
**A STUDY ON BONDED WAREHOUSES SHIPPING MODE USED IN
CHINA'S CROSS-BORDER E-COMMERCE**

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Abstract

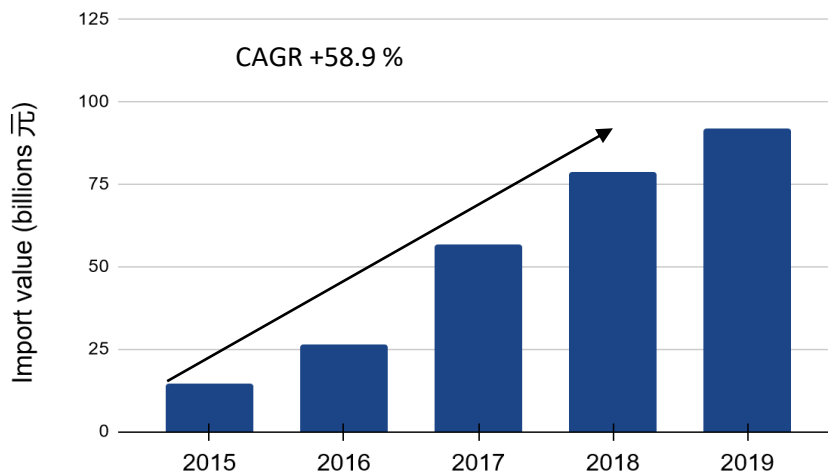
This study analyzes the comparative advantages of China's Cross-border E-commerce (CBEC) using bonded warehouses to store and ship imported cosmetics products to uncover key factors influencing market share growth of CBEC cosmetics, to assess advantages of CBEC and to create industry study directly applicable by individuals and organization engaged in the cosmetic trade. In this work was used a method of comparative analysis where the existing research and investigations were combined to study and compare with CBEC import mode with import modes such as overseas online shopping, direct mail or selling through purchasing agents from five different perspectives of costs, regulatory barriers, authenticity protection, delivery speed and product variety. Conducting comparative analysis among such a variety of import modes and factors, including authenticity protection is rare in the CBEC research field, this paper fills the research gap. Based on the results, the comparative advantages of CBEC are in the reduction of needed administration and labor thanks to digitalization, in lower shipping costs due to quantity discounts, reduced rates of taxes and tariffs and in delayed payment of these taxes. In terms of regulatory barriers is the main advantage in the waiver of lengthy product registration and first-time import license. The highly supervised supply chain of CBEC leads to increased authenticity protection, placing bonded warehouses directly in China is translated into high delivery speed. The finding implies that importing by CBEC is distinctly beneficial for the cosmetics category. To clarify the advantages of CBEC for importing cosmetics, future research will need to be done on factors of market size, demographic or company cosmetics companies experience.

Keywords: cross-border; e-commerce; warehouses; cosmetics; import; comparative advantages

1. INTRODUCTION

1.1 Research background

Cross-border e-commerce in China is growing rapidly, more foreign products are imported through this import mode every year, just between 2015 to 2019 import value of CBEC increased by an average of 58.9 % each year. (Deloitte, CCIC, & AliResearch, 2019; Qianzhan, 2020; author's calculations). Import Cross-border e-commerce, widely referred to by abbreviation "CBEC", came to life when in 2015 the Chinese government introduced the concept of Cross-border e-commerce pilot zones relaxing a custom clearance process, decreasing and simplifying tariffs. The support of cross-border e-commerce is now one of the main policies related to China's B2C imports.

Figure 1. Cross-border E-commerce Imports 2015 to 2019

(Sources: Deloitte, CCIC, & Ali Research, 2019; Qianzhan Network, 2020; adapted)

An essential part of this market import mode are also so-called bonded warehouses, these warehouses are specially regulated warehouses allowing foreign products to arrive in China and be stored there without paying tariffs or/and taxes until the order is requested and paid by a customer, which is a safer option for the exporters in terms of their financial flow. Besides that, the existence of bonded warehouses substantially decreases the delivery time of the foreign goods and by it increasing its attractiveness for buyers, a refund process is improved as goods coming from abroad does not need to be sent back to the country of origin, but it could arrive just back to the bonded warehouse in China and, if unharmed, sold again. (Giuffrida et al., 2017)

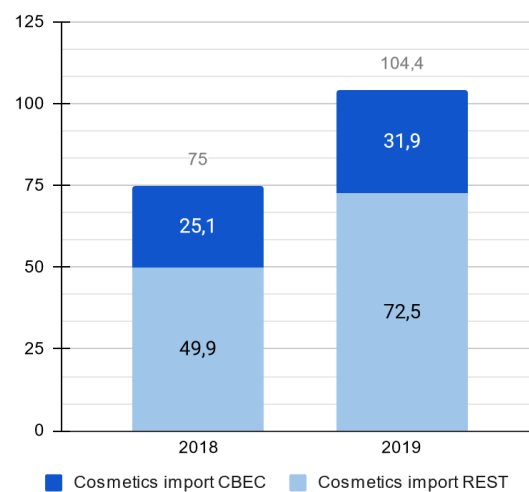
Cross-border e-commerce has its origins in the widespread business of sellers labelled as “Daigou 代购”, sellers who were sending high quantities of products to China by sending personal packages from the countries they live. Such products were often cheaper and perceived as more trustworthy in comparison to imported products sold through more traditional channels. Problematic was that this method led to a situation when many sellers often did not pay taxes or tariffs and control of the imported product coming to China limited. Earlier mentioned support of cross-border e-commerce is partly a response to this because CBEC enables the creation of a market where the control of the government over imported goods is high. Products are comparatively cheaper than before and shopping is for highly digitalized Chinese customers increasingly convenient. (Ka-ho, 2019)

Studying China's import CBEC has a growing significance for economic research, its share on overall imports is growing and it's a significant contributor to an increase of foreign product's availability in the Chinese market. Currently, existing knowledge about this topic is not sorted and refined, it is also not presented in a practical manner. While research papers about CBEC exist, such articles do not consider the types of products that are imported and how suitable these are for CBEC, they rather focus on topics as which types of businesses import through cross-

border e-commerce, customs and its effectivity, general problems, advantages and opportunities of this type of trade and logistics system.

