



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

Inclusive and Sustainable Industrial Development Working Paper Series  
WP 17 | 2017

# NATIONAL REPORT ON E-COMMERCE DEVELOPMENT IN CHINA

Yue Hongfei

DEPARTMENT OF POLICY, RESEARCH AND STATISTICS

WORKING PAPER 17/2017

**National report on e-commerce development in  
China**

Yue Hongfei  
Beijing Normal University



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna, 2017

## **Acknowledgement**

This report is the outcome of the project “Promote the development and cooperation of SMEs between China and other BRICS countries through e-commerce development (Pilot phase)”. It was written by Yue Hongfei, PhD student at Beijing Normal University.

The designations employed, descriptions and classifications of countries, and the presentation of the material in this report do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. The views expressed in this paper do not necessarily reflect the views of the Secretariat of the UNIDO. The responsibility for opinions expressed rests solely with the authors, and publication does not constitute an endorsement by UNIDO. Although great care has been taken to maintain the accuracy of information herein, neither UNIDO nor its member States assume any responsibility for consequences which may arise from the use of the material. Terms such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment. Any indication of, or reference to, a country, institution or other legal entity does not constitute an endorsement. Information contained herein may be freely quoted or reprinted but acknowledgement is requested. This report has been produced without formal United Nations editing.

## Table of Contents

Acronyms .....	v
1. China's E-commerce Development and Cross-Border E-commerce .....	1
1.1 The development of China's E-commerce and cross-border E-commerce .....	1
1.2 The development of E-commerce in China.....	6
1.3 The status of China's cross-border E-commerce .....	10
2 China's Policy Environment of E-commerce Development and Cross-board E-commerce Cooperation.....	15
2.1 Policy focus of domestic E-commerce in China .....	15
2.2 Policy environment on China's cross border E-commerce .....	17
3 Key Problems in the Development of China's Cross-Border E-commerce .....	21
4. Policy Suggestions on the Development of SMEs Cross-Border E-commerce in China ...	23
Annex .....	28
References:.....	35

## List of Tables

Table 1	China's total retail sales and social consumer goods statistics.....	8
Table 2	Network retail related indicators changes and trends from 2011 to 2018.....	9
Table 3	Connectivity index list of China and G20 other countries cross-border E-commerce .....	13
Table 4	Cross-border E-commerce integrated test area in China.....	19

## List of Figures

Figure 1	China's total E-commerce transactions from 2004 to 2016 .....	6
Figure 2	China Online retail trade volume from 2008 to 2016.....	7
Figure 3	China's cross-border E-commerce transaction size from 2010 to 2016.....	11
Figure 4	China's cross-border E-commerce transaction scale from 2010 to 2015 .....	11
Figure 5	Proportion of China's cross border E-commerce import and export transactions... ..	12
Figure 6	Main target exports countries of China's cross-border E-commerce in 2015.....	12
Figure 7	Sellers category statistics of China's export cross-border E-commerce .....	14
Figure 8	China's cross-border E-commerce transaction model turnover chart.....	14
Figure 9	Enterprise geographical distribution of questionnaire survey .....	28
Figure 10	Survey of business areas of questionnaire survey .....	29
Figure 11	The proportion of E-commerce revenue to company's main business income.....	29

Figure 12	Employees average age distribution .....	30
Figure 13	Changes in the total number of employees in the past three years .....	30
Figure 14	Enterprise profitability.....	30
Figure 15	Distribution of the company's e-business model .....	31
Figure 16	Tax paid by the company.....	31
Figure 17	The major factors on the market influencing E-commerce .....	32
Figure 18	Logistics partners' distribution of E-commerce enterprise.....	33

## Acronyms

3C Electronic products	Computers, Communications and Consumer Electronics products
AIB	Asian Infrastructure Investment Bank
C2B	Consumer to Business
C2F	Consumer ordering from farm
CNNIC	China Internet Network Information Center
CSA	Community Supporting Agriculture
DFIs	Development Finance Institutions
F2C	Farm to consumer
NDB	New Development Bank
SMEs	Small and Medium-sized Enterprises

## **1. China's E-commerce Development and Cross-Border E-commerce**

The Internet came to China in 1994, and in the past 20 years, it has penetrated the country's industry and commercial sectors. Fundamental changes brought by the Internet have been incorporated in the operations of traditional industry markets. In recent years, China's E-commerce sector has demonstrated an explosive growth momentum. New innovations brought about by the application of E-commerce technologies have stimulated entrepreneurship, to be benefit of SMEs. At the same time, China's cross-border E-commerce is opening up with the open strategy of "Going global strategy and bringing-in", which has become a new engine of China's economic development.

### **1.1 The development of China's E-commerce and cross-border E-commerce**

The Government of China has played a key role in development process, in terms of creating an environment for E-commerce to thrive and putting in place regulations and policies to support the sector as it has developed. Researchers have described China's E-commerce development in a series of phases. Based on the development of the main E-commerce platforms in China, Mao Yuxin and Zhao Liang (2015) cite six phases: germination, growth, accelerate, mature, outbreak, and transformation.<sup>1</sup> Wang Baoyi (2017) writes that, from the perspective of industry economic theory cycle, China's E-commerce evolution has four periods: germination, growth, eruption and integration.<sup>2</sup> Qi Ming and Sun Zhongtao (2017) also identify four stages: independent, platform, ecological and value. Based on the above research, this study divides E-commerce development into four stages marked by milestones and major policies.

