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# E-COMMERCE IN CHINA

## OPPORTUNITIES FOR ASIAN FIRMS



In partnership with





**E-COMMERCE IN CHINA**

**OPPORTUNITIES FOR ASIAN FIRMS**

## Abstract for trade information services

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International Trade Centre (ITC)

**E-Commerce in China: Opportunities for Asian Firms**

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The paper reviews the context of e-commerce development in China and identifies what is needed for foreign firms in Asia to tap into that market. It draws lessons from the experience of small enterprises in China working together in order to achieve the efficiency and competitiveness in the country; explores the barriers and solutions for developing e-commerce between Asian firms and China. The publication outlines options available to both policymakers and businesses in the region for marketing goods to e-commerce customers.

Descriptors: **China, Electronic Commerce, Asia, SMEs, Intraregional Trade, Least Developed Countries.**

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## ITC Foreword



Statistics on Internet usage confirm that we are living in the age of connectivity. Research by the International Telecommunication Union shows that today more than 3 billion people are using the Internet: an increase from 730 million in 2000 to 3.2 billion people in 2015. China is the country with the most users with recent data (2014) estimating a total of 642 million users, representing more users than the United States of America, India and Japan combined.

This connectivity lowers the information and knowledge gap between countries, and creates new and growing routes to trade and business. This new 'information highway' is the invisible Silk Road of the 21st century, with an impact on where goods and services are produced and how they are consumed.

This growth in connectivity has led to the rise of e-commerce. E-commerce helps level the playing field especially for micro, small and medium-sized enterprises (MSMEs) who, through the click of a button, can be exposed to a new customer base, new markets and new value chains. At ITC we help these SMEs to increase their competitiveness by using trade as a tool for growth, job creation and poverty reduction. An important – and growing – component of our work involves helping them to better leverage the digital economy in order to connect to profitable value chains.

There is growing consensus that successful participation by SMEs in e-commerce can make a significant contribution to sustainable and inclusive economic growth. E-commerce has had a significant impact on inclusive economic growth in China, spreading prosperity and creating jobs in rural areas. As the world's largest e-commerce market, China is an example to its neighbours in Asia of the value in investing in information and communications technology and supporting small and medium-sized enterprises (SMEs) to grow through e-trade. China is also a growing market for SMEs in the Asian region, providing opportunities for sourcing, insertion into regional value chains, and technological transfer and know-how.

SMEs comprise 95% of the private sector in Asia, employing nearly 80% of the workforce. They play a critical role in the region's economy and growth. Despite the fact that the region's least developed countries (LDCs) represent a very small share of China's imports, less than 0.5%, there is a tremendous potential for this to grow in the future, with China representing a strategic market for expediting their integration into regional and international value chains and taking advantage of both their geographical proximity and preferential market access conditions. Virtual selling is particularly appropriate for SMEs in connecting to customers, avoiding costly intermediation and earning greater returns on their sales.

This publication reviews the context of e-commerce development in China and identifies what Asian firms need to tap into that market. One lesson is the efficiency and consequent competitiveness achieved in China, as a result of small enterprises working together. Boosted by government investment and assisted by private-sector partners, including Alibaba and its subsidiaries, clusters of firms share vital infrastructure like logistics platforms and e-payment solutions, and cooperate on procedures for customs and duties.

From setting up e-commerce business to international payments, logistics and aftersales activities, the publication outlines options for policymakers and businesses in the region to market goods to these new and demanding e-commerce customers.

Working with Alibaba, ITC aims to facilitate improved access to e-commerce markets in China for SMEs in Asia and beyond. Together, ITC and Alibaba will continue to study the opportunities and challenges outlined in this paper to develop market insights and appropriate solutions for SMEs. The ITC-Alibaba partnership will aim to get SMEs onto this digital market using the lessons of the Chinese story.

A handwritten signature in black ink, appearing to read 'Arancha González'.

Arancha González,  
Executive Director, International Trade Centre

## Alibaba Group Foreword



Since the turn of the 21st century, with the rapid development of Internet technology and cross-border e-commerce around the world, international trade players and trade patterns have been undergoing major changes. These changes have promoted the inclusive development of the world economy and international trade, and provided historic opportunities for the development of small and medium-sized enterprises (SMEs).

Thanks to cross-border e-commerce, an increasing number of SMEs and online merchants have begun to stand on the same starting line as large enterprises and to enjoy direct access to global markets. At the same time, numerous enterprises have been shifting from offline trade to online trade. The share of cross-border e-commerce in international trade, including business-to-business and business-to-consumer e-commerce, is increasing rapidly, and data are becoming a new driver of trade growth and economic development.

In fact, cross-border e-commerce is creating a revolution in the global economy and global trade, drastically reducing the costs of trade and removing obstacles to bilateral trade, leading the sector into a borderless digital market. Cross-border e-commerce is widening access to the international market and optimizing the global supply chain for businesses from all countries, including in developing and least developed countries.

Alibaba Group is committed to 'making it easy to do business anywhere' and to empowering global SMEs and consumers. By providing new business infrastructures for the Internet era – from e-commerce platforms, inclusive finance and smart logistics to big data, cloud computing and cross-border trade services – the Group is helping SMEs to better 'source globally, sell globally' and to seek ever more innovative development.

Since 2016, Alibaba has been calling for the establishment of an Electronic World Trade Platform (eWTP) to accommodate the rapid development of the global digital economy, provide greater support to the development of SMEs and young people, incubate new international e-trade rules and promote the growth of inclusive trade worldwide. In recent months, the eWTP Initiative has been warmly welcomed by the international community. It was accepted as one of the major policy recommendations of the Business 20 and echoed by the Group of 20 Leaders at the Hangzhou Summit in September 2016.

Cross-border e-commerce undoubtedly represents the future of global trade, and Alibaba Group stands ready to help SMEs ride this wave and expand business globally. We hope this report will prove beneficial for businesses from developing and least developed countries in their quest for new international markets.

A handwritten signature in black ink, reading '高红冰' (Gao Hongbing).

Hongbing GAO  
Vice President of Alibaba Group & Director of AliResearch

## Acknowledgements

This document is based on the research conducted by Dr. Jian Wang, Chair Professor of International Business and e-Business, Director of Center for International Business Studies, Director of Cross-border E-commerce Research Center at the University of International Business and Economics (UIBE), Beijing, China.

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ITC would also like to thank Natalie Domeisen and Evelyn Seltier of ITC, who oversaw editing, production and quality control; Erica Meltzer, who edited the paper; and Serge Adeagbo and Franco Iacovino of ITC, who provided graphic and printing support.

This report was prepared as part of Enhancing Export Capacities of Asian Least Developed Countries (LDCs) for Intra-regional Trade, an ITC project supported by the Ministry of Commerce of the People's Republic of China. The goal of the project is to increase exports of small and medium-sized enterprises (SMEs) from six Asian LDCs – Afghanistan, Bangladesh, Cambodia, the Lao People's Democratic Republic, Myanmar and Nepal – to China. This way they can take advantage of Asia's largest and most dynamic import market as a stimulus to boost intraregional trade in target sectors.

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## Abbreviations

APEC	Asia-Pacific Economic Cooperation
B2B	Business-to-business
B2C	Business-to-consumer
C2C	Consumer-to-consumer
CIECC	China International Electronic Commerce Center
CNNIC	China Internet Network Information Center
CNY	Chinese yuan
IPR	Intellectual property right
ITC	International Trade Centre
LDC	Least developed country
SME	Small and medium-sized enterprise
TISI	Trade and investment support institution
CNY	Chinese Renminbi
VAT	Value added tax
WTO	World Trade Organization

Unless otherwise specified, all references to dollars (\$) are to United States dollars.

## Executive summary

### China's e-commerce market: Big, growing, and full of opportunities for firms from outside China

China's e-commerce market is big, growing fast, and increasingly open to goods from abroad. Thanks to the combination of overseas travel, increased Internet usage, exposure to foreign brands as well as surging demand for foreign products from Chinese consumers, China is projected to become the world's largest cross-border e-commerce market by 2020, according to China Internet Watch.<sup>1</sup>

There are various reasons for this rapid growth. Rural communities in China have found a source for cheaper and better quality goods: e-tailing has cut consumer prices. Depending on the category, goods cost an average 6% to 16% less online than in stores. According to Nielsen, Chinese consumers are increasingly demanding, and seek the quality and reputation of foreign goods.<sup>2</sup> Nearly one fifth of those who shop online increasingly buy goods from vendors outside China. According to McKinsey, the country's cross-border shoppers prefer items that are either too expensive or too scarce at domestic stores. For example, shoppers in cities use overseas sellers most often for premium healthcare products (for example, dietary supplements, medicines and medical instruments). Consumers in smaller cities primarily shop for luxury goods from foreign vendors.<sup>3</sup>

The major actor in the Chinese e-commerce market is Alibaba. The reasons for China's extraordinary e-commerce growth are China's size and booming economy; the relatively poor standing of its retail sector when the Internet first reached the country; and government policies on investment, infrastructure and taxation that favoured the development of e-commerce and related logistics and services.

The size and growth of the market is leading to significant investments in infrastructure. To keep up with increasing demand from smaller urban and rural areas, online retailers are seeking to expand logistics infrastructure and services. For example, Alibaba's logistics arm, Cainiao, owns 180,000 express delivery stations for product shipment and has recently expanded its fresh food distribution centres across China. The firm recently completed its first external funding round and is expected to spend \$16 billion over the next five to eight years to expand its network.<sup>4</sup>

The Government of China has promoted the investments and establishment of special e-commerce zones, such as the China Hangzhou Cross-border E-commerce Comprehensive Pilot Area (Hangzhou is widely considered to be the e-commerce capital of China). One key area where the government would like to see increased involvement by foreign companies is the availability of international payment gateways; the Ministry of Commerce estimates that cross-border payments originating in China will top \$1 trillion in 2016. The sheer size of the market is expected to prompt payment gateways around the world to seek partnerships with Chinese counterparts,<sup>5</sup> and international payments should exceed 30% by the end of 2016.

### How lessons of inclusive growth can be applied outside China

E-commerce has had a significant impact on inclusive economic growth in China. Specialized manufacturing centres have emerged in formerly rural locations based on the production and distribution of goods driven by demand from e-commerce markets. One example is the development of the wooden furniture industry in the town of Shaji. By the end of 2015, after only eight years of development, Shaji had over 4,000 e-commerce traders, 3,000 online stores, 302 furniture manufacturers, and 38 express logistics deliverers, with monthly outputs of nearly 40,000 pieces and 15,300 employees.

The case of Shaji's wooden furniture industry is not an isolated one: by the end of 2015, there were over 780 'Taobao Villages', villages that have more than 100 active online shops marketed through Taobao or

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<sup>1</sup> China cross-border consumers to account for over half of total digital consumers by 2020. China Internet Watch, July 2016.

<sup>2</sup> Global Connected Commerce. AC Nielsen's China e-commerce Sales Audit, January 2016.

<sup>3</sup> How savvy, social shoppers are transforming Chinese e-commerce. McKinsey, April 2016.

<sup>4</sup> China's e-commerce Addiction Has Serious Market Potential. Forbes.com, 16 July 2016.

<sup>5</sup> Payment gateways eye China's \$1tn cross-border payments. Verdict financial.com, 14 March 2016.

where the total number of active online shops exceeds 10% of the village's households, with a village's total annual e-commerce turnover reaching \$15 million.

The example of these Taobao Villages proves that considerable potential exists for increasing the participation of rural communities in e-commerce. According to government statistics, by December 2014 there were 649 million netizens (people actively using the Internet) in the country, 178 million (28%) of them in rural locations.