Among all products imported through CBEC, the most popular product category is cosmetic with 32 % of the total in 2018 and 34.8 % in 2019, the same time in 2019 from all cosmetics imported to China's market was 30.8 % imported from cross-border e-commerce. (Deloitte, CCIC, & AliResearch, 2019; Qianzhan, 2019; UN Comtrade 2020c; author's calculations).

Figure 2. Composition of Total Cosmetics Imports in 2018 and 2019



(Sources: Deloitte, CCIC, & AliResearch, 2019; Qianzhan, 2019; UN COMTRADE, 2020c; author's calculations)

Note: The share of CBEC on total from decreased from 33.5 % in 2018 to mentioned 30,8%, the decrease is in share is, however, not the same as value as in value it increased by 27.8%

Cosmetic products have many shared attributes, the product registration process follows practically the same rules, many other similarities are shared in tax and tariffs rates, lengths of shelf-life, costs of importation and final pricing. This paper aims to fill a gap in CBEC research and involve a product-based perspective into CBEC academic discussion and cosmetics was selected as the most suitable product category to analyze. This category is in terms of import volume vast which is translated into increased availability of relevant resources, moreover, high consistency of characteristics of cosmetic products makes conclusions of this project stronger and easier to generalize. The specific wording of this paper's research question is: "What are the main comparative advantages of importing cosmetics to China through market import mode of Cross-border e-commerce: bonded warehouses?"

1.2 Research significance

This paper is academically significant for several reasons. Firstly, it is for its application of a product-based perspective, in opposition to the majority of previous research papers focused on

China's cross-border e-commerce which looked at the problem through the lens of the CBEC industry in a total of all product categories. The product-based perspectives have compared to a broader perspective its advantage in its ability to discover, assess and evaluate even comparative advantages less visible from a broader view and level of importance of these comparative advantages for specific product categories. The case of the product category of cosmetics is then especially appealing to analyze thanks to its significance for CBEC imports and market share growth, as mentioned earlier, while in 2015 was the market share of cosmetics 20.8 % in 2019 it represented already 34.8 % and its same year of 2019 cosmetics imported through cross-border e-commerce represented about one third 30.6 % of all cosmetics imports to China. This market share growth and the importance of cosmetics might have its explanation in the additional added value of certain CBEC regulations and other characteristics of it for this product category, this paper aims to help explain this success of imported cosmetics. (Deloitte, CCIC, & AliResearch, 2019; Qianzhan, 2019; UN Comtrade 2020c; author's calculations).

Besides the above-mentioned contributions, this study includes and analyses an important purchase behavior topic of authenticity protection. Product authenticity, the fact that product is not counterfeited, is commonly reported by Chinese customers as their primary motive to buy foreign products through Chinese cross-border e-commerce platforms, but at the same time, this topic is overlooked by current research in the CBEC area, possibly, due to its partly controversial nature. (Nielsen, 2019; iiMedia, 2020a)

The uniqueness of this paper is also in its complex nature, this paper does not evaluate comparative advantages only between two as does a majority of available existing academic does, but it assesses comparative advantages based on a comparison of the five most important import modes for cosmetics. While other papers compared CBEC: Bonded Warehouses primarily with traditional General Import, this research concludes its finding also from on comparison with post-based import modes when goods come from foreign-shops or shopping agents daigou (代购), the comparison is also made with the second type of cross-border e-commerce and it is CBEC: Direct Shipping, this method leads to a better quality of the final findings.

1.3 Literature review

Talking about previous research, the authors were focusing primarily on the advantages of CBEC in total without considering specific product categories, these papers were usually analysing both types of CBEC, bonded warehouses and direct shipping were not analysed separately as many of their advantages are shared, which though might have oversimplified this topic. These papers also rarely consider making comparison other than with traditional general import, making some of their conclusions less complex.

First, talking about advantages, according to Yang, & Shen (2015) are in CBEC skipped intermediaries which lead to higher profits, Giuffrida et al. (2016) note that international shipping of bonded warehouses saves costs, while its last-mile delivery from China's warehouses is fast. Wang (2018) stresses that CBEC has lower requirements on manpower and that thanks to electronic clearance is the error rate in order management and clearance itself lower. Panova et al. (2019) conclude that short delivery time increases the competitiveness of imported products.

Qi et al. (2020) explain that custom clearance is quick and that lengthy product testing is not necessary, Lin (2020) describes that thanks to CBEC product variety increases.

Second, talking about disadvantages Giuffrida et al. (2016) discuss that CBEC is not suitable for low turnover product, but high turnover product with steady demand, reasons included inventory risks and other factors. Disadvantages of CBEC are also associated with frequent changes in regulations that also differ in each CBEC free trade zone as in Giuffrida et al. (2017), Yang (2017). Yue et al. (2017). Other disadvantages are in the enforcement of personal limits on CBEC imports, which are often circumvented which describes Yu (2018).

