic and foreign trade, and attract foreign direct investment. They offer preferential policies for the import, handling, manufacturing, and exporting of goods, as well as through tax incentives, free flow and exchange of capital, and fast-tracked procedures for investment.

China (Shanghai) Pilot Free Trade Zone

General Aims

- Reduced complexity for approval requirement for foreign investors
- Measures aimed at promoting Shanghai as a center for international trade, shipping and logistics
- Granting tax advantages
- Promoting old FTZ (previously left by foreign investors)
- Promoting Shanghai as a financial center
- Testing new objectives and expanding from FTZ to entire country
- Promoting China as a service-oriented economy
- Promoting Shanghai as regional HQ, replacing HK and SN

- 1) **Relaxed Incorporation requirements**
- 2) **Negative list**
- 3) **One-step application processing**
- 4) **Arbitration: the alternative dispute resolution**
- 5) **Legal Services: also for foreign ROs the opportunity to get involved in contracts with foreign legal consultants**
- 6) **Tax Filing: online system for tax registration and invoices management and tax filing on quarterly bases**

2016: After piloting in SH, a new development's era for "Go West policy"

Chongqing

Chongqing has been identified as an important gateway city to open up China's west, making its FTZ key to driving the region's overall development in the coming years.

Zhejiang

Zhejiang's FTZ will primarily serve to improve the construction of Zhoushan Free Trade Port, push commodity trade liberalization, and enhance China's ability to configure global trade of commodities.

Hubei (Wuhan, Xiangyang, Yicheng)

Hubei's FTZ is planned to be 127 square kilometers. The zone will look to develop a number of strategic new sectors and high-tech industrial bases, as well as be a key component of the Yangtze River Economic Belt.

Henan (Zhengzhou, Luoyang, Kaifeng)

Henan's FTZ is planned to be a 120 square-kilometer area encompassing provincial capital Zhengzhou, Luoyang, and Kaifeng. Its main purpose will be to implement a modern three-dimensional traffic system and modern logistics system by hastening the construction of north, south, and east infrastructural links. It will also focus on transforming into a state-of-the-art integrated transport hub to become a key location along China's "One Belt, One Road" connection with Eurasia.

Sichuan

Similar to Chongqing, Sichuan province will serve as a gateway to opening up China's western inland areas. Its FTZ is intended to build an inland open economic highland to improve collaboration between interior and coastal areas.

Shaanxi

Shaanxi's FTZ will also aid in the construction of the "One Belt, One Road" network, and utilize it as a means to promote international economic cooperation and cultural exchange with China.

Liaoning

The Liaoning FTZ will be primarily involved in reigniting the competitiveness of the northeast's traditional industries and opening up various sectors to increased foreign investment.

2019: Making continental economy stronger, embracing neighbours.

The expansion plans aim to deepen China's trade and economic ties with neighbourhood's countries while also bolstering the local economy in underdeveloped provinces.

Yunnan, the landlocked province that borders Vietnam, Laos, and Myanmar;

Guangxi, the southern autonomous region that borders Vietnam;

Heilongjiang, the northeastern province that borders Russia; and

Shandong, Jiangsu and **Hebei**, the coastal provinces that sit across the ocean from South Korea and Japan.

Role of FTZs within China's reform plans

The announcement of the six new pilot FTZs come at a crucial time.

Already US tariffs on Chinese goods have caused many tech factories to relocate to Southeast Asia and have forced China to look for more reliable alternate trade partners, such as Russia for energy and agricultural goods.

The new pilot zones will open new channels of trade and investment with China's larger neighbourhood, hopefully taking away some of the heat from its deteriorating relations with the US.

In any case, the desired effect will be twofold. Attracting more foreign business to China and supporting the development of domestic economic clusters

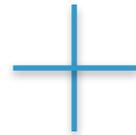
Structure of an Inter-Company Cash Pool in the Shanghai FTZ



Cross-Border E-Commerce Comprehensive Pilot Zones

new batch of cross-border e-commerce zones in 12 Chinese cities: Shanghai, Guangzhou, Tianjin, Chongqing, Hefei, Zhengzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen and Suzhou.

preferential tax policies



streamlined customs clearance procedures

E-commerce industry

parcel tax Vs customs duties

at the beginning... 2013/2014

Regimi di tassazione dentro e fuori FTZ per l'e-commerce*

Carico fiscale	Importazione diretta	Importazione via FTZ
Dazio doganale	■ Variabile al prodotto	■ n/a
IVA	■ 17%	■ n/a
Consumption tax	■ Se applicabile, 5~49%	■ n/a
Parcel tax**	■ n/a	■ 10-50%

** generalmente così distinta:

F&B 10%

Elettronica e abbigliamento 20%

Orologeria 30%

Cosmetica 50%

Parcel Tax Rate Levels

Level	Item	Tax Rate
1	Food and beverage, books, stamps, newspapers and magazines, home-use medical devices, instruments, video tapes, leather clothing and accessories, shoes, gold, silver, jewelry and art collections, furniture, etc.	10%
2	Textile and clothing, video cameras and other household appliances, bicycles, watches and clocks, etc.	20%
3	Golf balls and equipment, luxury watches (over RMB 10,000)	30%
4	Tobacco, alcohol and cosmetics	50%

Graphic © Asia Briefing Ltd.

Modifica della Parcel Tax - maggio 2016 (1)

- Eliminata per cross-border e-commerce;
- Beni per i quali rimane (in versione modificata):
 - quelli che hanno un valore di oltre 5.000 RMB importati in Cina per uso personale da residenti cinesi;
 - quelli che hanno un valore oltre 2.000 RMB importati in Cina per uso personale da non residenti cinesi;
- I beni esenti dalla tassa sono ora trattati dal punto di vista fiscale come qualsiasi altro bene importato;
- Per i beni sui cui rimarrà in vigore, si applicheranno 3 nuove aliquote a sostituire le vecchie 4 da 10%, 20%, 30% e 50%:

Level	Item	Tax Rate
1	Books, newspapers and magazines, computers, digital and video cameras and other household appliances, food and beverages, gold and silver, furniture, toys and games, holiday and entertainment items.	15%
2	Sports equipment (excluding golf equipment), textiles and clothing, television recorders and other such devices, bicycles, and other items not listed under the 15% or 60% categories.	30%
3	Tobacco, alcohol, jewelry, golf equipment, watches, cosmetics and perfumes.	60%

**Further
Variations on
nov 2018**

Modifica della Parcel Tax - maggio 2016 (2)

