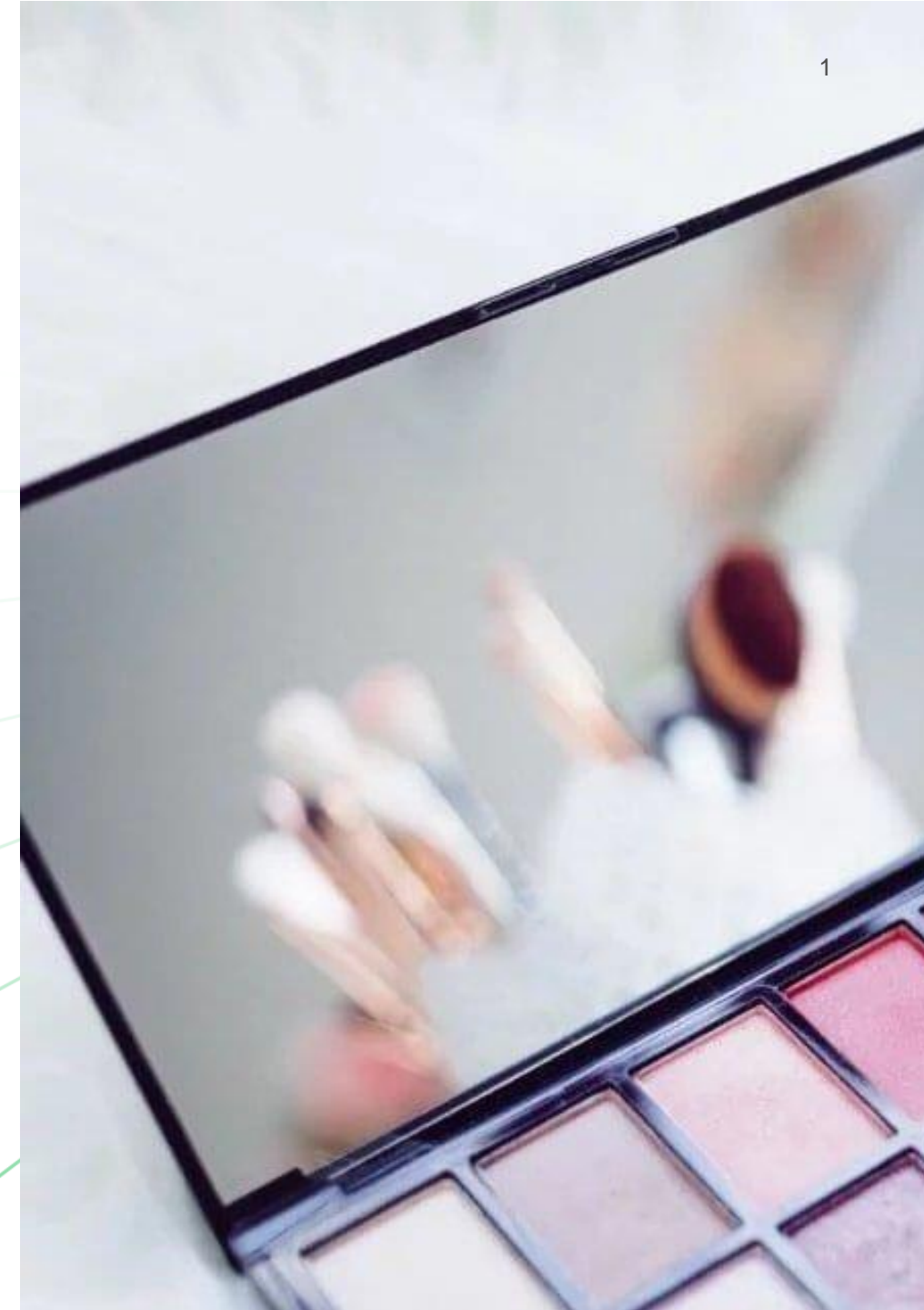


E-Commerce Facilitation Measures Stimulating Cosmetics Trade

Case study of trade policies on cross-border trade in Era of Internet

Yingzhi Zhang
Oct 2020



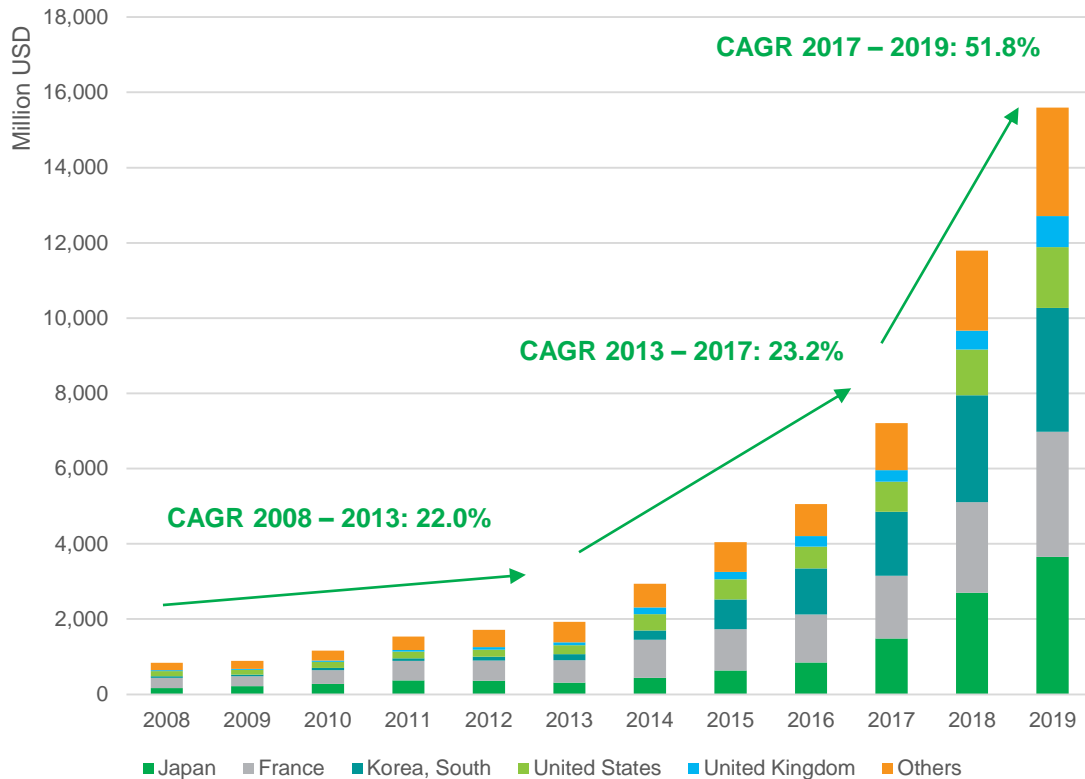
Key Points

- China launched Free Trade Zone in 2013 (right at this time Oct), with Shanghai FTZ as a pilot; since then, a number of cross-border e-commerce zones were mandated by central government with trade facilitation measures such as bonded import, direct mail implemented. By the end of 2019, a total of 59 Cross-border e-commerce pilot zones across China were approved.
- To accommodate the consumer demands for import goods, China implemented a 'white list' approach in regulating cross-border retail import. The regulation officially entered into force in 2018. Importing the items listed could be eligible to certain simplified clearance procedures.
- This has stimulates the trade on consumer products, including healthcare, dairy, food and cosmetics. The latter, cosmetics product are amongst the fastest growing category, as it was a typically high tariff rates yet large demand. We have identified a total of thirty tariff line products under HS30 that are listed in the first list and analysed trade data. The stimulating effects are apparent, with CAGR rate in the past three years remains at 51%. Major import origins spread across Asia, North America and Europe.
- Aggregating at 6-digit level (total of 26 HS codes), we use mirror trade datasets to find out the share of China as a destination for those key trade partners. For neighbouring South Korea and Japan, China market is key driving force to the sale of cosmetics goods; while France, US and UK also see China as a growing export market.
- This supplying geography also brings up traffic volume accordingly. All main transport modes, i.e. sea, air, and road are delivering more of the listed items, with air freight experiencing a sharp increase. Likewise, it seems more companies are showing interest here as we observe for example, the number of US companies involved are growing across past a few years.
- We also find that China provinces with early adoption of e-commerce policy has seen more imports, and the specific regime stimulation effects are obvious. Festival shopping in recent years are also an incentive to e-commerce growth, where we see major pulses right before those key dates.
- With an additional product list published on Jan 1 2020, we could expect some stimulus effects on the new added product trade. Our GTA Forecasting suggests a continual growth in the coming years.
- Trade data at breakdown levels on monthly and annual base, would give insights in different ways by examine from the respective angles. For example, the competing import origin markets, the preference of specific products, the consumer markets identification, traffic demand and timing estimate, or planning for stockpiling or promotion events, or trade facilitation effectiveness evaluation.