In terms of which types of companies is CBEC the most suitable for, diverse authors Yang, Yang, Yang (2014), Su and Xu (2016) and Wang et al. (2015) argues that especially Small and Medium Enterprises (SMEs), compared to bigger more established companies, might benefits from this import mode the most.

2. METHOD

2.2 Import Modes

In an aim to properly answer the research question comprehensive research of literature was conducted using credible established scientific databases EBSCO, SCOPUS, Science Direct, SAGE, Emerald, together with English and Chinese commonly used search engines a significant number of resources were collected. Based on the initial research of the structure of cosmetics imports to China, official regulations of China's Administration of Customs (GACC) and academic literature were defined relevant import modes used for comparison with CBEC: Bonded Warehouses, namely "General Import", "Postal: Daigou", Postal: Foreign e-shops, CBEC: Direct Shipping.

2.2.1 General Import (code 0110):

This import mode is shipped in bulk. Customs duties and VAT are paid immediately, there is no delayed payment as in the case of CBEC, fulfilment of orders must happen in non-bonded warehouses. To be able to import some products through this mode, companies need to have a legal presence in China, the presence includes the brand's Chinese own legal entity (subsidiary), a joint venture with a Chinese partner, or a Chinese reseller (distributor). (Alizila, 2020; Ballering, 2019; Zhengbaoren Shikaoshi Jiaoyu Network, 2019)

2.2.2 Cross-border e-commerce: Bonded Warehouses (code 1210 and 1239):

This import mode is also shipped in bulk, after arrival is a product placed in bonded warehouses in dedicated free trade zones. Payment of VAT and tariffs are delayed until the final customer places an order through a dedicated CBEC platform as Tmall Global, Kaola or Haitun, these platforms need to be tightly integrated with China Custom's (GACC) electronic clearance system and they directly participate with sending personal data like ID number, the value of payment about CBEC customers to this system. Tax rates are for this import mode reduced, as well as requirements on product registration and a form of a legal presence of the importing company in China. (Hao, & Ireland, 2017; TMO Group, 2020a)

2.2.3 CBEC: Direct Shipping (code 9610):

Is in many aspects similar to CBEC: Bonded Warehouse, tax benefits keep the same, requirements on products registration and legal presence in China or platform's integration with customs too. The difference is that this import mode does not use bonded warehouses and each time customer places an order the goods need to be sent directly from abroad which is slower.

2.2.4 Postal Shipping (code 1610):

One of the import modes to China is postal, in other words sending personal packages with customs supervision code 1610. This import mode is typically selected when customers buy products on foreign e-commerce platforms that allow international shipping, or when Daigou, Chinese shopping agents buy a product in the name of the customer in China and send it to him. Thanks to a different supply chain as well as different strengths and weaknesses of agents and foreign e-shops are these two analyzed separately as: "Postal: Daigou", "Postal: Foreign E-shops".

2.3 Perspectives

In the second phase were selected perspectives for analysis and based on literature research these perspectives were selected into two categories. The first category of company-based perspectives reflects factors important for businesses and was selected based on readings of academic literature Andersen (1997), Koch (2001) and Laufs, & Schwens (2014), research about the cosmetics companies and relevance for the topic of CBEC cosmetics imports. These perspectives are "Costs", "Regulatory barriers". The second category reflects consumer-based perspectives which were selected based on publicly available surveys as iiMedia (2020a), iiMedia (2020b), iiMedia (2020c), Ministry of Commerce (2019), Nielsen (2019) about reasons why CBEC customers buy CBEC goods. "Authenticity Protection", "Delivery Speed", "Product Variety".

2.4. Research

2.4.1 Description

When the import modes and perspectives were selected, the information were grouped based on its relation to specific import mode and specific perspective. In each chapter were created comparative tables to ease analysis and explanatory text, the content of these tables was analyzed and judged and each table led to one individual conclusion set into a broader context.

2.4.2 Perspective of Costs

This perspective focuses on the difference between incurred costs of importing through analyzed import modes. The perspective of costs is complex, it needed to be because of this complexity divided into seven additional categories, namely in "Administrative Costs", "Shipping Costs", "Store-management costs", "Delayed Payment", "Inventory Risks", "Opportunity Costs" each with its conclusion.

Administrative costs

As the study shows the administrative costs of importing cosmetics primarily related to the speed of customs clearance, the strictness of requirements about product registration, payment of registration fees and advantages stemming from a centralized supply chain.

Table 1. Administrative Costs by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
MAIN FACTORS INFLUENCING ADMINISTRATIVE COSTS				
- Integrated Customs Clearance: Digital Automatic - Registration & Filling: Waived - Registration Fees: No - Supply Chain Centralization: Yes	- Integrated Custom Clearance: Digital Automatic - Registration & Filling: Waived - Registration Fees: No - Supply Chain Centralization: Yes	- Standard Custom Clearance: One by One - Registration & Filling: Waived - Registration Fees: No - Supply Chain Centralization: No	- Standard Custom Clearance: One by One - Registration & Filling: Waived - Registration Fees: No - Supply Chain Centralization: No	- Standard Custom Clearance: Bulk Savings - Registration & Filling: Mandatory - Registration Fees: 12 000 – 80 000 RMB - Supply Chain Centralization: Partially

(Sources: Thibaud, 2019; TMO Group, 2020a, Switzerland Global Enterprise, 2019, Author’s Analysis)

Shipping costs

The shipping costs are in this case related mainly to the fact whether a product is shipped by bulk which is cheaper or individually and whether quantity discount applies.

