

# E-Commerce in China: The Future is Here



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## Abstract

The E commerce is emerging as the trendiest way of shopping online. It plays a vital role in building robust economies globally. The Internet has affected various arenas; rather it would not be an exaggeration to say that Internet is becoming our habits from 'cradle to grave'. Internet has affected from the simplest things like the way we shop or eat to the most complicated ones, like studying the outer space located many light-years away. Though Google, Amazon, Facebook and Apple (commonly called as GAFA) may be the largest companies but successful contenders like Alibaba and its peers Baidu, Tencent, and Xiaomi (popularly known as BATX) are emerging from the East. The ecology of E-commerce is dynamic and vibrant. It is always in a fleeting phase and in a state of constant flux. New market entrants and latest cutting-edge technologies keep the market on its edge.

**Keywords:** E-commerce, China, Internet technology, Media companies, and Online competitive market. Rest all looks fine.

## Introduction

The Internet technology has brought about innumerable changes in our way of daily lives. It has become part of our cultures around the globe. In this era of technological innovations, we can reach to the world of opportunities through the touch of our 'finger tips'. The promising statistics suggest that we have traversed into the age of connectivity. The Internet has impacted various arenas, rather it would not be an exaggeration to say that Internet is becoming our habits from 'cradle to grave'. We not only use it to better our lives and environment through complicated surgeries performed by Artificial Intelligence and adopting techniques for Green energy, but also for studying the viability of extraterrestrial lives. Internet has affected from the simplest things like the way we shop or eat to the most complicated ones, like studying the outer space located many light-years away. Since robust economies nurture robust nations, its role in the e-Commerce sector is noteworthy. It is unimaginable how we bought tickets, booked hotels or how we filled a variety of our daily requirements a while ago. The Internet age has made shopping online easier and in vogue.

E-commerce is a complex and expansive practice that involves many multi-faceted features within it including cross border e-commerce. Other important variables include B2B (business to business), B2C (business to consumer); C2C (consumer to consumer); m-commerce (mobile commerce: the buying and selling of goods and services through wireless handheld devices); X-commerce (where e-commerce meets social media and location services); and internet celebrity economies (where cyber personalities become their own brands and launch successful e-commerce models)<sup>1</sup> that make it a diverse competitive industry.

Over the years the Chinese economy has been consistent with its growth rate. However, the booming economy has slowed down to a number of reasons. Economists suggest that Chinese economy is turning towards the "Lewis Turning Point", which indicates that the economy can no longer create wealth by adding cheap labour. Hence turning towards technology has proved to be a boon. The introduction of the Internet technology in China has a variety of implications like any other country. One of the areas where it is more than evident is the Chinese consumer economy.

The Chinese consumer market has been quite lucrative and promising for companies to set-in their foothold. It has added to the Chinese GDP remarkably. The growth of the e-commerce market has been outstanding and is here to stay. In 2010, online transactions made up only 3 percent of the total private consumption. By 2015, the number of Chinese

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online shoppers has tripled to 410 million. It is remarkable that, more than 15 percent of all retail transaction in China were attributed to e-Commerce in 2016, with sales totaling more than \$752 billion (5.16 trillion CNY). According to a report by the Boston Consultancy Group, 2015, it is projected that the private online consumption will surge by 20 percent annually through 2020, compared with 6 percent offline retail sales. This will result in 42 percent growth in private consumption. By then, China's online consumer market will have growth to \$1.6 trillion annually- 24 percent of private consumption. China has the world's largest e-Commerce market and is still growing at a mind boggling rate.