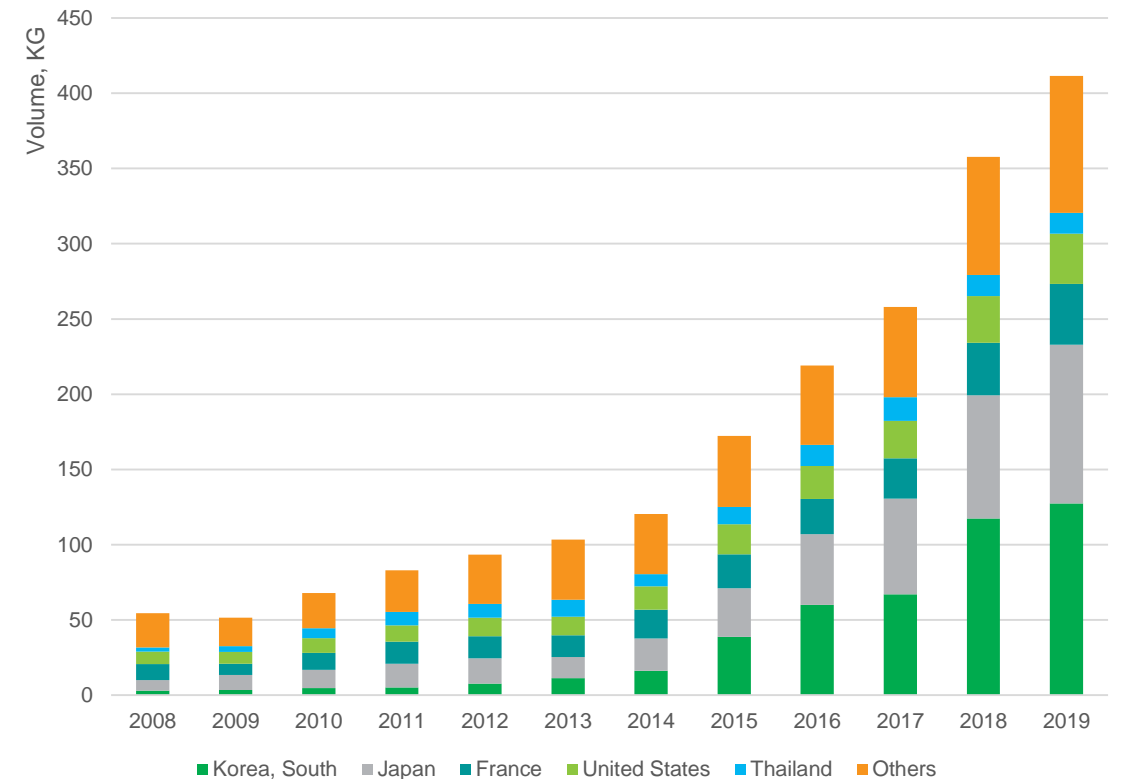
Cosmetics Import 2008 – 2019

Grouping those cosmetics that listed as eligible for e-commerce facilitation, we run trade analysis from different perspective. During the period, trade has seen an increase in imports with FY2013 and FY 2018 as two milestones, at which timepoints China launched FTZ and E-commerce trade facilitation measure came into force. Significant increase is seen both in terms of value and volume and is captured by all top trade partners, for example, South Korea, Japan, France, the US and UK.

2008 - 2019 Cosmetics* Import Value



2008 - 2019 Cosmetics* Import Qty

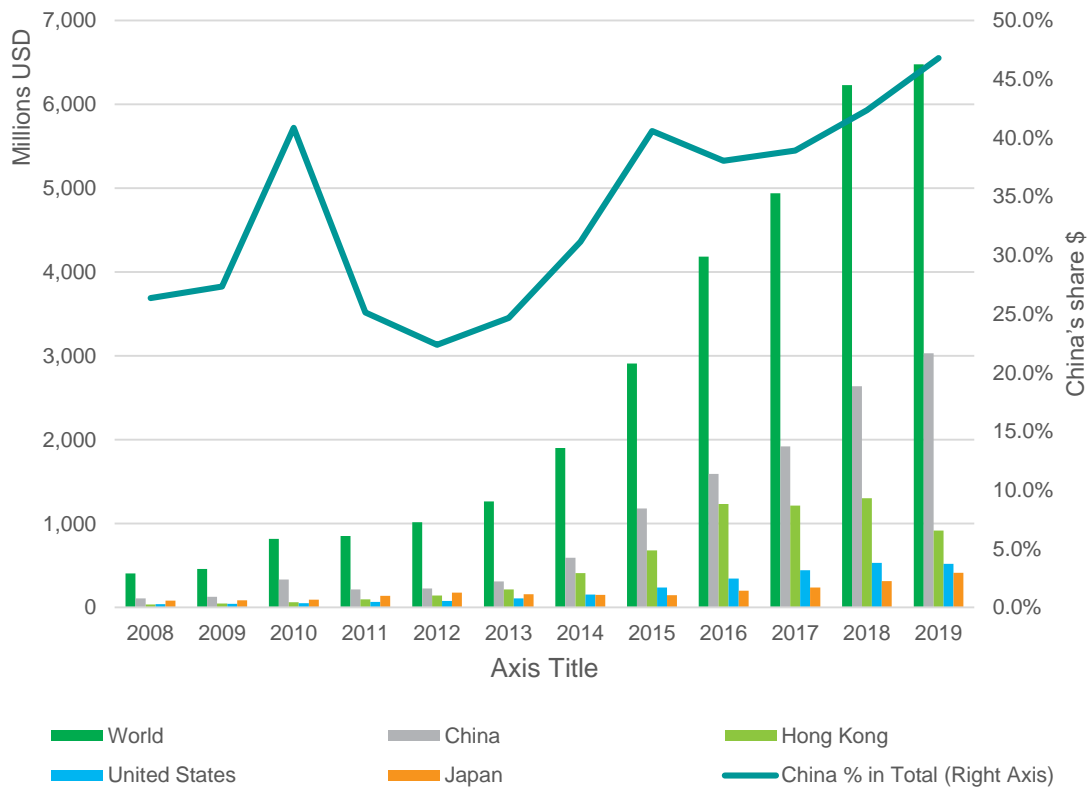


Source: IHS Markit Global Trade Atlas

Asia Trade Partner (1) – South Korea, largest import origin

South Korea and Japan are the top two supplying countries of cosmetics into China and trade has jumped most owing to their geographic adjacency, and possibly a preference of eastern similarity in makeup taste.