Table 2. Shipping Costs by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
MAIN FACTORS INFLUENCING SHIPPING COSTS				
- Import in Bulk: Full Container (FCL) or Consolidated Shipping (LCL) - Quantity discounts: Yes	- Import by bulk: Typically, Consolidated Shipping (LCL) - Quantity discounts: Yes	-Import by Individual Packages - Economy Package, not Express - Quantity discounts: Yes	- Import by Individual Packages - Economy package, not Express - Quantity discounts: No	- Import in Bulk: Full Container (FCL) or Consolidated Shipping (LCL) - Quantity discounts: Yes

(Sources: Ballering, 2019; Tmall Global, 2020a; Author’s Analysis)

Store-management costs

These costs are related to operational costs of digital stores e-commerce platform, these costs are related to the fact whether exporter needs to have e-store in China, from how many e-commerce

platforms can exporters choose from, or whether these platforms regulate with which marketing agencies exporter need to cooperate or whether he can conduct these operations in-house.

Table 3. Store Management Cost by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
FACTORS INFLUENCING STORE MANAGEMENT COSTS				
- Necessity to open or access the online store in China: Yes - Platforms to open a store: CBEC Platforms - Limited Selection of Partners by Platforms	- Necessity to open or access the online store in China: Yes - Platforms to open a store: CBEC Platforms - Limited Selection of Partners by Platforms	- Necessity to open or access the online store in China: No - Platforms to open a store: Foreign brand store and retailers - Wide Selection of Foreign Partners and In-house Operations	- Necessity to open or access the online store in China: Yes - Platforms to open a store: Less strict e-commerce platforms or Foreign e-platforms - Mainly In-house Operations	- Necessity to open or access the online store in China: Yes - Platforms to open a store: All except CBEC platforms - Wide Selection of Partners or In-house Operations

(Sources: Azoya Consulting, 2018; Graziani, 2020; TMO Group; 2020a; Author’s Analysis)

Taxes and tariffs

For taxes and tariffs are the most important actual tax and tariffs rates for cosmetics products.

Table 4. Taxes and Tariffs by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
TAXES & TARIFFS RATES AND RULES				
- Tariffs: 0 % - Consumption Tax: 0 % normal cosmetics, 10.5 % premium cosmetics - VAT: 9.1 % - Limit: 26 000 RMB per Year, 5 000 RMB per Transaction	- Tariffs: 0 %- Consumption Tax: 0 % normal cosmetics, 10.5 % premium cosmetics VAT: 9.1 % -Limit: 26 000 RMB per Year, 5 000 RMB per Transaction	- Postal Tax: 20 % normal cosmetics, 50 % premium cosmetics - Tax Exemption: If assessed duty under 50 RMB - Limit: Order value up to 1000 RMB If multiple items	- Postal Tax: 20 % normal cosmetics, 50 % premium cosmetics - Tax Exemption: If assessed duty under 50 RMB - Limit: Order value up to 1000 RMB If multiple items	- Tariffs: 1 - 5 % - Consumption Tax: 0 % normal cosmetics, 15% premium cosmetics - VAT: 13 %

(Sources: Deloitte, CCIC, & Ali Research, 2019; Graziani, 2019; Hao, & Ireland, 2017, KMPG, 2018; Ministry of Finance China, 2019; Wan, 2020; Author’s Analysis)

Delayed payment

Regulations about delayed payment of customs influence the cash flow of companies, for some import modes is this measure allowed, for others not. This measure also influences whether are taxes paid on all incoming product batches or per individual customer order.

Table 5. Delayed Payment by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
FACTORS INFLUENCING IMPORTANCE OF DELAYED PAYMENT				
- Delayed payment: Allowed	- Delayed payment: Allowed	- Delayed payment: Not allowed	- Delayed payment: Not allowed	- Delayed payment: Not allowed
- Pays taxes for whole product batch: No	- Pays taxes for whole product batch: No	- Pays taxes for whole product batch: No	- Pays taxes for whole product batch: No	- Pays taxes for whole product batch: Yes
- Cashflow demands: Low	- Cashflow demands: Low	- Cashflow demands: Low	- Cashflow demands: Low	- Cashflow demands: High

(Sources: Ballering, 2019; TMO Group, 2020a; Author’s Analysis)

Inventory risk

The inventory risks might directly lead to increased cost, these costs are related mainly to the legal restriction of moving good to and from bonded warehouses, regulations about shelf-life, the ability of companies to sell its good in case of low demand at other channels and platform, as well whether these unsold products can be re-exported to other countries.