Other countries are studying China's success, perhaps none more so than India. According to economists Pranjul Bhandari and Prithviraj Srinivas at HSBC, the promotion of online shopping in India inspired by the Chinese model could generate 12 million new jobs by 2025.<sup>6</sup> The economists suggest that if India were to replicate the formula that led to rural China's embrace of e-commerce on Taobao, as many as 5 million villagers could set up online shops by 2025.

### **Getting into Chinese e-commerce: challenges for enterprises from developing countries**

For enterprises from outside China there are many challenges to overcome in accessing Chinese e-commerce platforms and selling to local customers. The first of these is to understand the particularities of the Chinese market and how its e-commerce activities are structured.

This applies particularly to the Asian least developed countries (LDCs) that border China and that hope to emulate its success and exploit the opportunities presented by its growing demand for foreign goods. These countries – Afghanistan, Bhutan, Lao People's Democratic Republic, Myanmar and Nepal – have high-quality produce and unique goods for which viable market niches could be developed in China, accessible through e-commerce marketplaces.

Another key challenge for developing countries and LDCs is to offer platforms for improved efficiency in production and logistics, without relying on significant public subsidies or support from home-grown e-commerce giants. The answer lies in facilitating collectively-owned solutions: access to technologies, supporting services and commercial promotion that can enhance the potential for small firms to work together and share the costs and benefits of better access to international marketplaces and payment solutions.

Entering new markets always raises the challenge of the unknown, but identifying the most appropriate markets and local partners can be facilitated by improving access to market knowledge and information. China indeed harbours particular language and cultural barriers that can be significant for firms from the United States of America and Europe; the Asian nations at least have the advantage of relative linguistic and cultural proximity. Local knowledge is especially vital to identify niches of demand for specific products available in the subregion, and most importantly to advertise in a manner that appeals to the market. Information needs to be gathered and regularly updated on import requirements, taxes and duties so that goods can be presented for import at a known door-to-door price, including transport costs and any other charges.

The marketplaces and payment solutions used so successfully by merchants in China are not as open to enterprises from neighbouring countries as it might first appear, however. Small enterprises from other Asian countries are unlikely to have the trading history and business credentials required to register in Chinese marketplaces, nor to have access to merchant payment solutions and international banking arrangements. To overcome this hurdle, firms that have grouped together can register a mutually owned business entity or contract with a third party to represent them in China, registering them in marketplaces and signing agreements on their behalf with payment solution vendors.

Managing customer relationships in China, including implementing a returned goods process and managing enquiries and claims, is yet another critical and potentially costly requirement that is best structured and managed by third parties in China on behalf of small foreign enterprises.

Finally and perhaps most important, partners, especially those with a presence in China, should be included in the collective solution developed for facilitating e-commerce.

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<sup>6</sup> China's E-Commerce Boom a Lesson for Creating Jobs in India, quoted in Bloomberg.com, 3 August 2016.

## Chapter 1 The e-commerce market in China

China's cross-border e-commerce has been growing rapidly in recent years in terms of both volume and value. This development has brought new and innovative ways to access markets, presenting significant potential for neighbouring countries, especially least developed countries (LDCs) in Asia, to increase their trade with China.

China has become the second largest importing country in the world and the largest importing country in the Asian region. While the country grants preferential tariffs to LDCs, Asian LDCs still represent a very small share of its imports, less than 0.5%. The rapid growth of China's cross-border e-commerce presents an opportunity for small and medium-sized enterprises (SMEs) in Asian LDCs to participate in international trade, which was formerly dominated by large companies, and to take advantage of their geographical proximity to, and preferential market access conditions in, the Chinese market.

The growth of China's cross-border e-commerce led to innovation, job creation and increased opportunities for SMEs to participate in international trade, all of which has had a positive impact on the Chinese economy.

### China, world's largest e-commerce market

China is the largest e-commerce market in the world, with an estimated \$630 billion in 2015 sales, according to consulting firm McKinsey and Company. This is nearly 80% larger than the United States market, which China overtook more than two years ago.<sup>7</sup>

China's e-commerce market is big, growing fast and increasingly open to goods from outside China. The market first emerged in the 1990s and experienced rapid growth after 2008. Despite the recent global financial crisis and the consequent sluggish growth in international trade, China's cross-border e-commerce has maintained a growth rate of about 30%. From 2008 to 2015, its turnover grew from CNY 800 billion (around \$123 billion) to CNY 5.2 trillion (around \$0.8 trillion), and is expected to reach CNY 6.5 trillion (around \$1 trillion) in 2016.<sup>8</sup>

Thanks to the combination of overseas travel, increased Internet usage, exposure to foreign brands as well as surging demand for foreign products from Chinese consumers, China is projected to become the world's largest cross-border e-commerce market by 2020, according to China Internet Watch.<sup>9</sup>

According to an analysis by eMarketer,<sup>10</sup> as much as 40% of local online consumers now purchase goods from abroad. Cross-border consumer e-commerce amounted to an estimated CNY 259 billion (around \$40 billion) in 2015, more than 6% of China's total consumer e-commerce, and is growing at upward of 50% annually.<sup>11</sup>

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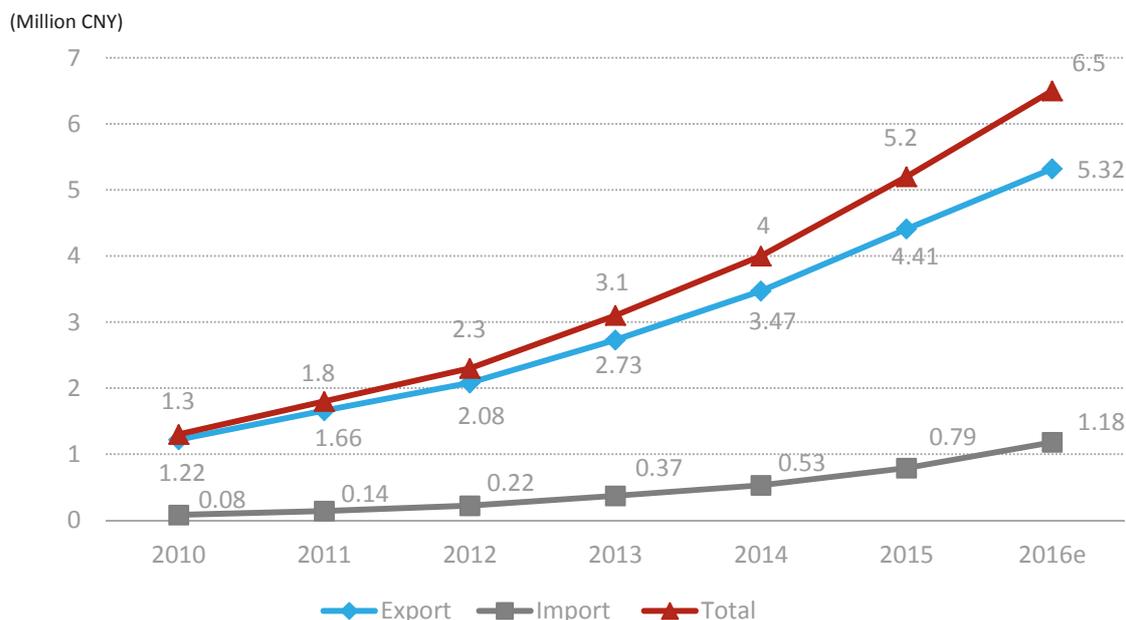
<sup>7</sup> How savvy, social shoppers are transforming Chinese e-commerce. McKinsey, April 2016.

<sup>8</sup> Prof. Jian Wang, Chair Professor of International Business and e-Business at the University of International Business and Economics (UIBE) in Beijing, China; Director of the Centre for International Business Studies; Director of Cross-border e-commerce Research Centre.

<sup>9</sup> China cross-border consumers to account for over half of total digital consumers by 2020. China Internet Watch, July 2016.

<sup>10</sup> Op cit.

<sup>11</sup> Cross-border e-commerce is luring Chinese shoppers. McKinsey Quarterly, February 2016.

**Figure 1: China's cross-border e-commerce import / export distribution and growth, 2010–2016**

**Source:** Prof. Jian Wang, Chair Professor of International Business and e-Business at the University of International Business and Economics (UIBE) in Beijing, China; Director of the Center for International Business Studies; Director of Cross-border e-commerce Research Center.

China's imports through cross-border e-commerce started to grow significantly in 2011, mainly due to Chinese consumers' increasing familiarity with online shopping. Through e-commerce platforms, they can find new products that were not previously available in the domestic market. The Government of China also supported cross-border e-commerce through specific policies. In 2014, the General Administration of Customs issued a State Council Notice which recognizes the importance of cross-border e-commerce and imports through e-commerce. The Government also approved the establishment of cross-border e-commerce comprehensive 'pilot' cities. As of 2016 there are 13 such cities: Hangzhou, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen and Suzhou. Thanks to this and other forms of government support, smaller start-ups such as Xiaohongshu and Ymatou have emerged as new players alongside existing e-commerce giants like Alibaba.

The development of cross-border e-commerce in China has also increased other transactions across borders. For example, Hangzhou Customs recorded 24 times more export transactions and 16 times more import transactions in 2015 than in 2014. This increase was especially prominent on 11 November, China's largest e-shopping day, known as 'Double 11': On that day in 2015, 9 million pieces of imported cross-border e-commerce goods were stocked in Hangzhou and 266,105 import declaration orders registered on Hangzhou Customs' clearance management platform between midnight and 8 am.<sup>12</sup> By the end of the day, 1 million orders had been recorded by Hangzhou Customs, eight times more than in 2014.<sup>13</sup>

According to Alibaba, the most common items exported from China through e-commerce are clothing and accessories, mobile phones, computers, beauty care products, household products, jewelry and watches, and automobile/motorcycle accessories. In the early days of e-commerce, the country's main e-commerce exports were electronic products, such as computers, mobile phones and their components. With the reduction in cross-border e-commerce costs and the improvement of services, items traded online diversified and sales of such items as car accessories, furniture and home decoration products increased.

<sup>12</sup> Prof. Jian Wang. Data from 2015.

<sup>13</sup> Prof. Jian Wang.

## Market size

China is estimated to have a population of more than 1.3 billion. The market is so large and diverse that it has great potential for overseas exporters. According to research from Accenture and AliResearch (2015), the global business-to-consumer (B2C) cross-border e-commerce market will reach \$1 trillion by 2020, and China will become the world's biggest B2C market.

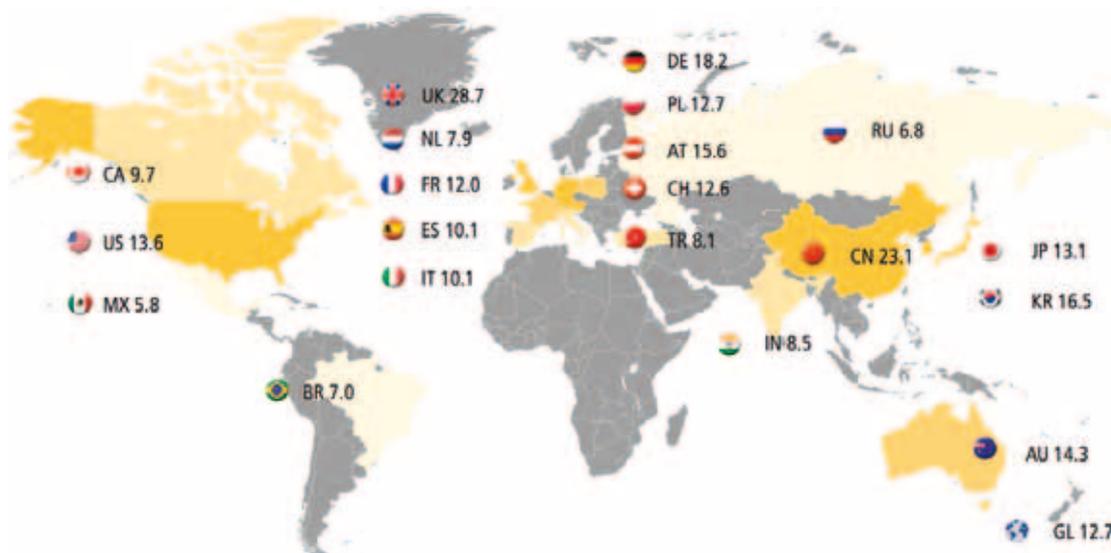
At the end of 2015, China had over 700 million Internet users, 92% of whom were connecting via mobile phones, says the China Internet Network Information Center (CNNIC).

