

Dual Circulation Series

Issue 4

– Integrating domestic and foreign trade

Export manufacturers turning to domestic market (II) - Government greases the wheels for export-oriented businesses



In this current issue, Fung Business Intelligence continues to look into the transformation of China's export industry as the world enters a new era of trade.

In the previous issue, we examined some of the challenges and issues export-oriented businesses face when transforming their business. In this current issue, we will be taking a look at the support measures and policies the government has rolled out to help address some of these barriers and challenges, as well as some of the key initiatives of leading e-commerce platforms to help export-oriented businesses connect with and sell to domestic consumers.

Policies released by the Chinese government to support export-oriented businesses

As we mentioned in Issue 2, the global economic downturn exacerbated by COVID-19, geopolitical tensions and rising protectionism have all led to a decrease on the global demand side. Large numbers of export orders have either been delayed or cancelled and businesses remain extremely cautious and conservative with new order placements. Since the beginning of this year, the Chinese government has released a series of measures and policies to help export-oriented businesses survive and emerge from the crisis as a stronger, globally competitive player.

In late June, the General Office of the State Council issued the *Implementation Opinions on supporting the Domestic Sales of Export Products (Guo Ban Fa No. 16 [2020])*¹. Some of the key government support measures addressing the challenges we mentioned in Issue 2 are summarized in Exhibit 1.

Helen Chin

Vice President

E: helenchin@fung1937.com**Nancy Ngai**

Senior Manager

E: nancyngai@fung1937.com**Fung Business Intelligence**

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.comW: <http://www.fbicgroup.com>

¹ http://www.gov.cn/zhengce/content/2020-06/22/content_5521078.htm

Exhibit 1: Government support measures to help export-oriented businesses sell domestically

Challenge	Government Support Measures
No domestic selling rights	The Ministry of Commerce is working on simplifying and eliminating the review and approval procedures for export manufacturers without domestic selling rights to engage in domestic trade.
Different labelling and testing requirements	Export-oriented businesses affected by the pandemic can sell products originally made for the export market in the domestic market till the end of 2020 by making a self-declaration of conformity, given the products meet the quality standards of the export market and China's own mandatory standards. The same rules apply to the labelling of products. Export-oriented businesses can add their own Chinese labels to products but will be held accountable for the accuracy of the contents. ²
CCC certification requirements	The Certification and Accreditation Administration of China has called for further optimizing the CCC certification process for export products that are sold domestically. Specifically, the certification process for products that have already been certified by another international body where the standards are in line with the existing CCC requirements will be expedited and recognised upon meeting relevant requirements. Certification bodies will also offer training to help export-oriented businesses better understand the CCC testing requirements. ³ Meanwhile, the Chinese government is looking to downsize the CCC catalogue, further simplify the certification process and shorten the processing time going forward.
Increased tax burdens	To ease the tax burden and cost of doing business for export-oriented businesses, the pilot program where companies may elect to pay duty for their domestic sales as either imported materials or finished goods in 40 special customs supervision zones will be extended to cover 113 integrated bonded zones nationwide to help companies legally reduce their tax expenses ⁴ . In addition, the interest accrued on deferred tax for domestic sales will be temporarily waived from April 2020 till the end of 2020 ⁵ . The General Administration of Customs has also released a notice to reduce the tax filing frequencies of eligible processing trade companies for domestic sales-related taxes to a quarterly instead of monthly basis. ⁶

² http://gkml.samr.gov.cn/nsjg/rzjgs/202009/t20200908_321524.html

³ http://www.gov.cn/zhengce/zhengceku/2020-07/08/content_5525174.htm

⁴ <http://www.customs.gov.cn/customs/ztl86/302414/302415/gmzyx/zcwj5/3358628/index.html>

Lack of financial and credit support	To better meet the financing needs of the domestic business model, the government is encouraging financial institutions to offer innovative supply chain financing solutions and extend credit and loan support to export-oriented businesses, in particular SMEs, to support their domestic operation. The government is also calling for insurance companies to provide insurance services or extend insurance protection to cover export goods sold in the domestic market.
Lack of intellectual property rights and branding knowledge	The government is encouraging export-oriented businesses to negotiate with brand owners to obtain authorization of the use of relevant IPs to sell domestically for orders that have been cancelled by foreign brands. The government will also be offering training and support to export-oriented businesses to help them register their own brands and IPs in China and continue to strengthen the protection of IP rights.
Lack of domestic distribution channels	To help export-oriented businesses increase visibility and widen their network in the domestic market, the government is: <ul style="list-style-type: none"> • Connecting exporters with major e-commerce platforms to drive sales • Organising special events to promote export products on major pedestrian streets • Setting up special areas and counters for export products at major trade fairs such as the Canton Fair and the China Processing Trade Products Fair, etc. and encouraging domestic buyers and major businesses to visit these fairs and make purchases

E-commerce platforms supports export-oriented businesses

In addition to the institutional challenges above which the government is trying to help address, one of the main challenges we mentioned in Issue 2 is that export manufacturers are not familiar with the domestic selling model. They generally do not have their own local distribution network or channels and it takes time and resources to build up their own. To help address this issue, the Chinese government is encouraging and helping exporter manufacturers connect with major e-commerce platforms, which is one of the quickest and most accessible ways to reach domestic consumers. China's e-commerce market is the fastest growing and largest in the world. E-commerce sales accounted for 24.2%⁷ of the total retail sales of consumer goods from January to October in 2020. Since the pandemic transpired, major e-commerce platforms, such as Taobao, JD.com, Pinduoduo, and Suning, etc. have all rolled out a series of initiatives to help export-oriented businesses resell their products in the domestic market.