Table 6. Inventory Risk by Import modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
FACTORS OF INVENTORY RISKS INFLUENCING COSTS				
- Location of Goods: In China	- Location of Goods: Abroad	- Location of Goods: Abroad	- Location of Goods: Abroad	- Location of Goods: In China
- Places to clear goods: Abroad	- Places to clear goods: China & Abroad	- Places to clear goods: China & Abroad	- Places to clear goods: China & - Platforms: wide with limitations	- Places to clear goods: China & Abroad
- Platforms: limited to one	- Platforms: one or few	- Platforms: wide options	- Channels: Online	- Platforms: wide options
- Channels: Online	- Channels: Online & Offline	- Channels: Online & Offline	- International shipping fees: not paid	- Channels: Online & Offline
- International shipping fees: paid	- International shipping fees: not paid	- International shipping fees: not paid	- Taxes: not paid	- International shipping fees: paid
- Taxes not paid	Taxes: not paid	- Taxes: not paid	- Life-span left: not regulated	- Taxes: paid
- Life-span left: 2 / 3	- Life-span left: 2 / 3	- Life-span left: not regulated		- Life-span left: based on selected e- platform

(Sources: Azoya Consulting, 2018; Bai, 2019; Ballering, 2019; Carr, 2020; Zhaoyang Gongqin Waimao, 2019; Giuffrida et al., 2017; Beijing News, 2018; Yin, 2018; Author’s Analysis)

2.4.3 Perspective of Regulatory Barriers

This perspective assesses requirements on product registration, testing and first-time import license in terms of time, fees and other considerations. Different regulations apply for two

categories of cosmetics defined by Chinese laws “Special use cosmetics”, “Non-special use cosmetics” and even two subtypes of CBEC: BW customs supervision regime (1210, 1239).

Table 7. Registration Process by Import Modes

CBEC:	CBEC:	Postal:	Postal:	General
Bonded	Direct	Official	Daigou	Import
Warehouses	Shipping	Channels	Trade	

REQUIREMENTS ABOUT REGISTRATION PROCESS				
For Import through CBEC Zone (1210): - Not required Import through other places (1239): *: <ul style="list-style-type: none"> - Full Registration or Filling 12 000 - 80 000 RMB, 6 – 14 months - Not widely used 	- Not required	- Not required	- Not required	Non-special use cosmetics: Filling 12 000 - 18 000 RMB 6-8 months Special use cosmetics: Registration 19 000 - 80 000 RMB 9- 14 months
REQUIREMENT OF FIRST-TIME IMPORT LICENSE				
- Not required for both (1210) and (1239)	- Not required	- Not required	- Not required	- Required for selected products - Fees: Free - Time: 2 – 4 weeks

(Sources: SFDA, 2020; Sohlberg, 2020c; General Administration of Food and Drug Administration, 2016; Switzerland Global Enterprise, 2019; Thibaud, 2019; Author’s Analysis)

2.4.4 Perspective of Authenticity Protection

The difference between authenticity protection of import modes is mainly related to the reliability of participants in supply chain and supply chain vulnerability. The reliability of participants is related to the fact whether exporter needs to pass through additional screening by e-commerce platforms and the reputation of these platforms for tolerance of counterfeit products. The supply chain vulnerability is related to who provides product shipping and storing, in the sense that generally lower restriction and a longer supply chain means a higher risk of authenticity problems.

Table 8. Product Authenticity by Import Modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
RELIABILITY OF SUPPLY CHAIN PARTICIPANTS				
Exporter: - Pre-selected Brands and Official Distributors - Thorough screening - Access of ingenuine local distributors: low chance Sales Platforms: - CBEC Platforms of higher reputation	Exporter: - Pre-selected Brands and Official Distributors - Thorough screening - Access of ingenuine local distributors: low chance Sales Platforms: - CBEC Platforms of higher reputation	Exporter: - Any Brands and Distributors - No screening Access of ingenuine local distributors: moderate chance Sales Platforms: - Overseas brand stores and stores of distributors - Platforms of higher reputation	Exporter: - Any Brands and Distributors - No screening Access of ingenuine local distributors: high chance Sales Platforms: - Interpersonal Channels - Platforms with low to high reputation	Exporter: - Any Brands and Distributors or Certain Pre-selection -No or Limited Screening - Access of ingenuine local distributors: high chance Sales Platform: - Platforms with low to high reputation
SUPPLY CHAIN VULNERABILITY				
Delivery: - Managed by Platform or Independently - Exporter, CBEC Warehouse, Customer Warehouses: - Warehouses of CBEC's Platforms in China Supervised by Customs	Delivery: - Managed by Platform or Independently - Direct from Exporter to Customers Warehouses: - Any Provider Abroad or Platform's Overseas Warehouse	Delivery: - Any Delivery Partners - Direct from Exporter to Customers Warehouses: - Any Provider Abroad	Delivery: - Any Delivery Partners - Exporter, Agent, Customer Warehouses: - Any Provider Abroad	Delivery: - Any Delivery Partners - Exporter, Intermediary/ies, Customer Warehouses: - Any Provider Abroad - Any Provider in China

(Sources: Dudarenok, 2017; GMA, 2019, 2020b; Seema, 2020; Sohlberg, 2020a; Zhang, 2019b; Author's Analysis)

2.4.5 Perspective of Delivery Speed

The delivery speed is related to several factors mainly whether a product is shipped from a warehouse in China and abroad, another key factor is custom clearance which might be conducted completely for the whole batch of products, for individual packages, or partly when the product batch arrives and partly when the customer place order and the order is sent.