#### *i. The Initial Stage*

During the initial stage of China's e-business, 1996 to 2000, a small number of innovators consider that the traditional business model can be combined with the Internet, bringing huge business opportunities and profits, and the first Chinese E-commerce enterprise emerge. According to statistics, 5.2% of the current E-commerce platforms are established at this time.

The first B2B E-commerce business in China, Nanjing Focus Technology Development Company was established in Southeast University in January 1996. The first vertical chemical website, directly providing in-depth information on chemicals and related services was launched on October 1997 as China's first vertical B2B site. China's first E-commerce website providers followed in 1999, many of which are the mainstay of China's E-commerce today. The 8848 website, the earliest domestic B2C E-commerce site, the eBay network, the first C2C service

---

<sup>1</sup> "China E-commerce report", the People's Republic of China Ministry of Commerce, 2015, China Business Publishing House.

<sup>2</sup> "Big Data Age - Business Ethics Frontier Issues", Mao Yu Xin, Zhao Liang, 2016, Northeastern University Press.

website, and Alibaba, whose main business was B2B, were also established in 1999. In the same year, Dangdang started providing the first online bookstore service, while the China Merchants Bank and China Construction Bank opened online banking businesses, making online payment possible for the first time. In 2000, Joyo, the B2C industry leader in China, was established. In April 2000, HC International launched a HC business website, today known as the HC network. Since, the market layouts that Ali dominated the market in South of China and HC dominated the north market in China were formed.

On 21 June 2000, certificated by the government, the China Electronic Commerce Association was officially established. This marked not only recognition of E-commerce as a specific industry, but also marks E-commerce's accelerated development.

In this phase, the E-commerce industry faced three main problems. First, Internet users in China numbered only four million, limiting the E-commerce market. Second, logistics and distribution networks were not fully in place. Third, there was a lack of confidence in the online payment system and distrust of long-distance purchasing.

## *ii. The Accelerated Develop Stage*

The early 2000s ushered in an accelerated stage of China's E-commerce, during which the sector expanded from enterprise services to personal services, becoming an important trading channel for a large number of enterprises and consumers. It is also a key period in online retail development. According to statistics from the China Internet Network Information Center (CNNIC), the number of Internet users in China reached 210 million people by December 2007, of which 46.4 million were using online shopping sites, accounting for 22.1% of Internet users. The amount spent on online shopping reached 56.1 billion yuan in the same year. The period saw a huge rise in the number of Internet users.

In 2002, the US C2C E-commerce company eBay bought a 33% stake of Each Net for US\$ 30m, marking the first foreign capital to enter China's E-commerce sector. In May 2003, Alibaba invested 100 million yuan to establish Taobao, its C2C business model. The establishment of Taobao set the stage for China's E-commerce industry. Online commerce developed rapidly during this time. In August 2004, Amazon, a large US B2C platform, bought Joyo Net for US\$ 75m. The Joyo name was subsequently changed to "Amazon". In January 2004, "Jingdong Multimedia Network" was established, as an E-commerce platform able to rival Ali in the B2C sector. In October 2004, Alibaba launched Alipay using a third-party guarantee to promote online payment services to improve the trust deficit in online payments and long-distance purchases. In June of the same year, the first network business conference

was held in Hangzhou and, with it, the large scale C2C model came to China. In 2005, Taobao signed a logistics supply agreement with YT Express. The three main problems in the early development of China's E-commerce were tackled at this stage.

At the same time, new regulations came into force, including the "Electronic Signature Law of the People's Republic of China", "online trading platform for self-discipline norms", among others. In 2015, the State Council issued "Several Opinions on accelerating the development of electronic commerce". The State Development and Reform Commission, the State Council Information Office jointly issued the "E-commerce Development Five-Year plan" in 2007, which is the first time that the State Council issued a national E-commerce development plan at the national policy level. The promulgation of the plan marked the shift in E-commerce in China from the accelerated development stage to the standardization stage.

### *iii. The Standardization Stage*

The standardization stage of China's E-commerce lasted from 2008 to 2014. On the one hand, E-commerce was benefitting from China's huge consumer market. According to CNNIC statistics, the scale of China's online shopping reached 128.18 billion yuan in June 2008 and it surged to 1.3 trillion yuan in 2012. In addition, the government continued to launch E-commerce regulatory policies. The national policy management system of the E-commerce industry gradually formed.

Key policies to promote E-commerce development in China appeared during this time and most government departments launched policy management systems for E-commerce. In 2009, the Ministry of Commerce issued the "E-commerce model specification" and "online shopping service standard". The State Council underpinned its support for E-commerce in the 2010 "Government Work Report". In the same year, the State Administration for Industry and Commerce issued "Online commodity trading and relevant service behavior management interim measures". In 2011, the State Council formulated "the Guiding Opinions on the Development of E-commerce at the 12th Five-Year Plan", "the Guidance on the Establishment of National E-commerce Demonstration Base", "the Third Party E-commerce Transactions Platform service specification". In May 2011, the People's Bank of China announced the first 27 enterprises granted permission for payment transactions. On 27 December 2013, the NPC Financial and Economic Committee organized a conference on establishing an E-commerce law drafting group and established a timetable for China's E-commerce legislation. The NPC required that the drafting group should prepare a legislative outline by December 2014. In 2014, the State Administration for Industry and Commerce and the Ministry of Industry and