- Il governo cinese ha pubblicato una sorta di Positive List dei beni importabili tramite cross-border e-commerce con facilitazioni sullo sdoganamento,
- La lista completa: https://2016.export.gov/china/build/groups/public/@eg_cn/documents/webcontent/eg_cn_100092.pdf
- Effetti della modifica:
 - Alcuni prodotti di basso costo potrebbero subire un rincaro: un noto brand di latte in polvere tedesco, ad esempio, veniva venduto a 258 RMB. Secondo il vecchio schema veniva applicata una parcel tax del 10% che però veniva scontata (perché il tassabile era <50 RMB). Ora al prodotto sono applicate le ordinarie tasse di importazione che, per la sua categoria, ammontano al 11,9%, facendone salire il prezzo a 289 RMB;
 - Paradossalmente, altri prodotti di prezzo più elevato potrebbero giovare della rimozione della parcel tax: un prodotto cosmetico del valore di 600 RMB era infatti soggetto ad una parcel tax del 50% (300 RMB). Ora, con la tassazione ordinaria, ad un prodotto simile è applicato il 16% di IVA e una consumption tax del 30% che insieme, unite al 30% di riduzione di cui godono i prodotti cosmetici, riducono l'imponibile a 197,4 RMB;

The new step - The Ecommerce Law - 2019

Towards this increasingly flourishing e-commerce market, China adopts an e-commerce law aimed at improving regulation of the market. The E-commerce Law ("the Law") is effective on 1 January, 2019. The Law clarifies

- 1) **e-commerce operators** into e-commerce platform operators such as Taobao (淘宝), (*market place*)
- 2) **merchants on e-commerce platforms**, e.g., Walmart having its own e-commerce platform, (*direct seller*)
- 3) **as well as those doing business on their own websites or via other web services**, such as individuals who might be selling goods via social networks such as the popular chatting app WeChat. (*c2c*)

Chinese consumers can gain access to foreign goods via four channels:

- a) Ordering directly from overseas e-commerce sites** (e.g., Amazon, macys.com, rakuten.com, etc). This type of online shopper seeks quality and authentic products. These overseas purchase activities are usually referred as “haitao” (海淘).
- b) Ordering through purchasing agents**, who provide assistance on payment and delivery to their Chinese consumers. This type of online shopping is usually referred to as “daigou” (代购), and
- c) Cross-border e-commerce, which usually refers to overseas brands merchants selling directly to Chinese consumers** through domestic cross-border e-commerce platforms (e.g., Taobao, Tmall and Tmall Global (天猫国际), JD Worldwide (京东全球购), XiaoHongShu (小红书), Yihaodian (1号店) etc) and cross-border e-commerce platforms in pilot cities (eg., Shanghai, Zhengzhou, Chongqing, Hangzhou and Ningbo, etc).
- d) Normal Trade**

The import taxes are covered by either the so-called “Parcel Tax” (or “Postal Tax”) for the first two channels (*a and b*) or **Composite Tax for qualified cross-border e-commerce (c)**

Parcel or Postal Tax

The Parcel or Postal Tax only applies to goods brought into China for personal use by Chinese residents. **Effective 1 November, 2018**, the levels of tax brackets have been set at **15%, 25% or 50%**. The Parcel or Postal Tax will be exempted if the tax is less than RMB 50.

In this arrangement, the individual would buy the goods directly from e-commerce platforms such as Amazon US. When the goods are imported, the Customs would levy the Parcel or Postal Tax, and the individual would be informed to pay the tax directly to the Customs before he can receive the goods. In practice, the Customs would perform random check to select the goods either delivered by courier or postal.

The value for computing the tax is based on the retail price plus transportation and insurance fees being charged by the e-commerce service provider.

Composite Tax for Qualified Cross-border E-commerce

There are actually two models under this category.

- 1) The goods are purchased through domestic e-commerce platforms which may be connected with overseas e-commerce platforms
- 2) or connected directly with the merchants. (*digital campaigns through wechat*)

1) *For goods imported under Qualified Cross-border E-commerce, the goods imported and delivered to the individual customer **would be subject to Customs Duty ("CD"), Consumption Tax ("CT") and Import Value-added Tax ("VAT")**. The e-commerce service provider must register with the Customs and relevant authorities to exchange transaction data. **These are domestic e-commerce service providers such as Tmall Global, JD Worldwide etc.***

2) *Alternatively, if the goods are delivered directly to the customers without the platform operators connected with the Chinese Customs, **the logistic companies delivering the good would provide the payment, logistic and order information to the Customs and collect the relevant VAT and Customs Duty from the customer.***

Effective 1 January 2019, in an attempt to encourage individuals purchasing non-Chinese goods through domestic e-commerce platforms, if the purchase is within the thresholds applicable to each individual purchaser, *the purchase would be exempted from CD, and there is a 30% reduction of the applicable CT and VAT.*

The thresholds are less than **RMB 5,000 for each individual purchase** and a **cumulative annual purchase of RMB 26,000**

Normal Trade (B2B)

Under the normal B2B arrangement, full CD, CT and VAT will be applicable, unless there is an applicable preferential rate available under any Free Trade Agreement. The normal Customs declaration procedures would be applicable.

IMPLICATIONS TO COMPANIES DESIRING TO ENGAGE IN E-COMMERCE RETAIL BUSINESS IN CHINA

With the introduction of the Law, e-retailers, e-commerce merchants, including Daigou, must register with the State Administration for Industry and Commerce to obtain a business license. For platform operators, they must examine the qualification of the vendors and must respond in a timely manner to reports of violations or face hefty penalties. In addition, the compliance in taxation is reinforced.

Overseas companies who wish to engage in e-commerce retail business in China should evaluate the feasibility and tax implications of different operational models, such as

- a) domestic model by forming a Chinese subsidiary,*
- b) cross-border e-commerce as discussed above,*
- c) and the inventory model (such as direct mail or storage in bonded warehouses)*

Crossing Borders in 2 ways through online platforms managed by companies in FTZ

**direct shipping model
B2C**

天猫国际
TMALL GLOBAL

1) International Legal Entity 2) Home country bank account 3) Trademark registered in home country 4) Warehouse outside China 5) Shipping from overseas directly to chinese consumers

**Bonded Warehouse
Model
B2B2C**

New!

1) International Legal Entity 2) Home country bank account 3) Trademark registered in home country 4) Warehouse in FTZ 5) shipping from FTZ to all over China

Import Model	Direct Shipping Model	Bonded Warehouse Model
Business Mode	B2C	B2B2C
Logistics	International logistics provider recruited by the foreign merchant	Local logistics provider designated by the online platform
Customs Clearance	Companies send the electronic order and purchasing invoice to Chinese Customs before delivery	Real-time declaration when the order is made
Warehouse Location	Overseas	E-commerce zones in China
Delivery Time	Within 7-30 days	About 5 days
Suitability	Suitable for large foreign e-commerce companies with various products supply	Suitable for manufacturers/e-commerce companies that are specialized in certain products
Product Category	Unlimited	Limited

Graphic © Asia Briefing Ltd.

Alibaba Italy: Mission – Connect Italian Brands to China

- | | | | |
|---|--------------------|---|---|
|  | 1. Tmall | ➔ | B2C Italian Brand – Chinese legal entity |
|  | 2. Tmall Global | ➔ | B2C Cross-border |
|  | 3. Principal Model | ➔ | B2B2C Purchasing products |
|  | 4. Alibaba.com | ➔ | B2B Global wholesale |



wholesale marketplace B2B 2000

淘宝网

C2C - rivoluzione Taobao (villaggi taobao, università taobao) 2003

天猫 TMALL.COM



B2C - nato da Taobao 2008

AliExpress™

Smarter Shopping, Better Living!