⁵ http://www.gov.cn/zhengce/zhengceku/2020-04/15/content_5502569.htm & <http://www.customs.gov.cn/customs/302249/2480148/2968982/index.html>

⁶ <http://www.customs.gov.cn/customs/302249/2480148/3167697/index.html>

⁷ http://www.stats.gov.cn/english/PressRelease/202011/t20201117_1803442.html

Key initiatives and support measures offered by leading e-commerce platforms

Given that most export manufacturers do not have prior experience in e-commerce operations and the entry requirements and costs to sell on leading e-commerce platforms can be high, major e-commerce platforms have rolled out the following initiatives to support export-oriented businesses with their domestic sales endeavors.

- 1 Setting up dedicated zones/special sections on their platforms for export-oriented products
- 2 Waiving platform joining fees, offering low commission rates, and traffic support to export-oriented businesses
- 3 Offering 1 on 1 training sessions to export-oriented businesses to help them open and operate online stores
- 4 Organizing special promotional events, marketing initiatives and online shopping festivals on their platforms
- 5 Joining hands with local governments to help local factories promote and sell their products online by hosting live-streaming sessions
- 6 Offering special discounts to consumers to buy products from export-oriented businesses
- 7 Providing financial support such as interest-free loans to export-oriented businesses

Another key challenge we mentioned in Issue 2 is that export-oriented businesses are not familiar with the preferences and needs of domestic consumers. In this regard, e-commerce platforms are playing a key role in offering consumer insights and big data analysis to help factories fine-tune their products and innovate new products which meet the preferences of the domestic market. In particular, e-commerce platforms are partnering up with export-oriented manufacturers to push-forward the consumer-to-manufacturer (C2M) model. Leveraging on big data and AI, e-commerce companies pass on relevant consumer data to manufacturers who can then adjust their production and subsequently sell their products on the e-commerce platforms that supplied them with the data. This helps manufacturers better anticipate product demand, reduce inventory, and save on production costs. Besides providing information on the latest market trends and consumer preferences, e-commerce platforms can also advice manufacturers on setting appropriate price points, and can help them with marketing activities, such as livestreaming and promotional events on their platform.

In the short run, export-oriented businesses can leverage on e-commerce platforms to sell high-quality export products in the domestic market to help clear some of their existing inventory. In the long run, given the huge growth potential of China's consumer and e-commerce market, export-oriented businesses can leverage the capabilities of e-commerce platforms whilst strengthening and building their own upstream and downstream capabilities along the value chain, including design, branding, distribution, marketing and sales, etc. to better serve both the domestic and export market.

In the upcoming issue, we will look at what some of the export-oriented manufacturers have been doing to transform their businesses.

Appendix 1: Policies/Regulations released by the Chinese government to support export-oriented businesses in 2020

Footnote Reference	Regulation	Issuing Authority	Issuance Date
1	The General Office of the State Council issued the Opinions on supporting the domestic sales of export products 国务院办公厅关于支持出口产品转内销的实施意见 国办发〔2020〕16号	The General Office of the State Council	June 2020
2	Announcement of the State Administration for Market Regulation on the implementation of the <i>Opinions on supporting the domestic sales of export products</i> issued by the General Office of the State Council 市场监管总局关于贯彻落实《国务院办公厅关于支持出口产品转内销的实施意见》的公告 2020年第39号	State Administration for Market Regulation	Sep 2020
3	Notice by the Certification and Accreditation Administration of China regarding streamlining and optimizing the compulsory product certification procedures for goods originally produced for export but subsequently sold in the domestic market 认监委关于精简优化出口转内销产品强制性产品认证程序的通知 国认监〔2020〕5号	Certification and Accreditation Administration of China	July 2020
4	Notice concerning expanding the pilot policy of selective tariffs on domestic sales 财政部 海关总署 税务总局关于扩大内销选择性征收关税政策试点的公告 财政部公告 2020年第20号	Ministry of Finance, General Administration of Customs & the State Taxation Administration	April 2020
5	Notice of the Ministry of Finance on the temporary exemption of interest accrued on tax deferred for domestic sales of processing trade enterprises & 关于暂免征收加工贸易企业内销税款缓税利息的通知 财关税[2020]13号 Announcement of the General Administration of Customs on the temporary exemption from interest accrued on tax deferred for domestic sales of processing trade enterprises 关于暂免征收加工贸易货物内销缓税利息的公告 海关总署公告 2020年第55号	Ministry of Finance & the General Administration of Customs	April 2020
6	The General Administration of Customs issued an announcement on further extending the customs declaration deadline for domestic sales of goods produced under processing trade arrangements 关于调整加工贸易内销申报纳税办理时限的公告 海关总署公告 2020年第78号	General Administration of Customs	July 2020

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets global market data on sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consulting services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 30,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Global Brands Group Holding Limited (SEHK: 00787) and Convenience Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

© Copyright 2020 Fung Business Intelligence. All rights reserved.

Though Fung Business Intelligence endeavours to ensure the information provided in this publication is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without prior written consent of Fung Business Intelligence is prohibited.