Table 9. Delivery Speed by Import Modes

CBEC: Bonded Warehouses	CBEC: Direct Shipping	Postal: Official Channels	Postal: Daigou Trade	General Import
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INFLUENCE OF CUSTOMS CLEARANCE ON DELIVERY SPEED				
- Shipping type: Bulk - Customs clearance separated: Yes - Customs Clearance: when product batch arrives: Manual - Customs Clearance after placing an order: Integrated digitalized - Cleared by customs before an order is placed: Partly	- Shipping type: Bulk - Customs clearance separated: No - Customs Clearance: when product batch arrives: Both, first Manual and then Integrated - Cleared by customs before an order is placed: No	- Shipping type: Individual Packages - Customs Clearance: Manual for postal packages - Cleared by customs before an order is placed: No	- Shipping type: Individual Package - Customs Clearance: Manual for postal packages - Cleared by customs before an order is placed: No	- Shipping type: Bulk - Customs clearance separated: No - Customs clearance: when product batch arrives: Manual - Customs Clearance after placing an order: Already cleared - Cleared by customs before an order is placed: Yes
INFLUENCE OF DELIVERY METHOD ON DELIVERY SPEED				
- Domestic Delivery from bonded warehouse in China - Sent in Bulk - Time needed: 1 - 6 days	- International Delivery from warehouse abroad - Sent in Bulk - Time needed: 7 – 30 days	- International Delivery from warehouse abroad - Sent by Individual Packages - Time needed: 7 – 30 days	- International Delivery from seller’s home or warehouses - Sent by Individual Packages - Time needed: 7 – 30 days	- Domestic Delivery from a normal warehouse in China - Sent in Bulk - Time needed: 1 - 6 days

(Sources: Express Technology, 2020; Drizzie, 2017; Kuajing yan, 2018a, Kuajing yan, 2018b; Taoying Capital, 2018 Author’s Analysis)

2.4.6 Perspective of Product Variety

The perspective of product variety considers the potential of each import mode to increase product variety on the market, the perspective assumes that when capital requirements are low and there are no additional delays in its market entry this might lead to a higher number of cosmetics brands entering China’s market with their products.

Table 10. Product Variety by Import Modes

CBEC: Bonded Warehouses	CBEC: Individual Packages	Postal: Official Channels	Postal: Daigou Trade	General Import
FACTORS INFLUENCING REQUIREMENTS ON CAPITAL				
<ul style="list-style-type: none"> - Registration waived - 70 % of taxes - Delayed payment - Need to be shipped to China in Advance - No official domestic entity - Shipping, warehousing and marketing provided by CBEC platforms - Sales even without brand participation: No 	<ul style="list-style-type: none"> - Registration waived - 70 % of taxes - Delayed payment - No shipping in advance - No official domestic entity - Shipping, warehousing and marketing provided by CBEC platforms - Sales even without brand participation: No 	<ul style="list-style-type: none"> - Registration waived - Postal Taxes: 20 % and 50 % - No shipping in advance - No delayed payment - No official domestic entity - Marketing by external partners - Sales even without brand participation: need to allow international shipping 	<ul style="list-style-type: none"> - Registration waived needed - Postal Taxes: 20 % and 50 % - No shipping in advance - No delayed payment - No official domestic entity - Marketing by shopping agents - Sales even without brand participation: yes, shopping agents 	<ul style="list-style-type: none"> - Initial registration 12 000 – 80 000 RMB per one product - Full taxes - No delayed payment - Need to be shipped to China in Advance - Official entity or distributor - Shipping, warehousing and marketing provided by external partners - Sales even without brand participation: No
TIME NEEDED TO ENTER CHINESE MARKET				
<ul style="list-style-type: none"> - Regulatory requirements: No Registration, No Filling - Official Presence on Chinese Platforms: Yes - Delay in days to weeks 	<ul style="list-style-type: none"> - Regulatory requirements: No Registration, No Filling - Official Presence on Chinese Platforms: Yes - Delay in days to weeks 	<ul style="list-style-type: none"> - Regulatory requirements: No Registration, No Filling - Official Presence on Chinese Platforms: Not necessary - No delay 	<ul style="list-style-type: none"> - Regulatory requirements: No Registration, No Filling - Official Presence on Chinese Platforms: Not necessary - No delay 	<ul style="list-style-type: none"> - Regulatory requirements: Registration and Filling - Official Presence on Chinese Platforms: Yes - Delay up to 14 months

(Sources: Graziani, 2019; Hao, & Ireland, 2017, KMPG, 2018; SFDA, 2020; Sohlberg, 2020c; Switzerland Global Enterprise, 2019; Thibaud, 2019; Wan, 2020)

3. RESULTS

3.1 Categories of results

In this paper were explored the comparative advantages of CBEC: Bonded Warehouses in terms of five perspectives deduced from academic and professional literature. Results can be divided into three categories based on the direction of given comparative advantage, 1. This import mode has clear advantages over other import modes. 2. This import mode has a disadvantage. 3. CBEC: Bonded Warehouse does not have a clear advantage or disadvantage over other import

modes. Categorizing them depends on the evaluation order in each chapter's tables of different subcategories and the relative size of the difference between this order. The comparative advantages are further divided into additional two categories, category of General Advantages for Cosmetics, which are advantages for cosmetics that are beneficial for cosmetics but not significantly more than for other imported product categories and Special Advantages for Cosmetics, which are providing comparatively higher added value for cosmetics than for the majority of other product categories.

3.2 General Advantage for Cosmetics

The result of this paper shows that CBEC: Bonded Warehouses have seven main General Advantages for Cosmetics: 1.) The advantage in Administrative costs, this advantage is primarily related to the exemption from the necessity to pay product registration and testing fees, the integrated custom clearance process and centralized supply chain of CBEC which led to a reduction in labour costs. 2.) The shipping costs are reduced thanks to bulk shipping and quantity discounts related to it. 3.) The taxes are lower, specifically, its rate is reduced by 70 % of normal taxes and tariffs. 4.) Cosmetics companies importing by CBEC can Delay payment of taxes until the customer places an order, taxes are paid per each order, not for whole incoming product batch. 5.) The Regulatory barriers are reduced because of waived product registration and first-time import license, brands can start with import without delay which might take normally up to 14 months and also save money. 6.) The authenticity protection is strengthened by a closed supply chain tightly controlled by CBEC platforms and customs, the credibility of companies entering this supply chain is thoroughly assessed. 7.) The delivery speed is fast thanks to the location of bonded warehouses directly in China in CBEC Pilot Zones and quick customs clearance.

