

Supply Chain 供应链

How to Learn from the Chinese Experience
and Envisage New Strategies
如何汲取中国经验并展望新策略

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Confirmed COVID-19 cases per million



59



584



11,240



5,152



4,612

Experience from Chinese Suppliers and Distributors 中国供应商和分销商的经验

- Most parties chose to negotiate, not to litigate
 - Difficult to prove which party in the supply chain is ultimately responsible
- Weighing losses against the future profit
 - Distributor may allow suppliers to delay the delivery
 - Supplier may give up some profits as compensation
- If contract terminates, can suppliers sell the products elsewhere?
 - Using the franchisor's network
 - Consider selling in a different regional market
 - Case study: a Wuhan clothing retailer's story
 - Lower the price and sell in bulk
 - Government procurement
 - Donate the products in exchange for income tax credit

The Principle of Equality and the Principle of Fairness 平等原则和公平原则

- The PRC Civil Code and the former Contract Law provides that all parties are equal and shall observe the Principle of Fairness
 - These principles automatically apply through all contractual relationships
- These principles are reflected in pandemic related negotiations
 - Parties go through challenges together
 - Each takes one step back and resolutions are generally reached
- The Supreme People's Court takes the same position
 - Guiding Opinions on Proper Trial of Civil Cases Related to the Covid-19 Pandemic (I) (II) (III)
 - Encouraging parties to amend and perform the contract if possible

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China Is First Major Economy to Return to Growth Since Coronavirus Pandemic

China says economy grew 3.2% from a year earlier in the second quarter

The Supply Will Rise Before Demand.

How to Expand your Sales?

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China Becomes a Refuge for U.S. Companies After Overcoming Covid-19

U.S. companies, including Nike and Tesla, have been buoyed by strong results from China; 'a model of recovery'



- Chinese retail sales rebounded more strongly in the April-to-June period than most analysts had been predicting earlier in the year
- Declined just 3.9% from the same time last year



- U.S. retail sales declined 8.1% in the second quarter in year-over-year terms — Census Bureau

The Chinese Experience 中国经验



YumChina



- Total revenue this quarter recovered to 89% of the same period last year
- System sales recovered to 96% of the same period last year
- More than 99% of its stores have resumed operations



LVMH

- Revenue fell 38% year over year in April - June
- China jumped 65% - driven by Chinese luxury consumers trading foreign shopping sprees for local buying runs because of travel restrictions



K E R I N G

- Quarterly sales at of its luxury brands fell 43% year over year
- But increased by more than 40% in China



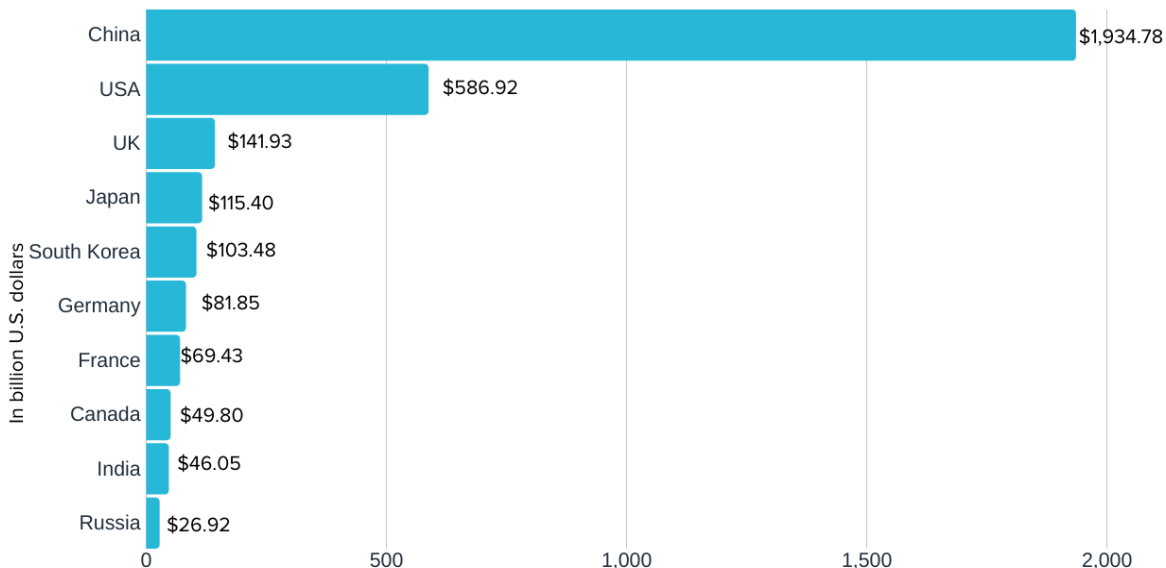
Working and Selling Online 网上销售

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China's E-commerce — An Established Market