## Unique retail context

During the Asia-Pacific Economic Cooperation (APEC) CEO Summit of 2015, Alibaba founder Jack Ma was quoted as saying, 'E-commerce is like a dessert in the US, yet the main course in China'.<sup>14</sup> This situation is unique to China. In Western countries the physical retail infrastructure is superior to online retail networks, whereas in China online retail channels surpass their physical counterparts. It has been said that e-commerce in China accounts for 13.5% of all retail spending worldwide.<sup>15</sup>

This situation is even more interesting in light of the frequency of online orders per user. As shown in Figure 2, China is leading in terms of the average number of e-commerce orders per capita per year (23, vs. 12 in France, for instance).

**Figure 2: Average number of online orders, per capita, per year**



**Source:** DHL Shop the World!, 2015 Survey.

Not only does China have the largest population, it also has the most active e-commerce buyers. These two characteristics represent a major opportunity for foreign e-commerce sellers who are targeting China as their next market.

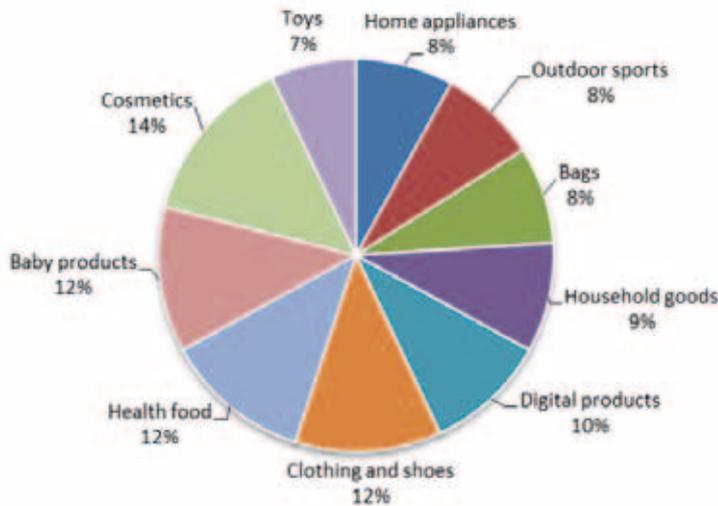
<sup>14</sup> Jack Ma, APEC CEO Summit 2015. Jack Ma: E-commerce is like a dessert in the US, yet the main course in China, <http://www.tmtpost.com/1475900.html> (accessed 28 September 2016).

<sup>15</sup> McKinsey, <http://www.mckinsey.com/industries/retail/our-insights/how-savvy-social-shoppers-are-transforming-chinese-e-commerce>.

**High demand for foreign goods**

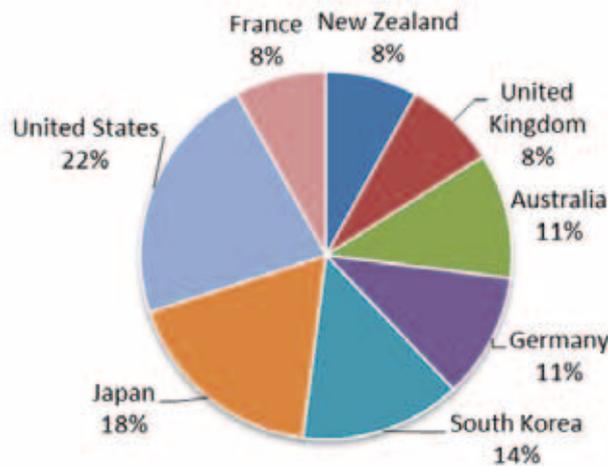
A report by iResearch shows that compared with the entire online shopping population, cross-border online shoppers have higher incomes and levels of education and are generally better informed and more knowledgeable about their requirements and purchases online; those with an undergraduate or graduate education account for 74.7%.

**Figure 3: Major categories and origins of cross-border e-commerce, per sector**



Source: iResearch.

**Figure 4: Major categories and origins of cross-border e-commerce, per country**

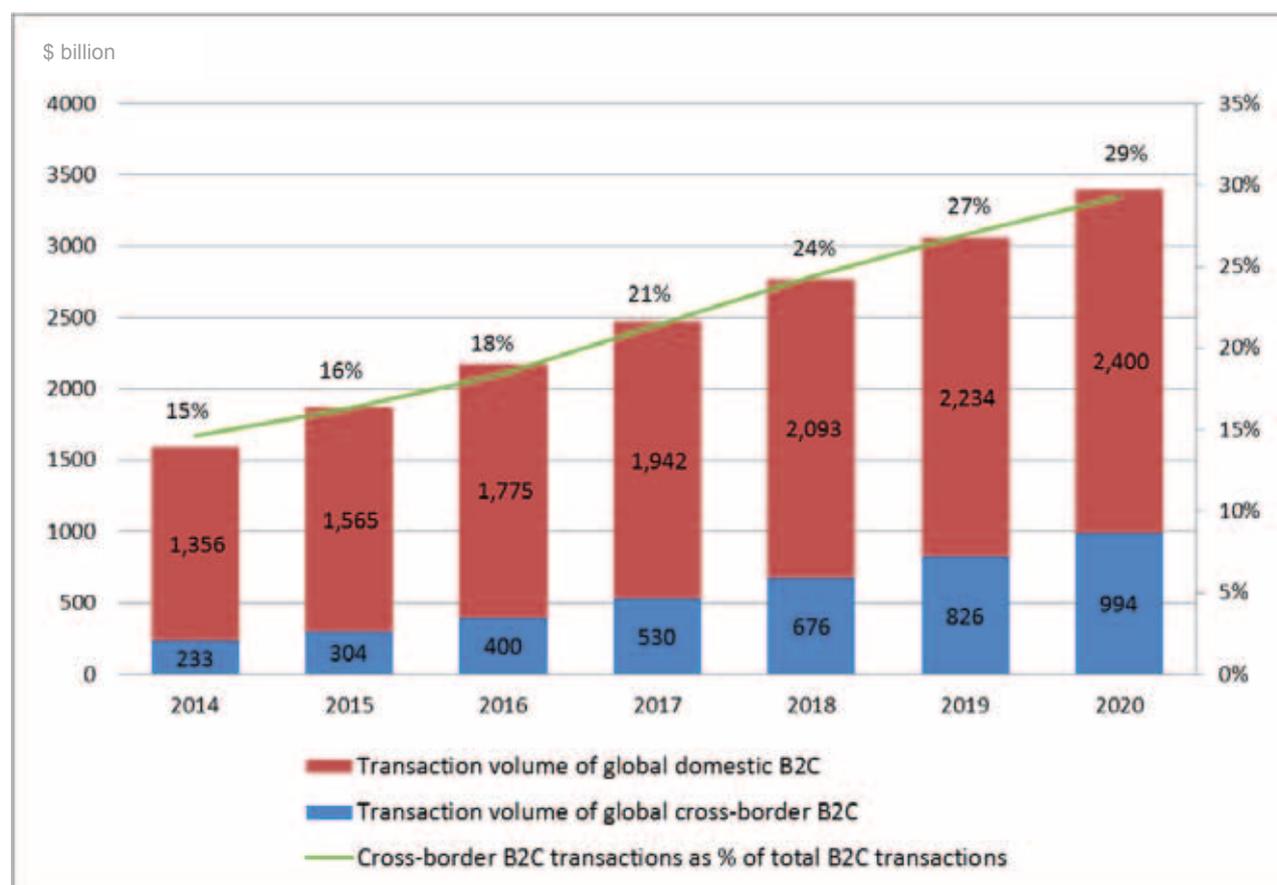


Source: iResearch.

According to Nielsen:<sup>16</sup> 'China's online shoppers are growing more mature or 'rational', and rational shoppers make up almost 40% of urban online shoppers. These more mature consumers see the e-tail space as a place to find quality, reasonable prices and a better shopping experience. China's online shoppers spend 176% more per purchase when buying from overseas than domestically. Some 11% make purchases of over CNY 5,000 (\$782), and one-fourth spends between CNY 1,000 and CNY 3,000 (\$156 to \$469) per international purchase.' Chinese consumers are also among the most active users of e-commerce among the countries surveyed and are particularly active users of mobile technologies.

Cross-border e-commerce transactions are increasing globally and will represent about 30% of all B2C transactions by 2020, as shown in Figure 5.

**Figure 5: Global cross-border B2C volume evolution**



**Source:** Alizila. Cross-border e-commerce to reach \$1 trillion in 2020. <http://www.alizila.com/cross-border-e-commerce-to-reach-1-trillion-in-2020/>.

China-based marketplaces are taking concrete measures to boost the visibility of foreign goods on their platforms. Alibaba's Tmall Global, for instance, has recently launched its 'Country Pavilions', which are dedicated landing pages for overseas sellers and products, currently covering 16 countries and regions, namely Australia, Canada, France, Germany, Hong Kong SAR, Italy, Japan, the Netherlands, New Zealand, the Republic of Korea, the Russian Federation, Spain, Taiwan Province of China, Thailand, the United Kingdom and the United States. The first pavilion, the Republic of Korea Pavilion, was launched in April 2015. Screenshots of the landing pages for the Republic of Korea, France and Singapore are presented below.

<sup>16</sup>China's E-Commerce Market: Untapped Potential for Global Companies. <http://sites.nielsen.com/newscenter/chinas-e-commerce-market-untapped-potential-for-global-companies/>.

**Figure 6: Images from T-mall Global ‘Country Pavilions’: Examples of Republic of Korea, France and Singapore**



**Source:** T-mall Global websites (<http://korea.tmall.com>, <https://france.tmall.com>, <https://singapore.tmall.com>).

As of July 2016, the Republic of Korea pavilion was hosting more than 600 Korean brands, which began to report high sales as early as the first month of operation. Sales were particularly high during the 11 November Global Shopping Festival, with LG Care selling 180,000 units of its Rungao product on Tmall Global in a single day.<sup>17</sup>

Of the 16 countries and regions that currently have a pavilion page on Tmall Global, three are from South-East Asia and neighbouring countries: Thailand, the Republic of Korea, Hong Kong SAR, and Taiwan Province of China. Other countries and their SMEs will be sure to gain from launching their own country portals.

### Alibaba's success story

In contrast to Europe and the United States, China is dominated by e-commerce marketplaces that regroup the sales of many independent merchants. Traditional brick-and-mortar retailers who have made a successful move online in those markets have no equivalents in China, where independent merchants account for only 10% of e-tailing sales.

Some 90% of Chinese electronic retailing occurs on virtual marketplaces – sprawling e-commerce platforms where manufacturers, large and small retailers, and individuals offer products and services to consumers through online storefronts on megasites similar to eBay or Amazon. The sites include PayPal, Taobao and Tmall, which in turn are owned by bigger e-commerce groups. A large and growing network of third-party service providers offers sellers marketing and design services, payment fulfilment, delivery and logistics, customer service and information technology support<sup>18</sup>

Alibaba is the most influential e-commerce enterprise in China and the undisputed e-commerce leader, with a gross merchandise volume for 2016 in excess of Chinese yuan (CNY) 3 trillion (\$463 billion).<sup>19</sup> More than 75% of Chinese e-commerce is transacted through Alibaba, which includes Tmall and sister site Taobao (Alibaba's consumer-to-consumer (C2C) sales website). This may be compared to United States

<sup>17</sup> Business Korea, Tmall Global Tells Korean Branding Success Stories. <http://www.businesskorea.co.kr/english/mice/exhibitions/15204-largest-e-commerce-market-tmall-global-tells-korean-branding-success-stories>.