S Korea Export Market vs. China's Share



- China has always been the top export destination of South Korea's cosmetics products, with trade value and market share both on the rise.
- Except during 2016 – 2017 when some political conflict between the two countries that damaged the trade relationship temporarily, where we see a major drop in terms of cosmetics product trade.
- Yet after the period, trade was back on track and in recent years, especially after the implementation of e-commerce facilitation measure at the beginning of 2018. In 2019, South Korea exported over USD three billion of cosmetics (aggregated to HS6 level), account for 46.8% in its over all export of these items.
- Meanwhile, we see nearly half of South Korea exports of cosmetic products are flowing into the China market (mainland only, excluding trade potentially via Hong Kong), which is a predominant driving force to the industry.

Source: IHS Markit Global Trade Atlas

Asia Trade Partner (2) – Japan, 2nd largest import origin

South Korea and Japan are the top two supplying countries of cosmetics into China and trade has jumped most owing to their geographic adjacency, and possibly a preference of eastern similarity in makeup taste.



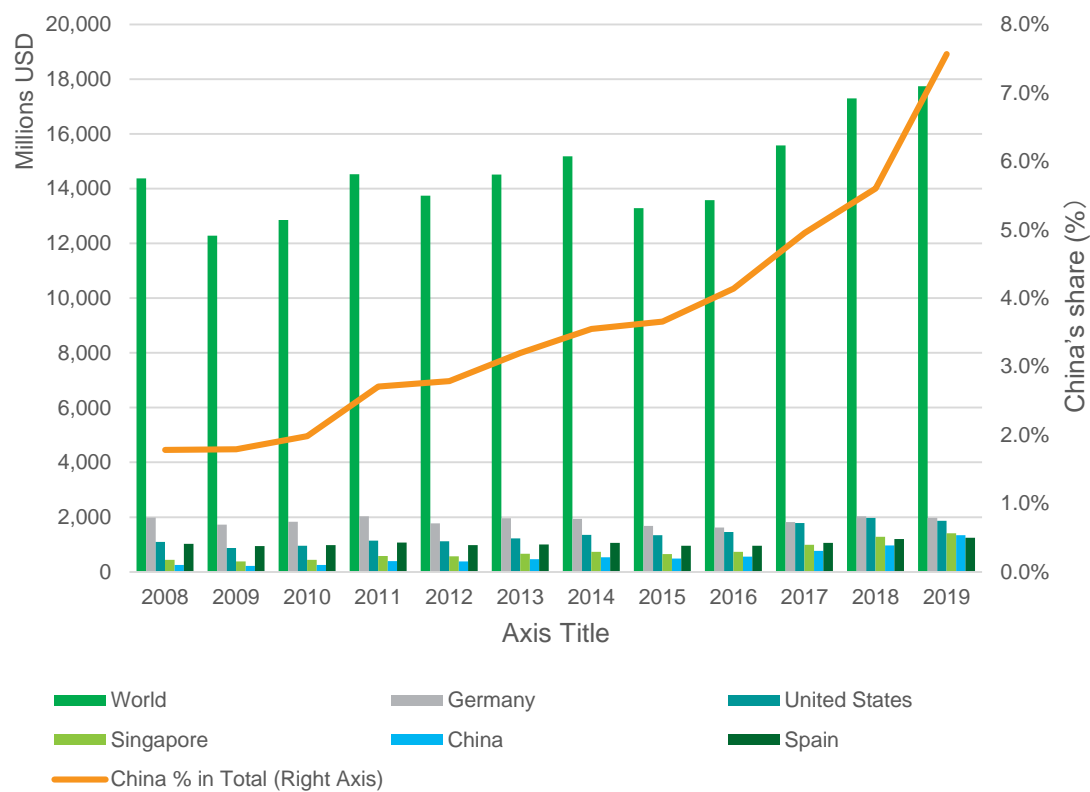
- Likewise, China is also Japan’s largest export destination of cosmetics trade, trade has been consistently increasing in recent years since the introducing of FTA.
- A major jump during 2016-2017 when South Korea experienced a drop, which possibly indicates Japan has become an alternative supplying market to compensate the consumers’ demand.
- After the e-commerce policy came into force in 2018, the trend continued upward till recently. In 2019, China’s share stayed at over 42% of Japan’s total exports of cosmetic products (HS6 digit aggregated), with around \$2.32 billion import value, nearly double the number comparing to 2017.

Source: IHS Markit Global Trade Atlas

Western Markets (1) – France, largest import origin outside Asia

Yet variety and big cosmetics brands from Europe and North America have pushed western countries to be key import origins as well, predominantly France, the US and UK.

France Export Market vs. China's Share



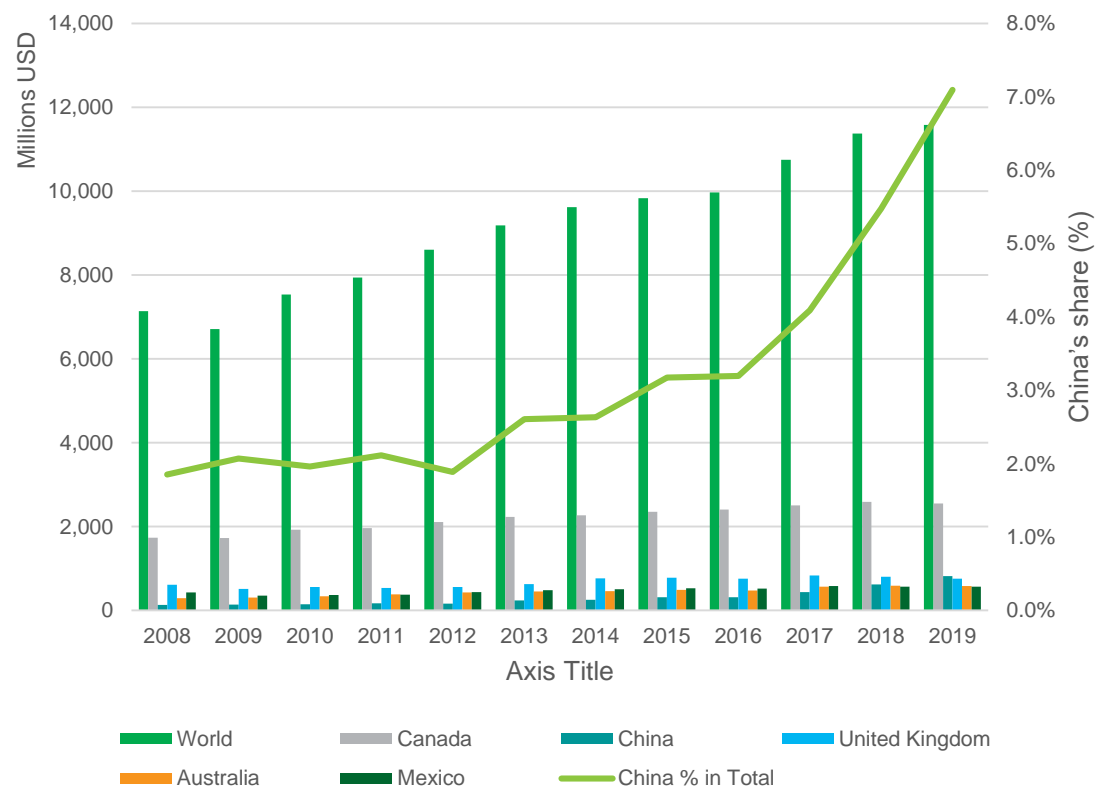
- As a well-known origination of cosmetics supplier especially fragrance, France is the 2nd largest import origin; and if looking at from a reverse perspective, China has been the 4th biggest export destination of cosmetics product trade, with percentage in total France’s export keep on an upward trend.
- Though not as significant, China trade of total France’s exports in recent years is also increasing. And the trade value increase faster than other key destinations for example Germany and Spain, and thus more prospective and could bring potential for France exporters and the cosmetics industry.
- The introduction of FTZ and E-commerce policy together brought up the share from a merely 2.8% in 2012 to 7.6% in 2019, with absolute trade value \$383 million to \$1.34 billion, more than tripled.