Information Technology jointly issued "Opinions on strengthening the supervision and cooperation of domestic online transactions, actively promoting the development of E-commerce", and the State Administration for Industry and Commerce issued "network transaction management approach". The General Administration of Quality Supervision, Inspection and Quarantine issued the "E-commerce work product quality improvement action plan". The People's Bank of China issued "Guidance on the development of mobile payment business of People's Bank of China " and an "Announcement on the strengthening the management of commercial banks and third party payment mechanisms cooperation business". The State Post Bureau, the Ministry of Finance and the Ministry of Commerce jointly issued "Relevant issues on the Pilot Project of the coordinated development of E-commerce and logistics express". The Ministry of Human Resources and Social Security issued "the Notice on the Entrepreneurship Leadership Program for National University Students". The China Food and Drug Administration requested public comments on "the supervision and management approach of Internet food and drug business". The formation of a policy management system marked the standardization of E-commerce in China.

With an increasing number of global Internet users, as well as improved systems of cross-border payment, logistics and other services, China's cross-border E-commerce retail overseas consumer business (B2C/C2C) was booming. A number of cross-border E-commerce platforms, such as Ali Express, flourished during this period. Cross-border E-commerce retail business became a new model to further open overseas markets. A large number of SMEs in China and network operators began to directly participate in international trade, which was also undergoing tremendous changes.

#### *iv. The Globalization Stage*

On the basis of previous policies and regulations, the development of China's E-commerce SMEs has gradually moved on from a "brutal growth" stage, exhibiting an integrated and orderly development trend. Most regions in China implemented a cross-border E-commerce development strategy in 2014. A large number of cross-border E-commerce retail sales platforms saw explosive growth during this period, such as Tamll.HK, Kaola, Jumei, Matou, and Red.

In April 2014, Jumei shares were traded on the New York Stock Exchange. Jingdong went public on Nasdaq on May, becoming the second largest business platform in China. Alibaba was listed on the New York Stock Exchange on September and became the largest IPO in American history. It could be said that 2014 was the most influential year for China's global E-commerce.

The majority of domestic business platforms carried out their own global capital development strategy. At the same time, many regions of China started to develop cross-border E-commerce. Zhejiang Province, for instance, established a cross-border E-commerce work mechanism, with Hangzhou and Ningbo as the main pilots for a management system and set of rules on global cross-border E-commerce, especially a “single window” for logistical and legal matters. Guangzhou Province created the first cross-border E-commerce model city in South China. The local government formulated a special Refund Guarantee Fund to support cross-border E-commerce. Fujian Province’s “Cross-border trade E-commerce work implementation programme in Fujian Province” focused on the implementation of E-commerce cooperation between Fujian and Taiwan. Gansu Province established a cross-border E-commerce platform to create an “online Silk Road” selling special local products with the support of Holmes Border Cooperation Center.

Guangxi Province promoted cooperation between China and Vietnam through E-commerce trade and cooperation. Heilongjiang Province listed the Suifenhe border economic cooperation zone as a base of cross-border E-commerce development and focused on opening cross-border trade with Russia. The “E-commerce development plan” in Xinjiang Bazhou was designed to facilitate exports to the Middle East and East Asia.

Nine provinces of China have international borders. Six of them prepared detail plans for the development of cross-border E-commerce. Three launched support policies for supporting the development of cross-border E-commerce. June 2015, the State Council issued “Guidance on the promotion of cross-border E-commerce healthy and rapid development”, designed to accelerate the development of cross-border E-commerce in China. At the international level, the Chinese delegation formally entered the discussion process at the 30<sup>th</sup> session of the third working group of the United Nations Commission on International Trade Law, held in Vienna on 20 October 2014. The “ODR- integration vision of track one and track two- proposal from Chinese delegation” was the first accepted by the UN commission since China started to participate in drafting the working group’s “Cross-border E-commerce Transaction Dispute Resolution: Rules of Procedure”. In the same year, China proposed the “Asia-Pacific Economic Cooperation and Development Initiative for E-commerce” at the 22nd APEC Economic Leaders' Informal Meeting held in Beijing on 11 November, which was unanimously approved.

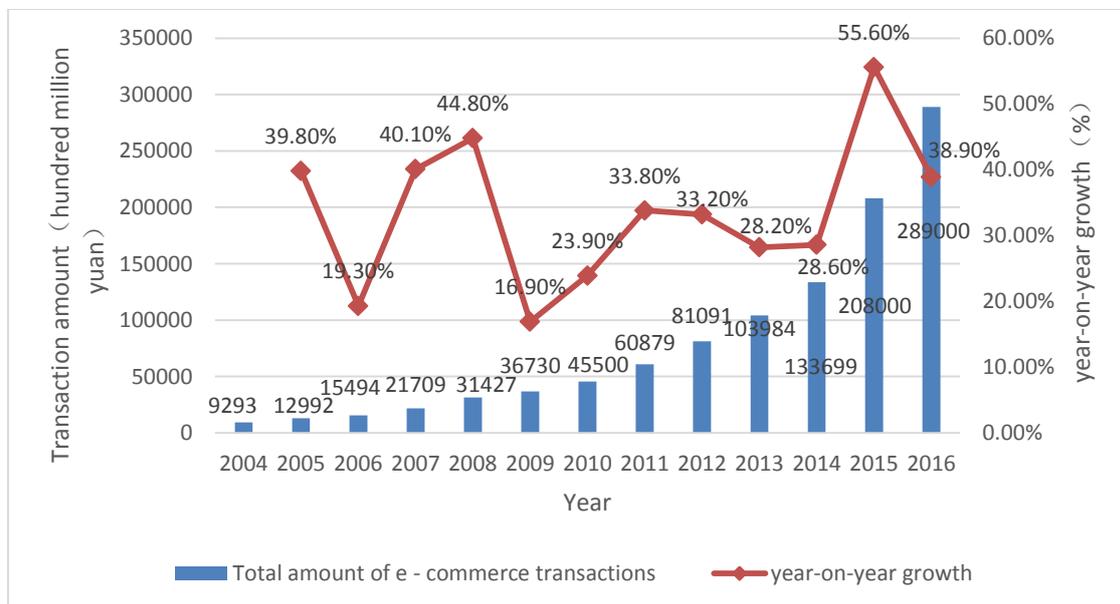
## 1.2 The development of E-commerce in China