<sup>18</sup> China's e-tail revolution. McKinsey Global Institute, March 2013.

<sup>19</sup> Alibaba's 2016 fiscal year ran from 1 April 2015 to 31 March 2016.

e-commerce leader Amazon, which held an estimated 26% share of that country's e-commerce market in 2015.<sup>20</sup> Although still relatively small, Amazon is also increasingly active in China.<sup>21</sup>

Alibaba was founded in Hangzhou in 1999 as a platform for matching export and import traders. In the mid-1990s, the Chinese Government was promoting paperless trade innovation.<sup>22</sup> During that period, Alibaba founder Jack Ma and his team settled in Hangzhou and embarked on a similar path, even going beyond paperless trading.

#### Quick facts:

- 2003: Alibaba founds Taobao, a domestic shopping website.
- 2004: Alibaba launches its online trade communications software, Alitalk, and online payment tool, Alipay. In 2004, Taobao launches a third-party online payment tool, Alipay, to resolve online payment issues and enhance trust and confidence between business partners and customers, using both United States dollars and CNY. By the end of June 2015, the number of Alipay users had reached 600 million, and the service had rapidly acquired 90% of the Chinese Internet retailing market.
- 2010: Aliexpress is created to provide cross-border online trading services and a third-party trading marketplace for e-commerce, enabling micro- and small enterprises to register directly in the market by offering retail services to consumers worldwide. Also in 2010, Alibaba acquires OneTouch Service – now known as the Foreign Trade Integrated Service Platform – a one-stop export service outsourcing provider based in Shenzhen.
- 2012: Alibaba separates its well-known brands and large retailers from Taobao Mall and creates Tmall to strengthen its marketing position.
- 2014: Tmall International allows international brands to sell products directly to Chinese consumers online.
- 2015: Alibaba strengthens consumer trust and confidence in international business-to-business (B2B) with its OneTouch Service data, offering new trade opportunities through business matching.
- 2016: Alibaba Group signs a strategic cooperation agreement with China's National Development and Reform Commission, creating entrepreneurship pilot projects for rural e-commerce development.

To date, the business ventures of Alibaba and its associates include Taobao, Tmall, Juhuasuan, Aliexpress, Alibaba International Trading Market, 1688 Domestic Whole Sale Market, Alimama, Antgroup and Cainiao, among others. After more than 10 years of effort, Alibaba gradually started to expand its services to other areas, such as customs clearance, tax rebating, funds collection and financing. This created the basis for experimental cross-border e-commerce activities.

Alibaba's success is based on its innovative method of creating a self-contained and comprehensive e-commerce system in China.

**Table 1. Selected services provided by Alibaba's One Touch Company**

Name of service	Description
<b>Financial service</b>	Providing sellers with financial means, such as credit financing.
<b>Logistics service</b>	Shipping, road transport, international express and air transport service
<b>Integrated cross-border service</b>	Customs clearing, foreign exchange and tax rebating; comprehensive export service

**Source:** Prof. Jian Wang.

<sup>20</sup> How China became the world's e-commerce king, Michel de Rijk, CEO of Xaxis Asia Pacific, quoted in TheDrum.com, 1 August 2016.

<sup>21</sup> Cross-border e-commerce is luring Chinese shoppers. McKinsey Quarterly, February 2016.

<sup>22</sup> A trading system, or Electronic Data Interchange (EDI), in which trade information and documents are exchanged in electronic form, based on open and agreed standards (GFP). Paperless trade. 20 April 2005. Retrieved from: <http://www.gfptt.org/node/46>.

A credit model that has developed a trustworthy reputation among customers completes Alibaba's business model. This credit system is the most mature representative of China's cross-border e-commerce ecosystem. Alibaba Group has the biggest third-party virtual market, comprising Alibaba International Website, AliExpress, Taobao/Tmall, etc. With the establishment of this credit system, China's cross-border e-commerce forms a closed ecosystem.

Alibaba's integrated ecosystem also succeeded in managing the company's logistics problems. The China Smart Logistic Network (CSN) is a joint project of Alibaba and some of the most influential logistics companies in China, aiming to deliver products within 24 hours of online purchase.

#### **BOX: AliExpress Platform: supporting start-ups**

Xiao Ni created an online shop on AliExpress platform after graduating from college and began selling cell phone shells worldwide in 2013. Initially, due to limited experience, his online shop received less than 10 orders a day and a small number of visitors. After following online tutorials and training with AliExpress, however, Xiao gradually increased his skills in uploading product descriptions, generating keywords, communicating with customers, managing product quality and doing accounting. He eventually received over 6,000 orders a month. More and more Chinese retail e-commerce sellers, foreign trade professionals and start-ups are joining the AliExpress platform to export and find new business opportunities. In 2015, the number of sellers exceeded 200,000.

## **Overview of e-commerce platforms and service providers in China**

The development of China's cross border e-commerce led to new business models and service providers. Following the success of Alibaba, other platforms started to appear. These platforms play an important role in facilitating international B2B transactions by connecting Chinese suppliers and overseas buyers and identifying new trade opportunities.

Table 2 shows key cross-border e-commerce service providers by trade type (export vs. import) and business model (platform vs. retailer). LightInTheBox, for example, is a highly innovative online retail company founded in 2007 that delivers products directly to consumers around the world, rather than acting as a marketplace for other sellers.

**Table 2. Key Chinese cross-border e-commerce players**

<b>Export e-commerce</b>	Platform	DHgate, Alibaba International Website, AliExpress, Wish, Winliner
	Retailer	DX, LightinThebBox, Osell, Milanoo
<b>Import e-commerce</b>	Platform	Global Taobao, Ebay, Tmall International, Ymatou
	Retailer	Amazon (overseas), JD (overseas), Jumei

**Source:** Prof. Jian Wang.

### **Integrated service providers**

Integrated service providers offer their clients integrated services, including customs clearance, tax rebating, logistics services, insurance, financing and other services required by exporters. The most typical integrated service provider in China is Alibaba OneTouch. Alibaba OneTouch helps its clients with customs clearance preparation and foreign exchange collection. These services facilitate exports, especially for SMEs, by simplifying the export process and reducing transaction costs. Following the successful business model of Alibaba OneTouch, similar platforms such as Haitongyida of Osell, Tradeso of Haier Group, Ningbo ShiMaoTong, and Equipmentimes emerged. Several third-party platforms are expected to begin providing integrated foreign trade services as well in the near future.

**BOX: Shenzhen OneTouch Business Services Co. Ltd.**

Shenzhen OneTouch Business Services Co. Ltd., founded in 2001 and acquired by Alibaba Group in 2014, is the first SME import and export outsourcing service platform in China. Through an integrated private single-window Internet service, it provides SMEs with the necessary customs clearance, logistics, tax rebating, foreign exchange, financing, and import and export services in a single platform. The company has changed the traditional way of doing business and exporting, relieving companies of the burden of complex and time-consuming procedures and thus reducing the cost of doing business.

**Online payment service providers**

In the early days of cross-border e-commerce, payments were processed offline because of high credit risks. Payments and product delivery were processed through banks following a deposit by the buyer, bank collection, letter of credit and other traditional means of settlement. In the late 1990s, eBay started online operations, enabling buyers to make payments through PayPal. The eBay platform also established a credit scoring mechanism for buyers and suppliers, which serves as a reference for buyers when choosing their suppliers. Following eBay's innovative business model, DHgate and AliExpress began their online operations in 2004 and 2010, respectively.

**Logistics service providers**

Logistics service providers such as SF Express, STO Express, YTO Express, and ZTO Express stepped up their services once e-commerce began to grow at great speed. These companies now represent over 80% of the express delivery market share in China. China Post, with the support of the Government, has also embarked on a market-oriented reform.

The information system of the logistics service providers is connected with the application programming interface (API) of e-commerce platforms, enabling buyers to freely choose their logistics service providers and track their parcels. This significantly enhances deliveries, especially for SMEs, by making them more predictable.

**Warehousing service providers**

Warehousing services contribute to managing the international delivery of products in larger volumes, transacted via e-commerce platforms. They help to enhance the market competitiveness of producers and exporters by lowering logistics costs and improving customer service. 4PX Express, GELS and Chukou1 are among the famous warehousing service providers in China. Many cross-border e-commerce platforms have also started to offer overseas warehousing services as part of their efforts to improve their services to customers.

Imported bonded warehouses are used to store goods without paying tariffs. They are generally operated by e-commerce platforms or e-commerce express delivery enterprises and are officially recognized as a means of importing consumer products, for which special tax treatment is granted.

**Online marketing service providers**

Online marketing is a critical factor for successful cross-border e-commerce. Web Power, the leading global marketing service provider, estimated that business transactions generated from e-mail marketing accounted for 35% of China's total cross-border e-commerce in the first half of 2014. There are two types of Internet marketing service providers: integrated marketing service providers, and traffic marketing service providers.<sup>23</sup> Integrated marketing service providers help cross-border e-commerce platforms to store and analyse big data and design accurate marketing strategies.

Examples of integrated marketing service providers include Epsilon (United States), Radica (China) and Web Power (the Netherlands). Radica was founded in 2000 and won the Hong Kong Marketing Institution Gold Prize in 2014. Traffic marketing service providers have increased transactions on cross-border

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<sup>23</sup> Prof. Jian Wang.

e-commerce platforms through email marketing, search engine systems and social media marketing. Examples of traffic marketing service providers include iClick (United States), Cube AD (China), Zibolan (China) and Darwin Marketing (China).

### Research and consulting service providers

There are also many research and consulting service providers in China, which support local governments and companies in the effective use of cross-border e-commerce. For example, the China International Electronic Commerce Center (CIECC) under the Ministry of Commerce began driving the development of cross-border e-commerce in the 1990s through dedicated projects and research.

**Table 3. Research and consulting service providers in China**

Representative organizations	Description
<b>CIECC</b>	A domestic cross-border e-commerce comprehensive research and consulting institution, the earliest promoter of e-commerce in China and an internationally influential Chinese cross-border e-commerce institution engaged in international cooperation
<b>AliResearch</b>	Alibaba's research institute, which publishes periodic research reports
<b>Ebrun</b>	The authoritative domestic e-commerce news portal in China, focusing on the information and research side of e-commerce services, policies and capital
<b>IResearch</b>	Quite influential in network marketing, e-commerce, mobile Internet, data and Internet finance in China
<b>Analysys International</b>	Information service group in China's Internet market

Source: Prof. Jian Wang.

## The role of e-commerce in inclusive development in China

E-commerce has contributed significantly to economic development and job creation in rural China. Two examples follow.

### Example 1: From a local business to an industrial cluster: Wood furniture in Shaji town<sup>24</sup>

Sun Han, a college student returning home after graduating in 2007, began selling easy-to-assemble wood furniture online and successfully expanded his business. Word of his success spread rapidly in Shaji town, producing a ripple effect. Subsequently, many online stores emerged next door in Dongfeng village, also selling wood furniture. In 2008, the town's e-commerce sales reached CNY 40 million (about \$6.2 million), and its wood furniture industry has taken off since then. With strong support from the local government, up/downstream industries rapidly developed, including wood, logistics, spare parts, network business services and even computer sales.

Since 2010, producers have been selling their furniture through Taobao, JD and other online platforms. They began to focus on branding, creating the Shaji brand for all the furniture produced there. By the end of 2015, Shaji had over 4,000 online traders, over 3,000 online stores, 302 furniture manufacturers, 38 express deliverers for logistics, a monthly output of nearly 40,000 pieces and 15,300 employees.