Source: IHS Markit Global Trade Atlas

Western Markets (2) – US, 2nd import origin outside Asia

Yet variety and big cosmetics brands from Europe and North America have pushed western countries to be key import origins as well, predominantly France, the US and UK.

US Export Market vs. China's Share



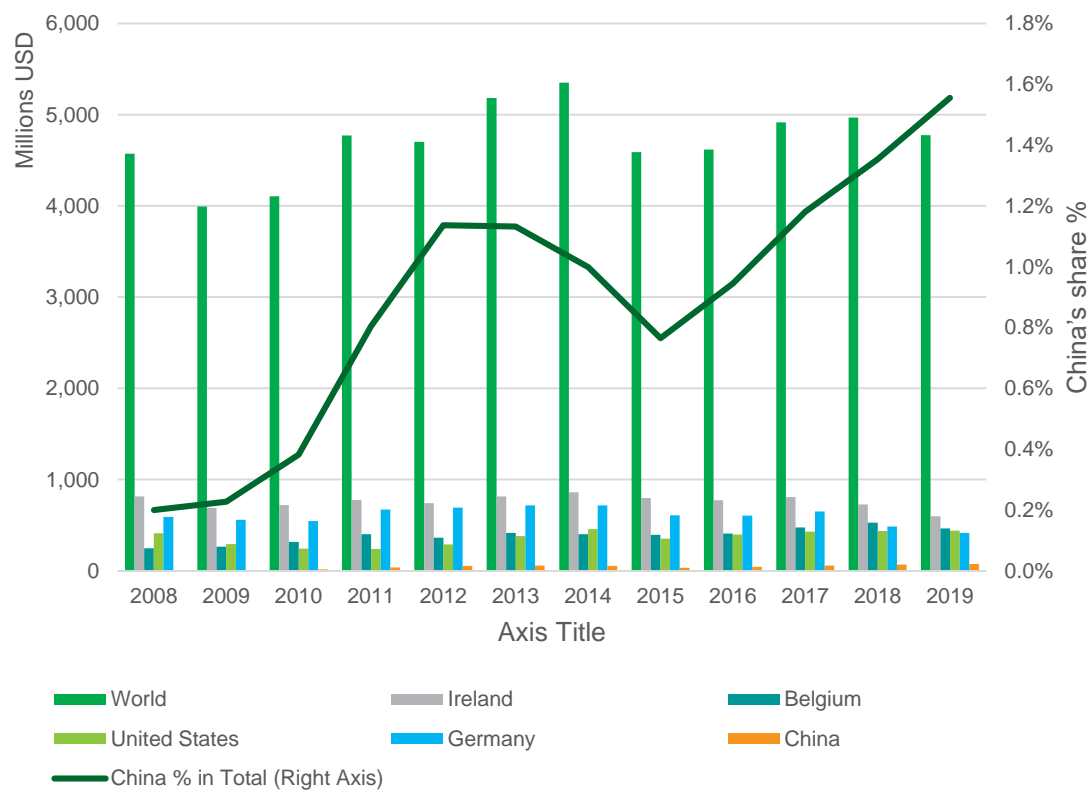
- The significant increase in recent years are more apparent in terms of China's share in US export cosmetic products, despite the trade conflicts elsewhere, consumer products are still growing.
- Only next to US's neighbour Canada, China kept the 2nd largest export destination. China's share in US exports of cosmetic items continues to increase since 2017, growing from 4.1% to 7.1%
- In 2019, China imported \$821 million of the listed cosmetics from the US, over 30% increase comparing to the previous year.

Source: IHS Markit Global Trade Atlas

Western Markets (3) – UK, 3rd import origin with upward trade

Yet variety and big cosmetics brands from Europe and North America have pushed western countries to be key import origins as well, predominantly France, the US and UK.

UK Export Market vs. China's Share



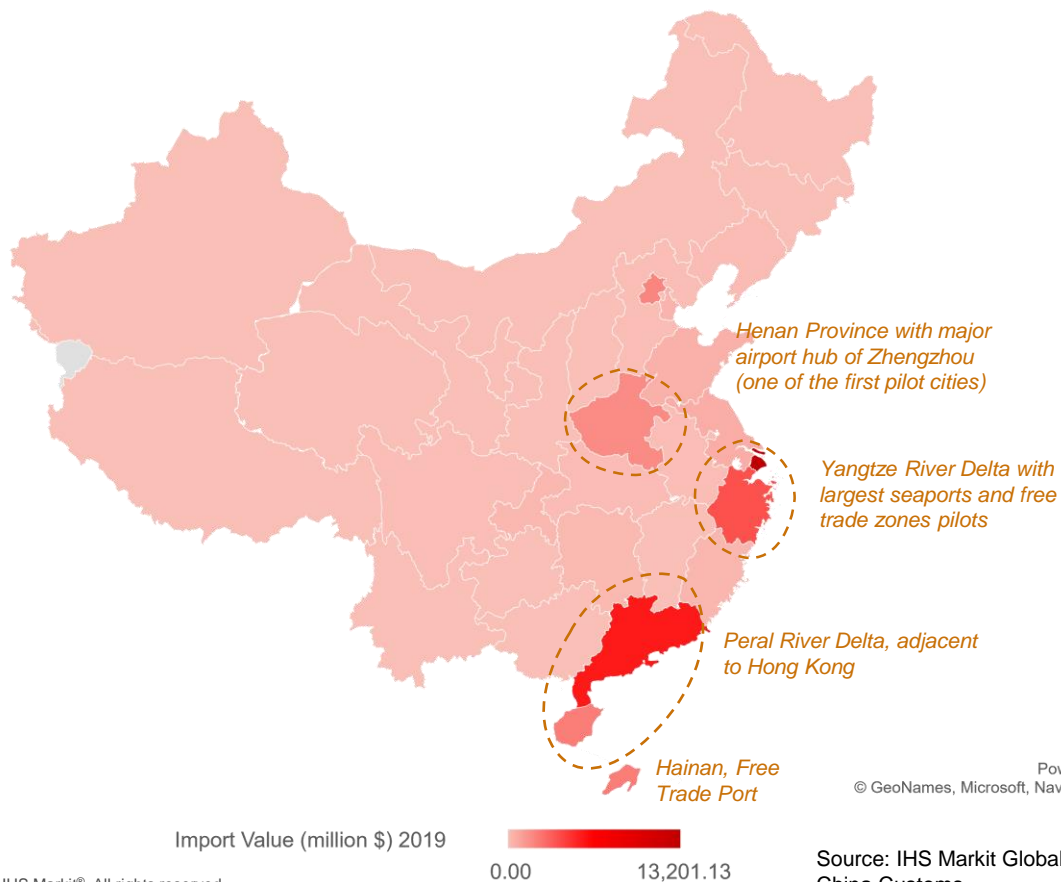
- While the UK's cosmetic trade, China ranked relatively lower, its share is increasing though. Even when in recent years, UK total export of these items are stagnating and even seen some drops last year, trade with China has been healthy both in terms of share and absolute value.
- Though the absolute import is not huge, it could be observed that since 2016, the share of China's imports of total UK exports of these cosmetics items saw a consistent increase.
- The Great Britain Exhibition is now held every other year in China organised by UK Dep of Trade and Investment which facilitates UK's brands who export.