China is already making its presence felt in the international e-commerce market with its promising giants like Baidu (NASDAQ: BIDU), Alibaba (NYSE: BABA) and Tencent (NASDAQOTH: TECHY) the top search, e-commerce, and social networking companies respectively. Baidu controls 64% of China's online search market. Alibaba's *Shenma* comes in second with a 21% share, followed by Qihoo 360's Haosou at 6% and Tencent backed Sogou (NYSE: SOGO) at 5%.<sup>2</sup>

### Review of Literature

E-Commerce is one of the key components to establish robust and sustainable economy. As a consequence, intensive research works in the area of e-Commerce from a diverse range of views and findings have been studied by many researchers. However, for this paper only those literature has been considered which discuss about policies undertaken by the Chinese state, growth rate of e-commerce and give an introduction to the market in China. Michael Pronk (2017), discusses extensively about the major policy changes that China undertook to incorporate e-commerce into its economy. He discusses the growth and development of e-commerce from the initial period i.e. around 1990s to the latest progresses made until 2016. The research conducted by Yougang Chen, Jeongmin Seong and Jonathan Woetzel is worth mentioning here. They have mentioned six factors namely, consumer electronics, automotive, chemicals, financial services, real estate and healthcare, where the Chinese companies are investing heavily and these accounted for 25% of the Chinese economy in 2013. They have also predicted that increased adoption could add 60 billion to 1.2 trillion RMB in the GDP by 2025. One of the most informative article has been written by Leo sun (2018), where he has added about the importance of Artificial Intelligence. Leo also talks about the importance of fintech in e-commerce. Since this is an emerging field and strong economy is a reflection of strong amicable policies, a plethora of books, articles and researches have been done.

This article aims to reflect the concurrent growth and development of the e-commerce in China with that of the Internet. It tries to discuss the important e-commerce companies in China.

### Key Drivers

China was a late entrant in the field of Internet and Communication Technologies. However with the help the endeavors of the futuristic

regime it managed covering the gap between the technological "haves and have-nots". The major three factors that contributed to the e-commerce growth and development are;

1. Strategic State policies and investment to nurture the e-Commerce market in China
2. The promising statistics of the *netizens*.<sup>3</sup>
3. A competitive market

### Strategic State Policies

In the early 1990s, the e-commerce was in embryonic stage with limited technologies like Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT). With the introduction of the "Three Golden Projects" along with other nine Golden Projects focusing on healthcare, transportation etc., and the opening of the Internet in 1994 gave an impetus to the growth and development of the E-commerce. The three Golden Projects were:

1. Golden Bridge Project: focusing on building a national public commercial Internet service that covers the whole country;
2. Golden Card Project: targeting at building a national credit card network and digitalizing currency;
3. Golden Gate Project: aiming to link customs point through a national EDI system, and promote paperless trade.<sup>4</sup>

The State policies put in place a solid technical infrastructure to support the online market environment. In 1995, Jack Ma created 'China Yellow Page', which was the first Internet company to provide web page creation services to enterprises. The developmental phase of Ecommerce in 2000 can be characterized by the setting up of first online advertisement, the running of Chinese Goods Ordering System (CGOS) in 1997, the first online transaction made in 1998 and the official launching of B2C websites like www.8848.com, Ctrip, Dangdang in 1999<sup>5</sup>. It was in 1999, Ma launched the first business of the Alibaba group; the English-language Alibaba.com in Hangzhou with the aim of helping SMEs to look for customers and supplies without going through the costly intermediaries<sup>6</sup>.

*'...no nation has yet discovered a way to import the world's goods and services while stopping foreign ideas at the border. It is our interests that the next generation in China is engaged by the Information Age, not isolated from global trends shaping the future.'*<sup>7</sup>

The government regarded the Information and Communication Technologies as a strategic measure for national economic development. President Jiang Zemin, in his keynote address during the opening ceremony of the World Computer Congress, 2000 emphasized the importance of IT for the country's economic development and social informatization<sup>8</sup>. Even the current regime under Xi Jinping has given the Internet technology its due importance. While addressing a meeting which had attendees like Wu Manqing, chief engineer of China Electronics Technology Group Coordinator; Jack Ma, chairman of Internet commerce company Alibaba-owner of the *South China Morning Post*; Ren Zhengfei, CEO of tech company Huawei; and Tong