<sup>24</sup> Prof. Jian Wang.

Lessons learned from Shaji furniture:

### **(1) Make use of online platforms and seize the opportunity**

The industrial cluster of Shaji wood furniture was developed through Taobao. Entrepreneurs seized the online sales opportunity provided by Taobao as an e-commerce service platform that made it possible for the furniture manufactured in the countryside to directly reach consumers beyond traditional market sales. With this opportunity, prices could be adjusted based on online sales; consumers' reactions could be improved; and profit margins could be maximized.

### **(2) Adapt products to market demand**

It proved easy to adapt Shaji furniture to the demands of e-commerce, as the production process was simple and suitable for mass production and the products were easy to pack, transport and assemble. The rapid development of the Shaji model was also fostered by the cheap labour costs of China's rural areas.

### **(3) Stimulate business entrepreneurship**

With the expansion of the Internet, many Chinese college students and migrant workers have returned to rural areas to set up online businesses. From their experience in living and working in cities, they acquired knowledge and skills that could be applied to e-commerce. The successful experience of the pioneers was replicated quickly thanks to the Internet.

### **(4) Support from the local government**

The local government of Shaji set up a Network Entrepreneurship Street and a Network Entrepreneurship Model Base. It has also supported producers in accessing credit and factories and has provided tax incentives.

## **Example 2: From selling to buying: The case of Rural Taobao**

In 2014, Alibaba Group launched Rural Taobao to mainstream its Taobao e-commerce platform in rural areas. The objective is to establish county-wide e-commerce operation centres and village service stations build rural e-commerce service systems and connect producers in rural areas to consumers. By the end of 2015, there were 780 Taobao Villages across China, contributing to job creation and increasing village income. According to AliResearch, a Taobao Village is defined as having more than 100 active online shops marketed through Taobao or where the total number of active online shops exceeds 10% of the village's households, with a village's total annual e-commerce turnover reaching \$15 million.

Connecting rural areas via e-commerce also helped increase consumption. According to statistics from the China Internet Network Information Center (CNNIC), as of December 2014, there were 649 million people actively using the Internet in China, 178 million (27.5%) of whom live in rural areas. In 2014, the online shopping population in rural areas totaled 77 million, with an annual growth rate of 41%.

According to an AliResearch's report, China's online shopping in rural areas amounted to CNY 353 billion (about \$54.3 billion) in 2015 and is projected to reach CNY 480 billion (about \$73.8 billion) by the end of 2016.

Rural online consumption has shifted from selling to buying for the following reasons:

### **(1) Increase in farmers' incomes**

According to China's National Bureau of Statistics, the per capita disposable income of urban residents was CNY 28,844 (about \$4,436) in 2014, a 7% increase over 2013. This should be compared to a per capita disposable income of rural residents of CNY 10,489 (about \$1,614) in 2014, up 9% over 2013. Income growth among rural residents has been a key factor in the development of rural online shopping.

### **(2) Increased demand among rural consumers**

Traditional retail channels in rural areas offer limited choices of goods, and at high prices. The availability of competitive alternatives through e-commerce has stimulated demand for higher-quality goods from rural consumers.

### **(3) Support from national policy**

The Chinese Government promulgates policies to expand Internet usage in rural communities. In 2014, the Ministry of Agriculture launched a project on village and household access to Information and set up village information service stations in 10 pilot provinces and municipalities directly under the central government, including Beijing, Liaoning and Jilin. The Ministry of Commerce also launched an e-commerce demonstration programme for the countryside.

### **(4) Economic solidarity between family members in urban and rural locations**

The majority of online orders are placed by younger generation working in urban areas and sent to their parents or grandparents in rural areas. This economic solidarity within families constitutes one of the key drivers of rural online shopping.

### **The next trend in rural e-commerce: Rising agricultural products**

Despite increasing demand for agricultural products in urban areas, online trade in such products remains challenging due to their perishable nature, low value added and high transportation costs. To address these challenges, the Ministry of Commerce instituted policies to facilitate the integration of farm products into e-commerce and establish online tracing systems for them. Thanks to government support, many online stores are now starting to sell fresh agricultural products.

#### **BOX: Success of Anyue farm products through e-commerce**

Anyue County, Sichuan, is one of the richest agricultural areas in China, accounting for 80% of lemon production. In 2010, local farmers began to register online stores on Taobao to sell lemons and related products. The county now has over 4,700 online stores with over 15,000 employees. In 2015, online sales reached CNY 820 million (about \$126 million), and on 'Double Eleven' day (11 November) alone, CNY 50 million (about \$8 million) worth of lemons were sold. This increase in sales contributed to the development of Anyue's agricultural production and helped reduced the region's poverty.

## **Public and private support for rural development through e-commerce**

To further develop the rural market, well-known e-commerce platforms such as Alibaba, JD and Lecuntao have started to provide dedicated support to rural areas. For example, in 2010, AliResearch began analysing the experience of Taobao Villages like Shaji town and sharing their success stories.

In 2014, Alibaba Group announced three poverty alleviation measures for these villages, including (1) credit support and a package of financial support plans, (2) an e-commerce talent training plan, involving the creation of rural online learning platforms and training, and (3) special promotional events for sellers. Alibaba Group also launched its Qian Xian Wan Cun (Thousand County, Ten Thousand Village Plan) to invest CNY 10 billion (about \$1.5 billion) in constructing a rural e-commerce service system covering 1,000 counties and 100,000 administrative villages in three to five years.

To implement the plan effectively, Alibaba launched the Rural Taobao partners recruitment system, which supports farmers who wish to sell their products online by providing computers, televisions and training. In return, the Rural Taobao partners will conduct market promotion and provide purchasing services to villagers. They will also receive a commission for their work.

Local business associations provide support for the development of rural e-commerce as well, by promoting national policies, providing training to enterprises and sharing information and resources. Online store associations also contribute by sharing storage facilities and distribution centres for their members through rural cooperatives. In this manner they reduce the risks faced by entrepreneurs and help to create an e-commerce value chain by concentrating product distribution channels.

National and local governments have also played a critical role in expanding e-commerce in rural areas. Since 2015, the Government has implemented a series of policies to support the comprehensive development of rural e-commerce, including by:

- Expediting the construction of a rural Internet infrastructure;
- Building a rural e-commerce market system that is united, open, legal, safe, reliable and environment-friendly;
- Developing e-commerce in farm products and expanding rural e-commerce services;
- Encouraging rural young people to seize the market opportunities created by the Internet in the countryside.

Local governments have also issued and implemented a series of policies and measures, including:

- Helping to resolve financial and factory difficulties, e.g. by coordinating the issuance by financial institutions of petty loans to young entrepreneurs and building high-quality factories for farmers;
- Instituting preferential taxation policies and relieving rural e-commerce enterprises of part of their tax burden;
- Funding the training of e-commerce talent by establishing township/town training centres, explaining e-commerce to farmers in their role as new online merchants, and conducting e-commerce skills training.



## Chapter 2 What SMEs need to engage in e-commerce with China

### Regulatory requirements

#### Import certifications

China's inspection and quarantine authorities have many specific requirements and procedures pertaining to cross-border e-commerce imports, including authorization, registration, filing, examination and approval. The requirements on inspection and quarantine, health and quality licences vary for different types of products.

**Table 4. Inspection, quarantine and quality licence requirements**

	Imported animals & related products quarantine	Imported food hygiene supervision and inspection	Imported goods inspection
Animals & related products	√	√	√
Plants & related products	√	√	√
Foodstuffs	√	√	
Household appliances		√	√
Cosmetics		√	√

For the goods included in the List of Legal Inspection and Quarantine, purchasers must provide the origin certificate, inspection and quarantine certificate and other material. Cosmetics, health products and other goods must be registered by the Administration of Food and Medicine. Only in this way can goods from overseas obtain the approval of the Chinese inspection and quarantine authorities.

B2C orders delivered directly from overseas to consumers in China through postal or courier networks are not currently required to be pre-registered with the Chinese authorities. In all other cases products that are compliant with Chinese regulations can be pre-registered online through the official portal of the China Import and Export Inspection and Quarantine Bureau, at <http://ire.eciq.cn/>.

#### Intellectual property

In recent years, China has attached great importance to the protection of trademark, brand and other intellectual property rights (IPRs). Measures of protection of IPRs, including controls on the sale of counterfeit goods, are particularly sensitive.

#### Taxes and duties

Taxes, duties and other import regulations in China are complex, fast-evolving and possibly confusing to importers, especially when existing regulations are modified or new regulations implemented. In its 2015 publication on e-commerce in China,<sup>25</sup> the Australian Government advises Australian businesses on the complexity of the Chinese market. There are currently three types of taxes that apply and accumulate in the case of goods imported to China.

#### Customs tariffs

Duties vary depending on the HS code<sup>26</sup> of the product, but there are several exceptions or special conditions that can be applied to certain types of product. China has signed more than 20 regional and or

<sup>25</sup> E-commerce in China: A guide for Australian business. Australian Government and Trade Commission, 2015

<sup>26</sup> Harmonized System Codes.

bilateral free trade agreements. At the moment, zero tariff is applied to the products imported to approved bonded warehouses for cross-border e-commerce.

### **Value added tax**

The Chinese VAT rate is 17%. However, a discounted rate is applied to products that have been imported into approved bonded warehouses for cross-border e-commerce. This rate is currently 11.9% (30% discount off the official rate).

### **Consumption tax**

This tax applies only to specific products and can vary from 0% to 50%. However, a discounted rate (30% discount from the official rate) is also applied to products imported to approved bonded warehouses for cross-border e-commerce.

If the e-commerce products are imported through bonded warehouses, each order by the Chinese consumer shall not exceed CNY 2,000 (about \$308), and accumulated value of the annual orders by the Chinese consumer shall not exceed CNY 20,000 (about \$3,078).

If the e-commerce products are imported by post or courier, a special personal postal tax would be charged on different products. For example, 15% for food and beverage, healthcare products, toys and furniture, 30% for sports equipment (except for gold equipment and accessories), fishing equipment, shoes and clothing, and 60% for wine, jewellery, golf equipment and accessories, watches and cosmetics.

## **Consumer requirements**

### **Brands and quality**

The focus on high-quality branded items in Chinese cross-border e-commerce markets has placed suppliers from developed countries in the dominant position. However, given the size and diversity of the Chinese market, significant potential also exists to supply unbranded products from LDCs, provided that they are of unique design and quality, in such categories as handicrafts, jewellery, high-class wood products, furniture and decoration.