Source: IHS Markit Global Trade Atlas

Importing Provinces

By 2019, 58 cities were mandated in the e-commerce pilot, spread across almost all China mainland province; yet not all were introduced at the same time, a few were introduced in December. In terms of import value, top provinces are usually those who have the first batches pilot cities (launched in 2015, for example Zhengzhou, Shanghai, Hangzhou, Shenzhen) located, and are with a large base of population and economic activities.

Import value by China Mainland Province (2019)



Province	Import Value (million \$) 2019	Unit Price (\$/kg)	No. of Pilot City (by 2019)
Shanghai	13,201.13	172.42	1
Guangdong	5,696.22	224.81	6
Zhejiang	3,815.23	202.55	4
Hainan	2,237.20	645.73	1
Beijing	1,978.15	183.94	1
Henan	1,789.38	336.11	2
Jiangsu	593.37	129.78	5
Shandong	475.14	269.47	4
Tianjin	370.19	293.21	1
Fujian	261.20	218.06	3
Chongqing	232.40	279.03	1
Hunan	164.03	287.36	2
Liaoning	115.78	297.48	3
Hubei	95.93	35.02	2
Sichuan	41.05	119.97	2
Anhui	35.99	35.43	2
Hebei	33.79	59.37	2
Xinjiang	13.37	84.74	0
Shaanxi	8.43	241.80	1
Yunnan	6.50	119.39	1
Guangxi	5.94	50.95	1
Jilin	4.91	168.79	2
Jiangxi	3.92	140.53	2
Shanxi	1.15	13.12	1
Guizhou	1.14	48.32	1
Heilongjiang	1.00	101.10	2
Gansu	0.40	15.05	1
Inner Mongolia	0.07	5.79	2
Tibet	0.03	2.28	0
Ningxia	0.00	76.07	1
Qinghai	0.68	71.25	1

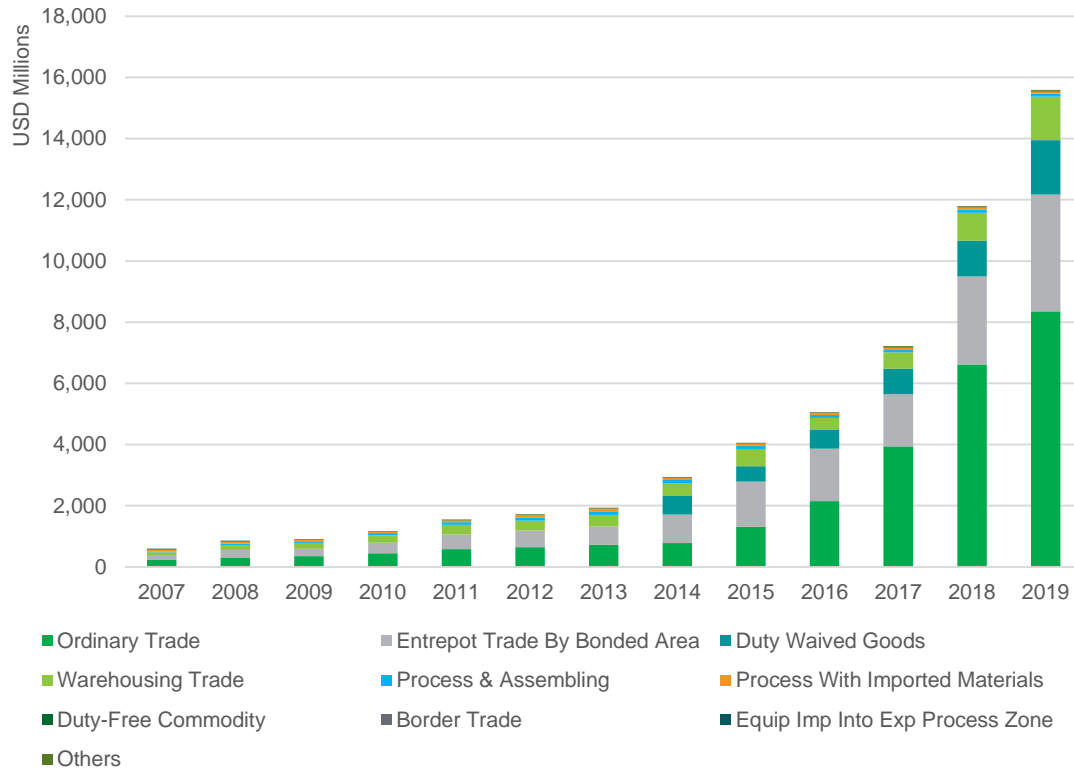
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Source: IHS Markit Global Trade Atlas; China Customs

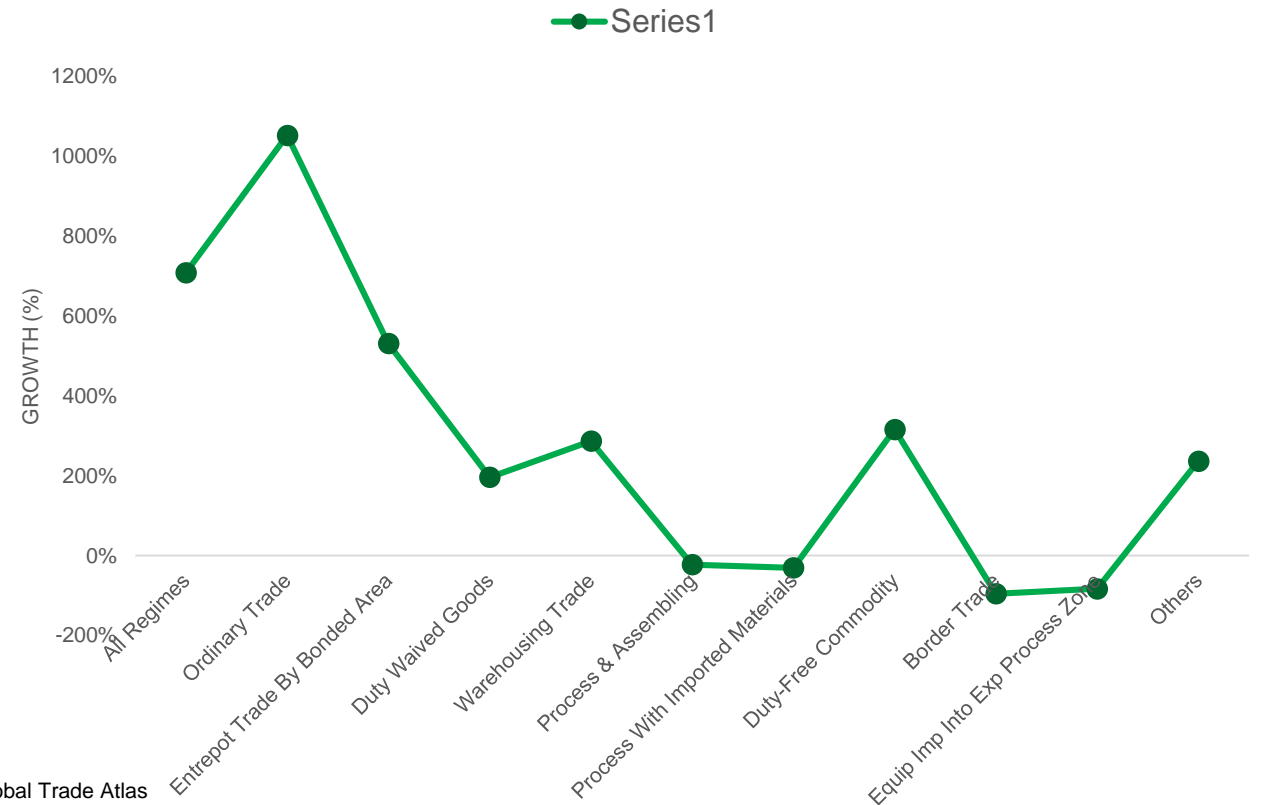
Trade Regime Implication

Almost all trade regimes that involve consumer products experienced three digit growth in the past seven years. The measures are applicable for different modes of entry into customs border, such as ordinary trade then distribute, or Bonded zone and warehouse. While ordinary trade is still the largest trade regime in terms of listed items imported, bonded trade, warehousing trade, and duty free or waived are seeing a significant growth as well, reflecting obviously the ‘free trade zone’ effects.