B2C - con destinazione international -
evoluzione di TMall 2010

天猫国际
TMALL GLOBAL

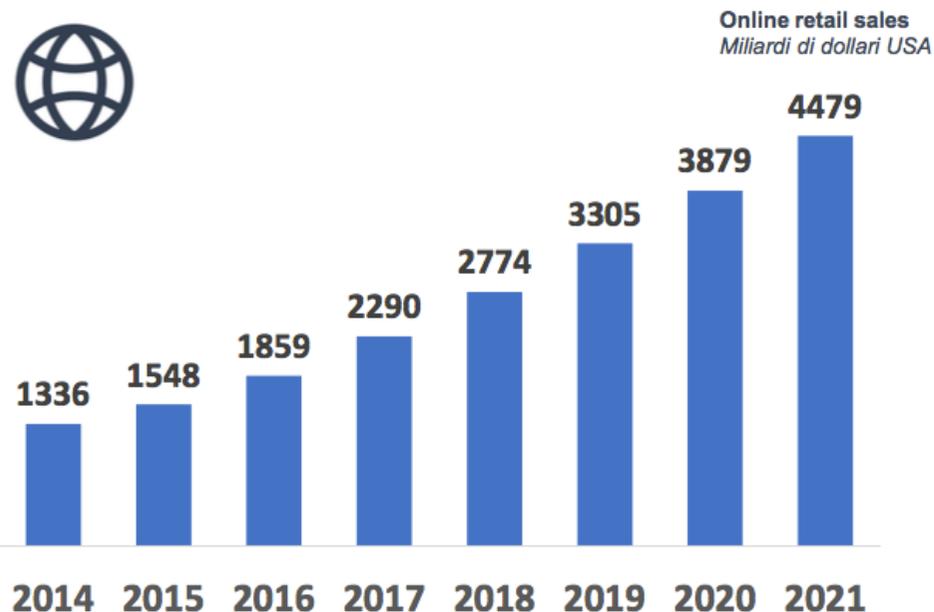
Cross border B2c 2013

Online B2C, China 1.5 higher than USA

Il valore globale dell'e-commerce

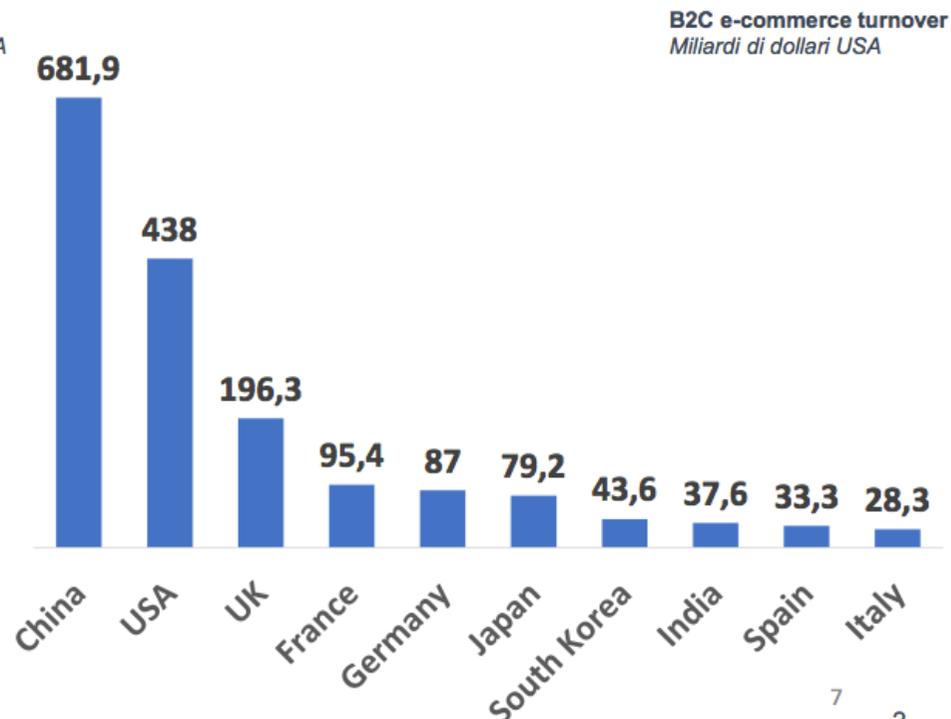
Raddoppio in quattro anni

Entro il 2021 le vendite retail online saranno il doppio del valore registrato nel 2017



Cina e USA maggiori mercati

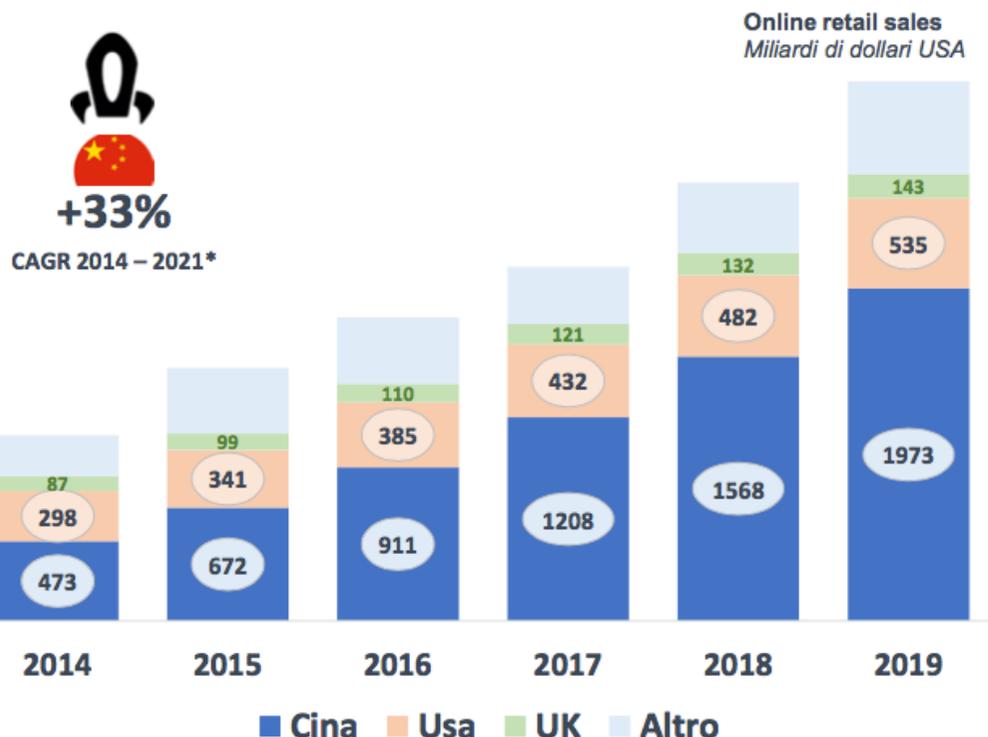
Il fatturato B2C è dominato da Cina e Stati Uniti, seguiti dai mercati maturi UE con marcate differenziazioni