E-commerce in China has become an important driving force in the economy, and an important starting point for economic restructuring and development. At present, the development of E-commerce in China can be characterized in the following way:

### *i. Explosive growth in E-commerce transactions*

According to statistics from the China E-commerce Report, the Ali Research Institute and the Avatar Large Data Processing Center, China's total E-commerce transactions reached 28.9 trillion yuan in 2016 (excluding Hong Kong, Macao and Taiwan), an increase of 38.9% compared to 20.8 trillion in 2015. According to calculations by the research group, the average annual growth rate of China's E-commerce transactions is 38.2% in the past five years (Figure 1). A single-day trading volume on the 11 November 2016 shopping festival was more than 120.7 billion yuan and set a record of 50 billion yuan trading value in two and a half hours. With its high growth trend, E-commerce had become a new bright spot in China's economy. In 2014, with the NDRC and other departments of government, the Ministry of Commerce carried out a national E-commerce demonstration city innovation work setting up E-commerce model cities in 53 regions, identifying 34 demonstration bases and 100 demonstration enterprises.

**Figure 1** China's total E-commerce transactions from 2004 to 2016



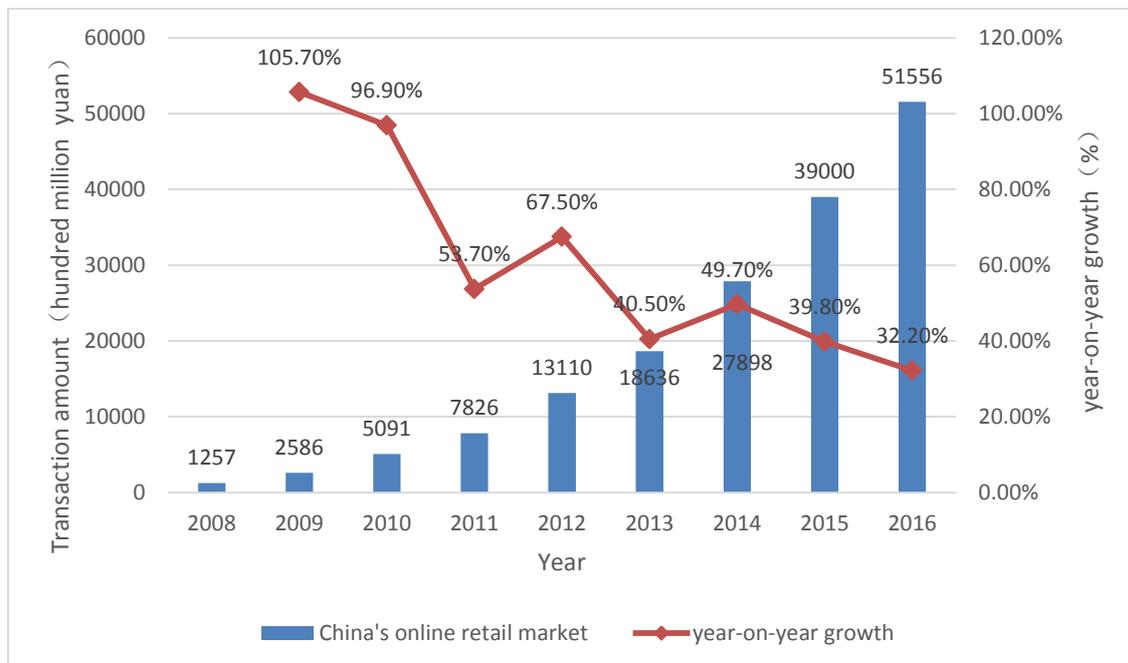
Source: *China's E-commerce report*, 2015 and 2016 data from Ali Research Institute and Avatar large data processing center.

*ii. A strong trend of online shopping*

According to data provided by the Ali Research Institute, China's online retail trade volume was 5,155.6 billion yuan in 2016, with the growth rate of more than 32.2%. The average annual growth rate in the past five years was 45.94%. China's online retail sales began to surge in 2009 and 2010, during which the growth rate doubled and redoubled (Figure 2). Compared with the growth rates of online shopping and the total retail sales of social consumer goods, the former has been 87.8% since 2011 and the latter 14.7%. In 2001, online shopping accounted for only 0.01% of total retail sales of consumer goods. After 15 years' continuous development, the proportion was 14.3% in 2016. From the ratio of online shopping to the total retail sales of consumer goods, E-commerce had gone through three periods: breaking through the 100 billion yuan mark and accounting for more than 1% in 2008; reached one trillion yuan (5 %) in 2012; and two trillion yuan (10%) in 2014 (Table 1).