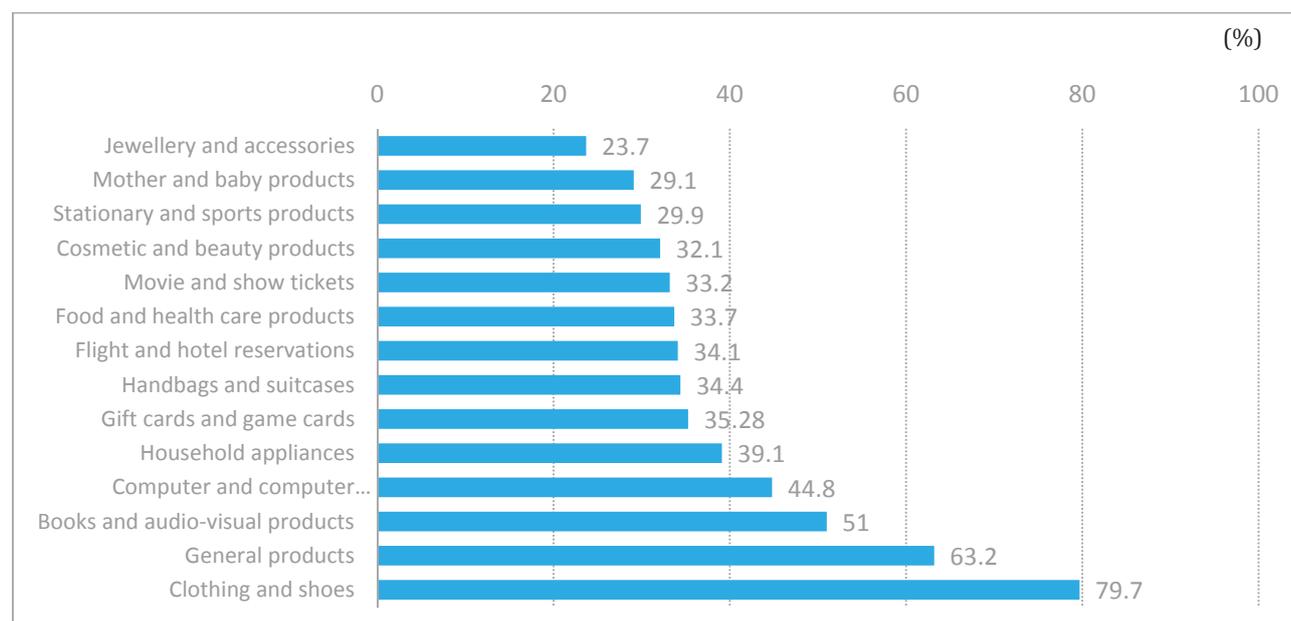
### **Preferred shopping channels**

According to iResearch, over 60% of Chinese cross-border online shoppers used domestic e-commerce platforms, e.g. Taobao of Alibaba, Tmall Global and JD Overseas Shopping. Of those shoppers, 44.9% have used international e-commerce platforms for their shopping, e.g. Amazon, and also buy from online shopping catalogues (35.6%), for example Alibaba Yitao, independent overseas online stores (32.1%), independent domestic online stores (29.3%) and social media sites (27.9%).

Chinese consumers have access to a wide range of online payment mechanisms for cross-border e-commerce transactions. According to iResearch, 31% of Chinese consumers use third-party payment providers, such as Alipay and, increasingly, PayPal for online payment, while 24% use credit cards and 22% use online bank payments.

### **Demand and category of products**

Survey findings contained in CNNIC's 2015 China Internet Retail Report show that garment, footwear and headwear are the products most in demand in China's online shopping market (accounting for 79.7% of all online purchases), followed by products for daily use (63.2%). Other product categories cover almost all the necessities encountered in consumers' daily lives.

**Figure 7: Goods purchased by users in China's online shopping market in 2015**

**Source:** CNNIC, 2015 China Online Retail Market Assessment Report.

## Marketplace requirements

There are numerous online marketplaces in China, and although many are proposing international products only a handful are actually open to foreign sellers. As with traditional distribution to China, most of the foreign products on offer are distributed by China-based companies or sellers. For those marketplaces that do allow non-China-based sellers to operate, the barriers and requirements that may be encountered by foreign sellers, especially SMEs, are discussed below.

Most B2B marketplaces are open to sellers from almost all countries. Platforms such as Alibaba.com allow foreign enterprises to register and list their products. However, the competition is very intense in such marketplaces, and foreign providers have to organize themselves to cover the high logistics costs and to be able to accept the expected payment terms and methods, according to ITC's 2015 publication on *International E-Commerce in Africa: The Way Forward*.<sup>27</sup>

Visibility in B2B marketplaces comes at a cost, and that cost must be paid upfront. Premium accounts vary from a few hundred to a few thousand dollars. A gold supplier's subscription to Alibaba.com ranges from \$2,000 to \$5,000 per year, depending on the seller's country of origin and the type of package chosen.<sup>28</sup>

## Identity verification and language difficulties

Platforms such as TaoBao.com seem to have lower requirements and no upfront fees for registering and validating new seller accounts, since such platforms are C2C. However, validating an account requires presentation of a Chinese national identification card or completion of a lengthy foreign identity document verification process. Most barriers involve language issues.

In some cases an online marketplace may require a foreign seller to present a local Chinese citizen as a guarantor of his or her business, depending on the type of products proposed.

<sup>27</sup> ITC. *International E-Commerce in Africa: The Way Forward*, 2015.

[http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/International%20E-Commerce%20in%20Africa\\_Low-res.pdf](http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/International%20E-Commerce%20in%20Africa_Low-res.pdf).

<sup>28</sup> Alibaba Website, <http://seller.alibaba.com/memberships/index.html>.

### Chinese-registered company and product location requirements

Marketplaces doing business in China, such as Amazon.cn and domestic platforms, require sellers to have a locally registered company and bank account. Sellers to Amazon China must have a business registered in mainland China or in Hong Kong SAR, Macao, China or Taiwan Province of China.<sup>29</sup>

It is possible to sell on eBay's China marketplace, but specific conditions may preclude sellers from certain countries from accessing the website. For example, the products must be physically located in the United States (or certain other Western countries) before they can be proposed on the Chinese Ebay portal.<sup>30</sup>

### Security deposit and accumulating fees requirements

The fee schedules of Tmall and other Chinese B2C platforms and marketplaces may come as an unpleasant surprise to small enterprises interested in selling through them. Tmall, for instance, requires new foreign merchants to deposit and block \$25,000 as a guaranty for consumer protection. Added to that are annual store maintenance fees, which range from \$5,000 to \$10,000.<sup>31</sup> By rough estimates, this makes for a first-year cash flow requirement of \$30,000 before a foreign seller can start selling on Tmall Global or JD.com.

Figure 8 compares the entry fees and requirements of three major e-commerce platforms in China.

Such financial requirements may prove excessive for developing-country SMEs, especially on top of marketing and content adaptation efforts.

### Payment system requirements

All of the major Chinese payment solutions are open to foreign sellers without a Chinese bank account or business registration. Services like Alipay collect payments from Chinese users in CNY and can settle payments to foreign merchants in 12 major currencies, including the dollar and the euro. However, it may be difficult to validate the payment account due to language issues and ID verification steps, especially when communication is needed between a compliance office and foreign user.

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<sup>29</sup> [https://kaidian.amazon.cn/services/qualification-requirements/qualification.html/ref=as\\_cn\\_services\\_head\\_soacn](https://kaidian.amazon.cn/services/qualification-requirements/qualification.html/ref=as_cn_services_head_soacn).

<sup>30</sup> eBay website: <http://pages.ebay.com/sellerinformation/build-your-business-online/grow-your-sales/ebay-style.html>.

<sup>31</sup> Tmall Website: [http://about.Tmall.com/Tmall/fee\\_schedule](http://about.Tmall.com/Tmall/fee_schedule).

**Figure 8: Requirements for foreign sellers in Chinese marketplaces**

Marketplace name	Alibaba Group		JD.com	
	Taobao.com	Tmall.com		
Business model	Taobao Marketplace (C2C)	Tmall.com (B2C)	Hypermarket	Online mall
Estimated number of users	350 million		105.2 million	
Focus	General merchandise		General merchandise	
Number of shopfronts	N/A	50,000+	1	100,000
Estimated number of products	More than 1 billion product and service listing		40.2 million	
Shopfront deposit	N/A	\$2,300 - \$25,000 (depending on store type)	Not Required	\$1,500-\$15,000
Annual marketplace fee (approx.)	N/A	\$4,600 - \$9,200 (depending on categories)	Not Required	\$1,000
Commission	N/A	2%-5%	1%-10%	
China ID/business registration required	Yes	Yes (Tmall.com) No (Tmall Global)	No	Yes (JD Worldwide) No
In-house delivery and logistics	No	No	Yes	Yes

**Note:** Amount in \$ converted from Australian \$ (UN Operational rate as of 1 Oct 2016).

**Source:** Government of Australia. E-commerce China 2015.

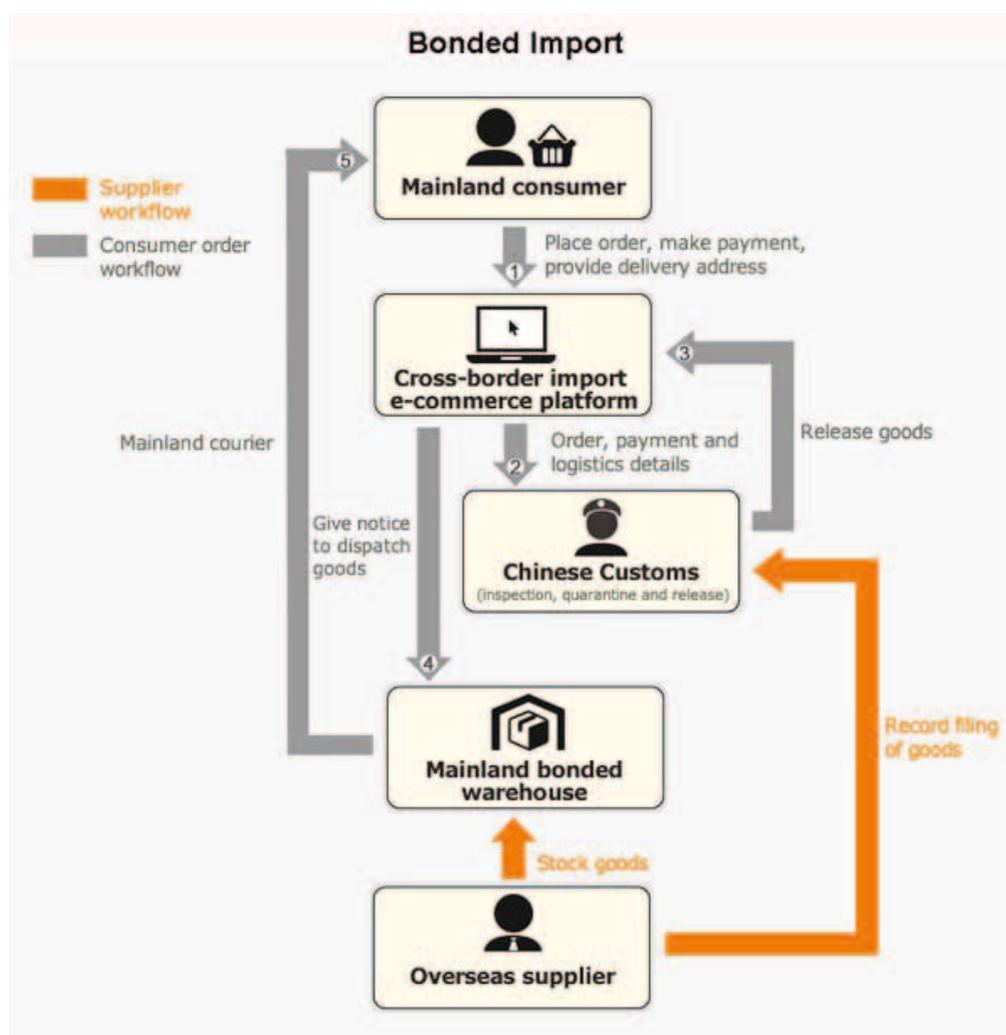
### Market access strategies

There are different ways to access Chinese markets in terms of commercial, marketing and distribution. The following section reviews these possibilities and presents their respective advantages and disadvantages for foreign sellers. Three main distribution strategies have been identified for businesses looking to export to China through e-commerce.

#### The bonded warehouse mode

This method consists of sending the products to a Government-approved cross-border e-commerce bonded warehouse. Here the products must be compliant and registered with the authorities, which maintain a listing of accepted products for import into China. The list covers about 1,300 HS codes. The import flow is described in Figure 9.

Figure 9: The bonded import flow



Source: Hong Kong Trade Development Council.

### The postal/courier mode

This method consists of shipping products to China directly from the seller's country of origin via postal or courier networks. It is not popular with Chinese consumers as it may entail customs clearance delays and/or the assessment of additional taxes/duties on the last mile of the delivery route. However, it could be an easy way of entry for international sellers, especially SMEs, but clear terms for shipping and returns must be specified when this method is used.