Cina: motore dell'e-commerce globale

Maggiore mercato al mondo

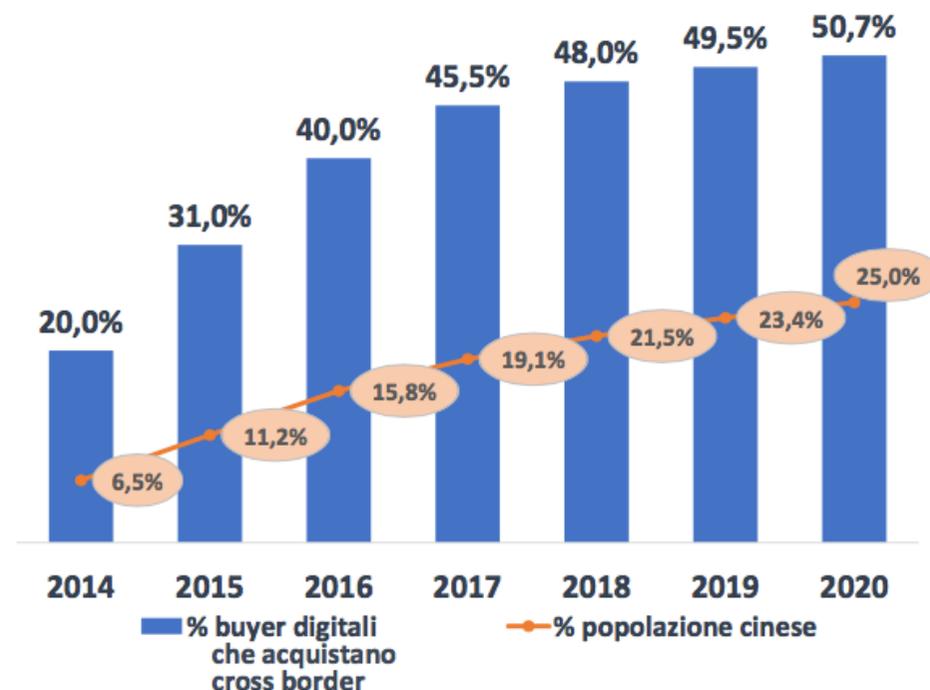
Entro il 2019 il valore delle vendite e-commerce in Cina raddoppia rispetto al 2016



Fonte: elaborazioni ICE su Statista digital market outlook 2017

Opportunità cross border

Il cross border e-commerce cinese in crescita esponenziale



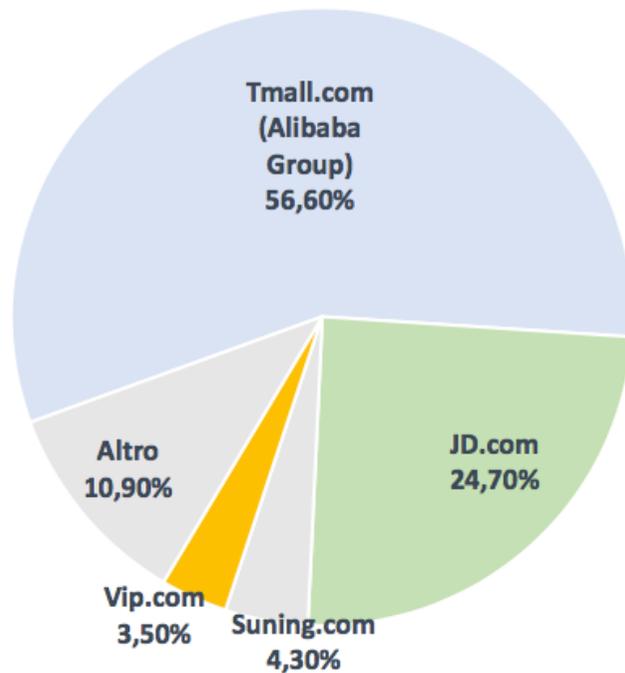
Fonte: Alizila 2017 (Alibaba Group)

8

Il contesto cinese: canali e settori principali

Marketplaces rule!

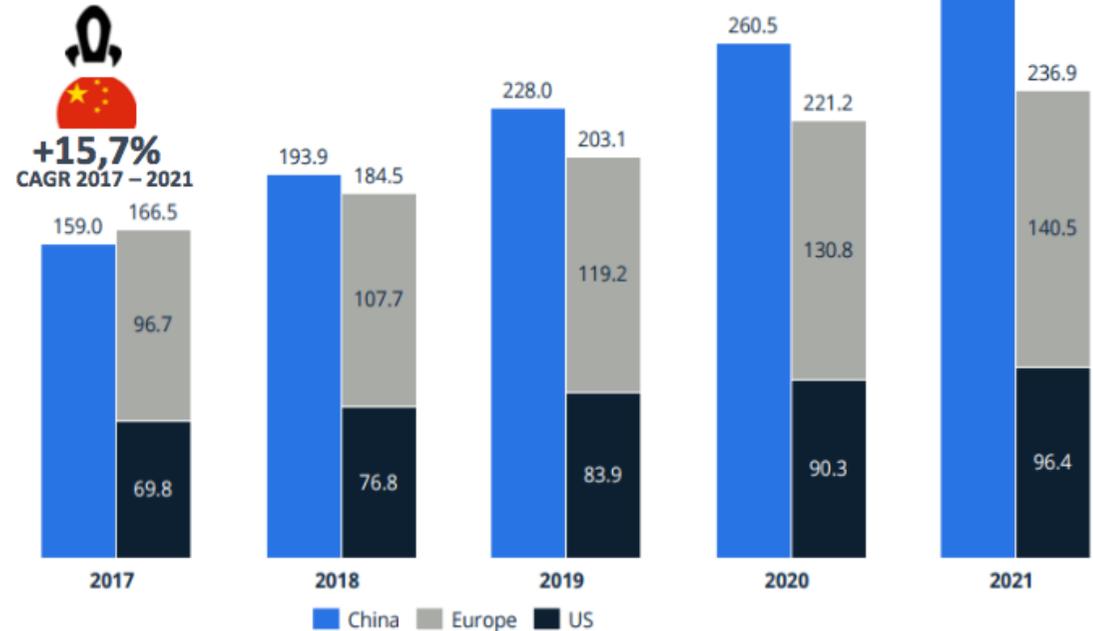
Tmall.com (Alibaba Group) domina il mercato insieme a JD.com