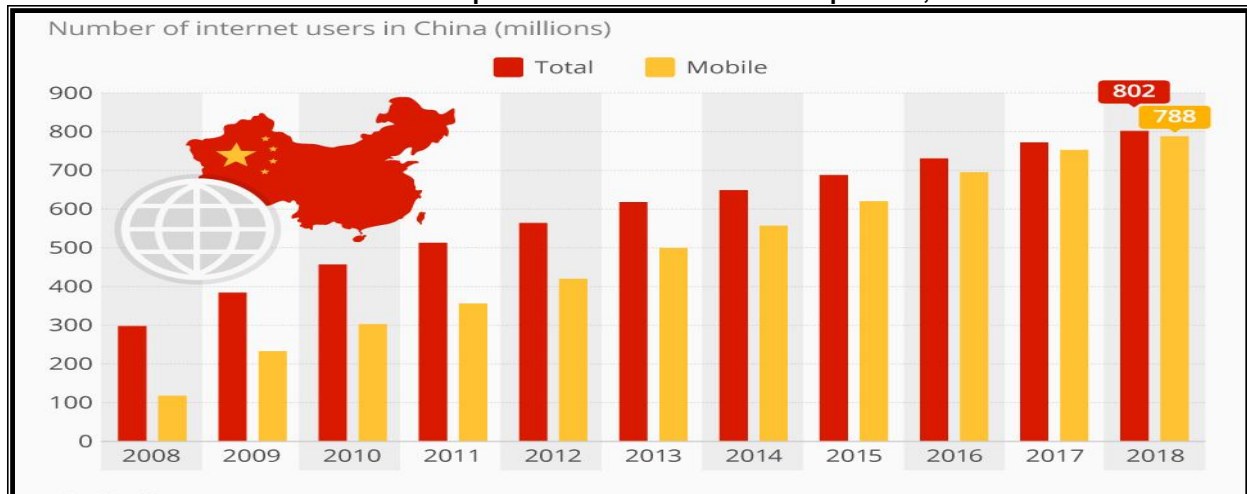
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Liqiang, director of Beijing's cyberspace information office, Xi insisted that "China's door was open and will not close. We welcome all foreign companies as long as they follow China's law".<sup>9</sup> The ecology of E-commerce is dynamic and vibrant. It is always in a fleeting phase and in a state of constant flux. New market entrants and latest cutting-edge technologies keep the market on its edge.

### The Promising Statistics on The Internet

China carried out reform and opening up in the early 1970s. Consequentially it led to the emergence of a strong middle class, along with existing intellectuals, and peasants. The disposable income has considerably increased among the Chinese people. Since, investing in movable and immovable properties has its own limitations, hence investing in mobile phones is a lot easier. Mobile company Apple has a huge market in China.<sup>11</sup>

**FIG: Total Internet Population and Mobile Internet Population, China.<sup>11</sup>**



The Chinese Internet population surpassed the U.S. Internet population back in 2008. Today China has the highest number of Internet users with approximately 802 Million by the end of 2018. It is noteworthy that out of the total Internet population 788 Million use the Internet via their smartphones.<sup>12</sup> The usage of internet through mobile phones have skyrocketed remarkably. PwCs' Total Retail 2017 survey shows that 52% of the Chinese consumers shop using their mobile/smartphones on a weekly or daily basis, as compared to 14% of consumers globally. With over 800 M monthly active users, the market is vibrant. The survey also revealed that 41% of the Chinese consumers (34% globally) use social platforms as a means to receive promotional offers<sup>13</sup>. In China, consumers use social media to discover new brands and products (45% versus 39% globally), validate the product quality through reviews, comments and feedback (54% versus 47% globally), purchase directly through asocial channel (25% versus 15% globally), and then write a review of the product or experience (27% versus 20% globally).<sup>14</sup>