The B2C model rose year after year. The proportion of B2C accounted for by B2C and C2C has increased by more than 50% since 2015. According to iResearch consulting, B2C will become China's main E-commerce model in the future. Another noteworthy change is the dramatic increase in the proportion of mobile E-commerce purchases, from 1.5% in 2011 to 68.2% in 2016, thanks to the popularity of smart phones (Table 2).

**Figure 2** China Online retail trade volume from 2008 to 2016



Source: China's E-commerce report. 2016 data provided by Ali Research Institute and consolidated by the research group.

**Table 1 China's total retail sales and social consumer goods statistics**

<b>Year</b>	<b>Online shopping scale / billion Yuan</b>	<b>Growth rate /%</b>	<b>Social retail goods / billion Yuan</b>	<b>Growth rate /%</b>	<b>Proportion of online shopping /%</b>
2001	0.6	—	4305.54	—	0.01
2002	1.7	196.67	4813.59	11.80	0.04
2003	3.9	119.66	5251.63	9.10	0.07
2004	8.0	106.91	5950.10	13.30	0.14
2005	19.3	138.69	6835.26	14.88	0.28
2006	21.3	61.57	7914.52	15.79	0.39
2007	56.1	79.81	9357.16	18.23	0.60
2008	125.7	128.48	11483.01	22.72	1.12
2009	258.6	105.7	13267.84	15.54	1.98
2010	509.1	96.9	15699.84	18.33	2.94
2011	782.6	53.7	18720.60	19.24	4.19
2012	1311.0	67.5	21443.30	14.54	5.54
2013	1863.6	40.5	24284.30	13.25	7.79
2014	2789.8	49.7	27189.60	11.96	10.26
2015	3900.0	39.8	30093.10	10.68	12.60
2016	5156.6	32.19	33231.6e	10.43e	15.52e

*Note:* Online shopping scale data are from *China E-commerce report* and Ali Research Institute; total retail sales of social consumer goods are from the *China Statistical Yearbook* and the National Bureau of Statistics bulletin the data of 2016 is from the iResearch forecast data.

**Table 2 Network retail related indicators changes and trends from 2011 to 2018**

Year	Online shopping scale / trillion Yuan	Online shopping proportion of social retail sales /%	Online shoppers scale/ hundred million people	Online shoppers' proportion of Internet users/%	Per capita consumption of online shopping/ Yuan	Online shopping growth rate of per capita consumption /%	B2C/(B2C +C2C)/%	Proportion of mobile shopping/ %
2011	0.8	4.2	1.9	37.8	4045	—	25.3	1.5
2012	1.2	5.5	2.4	42.9	4904.9	21.3	34.6	5.8
2013	1.9	7.8	3.0	48.9	6268.8	27.8	40.4	14.5
2014	2.8	10.3	3.6	55.7	7722.0	23.2	45.2	33.8
2015	3.8	12.6	4.1	60.0	9206.9	19.2	51.9	55.5
2016	5.2	15.52e	4.6e	64.1e	10830.2e	17.6e	59.0e	68.2e
2017e	6.2	17.1	5.0	68.0	12539.9	15.8	64.0	72.8
2018e	7.5	19.2	5.3	71.5	14240.7	13.6	68.1	73.8

Note: The data comes from *China E-commerce report* and Ali Research Institute. The forecast data marked "e" is from iResearch.

**iii. O2O model penetrated to traditional industry quickly**

The O2O model is the use of the Internet to combine offline goods or services with online goods, generating orders online and finishing transactions and payments offline. In 2014, department stores began to focus on O2O. Rt-mart supermarket established a B2C online website “flying cow net”. The Net of Suning Custom Shopping services the customers online and customers could use mobile client to buy products. Wangfujing Department Store launched a pilot project of WeChat shopping in Beijing. Within 5 years since 2011, O2O users’ penetration rate of the Net of Wuhan Leisure was 35.9%. Shenzhen online flight booking was up to 23%; Beijing online car service user penetration rate was 19.4%. In the promotion of O2O, a large number of traditional Chinese enterprises began to use the Internet to conduct business, helping to increase O2O penetration.

**iv. The advantages of agriculture E-commerce**

Agriculture has been a particular beneficiary of E-commerce. The government’s "Opinions on the deepening of rural reform to accelerate the modernization of agriculture" emphasized that strengthening the E-commerce platform for agricultural products. The Ministry of Commerce and the Ministry of Finance jointly launched the "E-commerce into the rural comprehensive

demonstration project", carrying out E-commerce application demonstration projects in 56 districts of eight provinces and autonomous regions. A national agricultural products information service platform linked the purchase of agricultural products and sale through cooperation with large-scale agricultural products market and chain supermarkets. Fresh food E-commerce platforms, such as Taobao and Jingdong, joined up with vertical e-businesses. For example, SF Express formed a fresh food venture with China National Cereals, Oils and Foodstuffs Corporation. At the same time, farm to consumer (F2C), consumer to business (C2B), consumer ordering from farm (C2F), community supporting agriculture (CSA) and other new models have also appeared.