Import Value by Regime



Import Value Growth (2019 vs. 2013)

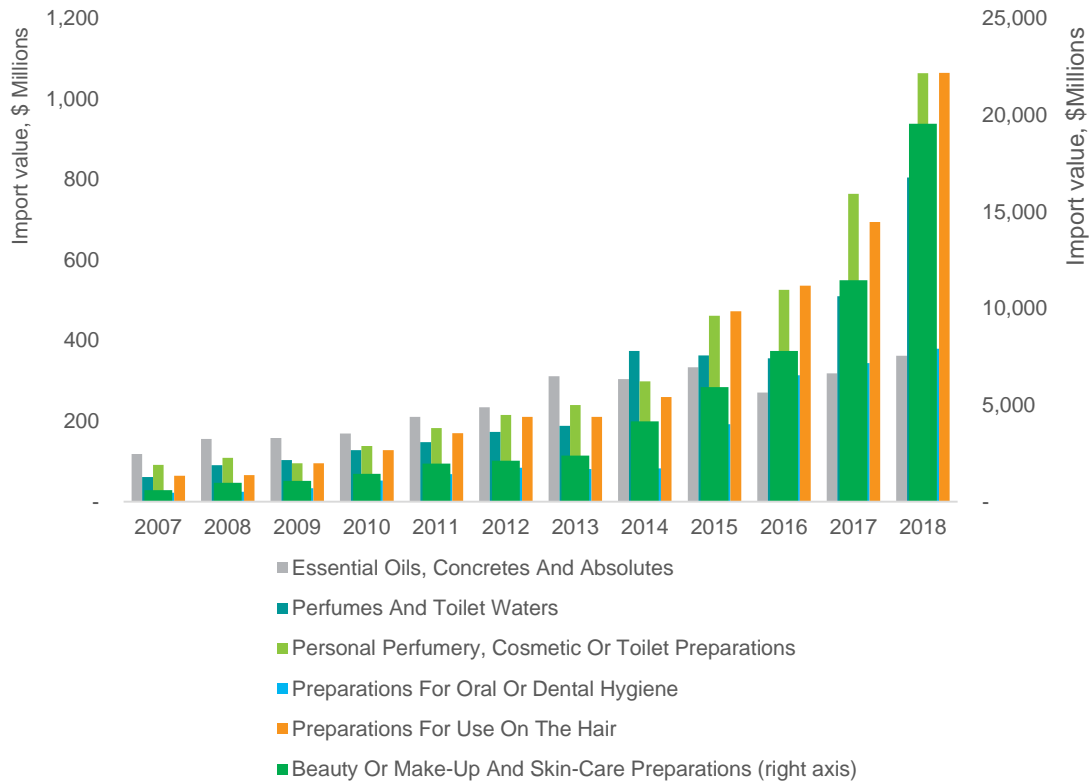


Source: IHS Markit Global Trade Atlas

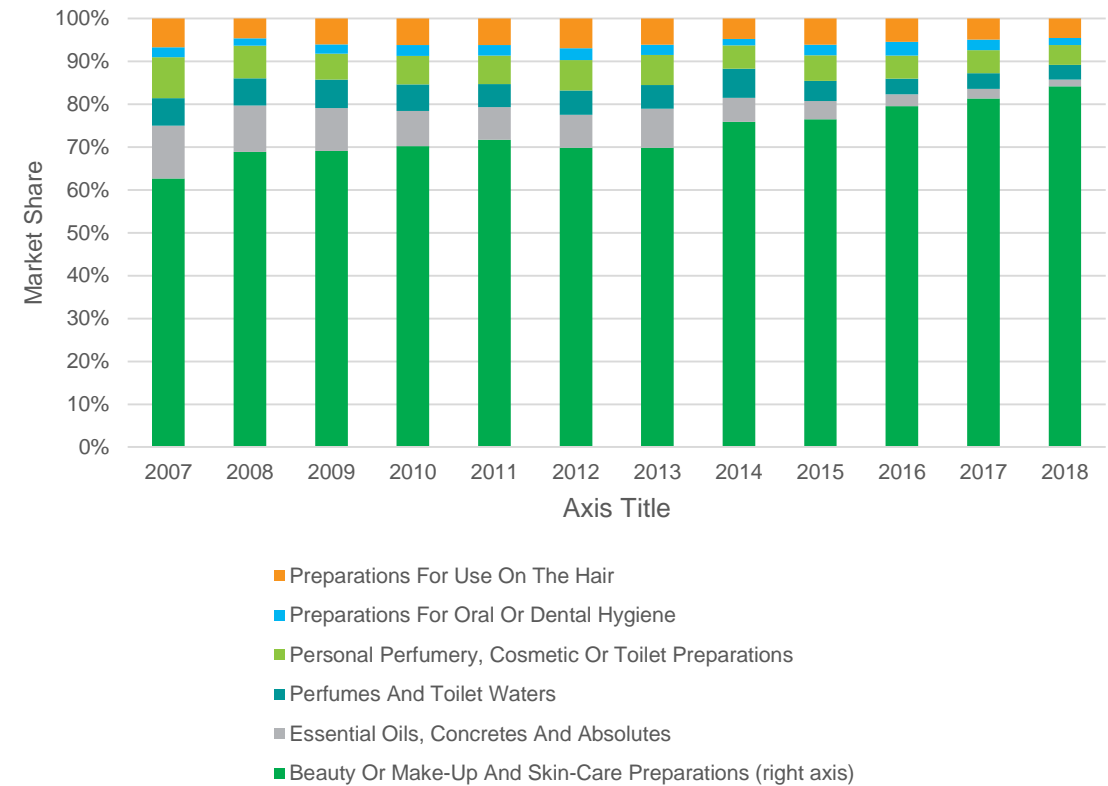
Cosmetics Import Boost since FTZ and E-Commerce Policy launched

What are the favourite products?