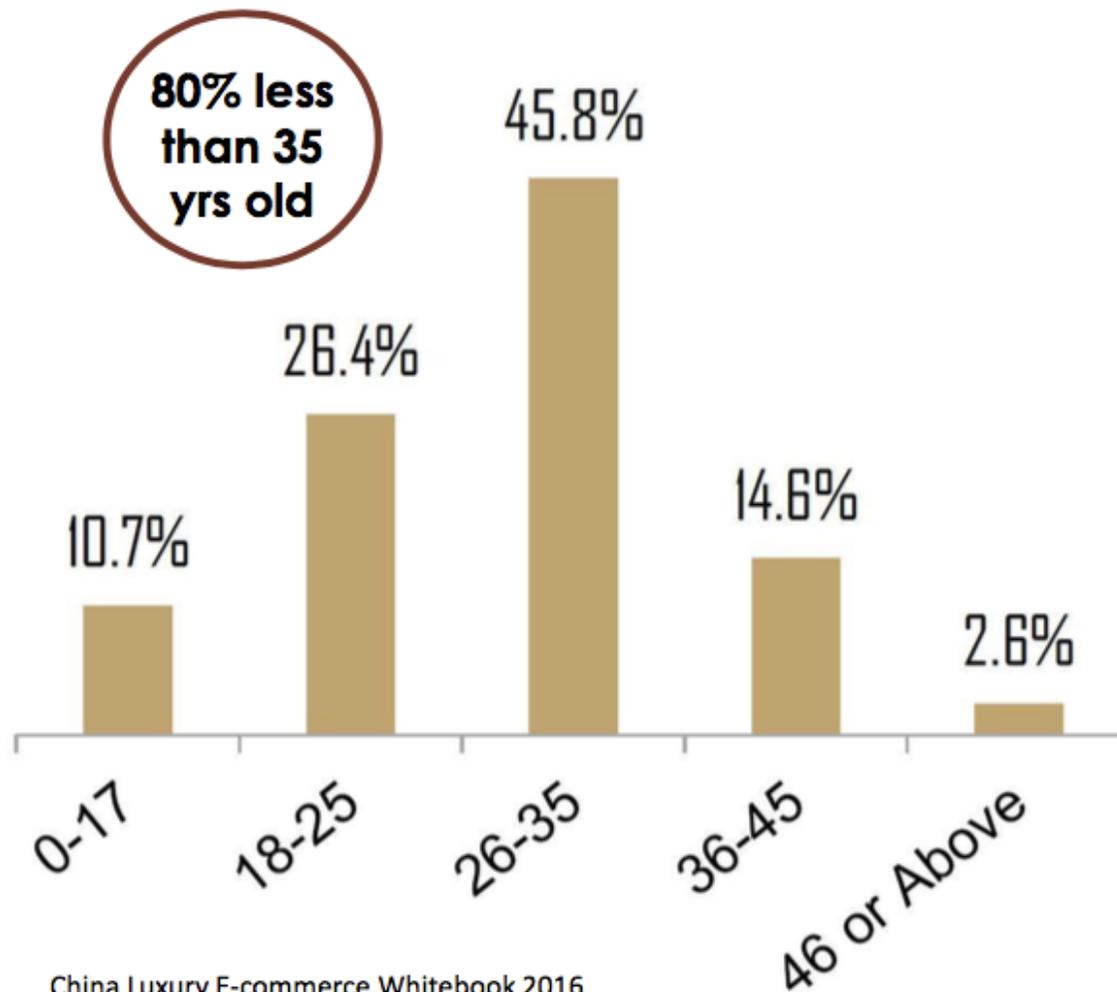
Leader nel fashion e-commerce

La Cina primo mercato digitale per la moda, prima categoria venduta online (seguita da travel, elettronica, media, e altri)

Vendite online settore fashion
Miliardi di dollari USA



Age Composition of Online Luxury Goods Consumers



China Luxury E-commerce Whitebook 2016

Consumer wealth goes where in 2020?

With inflation rising slightly and **real disposable incomes rising 8 percent nationwide**, consumers certainly have funds to save or spend.

In aggregate, **consumer spending** continued to grow in high single digits in 2018, backed by very strong levels of consumer confidence (also with wide regional variations).

Spending will grow on health-related areas such as **healthier foods, exercise activities, and medical expenses** (for themselves and for elderly relatives).

Increasingly, **consumption growth will be driven by the generation born in the 1990s**, a generation that has yet to experience anything close to a recession in their lives, and who have more balanced aspirations between achievement and enjoying life, versus prior generations who focused mainly on the former (Exhibit 3).

The impact of this 1990s generation became even clearer in 2018 as the group's elders increasingly retire, shifting to lower levels of consumption. This is particularly true for northeast China and for China's top-tier cities where fertility rates are below one.

Chinese post-90s generation consumer attitudes, % of respondents

■ Statistics for the total survey populations

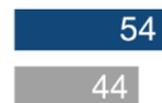


Happiness seekers

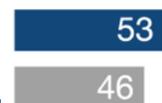
Believe success means pursuing a happy life



Not concerned about brands but the actual product

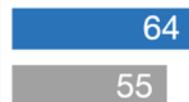


Willing to pay extra for environmentally friendly products



Success seekers

Believe success means being rich



Buy what they like

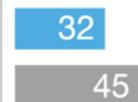


Less likely to save for rainy days



Laid back

Believe that "as long as you work hard, you can change your life"

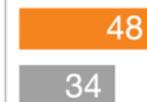


Less likely to pay a premium for new technology



Spendthrifts

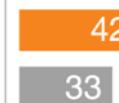
Willing to spend to try new things



Believe expensive products are better



Proud to afford small luxury items to show their tastes

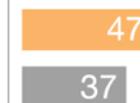


Home birds

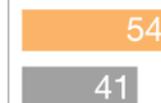
Have parents paying for big-ticket items



Willing to pay for the latest technology



Seek for and pay a premium for high-quality items



Trend #1: Consumers are confident—but risks remain (increasing of debts for housing, income is increasing slowly than 5 years ago, healthcare expenses for elderly households)

Trend #2: Consumers are more health-conscious than ever before—but different consumers define health differently (they can afford more types of food than before and 30% of chinese population is overweight - approximately 320 millions of people - The government has responded: in 2016 it announced the “Healthy China 2030 plan,” which pledged to promote initiatives geared toward diet, exercise, and access to healthcare services.

Trend #3: The ‘post-90s’ generation is emerging as a new engine of consumption This generation exhibits very different behavior and attitudes not only with older generations of Chinese consumers but also the generation that we call the “post-80s,” Comprising 16 percent of China’s population today, this consumer cohort is, by our projections, going to account for more than 20 percent of total consumption growth in China between now and 2030)

Trend #4: Chinese consumers are taking a more nuanced view of brands, both global and local they acquired an interest in local brands. In recent years, they have developed a sharp eye for brands that deliver value for money. First and foremost, they want value for money. That’s followed by quality products—they want their unique tastes catered to—and, lastly, they demand good aftersales service.