### **1.3 The status of China's cross-border E-commerce**

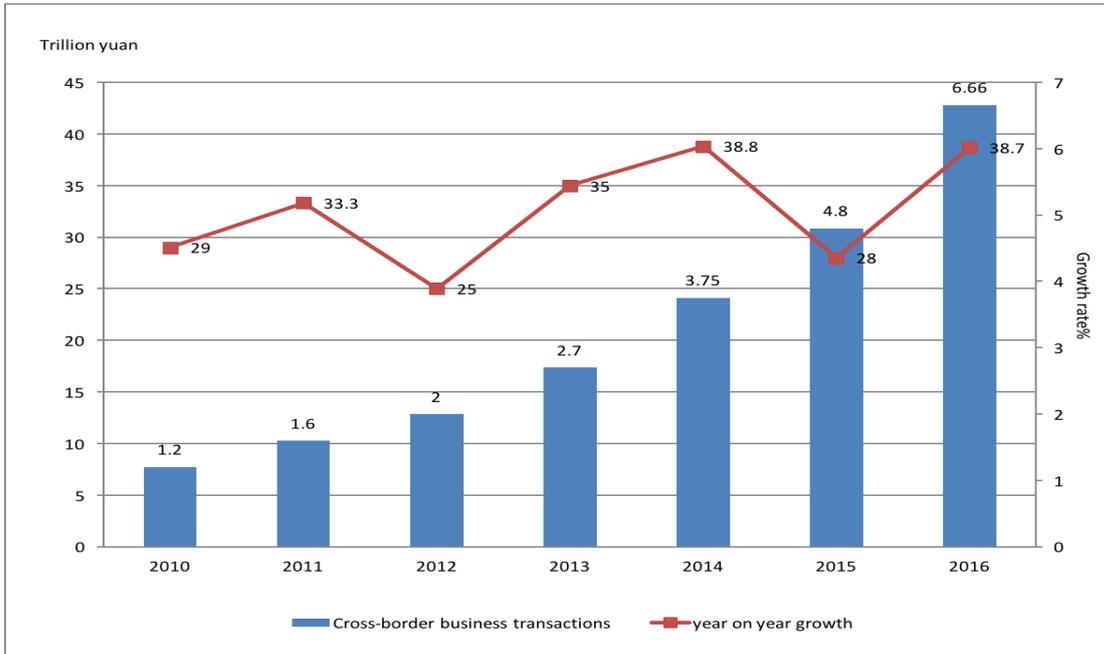
Cross-border E-commerce usually refers to transactions, payment and logistics in different countries through E-commerce. China's cross-border E-commerce has been gradually emerging since 2008 and is breaking the traditional international entity trade.

#### *i. The transaction scale of China's cross-border E-commerce*

According to the latest data from China's Cross-Border E-commerce Research Center in April 2017, cross-border E-commerce import and export growth was 38.7% compared to the same period in 2016, which reached 6.6 trillion yuan. The average annual growth rate was 33.1% in the last five years (Figure 3). The data from the National Bureau of Statistics and the China Electronic Commerce Research Center shows that the proportion of the amount of cross-border E-commerce transactions to the amount of China's total import and export trade increased year by year since 2010. A growth rate of more than 20% was maintained for six consecutive years (Figure 4).

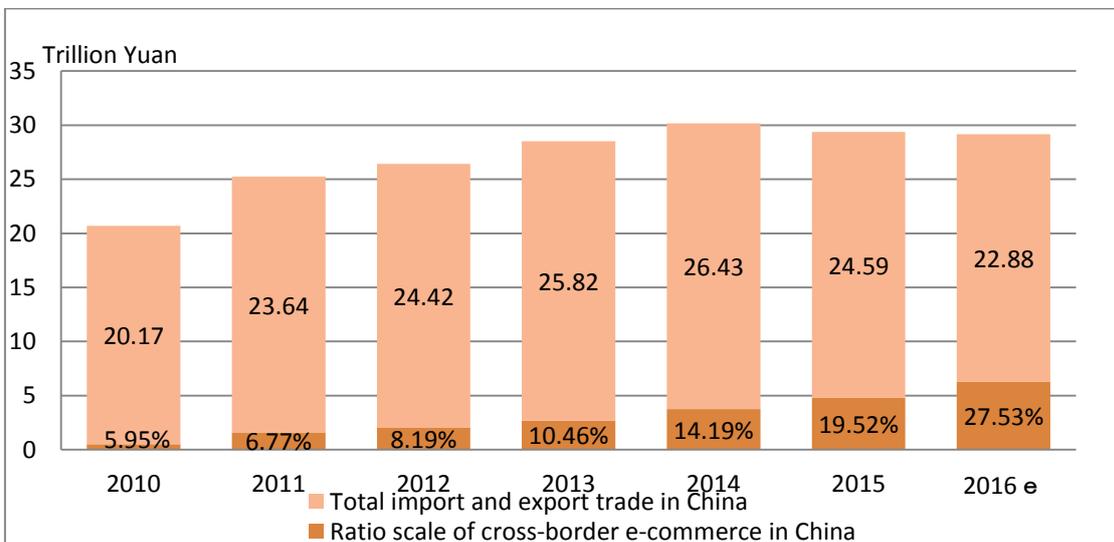
As a proportion of cross-border E-commerce in China, exports are much larger than imports (exports represent 83.1% of total cross-border E-commerce transactions in 2015), highlighting the global market's capacity for Chinese goods and confirming the role of cross-border E-commerce in driving exports (Figure 5).