China's Import Value of Cosmetics Products*



Import Value share by product

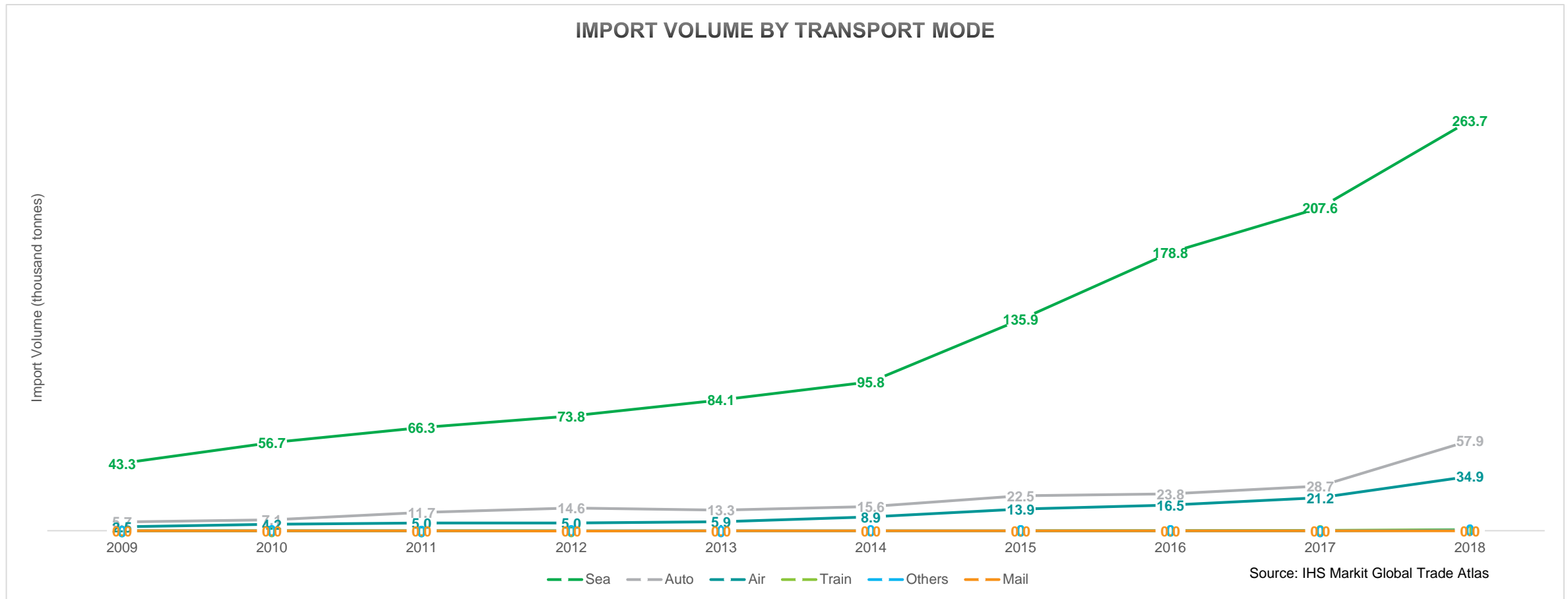


Source: IHS Markit Global Trade Atlas

*Those cosmetics products included in cross-border e-commerce 'white list' that eligible to simplified customs procedures

More traffic to all Transport Modes

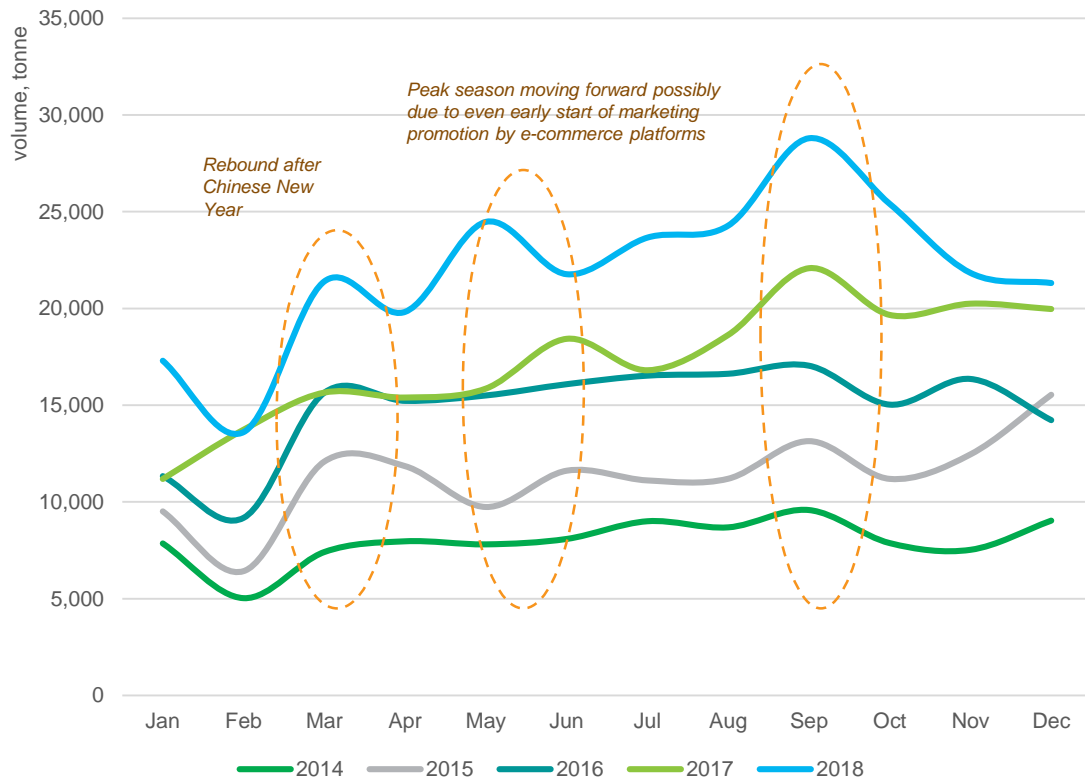
The increase in imported cosmetic products has been reflected in all transport modes, predominantly air and sea. While ocean freight still being the dominant mode for delivering, air freight has seen an even sharper boost. Interestingly the auto mode (i.e. land) trade is taking place almost all in Shenzhen and Guangzhou Customs Districts – where it is adjacent to Hong Kong.



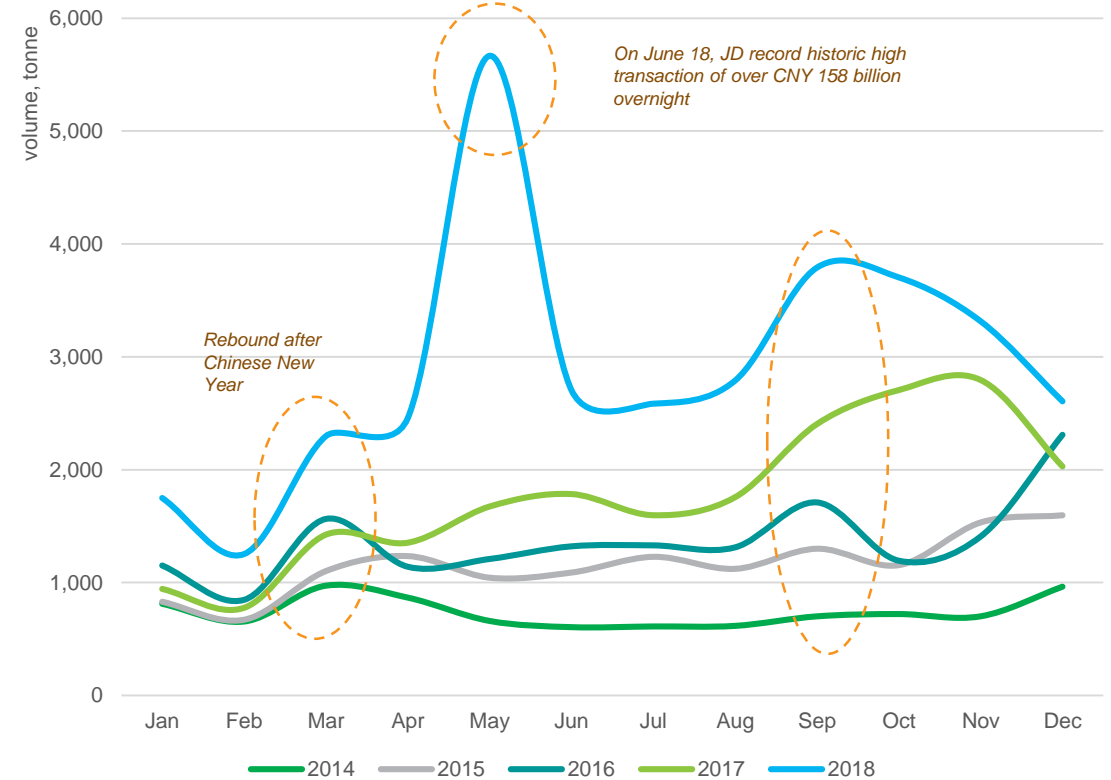
Festival Shopping

The monthly datasets allow us to further examine the ‘festival’ effect – something that is emerging and fostering consumption in the decade and has seen a continuously double digit growth by a series of promotions. Among several, the ‘Double Eleven’(Nov 11) and ‘618’ (June 18) are the two major shopping festa organised by Alibaba and JD respectively. The stockpiling activities before these dates is pushing monthly trade volume by both transport mode.