Disadvantages compared to other import modes are in electronic Store management costs due to limited options brands have when they choose partners to provide these services, Inventory risks are also relatively high since goods need to be shipped to warehouses in China and products can from bonded zones leave only through CBEC, to sell goods through other channels products need to be first re-shipped abroad.

In other aspects is standing of CBEC: Bonded Warehouses rather mixed, Opportunity costs related to the early market entrance are relatively low but not the lowest due to the necessity to ship goods to China and create product presentation for the Chinese market, including translating materials or launching a product on CBEC platforms. Advantages for Product variety exists and are certainly higher than in the case of General Import, however, both Postal import modes and CBEC: Direct Shipping ensure that products can enter the Chinese market even quicker than in the case of CBEC: Bonded Warehouses.

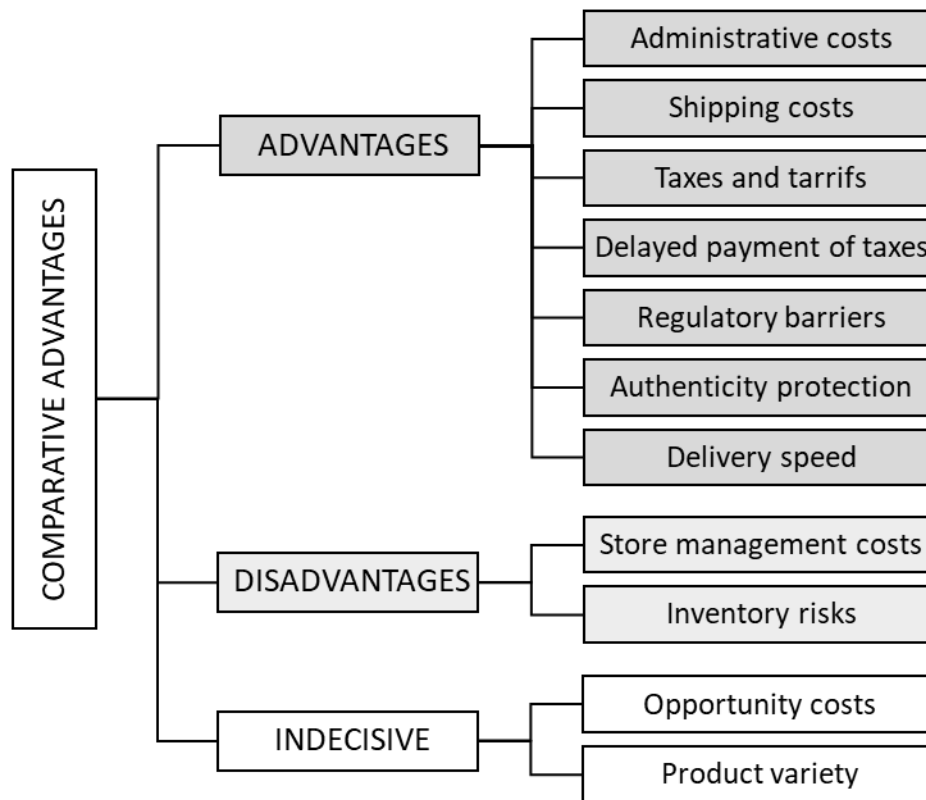


Figure 3. General Advantages of CBEC for Cosmetics

(Source: Created by the author based on results of this paper's comparative analysis)

3.3 Special Advantage for Cosmetics

There are also additional Special Advantages for Cosmetics, namely “Authenticity protection”, “Regulatory Barriers” and “Administrative Costs”. The authenticity of cosmetics is especially important because of the safety concerns related to counterfeit beauty products causing even inflammation, hair loss, irreversible damage of the skin, CBEC due to its direct and closely supervised supply chain and measures implemented by main CBEC platforms significantly limits the number of counterfeit product accessible through CBEC import mode. Thank safety concerns the registration process of cosmetics is especially long and can reach up to 14 months, regulators of CBEC for this import mode approved a list of products called Positive list. The products on the list do not need to pass product registration and can enter China's market with a minimal regulatory barrier. Administrative costs are in case of cosmetics-related with the fact that registration of products and part of it testing might be very expensive specifically around 12 000 – 80 000 ¥. Because brands just rarely sell just one product but rather wide ranges, the administrative cost might represent a significant load, for 20 products might the additional fees be already 240 000 – 1 600 000 ¥ not counting costs on the preparation of necessary documents, paying salaries to employees responsible for supervising this process from company side and other similar expenses.

From the practical point, two additional product categories might partly share a level of the added value of the mentioned comparative advantages and these are baby products and certain food and drinks as they share a similar level of safety considerations and lengthy registrations.