Chinese consumers' attitudes toward healthy living, % of respondents

Source: McKinsey 2018

■ Statistics for the total survey populations



Back to basics

Buy natural and organic food

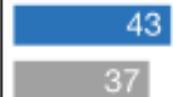


Would like to stay close to nature for leisure activities



Exercise enthusiasts

Think healthy food means less oil



Regularly take additional health supplements

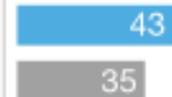


Regularly have health checks

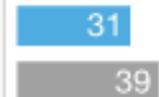


Balance seekers

Think healthy food means fresh ingredients



Willing to trade off personal time for work



Driven workaholics

Willing to spend more on leisure and entertainment



Think healthy food means origin-traceable ingredients



Prefer products endorsed by doctors

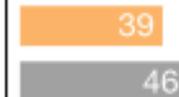


Indifferents

Consider it important to have enough leisure time to enjoy hobbies and life



Think they know how to differentiate healthy products by themselves

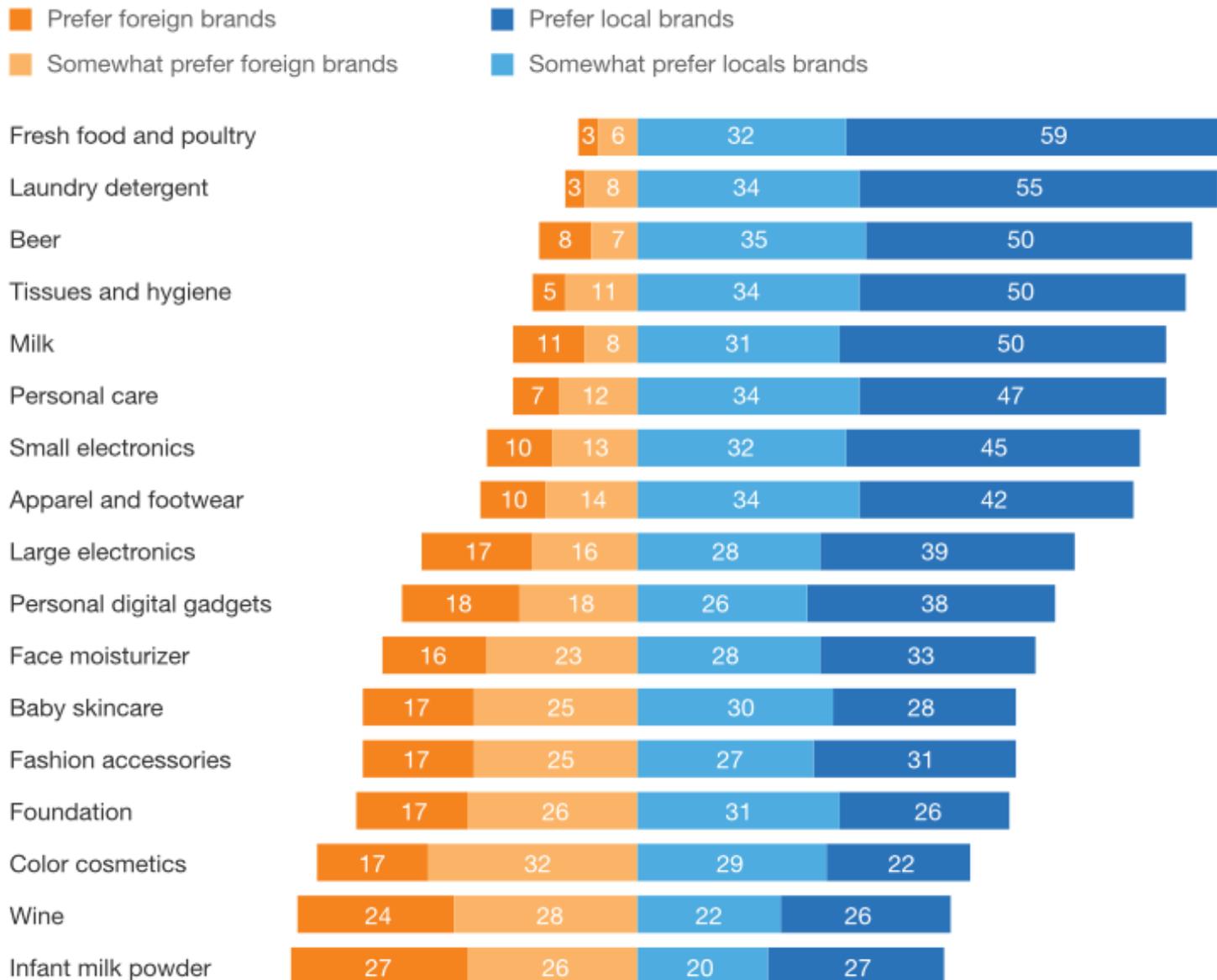


[Video Tribute](#)

Consumers have a more nuanced view of brands.

Source: McKinsey 2018

Country of origin preference across different consumer categories, % of survey respondents



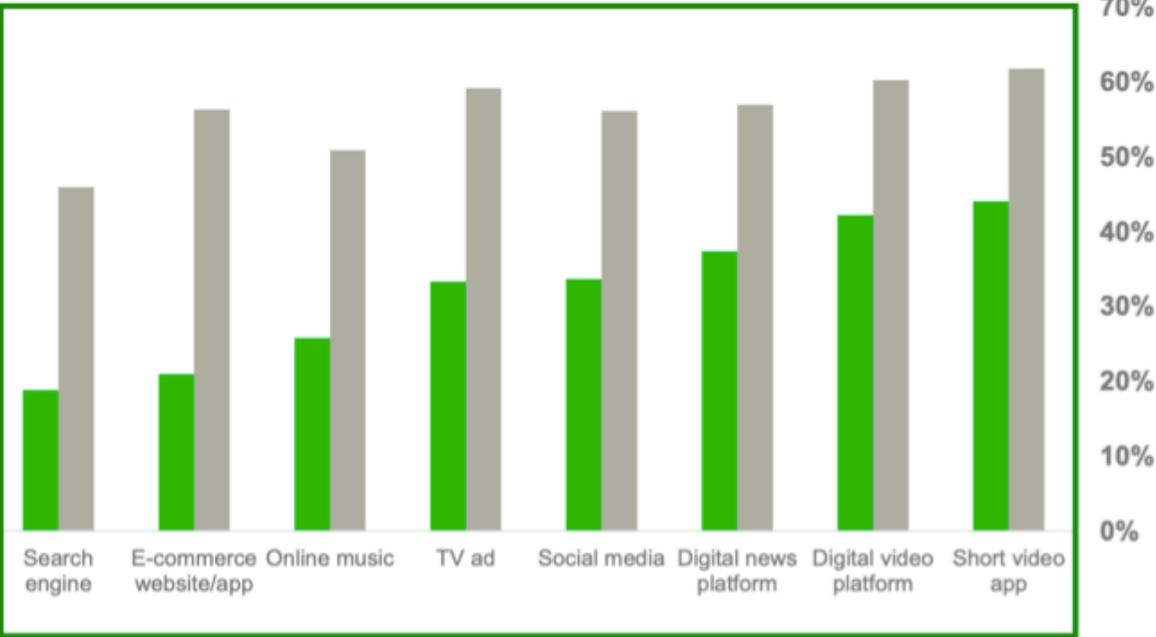
Not All Industries Facing a Slump

% of respondents mentioning they are spending more time engaging with different forms of media