### A Competitive Market

Though Google, Amazon, Facebook and Apple (commonly called as GAFAM) may be the largest companies but successful contenders like Alibaba and its peers Baidu, Tencent, and Xiaomi (popularly known as BATX) are emerging from the East. The sphere of E-commerce has many players yet in most of the cases, it is a handful of companies that rule the market. It is the same for China. With a combined market capitalization of about \$900 billion, incubating over, 1000 new ventures within a decade and an average annual growth of over 50%, they are

exhibiting their unprecedented growth and undying ambition to the world<sup>15</sup>. China remains' the world's largest ecommerce trading market, where transactions through unconventional e-platforms reached 26.1 trillion Yuan in the year 2016, which was up 19.8%<sup>16</sup> from the previous year, a report from the Ministry of Commerce claimed. The most traded goods included clothing, home furnishings, electronic appliances, mobile phones, digital goods, food and drink and baby products. The value of China's ecommerce market accounted for 39.2% of the global market as of the end of 2016, making it the largest globally<sup>17</sup>.

The McKinsey Global Institute (2015) reported that the Chinese companies were investing heavily in the building blocks of the Internet economy: cloud computing, wireless communications, new digital platforms, big data analysis, and more. Across six sectors (consumer electronics, automotive, chemicals, financial services, real estate, and healthcare), which accounted for 25% of Chinese economy in 2013, could add 60 billion to 1.2 trillion RMB (about \$10 billion to \$190 billion) in GDP to individual sectors by 2025. China is the largest e-commerce market in the world, with an estimated \$630 billion until 2015 sales, according to consulting firm McKinsey and Company. This was nearly 80% larger than the United States market, which China overtook more than four years ago. The Internet is expected to contribute 7 to 22% of total GDP growth from 2013 to 2025<sup>18</sup>.

On November 11, 2016, *Single's Day*, the turnover of T-Mall and Taobao was \$18.2 billion (120.7 billion RMB) surpassing *Black Friday* and

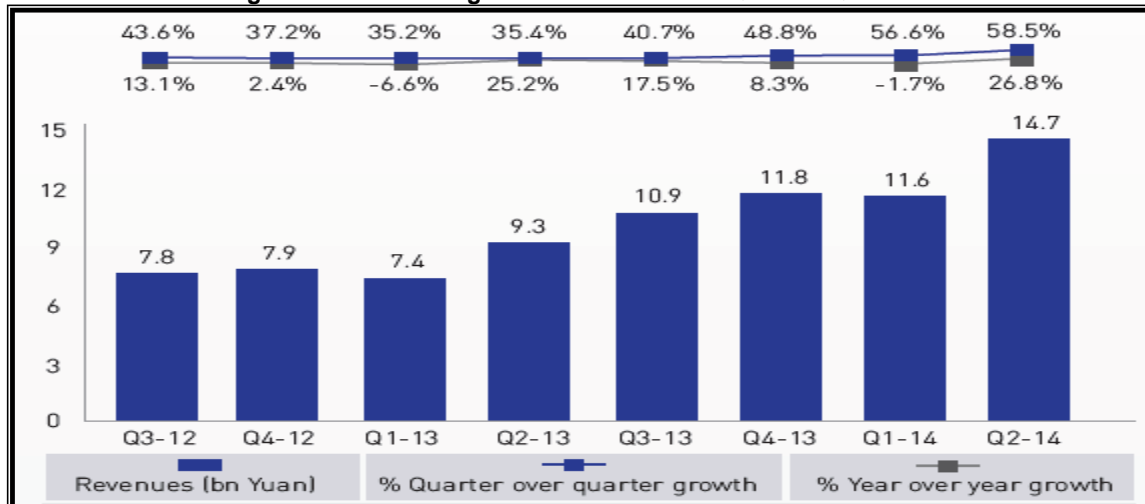
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Cyber Monday's combined revenue. A total of 657 million parcels were sent out, the first order took only 13hours 19seconds<sup>19</sup>.

Over the years they have paid due attention in improving their core technologies such as search algorithms and communication tools. They have

made ground-breaking innovations in Artificial Intelligence, social media, online security and online payment. Baidu, Alibaba, and Tencent invest heavily in Artificial Intelligence. Baidu's "Baidu Brain" unit improves machine learning algorithms, core search technologies, and big-data applications.