### The neighbouring country mode

It is common for foreign brands to incorporate and store their products in an economy located close to China, such as Hong Kong SAR. No duty is paid on such products, as they are stored in bonded warehouses outside China and can be shipped via the postal network, thereby avoiding the delays that frequently occur with international postal shipments. This method has also been used for B2C e-commerce orders ever since e-commerce began its rapid growth in China. The import flow of products using this method is explained in Figure 10.

**Figure 10: The direct import flow from a neighbouring country**



**Source:** Hong Kong Trade Development Council.

The American retailer Macy's has partnered with a local retailer from Hong Kong SAR (Fung Retailing) to store and distribute products being shipped from Hong Kong SAR to China in filling their Tmall Global store orders.

An alternative to joint-venturing with a local Hong Kong SAR company is to register a branch of a foreign company in Hong Kong SAR, as the administration there allows foreign companies to incorporate a local branch which can then be used to bridge to the China market. The June 2013 bulletin of the American Bar Association explains the many advantages of incorporating in Hong Kong SAR to access the Chinese market.<sup>32</sup>

### **Conclusions regarding market access**

Chinese cross-border e-commerce clearly constitutes an excellent market for international brand expansion. The sheer numbers of online shoppers in China, and their appetite for shopping online, represent a substantial opportunity for foreign sellers. From a return-on-investment perspective, accessing the Chinese market makes sense for established brands with the cash flow and resources needed to adapt their commercial and distribution strategies.

However, SMEs, especially from developing countries, might still face some difficulties in entering the Chinese market. The financial cash-flow requirements, added to the multicultural adaptations needed for the Chinese market, may prove too great a barrier.

Further work needs to be done at multiple levels before developing-country SMEs can bridge to the Chinese e-commerce market in a cost-efficient way. Specific solutions, such as grouping multiple SMEs into a consortium or cooperative and consolidating their logistics and marketing efforts, should be considered. Discussions should also be held with Chinese marketplaces to review the possibility of providing more convenient and preferential standards in relation to compliance and financial requirements imposed on SMEs from developing countries.

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<sup>32</sup> American Bar Association, Hong Kong as a Base for Doing Business in Mainland China. [http://www.americanbar.org/publications/blt/2013/06/01\\_pang.html](http://www.americanbar.org/publications/blt/2013/06/01_pang.html) .

## Chapter 3 Developing e-commerce between Asian firms and China

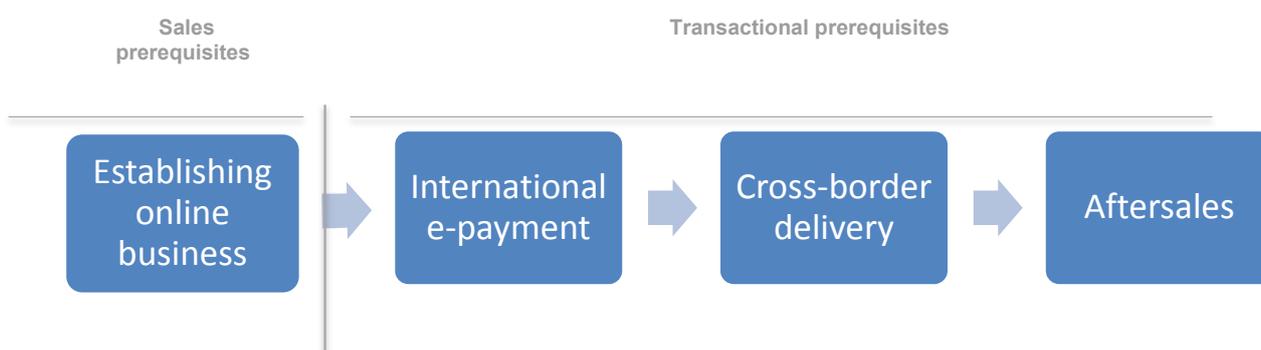
The development of e-commerce has created tremendous opportunities for China and its small businesses. As discussed in Chapter 1, in some rural areas this has been transformational: specialized centres of production have sprung up in otherwise remote locations, typically focusing on traditional local crafts (such as woodworking), as the result of new market connections made through e-commerce. Where traditional production systems favoured proximity to the market, the recent development of e-commerce in China shows how access to production inputs, including specialized or less expensive labour, may favour the development of specialized production centres.

Buyers can be located anywhere, in a remote domestic setting or in foreign markets, as they are reachable through efficient logistics systems. Neighbouring countries may be able to emulate this success if they have access to the raw materials, crafts and labour needed to make potentially competitive products. The challenge is to improve the organization of production and overcome the various barriers (including high logistics costs) that prevent SMEs in the less developed Asian countries from competing in e-commerce channels. The next section of this chapter analyses the sources of these barriers and suggests ways to overcome them.

### Barriers and solutions: Bringing SMEs onto the Chinese e-commerce highway

In its recent publication on *Bringing SMEs onto the e-Commerce Highway*,<sup>33</sup> ITC outlined the various challenges that policymakers, local institutions and the private sector need to address in order to enable access to and improve competitiveness in e-commerce. Following are the most common barriers to engaging in e-commerce and the implications for SMEs, industry associations and policymakers in Asian LDCs.

**Figure 11: Prerequisites for successful international e-commerce**



Source: ITC.

### Establishing online business

There are many prerequisites for a firm to generate sales through e-commerce. Obviously more is required than simply listing products online; firms need to have products or services that are in demand and known in the target market, and imports and sales in that market must be permitted. The basic prerequisites for e-commerce are access to digital infrastructure and the relevant technical and business skills, which concern both e-commerce and the more traditional fields of operational, commercial and financial management. Firms must have a strategic understanding of the target market and develop attractive

<sup>33</sup> ITC. *Bringing SMEs onto the e-Commerce Highway*, 2016.

product and service propositions. One of the biggest challenges is to create awareness in the target market, by promoting goods or services in the local language and in a manner that is consistent with local cultural norms and likely to generate interest and, eventually, sales.

**Table 5. Prerequisites for establishing online business**

	Required capabilities	Challenges and possible solutions for Asian LDCs in meeting the required capabilities
<b>Firm-level capabilities</b>	<p><b>Basic prerequisites</b></p> <ul style="list-style-type: none"> <li>✓ Technical infrastructure</li> <li>✓ Ability to create a secure online presence</li> <li>✓ Technical knowledge and skills</li> <li>✓ General business knowledge and skills</li> </ul> <p><b>Strategic prerequisites</b></p> <ul style="list-style-type: none"> <li>✓ Understanding target market requirements and demand</li> <li>✓ Attractive products or services that meet the target market demand</li> <li>✓ Trading history in country of origin and internationally recognized business credentials</li> </ul> <p><b>Marketing prerequisites</b></p> <ul style="list-style-type: none"> <li>✓ Language skills, cross-cultural understanding</li> <li>✓ Marketing communications skills, especially those relating to online content creation and management</li> <li>✓ Awareness among customers in target market</li> </ul>	<ul style="list-style-type: none"> <li>☒ Firms have varying capabilities with respect to the basic prerequisites. In general, access to the Internet is not a constraint. More attention may be needed to mastering the basics of business management, including financial planning, production management and conformity with international quality standards.</li> <li>☒ There is a significant gap in generating a trading history and obtaining the relevant business credentials to allow firms to list on foreign e-commerce platforms.</li> <li>☒ Another critical gap concerns the ability to promote awareness and generate demand for goods and services in foreign markets, including China: firms from Asian LDCs need to be trained and assisted in developing marketing communications (including digital media) that are appropriate and effective for Chinese customers.</li> </ul>
<b>Immediate business environment</b>	<ul style="list-style-type: none"> <li>✓ Training and advisory services on business and technical requirements for engaging in e-commerce</li> <li>✓ Shared services, including digital photography and video, marketing promotion</li> <li>✓ Collaborative structures that support sharing the costs of transactions and marketing among SMES and that can conduct transactions on their members' behalf</li> </ul>	<ul style="list-style-type: none"> <li>☒ Asian LDCs need to reinforce the support offered by business institutions. In China, Alibaba and others have assumed this role, by training and organizing firms to sell through e-commerce channels. Asian LDCs may choose another model, such as public-private bodies that provide training and advisory services.</li> <li>☒ By grouping SMEs into collaborative structures that can engage in transactions, and by sharing the costs of overcoming many of the barriers to international e-commerce can be shared. Again, Alibaba provides a model for how this can be done. Alternatives include the development of e-commerce cooperatives acting on their members' behalf.</li> </ul>

<b>National environment</b>	<ul style="list-style-type: none"> <li>✓ Simple process for registering businesses with the local authorities</li> <li>✓ Easy intellectual property registration and policies to address intellectual property infringement</li> <li>✓ Solid information and communications technology and electricity infrastructure</li> <li>✓ Successful implementation of e-signatures and e-contract laws</li> <li>✓ National strategies for e-commerce growth</li> </ul>	<ul style="list-style-type: none"> <li>☒ Continued attention to the availability and costs of Internet access.</li> <li>☒ Policies to promote the creation and facilitate the activities of collective organizations, such as e-commerce cooperatives.</li> </ul>
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Source: ITC.

## International e-payment

The availability of international payment solutions is a critical prerequisite for firms to complete transactions through e-commerce channels, but such solutions may not be readily accessible. The largest and most frequently used payment platforms (such as PayPal and Alipay) virtually bar all enterprises from certain countries from registering as merchants: in effect, the platforms consider them to be too high-risk or high-cost. Risks and costs are assessed on the basis of whether a firm can comply with specific requirements, such as the ability to prove that it conducts business in a manner conforming to internationally recognized standards of transparency and good business practice.

In developed countries, the assessment of whether firms are compliant with relevant requirements is most often conducted by banks, with the company directors' credentials being assessed under 'know your customer' provisions, which identify and verify their clients' identities. In LDCs, it is not easy for small firms to obtain business credentials. Where firms lack a trading history, especially in target markets like China, the e-commerce platform and the international payment provider may simply preclude them from engaging in any activity whatsoever.

**Table 6. Prerequisites for international payments**

	<b>Required capabilities</b>	<b>Challenges and possible solutions for Asian LDCs in meeting the required capabilities</b>
<b>Firm-level capabilities</b>	<ul style="list-style-type: none"> <li>✓ Bank account</li> <li>✓ Sign-up for encryption solutions, e.g. SSL (Secure Socket Layer) certificate</li> <li>✓ Knowledge of e-payment solutions</li> <li>✓ Documented trading history</li> <li>✓ Verified identity of company directors</li> </ul>	<ul style="list-style-type: none"> <li>☒ Business registrations documents should be available in English (and/or Chinese).</li> <li>☒ Audited accounts should be available in English (and/or Chinese).</li> </ul>
<b>Immediate business environment</b>	<ul style="list-style-type: none"> <li>✓ Availability of reliable and trusted compliance data on the activities of company directors</li> <li>✓ Availability of third-party-payment providers or relationships with such providers</li> </ul>	<ul style="list-style-type: none"> <li>☒ Trade institutions should partner with recognized authorities to ensure the creation/availability of verified company director information.</li> </ul>

<b>National environment</b>	<ul style="list-style-type: none"> <li>✓ International credit card payment gateway: ability to receive funds from international customers</li> <li>✓ Foreign exchange system allowing free convertibility of currency and regulations on the free flow of currency (current account)</li> <li>✓ Regulations on prevention of online fraud and combating cybercrime</li> </ul>	<ul style="list-style-type: none"> <li>☒ Rules governing foreign currency transactions and ownership of foreign currency accounts should be simplified.</li> <li>☒ The creation of reliable company director information and its links to credit scoring for enterprises should be promoted.</li> </ul>
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Source: ITC.