**Figure 3 China's cross-border E-commerce transaction size from 2010 to 2016**



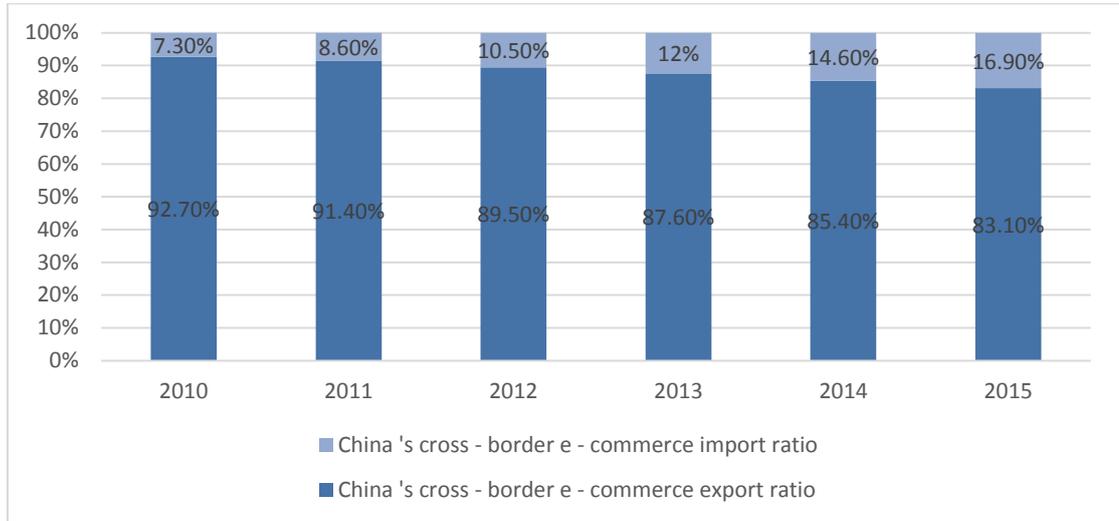
Source: Ali Research Institute, China E-commerce Research Center. The data of 2016 is calculated by the growth rate of 38.7% provided by the China E-commerce Center.

**Figure 4 China's cross-border E-commerce transaction scale from 2010 to 2015**



Source: National Bureau of Statistics, Ali Research Institute, China E-commerce Research Center; the import and export trade amount has not been published yet and the value is forecasted by iResearch.

**Figure 5** Proportion of China's cross border E-commerce import and export transactions

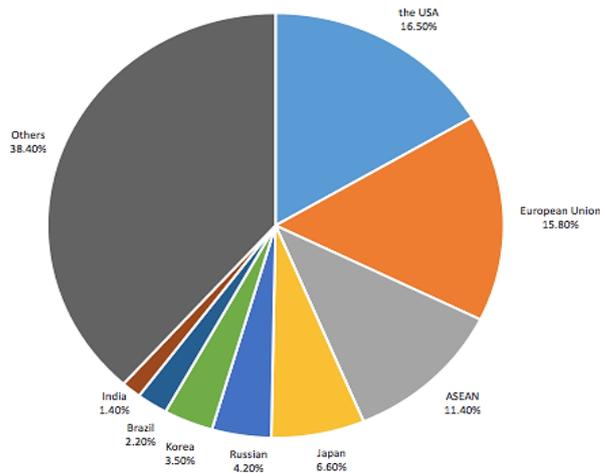


Source: Ali Research Institute, China Electronic Commerce Research Center

**ii. Main target countries and goods category of China's cross-border E-commerce**

According to the *China Export Cross-Border E-commerce Development Report (2015-2016)* published by China's E-commerce Research Center, the main target countries for China's E-commerce in 2015 are the United States (16.5%), the European Union (15.8%), ASEAN countries (11.4%) and Japan (6.6%). The total export trade volume of BRICS is 7.8%, of which Russia (4.2%), Brazil (2.2%) and India (1.4%) are the most active markets (Figure 6).

**Figure 6** Main target exports countries of China's cross-border E-commerce in 2015



Data sources: Ali Research Institute, China E-commerce research center

According to the ECI index<sup>3</sup> compiled by the Ali Research Institute, the top five G20 countries, in terms of cross-border E-commerce with China are the United States, the UK, Australia, France and Italy. The ECI indexes of BRICS countries Russia, India, Brazil and South Africa are in the lower and intermediate levels. It is significant that the export index was larger than the import index, which means China's trade with the BRICS countries is mainly exports (Table 3).