中国的电商——一个成熟的市场

Ecommerce sales by country in 2019



Source: Emarketer.com

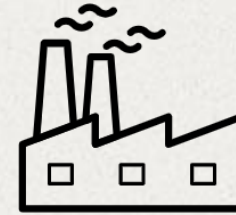


E-Commerce During the Pandemic 疫情下的电商



Retail

- Accounts for 1/5 of the total consumer goods sold
- Jan – Jun: 100 million USD
- 7.3% increase vs. last year



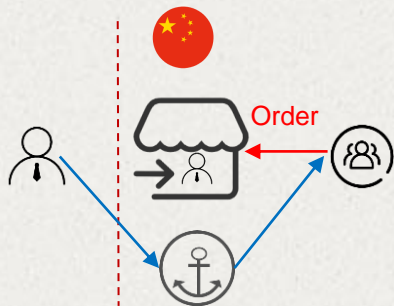
Industrial

- 62.5% of factories in the key industries use e-commerce to procure raw materials and equipment
- Platforms are witnessing transactions worth billions of USD

What Can We Learn from China's Cross-border E-commerce? 如何学习中国的跨境电商经验？

- | | | | | | |
|---|---|---|--|---|---|
|  |  |  | 1. Standalone website and system outside of China | <ul style="list-style-type: none"> ☺ Direct management ☺ No commission to the platform ☺ Less China law compliance | <ul style="list-style-type: none"> ☹ Website may be blocked by firewall ☹ Consumer trust and preferences ☹ High cost on international shipping and customs clearance |
|  |  |  | 2. Standalone website inside of China | <ul style="list-style-type: none"> ☺ Direct management ☺ No commission to the marketplace | <ul style="list-style-type: none"> ☹ Difficult and expensive ☹ SaaS ☹ Local Incorporation ☹ ICP License ☹ Consumer trust and preferences |
|  |  |  | 3. Domestic Online Mall | <ul style="list-style-type: none"> ☺ High user traffic ☺ Convenient sales support ☺ Consumer trust | <ul style="list-style-type: none"> ☹ Local Incorporation ☹ Local warehouse ☹ Chinese compliant privacy rules ☹ Pay commission to the platform |

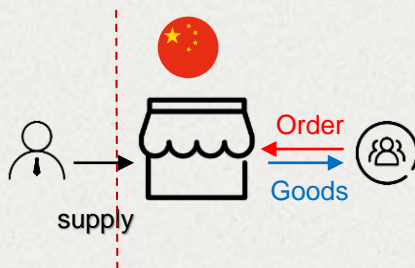
What Can We Learn from China's Cross-border E-commerce? 如何学习中国的跨境电商经验？



4. Bonded Warehouse

Foreign seller ships goods in bulk to a bonded warehouse, store the goods there before consumers place orders, and pay customs clearance upon shipping to the domestic consumers.

- ☺ No local incorporation
- ☺ Control over sales
- ☺ Easier customs clearance
- ☹ Pay commission to the platform, although cheaper



5. B2B2C

A procurement manager for the hypermarket will buy the foreign brand, store it in the hypermarket's warehouses, then sell it on their own platform.

- ☺ Lower risk – the Chinese intermediary is responsible for storage and distribution
- ☺ Intermediaries are familiar with the market
- ☺ No local incorporation
- ☹ Limited product categories
- ☹ Lack of brand control and price control

Consider Selling Online

考虑网上销售



- Consider using e-commerce and selling internationally to expand your sales channels
- Consider selling in China without going to China
 - ✓ China has a developed e-commerce infrastructure
- Remember proper precautions need to be taken



Future trend



Reading Chinese helps a lot



Protect your IP

Buying from China 从中国采购

——General Advice

- China supports IP
- Contracts are enforceable
- Government will intervene more in the “public interest”
- Protect your IP
- Greater due diligence needed
- We recommend using Chinese courts and Chinese law

Buying from China 从中国采购

——Due Diligence

- Conduct due diligence investigations on partners
 - The PRC government makes a lot of information available online
 - You can connect companies based on mutual shareholders

- Local inspections can be difficult because of travel restrictions
 - Hire local investigators for a factory visit



Buying from China 从中国采购

——Contracts

- Do not just use purchase orders, have a general outsourcing contract
- Make the contract bilingual
- Ensure that the contract is signed by the authorized person
 - Based on your due diligence, you should have a copy of the Business license of the supplier which will specify the name of the “legal representative” (法定代表人)
- Require that the company seal be used
 - Initial or seal all pages
- Consider the force majeure clauses
 - Statutory defense
 - Covid-19 is considered as a force majeure event in China
 - CCPIT issues Force Majeure Certificate in support of Chinese enterprises



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