### Cross-border delivery

For direct deliveries from neighbouring countries into China, the costs may be too high and in most cases the service quality too low, or transit times too long, to permit the development of e-commerce through door-to-door delivery of individual shipments. Using integrators such as DHL or UPS to reach higher levels of service may be too expensive for individual SMEs.

For SMEs from Asian LDCs, the solution is to work collectively: to share the costs of outbound logistics and transportation, and to negotiate with Chinese partners for delivery within China. For some SMEs this could be done through door-to-door shipping and the collective negotiation of better transportation rates, assuming that the products concerned are of sufficiently high value to merit direct shipment. A more practical form of organization, however, is to ship in bulk to a Chinese e-fulfilment partner who can stock the goods and organize transport within China.

**Table 7. Prerequisites for cross-border delivery**

	Required capabilities	Challenges and possible solutions for Asian LDCs in meeting the required capabilities
<b>Firm-level capabilities</b>	<ul style="list-style-type: none"> <li>✓ Effective outbound logistics organization: managing goods inventory and orders</li> <li>✓ Capacity to prepare export and import documentation</li> <li>✓ Technical competency in preparing labelling and documentation for warehouse and delivery services at target destination</li> <li>✓ Secure packaging for delivery of goods</li> <li>✓ Capacity to handle surges in sales during peak periods</li> <li>✓ Ability to pay VAT and duties at target destination,</li> <li>✓ Ability to propose customer with full net price including transport, insurance, taxes and duties (IncoTerm: Delivered Duty Paid (DDP))</li> </ul>	<ul style="list-style-type: none"> <li>☒ Obtain relevant permission for export of goods.</li> <li>☒ Verify import requirements for China.</li> <li>☒ Ensure that packaging and labelling requirements for China are understood and prepared in accordance with Chinese logistics partners' requirements.</li> <li>☒ Include the costs of shipping, duties and taxes into China on the price tags.</li> </ul>

Immediate business environment	<ul style="list-style-type: none"> <li>✓ Shared platforms for outbound logistics, enabling consolidation of shipments where appropriate and reducing costs for individual firms</li> <li>✓ Access to postal and express delivery services with tracking ability</li> <li>✓ Access to warehouses and delivery services at destination</li> </ul>	<ul style="list-style-type: none"> <li>☒ Negotiate collectively, on behalf of groups of SMEs, improved transport and logistics costs outbound from country of origin and for handling and onward transportation in China.</li> <li>☒ Train and advise SMEs on packaging and labelling requirements for the Chinese market.</li> <li>☒ Create a database of import duties and taxes to be applied in China.</li> <li>☒ Advise SMEs on taxes and duties to be applied in China, and advise customers in China about the costs.</li> </ul>
National environment	<ul style="list-style-type: none"> <li>✓ Increased transparency about cross-border e-commerce-related customs procedures and rules on the application of duties and taxes</li> <li>✓ Application of simplified customs procedures and expedited customs clearance for small parcels</li> <li>✓ Increased de minimis threshold for import duty exemption to reduce the burden on customs authorities</li> <li>✓ Mechanisms to ensure freedom and security of cross-border data flows</li> <li>✓ Increased efficiency for connectivity infrastructure (for delivery of goods: road, air transport; for delivery of services: encryption technology, Internet bandwidth)</li> <li>✓ Modernized national postal services to increase efficiency of delivery</li> </ul>	<ul style="list-style-type: none"> <li>☒ Promote policies that introduce competition to the transport and logistics sector.</li> <li>☒ Promote and implement simplified export procedures ('single window' declarations) to facilitate transactions through digital channels.</li> </ul>

Source: ITC.

## Aftersales

Failure to address the concerns of customers can destroy the reputation and profitability of any e-commerce business. Customers whose goods are delivered with requests for payment of previously undisclosed taxes and duties may reject the shipments, which must then be returned to the local transportation hub and onward to the country of origin. This can be an expensive process, at times far more expensive than the additional taxes and duties.

Problems with aftersales begin in pre-sales: it is important to provide customers with a clear understanding of exactly what they are buying, and to disclose the full door-to-door costs, including any additional charges that may be incurred, at the time of purchase. Nevertheless, some goods will always be returned, as customers will legitimately change their minds about a purchase. Turning disappointment into a simple process of returning goods can have a positive impact: if customers are reassured that they will be treated fairly and professionally, they will place greater trust in the firm.

**Table 8. Prerequisites for aftersales**

	<b>Required capabilities</b>	<b>Challenges and possible solutions for Asian LDCs in meeting the required capabilities</b>
<b>Firm-level capabilities</b>	<ul style="list-style-type: none"> <li>✓ Return or cancellation policies including sufficient information to enable consumers to make informed choices, including information on available redress</li> <li>✓ Effective customer feedback mechanism and customer relations management</li> <li>✓ Returns logistics and accounting procedures, including handling of VAT and duties</li> </ul>	<ul style="list-style-type: none"> <li>☒ Work with selected Chinese e-commerce platforms to understand and comply with their returns policies.</li> <li>☒ Work with Chinese e-fulfilment partners on procedures for handling returned goods.</li> </ul>
<b>Immediate business environment</b>	<ul style="list-style-type: none"> <li>✓ Availability of dispute settlement procedures</li> <li>✓ Mechanisms for recognizing the validity of transaction-related records, including delivery records, chat records with salespersons, etc.</li> </ul>	<ul style="list-style-type: none"> <li>☒ Negotiate collectively, on behalf of groups of enterprises, the effective handling of returned goods and the associated taxes and duties.</li> <li>☒ Advise SMEs on the accounting and administrative procedures for returned goods.</li> </ul>
<b>National environment</b>	<ul style="list-style-type: none"> <li>✓ Consumer rights and enforcement of those rights</li> <li>✓ Clarified and simplified procedures on the re-importation of returned goods (or unsold goods held in stock in foreign markets)</li> <li>✓ Adequate infrastructure for implementing and monitoring consumer protection policies</li> <li>✓ Appropriate policies ensuring firms' adherence to national/international consumer protection standards</li> <li>✓ National initiatives to develop effective online dispute resolution schemes</li> <li>✓ Elimination of duties on the returned products</li> </ul>	<ul style="list-style-type: none"> <li>☒ Negotiate improved international agreements for the recognition of returned goods and their tax and duty treatment.</li> </ul>

Source: ITC.

## Recommendations for policymakers and trade and investment support institutions

### Policymakers

International trade agreements on e-commerce are likely to receive greater attention in the coming years as the growing importance of the channel is reflected in trade statistics and as the negotiation on e-commerce are ongoing such as the debate among World Trade Organization (WTO) members over the duty-free moratorium on electronic transmissions. It is increasingly clear that developing and least developed countries are failing to benefit from the potential of e-commerce.<sup>34</sup> According to analyses by the World Bank<sup>35</sup> and ITC,<sup>36</sup> the explanation lies in the unavailability in these countries of complementary services and capabilities that would permit small businesses to conduct transactions effectively through digital channels.

A number of initiatives are under way to raise awareness of the opportunities and challenges for developing countries in using e-commerce as a vehicle for inclusive economic development. Following are two of the most recent such developments.

In July 2016 UNCTAD announced the launch of the 'eTrade for All' initiative, a multi-stakeholder initiative that aims to improve the ability of developing countries and economies in transition to use and benefit from e-commerce by scaling up global collaboration in the field of e-commerce.

In September 2016 representatives of the Governments of Costa Rica, Kenya and Pakistan formed a collaborative group called Friends of e-Commerce for Development, hosted by WTO. According to Pakistan's Permanent Representative to that organization, Tauqir Shah, 'We are of the view that systematic and organized representation of developing countries and LDCs is important for our future discussions on e-commerce and digital trade'.<sup>37</sup>

Once considered a developing country itself, China has shown the potential for e-commerce to act as a vehicle for distributing the benefits of economic growth to poor and remote communities.

Policymakers in Asian LDCs should be inspired by the growth of e-commerce in China and its positive impact on rural areas, and recognize that this growth was in large part due to favourable government policies in partnership with local firms. Local poles of production in China are supported financially to build shared logistics facilities; collectively owned structures share the costs of subsidized local and international transport.

The Chinese Government trialled the creation of some cross-border e-commerce comprehensive pilot zones, such as the one in Hangzhou, which is commonly acknowledged as the capital of e-commerce in China, with special customs facilities (including pilot work on 'single window' declarations), arrangements for international payments, taxes and refunds, and shared logistics facilities. The Hangzhou model is now being extended to 12 other cities in China. In a partnership with Alibaba, many local governments in China are promoting the use of e-commerce by farmers in an effort to raise the prices they receive and to increase the income of poor rural communities.

While large financial subsidies may not be available to LDC Governments in South-East Asia, their policymakers can certainly learn from the basic lesson of the Chinese experience: by implementing collectively owned and managed solutions, the costs of technology and logistics can be shared among groups of firms, creating opportunities to export competitively. Governments can also support the creation of e-commerce cooperatives or similar structures that can make services more readily available and negotiate better deals with international logistics and payment providers.

Policymakers should engage in dialogue with local private-sector representatives and prioritize the areas considered to be the most constraining for the development of e-commerce. In the short term such areas are likely to include provisions on foreign exchange transactions and accelerating work on trade facilitation.

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<sup>34</sup> UNCTAD. Information Economy Report 2015 – Unlocking the Potential of E-commerce for Developing Countries. <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1146>.

<sup>35</sup> <http://www.worldbank.org/en/publication/wdr2016>.

<sup>36</sup> <http://www.intracen.org/publication/International-E-Commerce-in-Africa-The-Way-Forward/>.

<sup>37</sup> <https://www.thenews.com.pk/print/148427-Pakistan-trying-to-boost-e-trade-Dr-Tauqir>.

### Trade and investment support institutions

Trade and investment support institutions (TISIs), in turn, have a central role to play in building the capacities of enterprises and facilitating access to the resources and services required to compete in e-commerce. By grouping SMEs into collaborative structures, many of the barriers to international e-commerce can be addressed collectively, and the costs shared and reduced. Interventions by such structures would pave the way to conducting transactions in e-commerce channels that would simply not be possible otherwise.

**Table 9. How TISIs can help SMEs overcome barriers to successful international e-commerce**

Barrier	Role to be played by TISI/cooperative in overcoming the barrier
Small firms may be precluded from listing their products on and conducting transactions through international e-commerce channels because these platforms do not recognize the directors' business credentials.	Negotiate access for firms by providing better compliance data: trade institutions should partner with recognized authorities to ensure the creation/availability of verified company director information.
Transportation and logistics costs can be prohibitively high for small firms.	Negotiate collectively, on behalf of groups of SMEs, more reasonable transport and logistics costs outbound from country of origin and for handling and onward transportation in China.
Requirements for packaging and labelling of goods for China are not understood.	Train and advise SMEs on packaging and labelling requirements for the Chinese market.
Firms lack the understanding or capability to implement effective marketing communications strategies for the Chinese market.	Develop shared communications strategies for the sectors concerned. Train and advise SMEs on all relevant aspects of the effective presentation of commercial offerings in digital channels.
The door-to-door costs for a customer buying goods in China may not be known in advance, which creates uncertainty about the full cost of delivered goods or generates very high levels of returned goods.	Create a database of import duties and taxes to be applied in China.
Firms may not take account of the costs of duties and taxes when exporting through e-commerce channels.	Advise SMEs on taxes and duties to be applied in China and advise customers in China about the costs.
The costs of handling returned goods, and of their associated duties and taxes, may be prohibitively high.	Negotiate collectively, on behalf of groups of enterprises, the effective handling of returned goods and the associated taxes and duties.
SMEs may fail to account for the costs and to plan properly for returned goods, leading to significant financial losses.	Advise SMEs on the accounting and administrative procedures for returned goods.

Source: ITC.





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