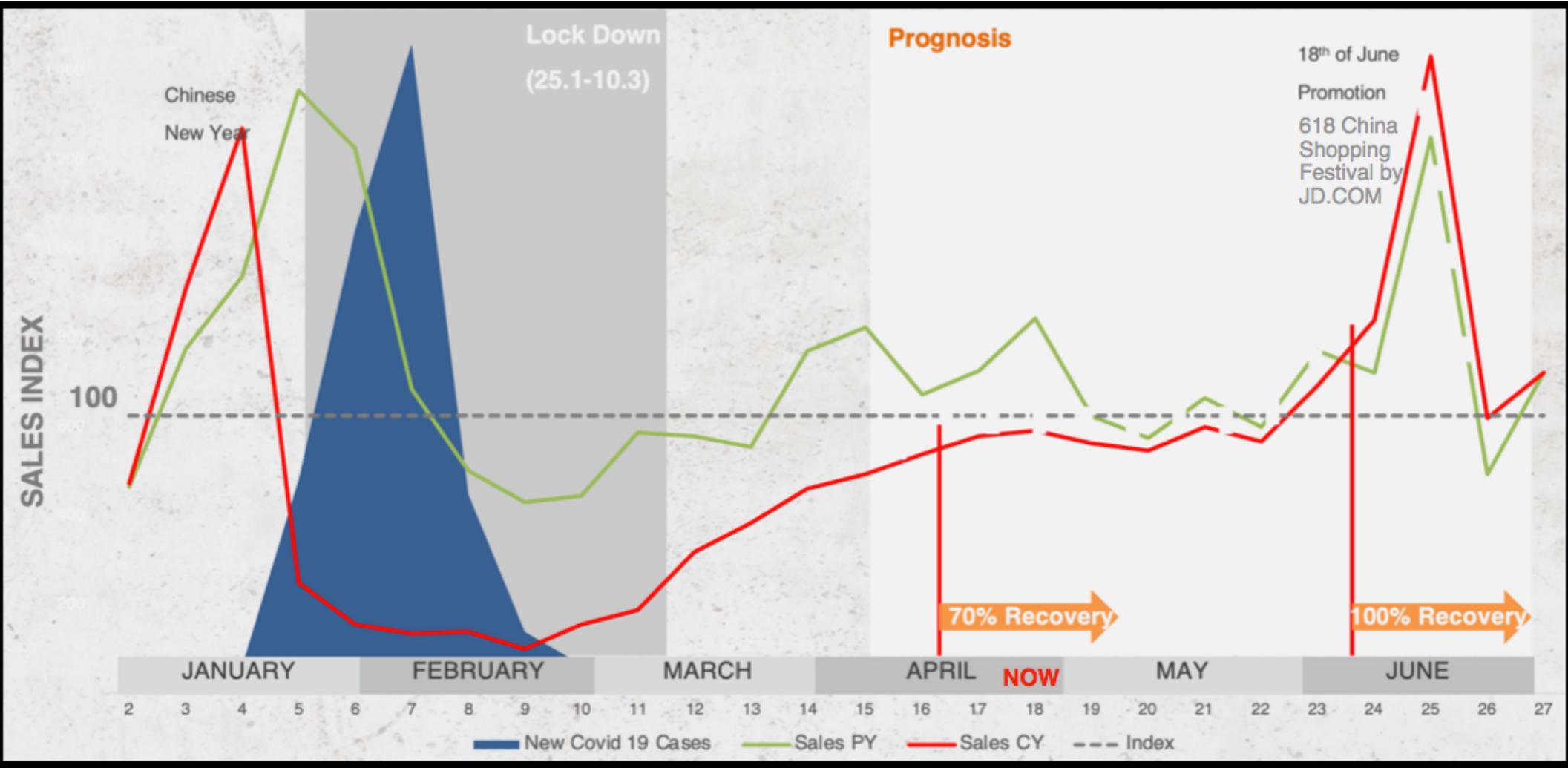
■ Percentage of mention
■ Percentage of mentioning of significant increase

Media Type	Percentage of mention	Percentage of mentioning of significant increase
Vertical interest app/forum	~18%	~8%
Out-of-home media	~20%	~12%
Print media	~22%	~13%
Frame poster in lift/screen in lift	~23%	~14%
Digital audio platform	~26%	~15%
Online medical platform	~24%	~14%
Smart TV/OTT TV ad	~28%	~16%

- E-commerce: **Alibaba 3%** growth and **JD 17%** growth in **Q1**.
- Social media **WeChat** more on **traffic** even more **sales**.
- **Daily active users (DAUs)** of **education apps** in China increase to **40 million**
- DAU of **online video** services **iQiyi** increased by **21%**



Source: Hylink Digital Solutions



Source: Hylink Digital Solutions

The People's Bank of China (PBoC) develops the **national digital currency** with enhanced top-down design.

Suzhou 11 millions population

Trial of Digital Yuan in the Xiangcheng District of Suzhou from **April**:
Paying 50% of local workers' transport subsidies in the new digital currency
(also referred to as DC/EP, for "digital currency/electronic payment")

In 15 April, **an e-wallet** used in testing China's central bank digital currency
(CBDC), which referred to the Agricultural Bank of China (ABC)

the Covid-19 could encourage **digital payment** adoption and inspire more
talks about **digital currencies** among central banks across the world.