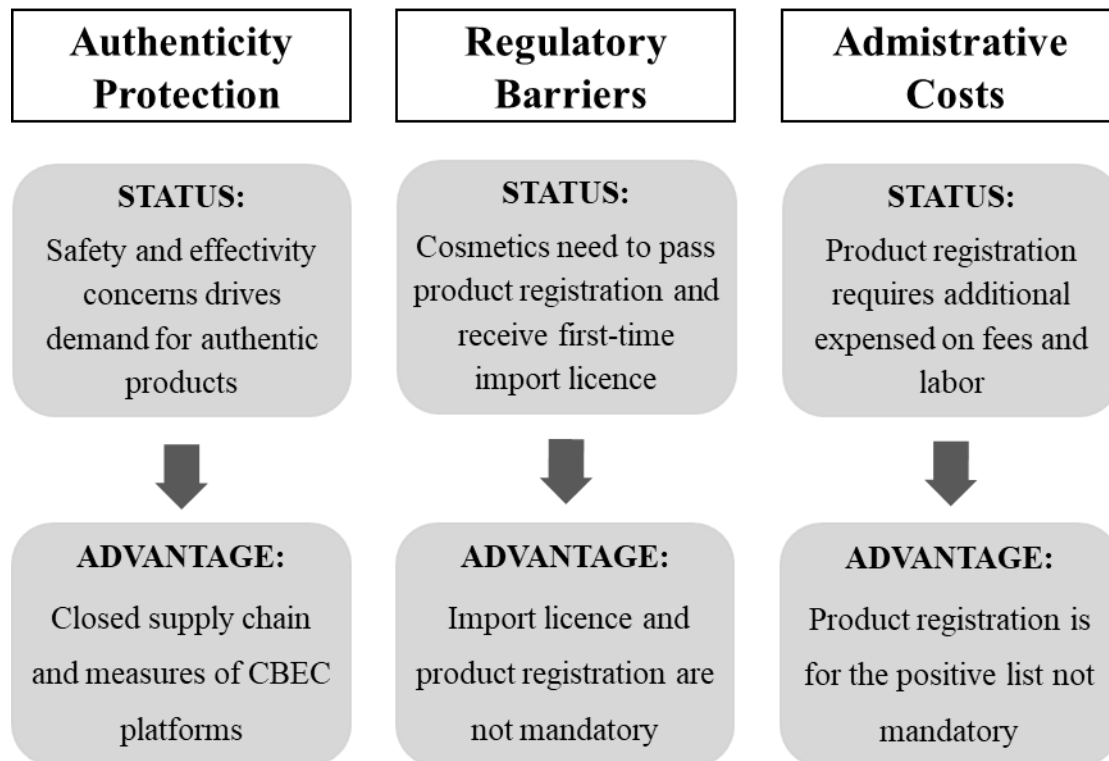


Figure 4. Special Comparative Advantages of CBEC for Cosmetics

(Source: Created by the author based on results of this paper’s comparative analysis)

3.4 Conclusion

This work brings a product type-based perspective into the research field and uncovers a key competitive advantage of cross-border e-commerce import mode using bonded warehouses to store and ship goods. Finding in this paper suggest cross-border e-commerce brings variety advantages for foreign cosmetics brands entering China’s market, the advantages are mainly related with the deregulation of registration process, digitalization of customs clearance, effective supervision of supply chain and location of the warehouses. Dominant position cross-border e-commerce platforms leads to a centralization and enforcement of additional requirements on exporting cosmetics brands and their operations. The existence of CBEC effectively eases both to costs concerns of exporters but also authenticity and safety concerns of final customers. The finding of this paper also indicates that weaknesses of CBEC are in restricted movement of goods which need to stay store in China’s bonded zones and can leave the zones when customer places his e-commerce order, liquidates or reshipped abroad. The

centralization caused by the dominant position of cross-border e-commerce platforms also restricts competition providers which might be translated into higher costs.

4. DISCUSSION

The finding suggests that certain competitive advantages has comparatively high added value for imported cosmetics, this might help to explain why the import of CBEC cosmetics increases in the share of overall CBEC more than for many other product categories, these factors need to be, however, assessed in the context of rising cosmetics demand in China which might be an additional significant driver of the growth.

In terms of the current states of CBEC regulations and system, based on current trends and the results of this paper it might be expected that CBEC import of cosmetics will grow in value and possibly even in a share of a total of CBEC imported product categories. The results further suggest that reducing requirements for product registration of cosmetics, extending the list of cosmetics products eligible for product registration and import license waiver and strict control of the CBEC supply chain and might have additional positive effects on increasing cosmetic imports. Whether such measures will be introduced will depend on specific policies of China's Government and its General Administration of Customs (GACC).

There are several limits of this paper too, first of which is the selection of import modes and perspective of analysis, the selection of import modes was focused solely on B2C and not B2B import which might have prevented it from discovering certain trends and additional findings. The perspective of this paper included, the author attempted to focus solely on those the most important, relevant and possible to analyze with the method of empirical comparative analysis. Some additional perspectives might be missing, for example, a perspective considering the maximal potential market size of each import mode might reach or another potential perspective price, the factor initially included but later removed due to lack of quality of publicly available data. This paper's perspective also solely focus on the perspectives of companies and customers and do not include the perspective of e-commerce platforms; this is because of a diversity of their business interests (their interest is too strongly influenced by each platforms business strategy and it is hard to generalize) and also because adding several additional perspectives might make this study less focused.

As an advantage but also disadvantage might be considered also the fact that this research draws from secondary, not primary sources. The disadvantage of this method is lower transparency about details about the collection, analysis and collection of the source data of some external subjects. The advantage is in the complexity of such research, drawing, data, insight and considerations from a wide variety of resources create more opportunities to give it into contrast and get correct conclusions.

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