



Asian Symposium on Direct Selling

World Federation of
Direct Selling Association



Report on China's Direct Selling("DS") Regulation

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I. The Ban on Chuanxiao, 4/1998

II. China's WTO Commitments on DS

III. The Pending DS Regulations

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I. The Ban on Chuanxiao, 4/1998 (State Council Doc. #10)

The term "Chuanxiao" includes both the Pyramid Schemes and DS



A. Reasons for the Ban: Economical and Social Factors

1. to use the operation to commit fraudulent pricing, to sell fake, smuggled, or low quality products at exorbitant prices;
2. to evade taxes and to engage in unfair competition;
3. to recruit government employees, military personnel, full-time students, etc. to engage in business activities and such business activities seriously disrupt the normal order of working and studying;
4. to use the operation to carry out cultic practices, superstitious belief, gangster and hooligan activities.

I. The Ban on Chuanxiao, 4/1998 (State Council Doc. #10)



B. The Change-moded Companies, 6/1998 (MOFTEC Doc. #11)

**The New Mode of Operation: Operating Shops +
Engagement of Sales Representative("SR")**

**10 foreign DS companies then operating in China were
approved to operate under the New Mode, under which:**

1. company can sell only products manufactured by itself in China;
2. SRs are agents of the company, and compensation is based on sales realised by oneself;
3. one price for each product; shops are opened to walk-in customers.

II. China's WTO Commitments on DS

A. Protocol on the Accession, Annex 9

China will remove restrictions on commercial presence within 3 years after China's accession to the WTO

"wholesale or retail trade services away from a fixed location".

B. Report of the Working Party on the Accession of China

310: The representative of China stated that China would consult with WTO members and develop regulations, consistent with China's Schedule of Specific Commitments and its obligations under GATS, on sales away from a fixed location. The Working Party took note of this commitment.

311: Some members of the Working Party noted that the World Code of Conduct provided a strong ethical basis for regulating sales away from a fixed location.



III. The Pending DS Regulation



A. Existing Documents which Would Have a Strong Influence on the New DS Regulation

1. Doc. #10 : The State Council Ban on Chuanxiao, 4/1998
2. Doc. #455: Notice Concerning the Change-moded Companies, 6/1998(MOFTEC)
3. Doc. #55: On Seriously Combating against Illegal activities Known as Chuanxiao and Disguised Chuanxiao, 8/2000(SAIC)
4. Doc. #31: Notice on Questions Arising Out of the Implementation of Doc.# 455, 2/2002(SAIC,etc)

B. The Consultation Process Has Begun