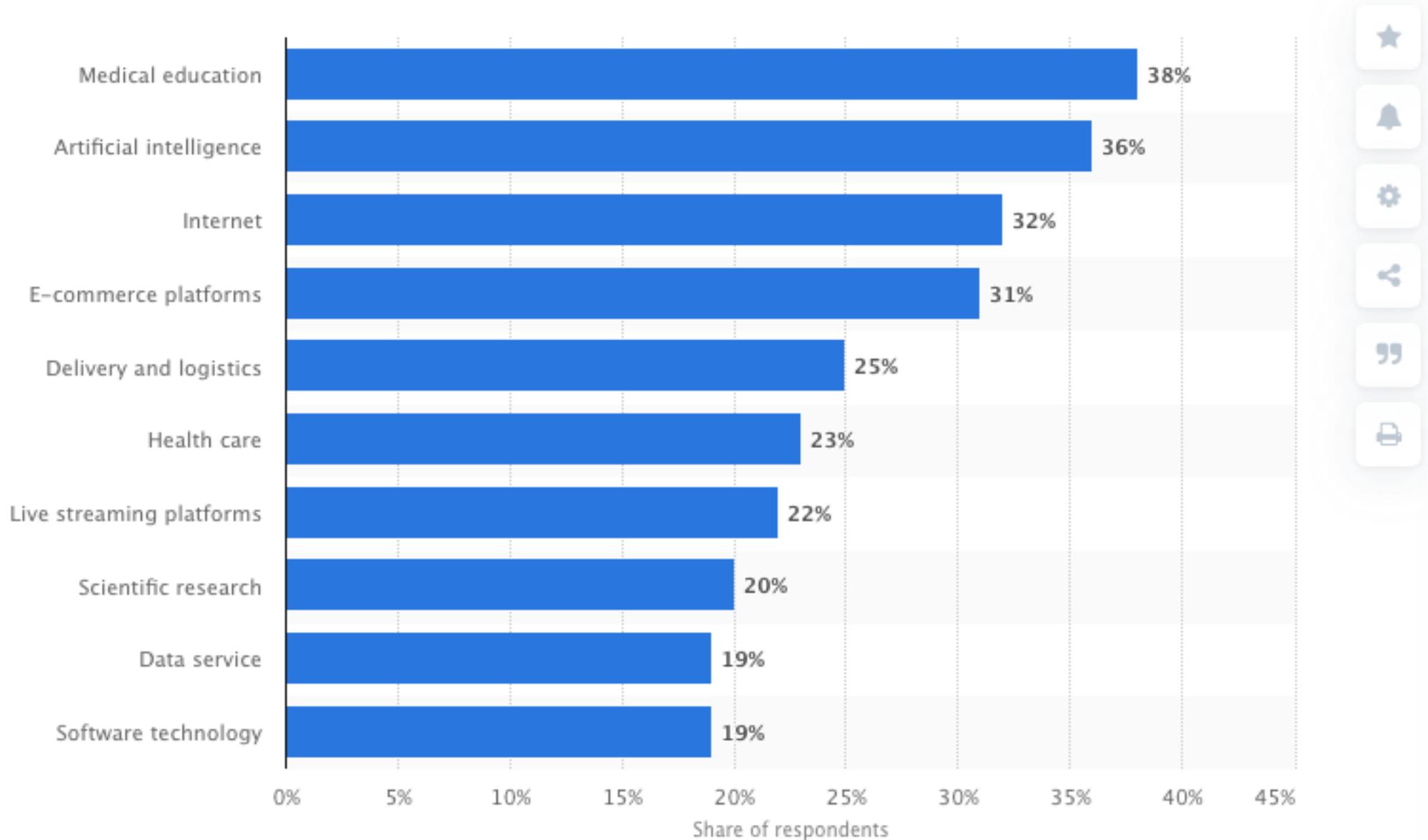


The image shows the exterior of a building with a dark, perforated metal facade. The word "HERMÈS" is mounted on the upper right portion of the facade in a light-colored, serif font. Below the facade, a row of vertical slats is visible, through which some interior lights can be seen. The overall scene is dimly lit, suggesting an evening or dusk setting.

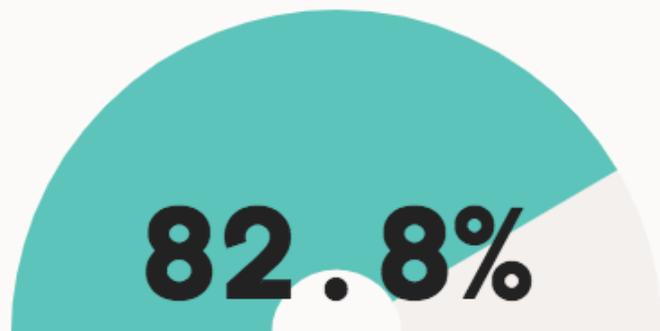
HERMÈS

Hermès Taikoo Hui Boutique in Guangzhou China earned
\$ 2.7 million
during the reopening day in April.

Which products, services or industries are you feeling optimistic about?



Getting China back to work

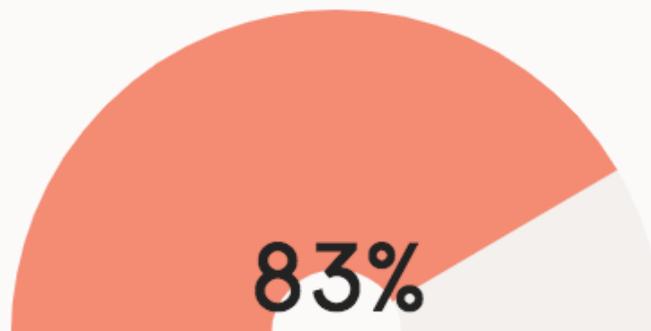


Trivium National Business Activity Index

This index looks at the current state of China's overall economic capacity utilization as compared with "normal" levels prior to the virus outbreak.

How we calculate it

We estimate the currently operating proportion of typical national output by aggregating our in-house resumption rate estimates for large and small enterprises, and weighting the two indices by their proportion in overall GDP (for more information see our notes below).

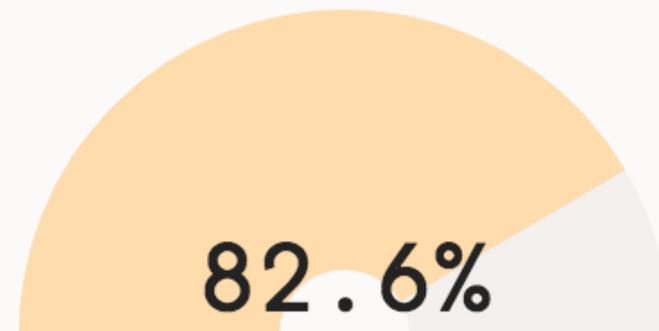


Trivium National Large Enterprise Activity Index

This index estimates current production levels at China's large industrial and manufacturing enterprises as a proportion of normal activity levels.

How we calculate it

We produce our proprietary resumption index for large enterprises by tracking public reporting of provincial resumption rates, then adjusting for the weight of each province in national GDP and for estimated average capacity utilization rates among these enterprises.



Trivium National SME Activity Index

The Trivium National SME Activity Index estimates current production levels at China's SMEs as a proportion of normal activity levels.

How we calculate it

We produce our proprietary index for SME resumption rates by cross-checking official SME resumption rates against our on-the-ground channel checks and anecdotal research, and adjusting for estimated average capacity utilization rates.

Key takeaways as of April 23

The vast majority of businesses in China have at least turned the lights back on – with 98% of large companies having resumed operations.

29 provinces are reporting full resumption rates (of between 99-100%) for large businesses. These provinces account for 95.2% of GDP. That said, capacity utilization at many of these companies is still closer to 80% of normal levels, with many far below that.

Overall, then, industrial enterprises appear to be operating at 83% of normal activity levels, up from 75.9% exactly one month ago.

SMEs are coming back to life. We estimate that small businesses are now operating at 82.6% of their normal activity. This is a vast improvement from just 76.8% two weeks ago.

Breaking things down by province

Key observations

Provinces with 100% resumption rates, or right at that level, account for 94.9% of GDP.

Only two laggards remain behind: Hubei and Tibet.

The Beijing 2 sections congress will declare victory on 22 of May - The end of Quarantine



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“LIANGHUI”





Grazie per la vostra attenzione e partecipazione

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