Monthly Import Volume by Sea



Monthly Import Volume by Air

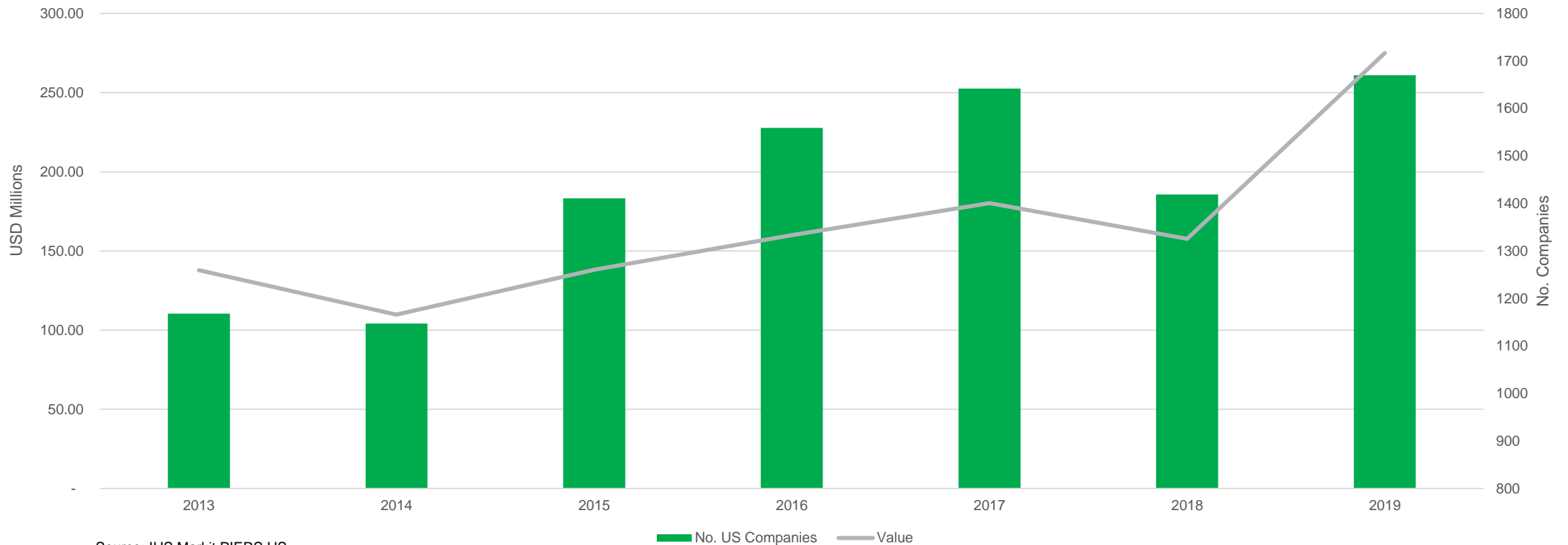


Source: IHS Markit Global Trade Atlas

Interests for Companies

Industry is being attracted to this trade as we observe from US PIERS data, the number of enterprises (incl. shippers and logistics) involved in cosmetics exports to China is growing (except for a temporary drop in 2019 due to the trade war), along with the export value. In 2019, a record high of over 1600 companies have been part of the trade, bringing ~275 million USD.

No of Companies (US) Involved and Value

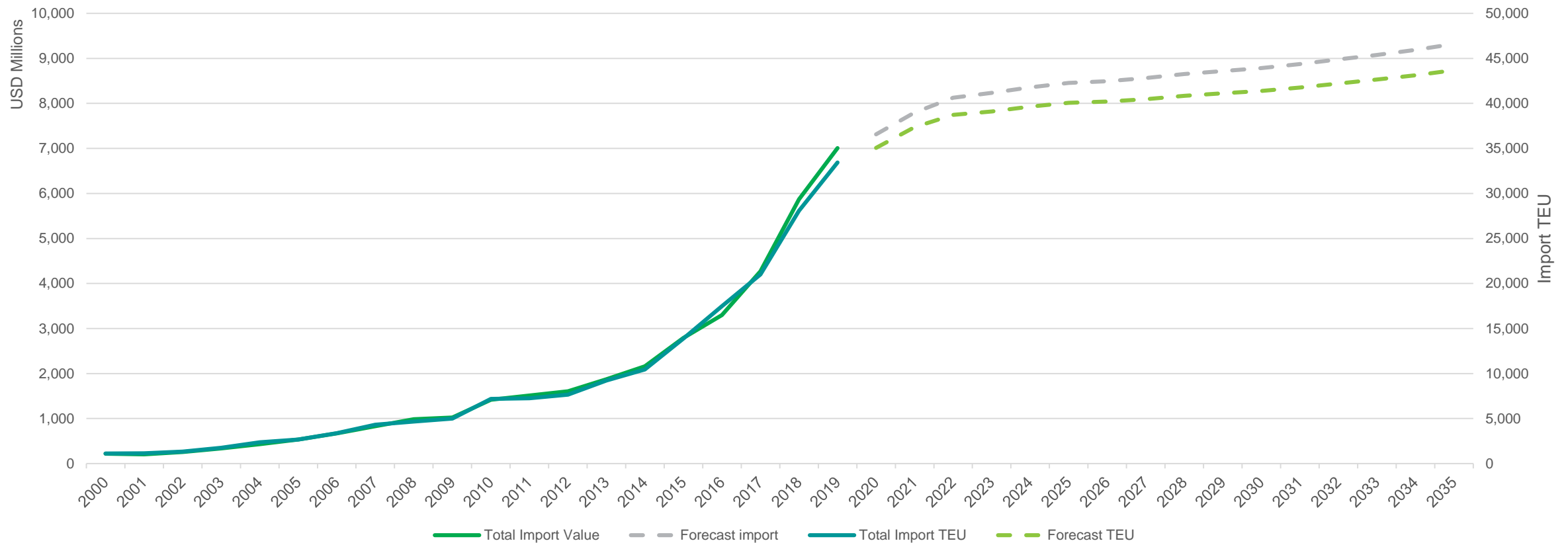


Source: IHS Markit PIERS US

Prospects

With GTA Forecasting we can outlook the import development of cosmetics related products in the next few years. It shows the trade will keep increasing and exceed nine billion USD in 2035 – yet the forecasting will be updated on a quarterly base to reflect any updates in the macro environment for example new policies roll out.

Forecast Import of Essential oils, Perfume and Beauty Prep.



Source: IHS Markit GTA Forecasting

User Relevance

- For Trade Facilitation bodies/Government : Assess the measure effectiveness by looking at the trade indicator and comparison;
- For Logistics and Transport: Service demand and addressable markets identification;
- For Brand (Retailers/Manufacturers): Consumer Market understand, product prioritisation, strategy planning;
- For Financial / Investing: Look for invest opportunities, market outlook and valuation
- Academic / Institutions: Industry Research



Ongoing Interest

- The newly introduced list with effective data in Jan 2020 has included more items, mostly consumer products, thus could be stimulus to a wider range of trade.
- Meanwhile, a series of policies on Export B2B E-commerce is starting a pilot in many provinces, aiming to provide facilitation of export via the e-commerce trade similar to imports.
- Using monthly datasets to track in time the change of the listed items traded volume, identifying potential growth area, and to assess the effectiveness of these measures.



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