**Fig: China Search Engine Market Revenues Q3 2012-Q2 2014<sup>20</sup>**



This unit is credited with the creation of Baidu's virtual assistant *Duer*<sup>21</sup>. Tencent uses AI tools to enhance its social apps, online games, and cloud services, and claims that AI already powers its various products including- WeChat, QQ, and the *Tian Tian Kuai Bao* news app. Alibaba uses AI to improve its core marketplace business by predicting customers' purchases, tracking inventories, and streamlining logistics.

Baidu's driverless car ambition beats Tesla with first commercial cars on the roads in 2019<sup>22</sup>. Alibaba and Tencent's advances in mobile technology, from payment to communication, are world leading. Xiaomi's massive Internet of Things network with over 300 million connected devices makes many established players run for money. BAT companies generated revenue of \$20 billion in 2013 and \$8.16 billion in Q3 2014<sup>23</sup>.

### Limitations to E-Commerce in China

Counterfeit goods are a major problem while shopping online in China. In May 2016, the E-commerce giant Alibaba's Tmall and Tmall Global were suspended from the International Anti-counterfeiting Coalition, after major top brands dropped out in order to protest against the counterfeit goods sold on the online platform Tmall and Tmall Global. The situation worsened after Ma's statement to a group of Alibaba investors that Chinese-manufactured "fake products are better quality and better price than the real names."<sup>24</sup> But later on Ma had to backtrack from his statement and made a statement to Wall Street Journal that Alibaba has "zero tolerance for those who rip off other people's intellectual property...Counterfeit goods are absolutely unacceptable, and brands and their intellectual property must be protected."<sup>25</sup>

The issue of counterfeit goods and the vulnerability of personal data are a few of the major loopholes of online marketing in China. In April 2016,

new tax regulations were introduced under which retails goods purchased online from outside China would no longer be treated as tariff-free personal postal articles as they were previously<sup>26</sup>. Rather, they would come under the category of imported goods, subject to tariffs, import VAT (value added tax), consumption tax, and other regulatory controls. Though, it will affect cross-border e-commerce model, but this move has put China on a better state as it would certainly improve the indigenous market competition and atmosphere.

There was a major theft of personal data in December 2016 from a large online retailers' platform. National identity card numbers, login IDs, passwords, phone numbers and email addresses were hacked<sup>27</sup>. Hence, the issues of cyber security and privacy protection must be dealt with utmost importance. President Xi Jinping in 2016 while addressing senior officials, engineers and information technology executives, mentioned that China would beef up its cybersecurity capabilities, including cyber deterrence. The latest five-year plan, passed in March 2016, devoted much attention to the development of the internet sector and cybersecurity, including cyber defences. However, "cyber deterrence" was not mentioned<sup>28</sup>.

Xi urged the officials to go online, monitor public opinion, and address grievances. However, he added that the authorities would strengthen regulation and propaganda so that cyberspace did not become "filthy and chaotic." He also made it clear that China "welcomes all foreign internet companies as long as they followed China's law."<sup>29</sup>

### Conclusion

In this era of globalization and technological innovation we all are under '*tianya*'.<sup>30</sup> It signifies that with the growing need for subsistent economy, innovation is the key. And the Internet an answer to many if not all the questions that can answer to our

uncertain future were competition to acquire sustainable goods will become harsh. And since we have entered the 'Information era', connectivity will reduce the information and knowledge gap between countries and generate new and growing routes to trade and business. This new 'information highway' will not only impact as to how we buy and sell our goods but will also impact its usages and consumptions.

Recent trends have shown that the lines between e-commerce, mobile and social networking sites have blurred, hence online and offline retail are converging. Though here are issues like counterfeit goods, Intellectual Property and data theft, China needs to put in place a strong base to safeguard its companies as well as the customers to reap in the full potential of e-commerce. The companies have been constantly striving hard to improve their core technologies and algorithms. They are working diligently to incorporate the AI into their arenas. To conclude, we can say that, the budding E-commerce tail tells that e-Commerce in China is here to stay.

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