**Table 3 Connectivity index list of China and G20 other countries cross-border E-commerce**

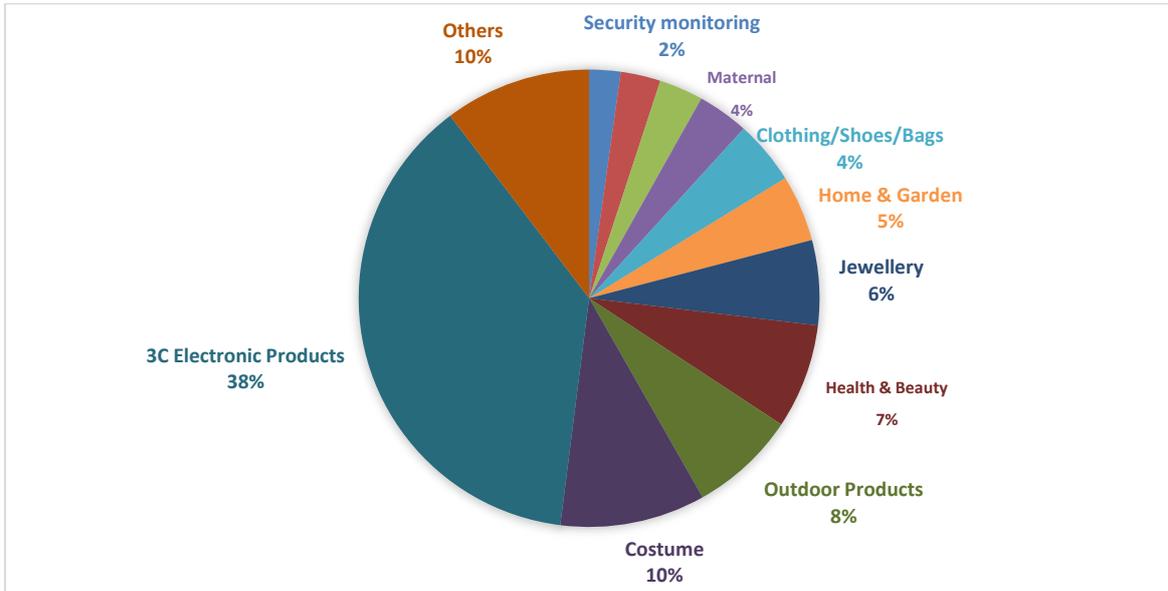
G20 country	ECI Import	ECI Export	Connectivity Index of cross-border
the USA	45	37	82
the UK	35	30	65
Austria	30	25	55
France	32	22	54
Italy	27	18	45
Japan	39	5	44
Canada	7	35	42
German	23	16	39
Korea	25	7	32
Russia	1	31	32
India	1	30	31
Turkey	1	28	29
Brazil	1	22	23
South Africa	1	22	23
Mexico	0	13	13
Indonesia	1	12	13
Argentina	0	11	11
Saudi Arabia	0	3	3

Source: China's cross-border E-commerce report in2016, published by Ali Research Institute.

Statistics on China's cross-border E-commerce show that 38% of products exported through E-commerce are computers, communications and consumer electronics products (3C electronic products), followed by clothing apparel and outdoor supplies (Figure 7).

<sup>3</sup> E-commerce Connectivity Index (ECI) between China and Major Economies are designed to reflect the tightness of China and other countries in cross-border E-commerce.

**Figure 7 Sellers category statistics of China's export cross-border E-commerce**

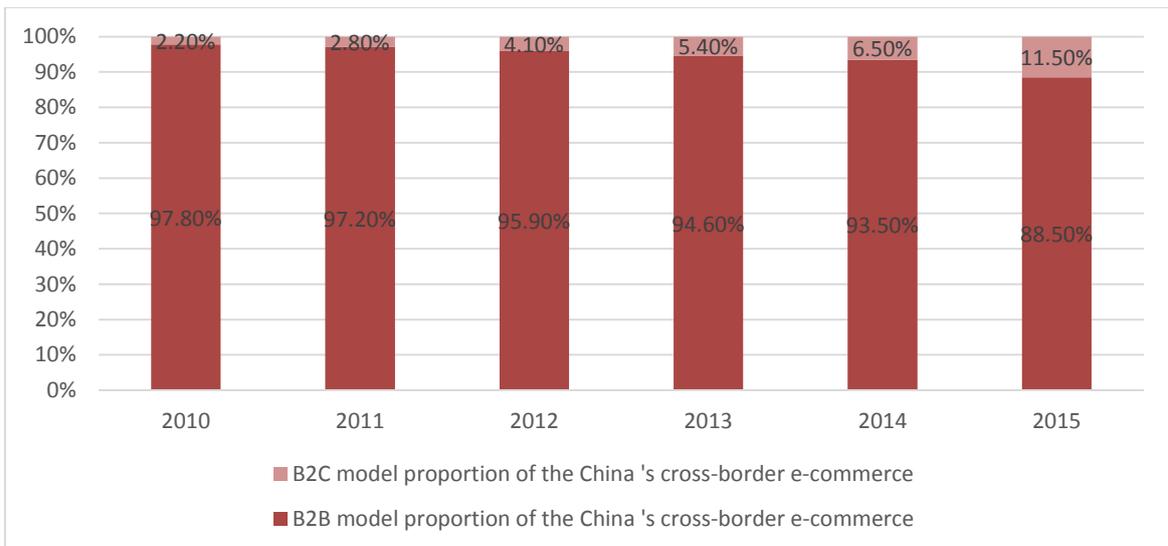


Source: Ali Research Institute, China Electronic Commerce Research Center

**iii. The main business model of China's cross-border E-commerce**

In 2015, B2B accounted for 88.5% of China's cross-border E-commerce transactions. With low transaction costs and strong consumer demand, the B2C model has great potential for the future. According to research conducted for this study, compared with the B2B model, the main bottlenecks for B2C are a lack of logistical infrastructure and the after sale services. Further, contradictions and frictions in customs clearance, inspection and quarantine explain the small proportion of current B2C in cross-border business (Figure 8).

**Figure 8 China's cross-border E-commerce transaction model turnover chart**



Source: Ali Research Institute, China E-commerce Research Center

## **2 China's Policy Environment of E-commerce Development and Cross-board E-commerce Cooperation**

In recent years, the Chinese government has attached great importance to the development of E-commerce, which it regards as an important instrument for economic transition and opening-up. With the rapidly changing trade environment, the government, ministries and regions have launched policies and regulations and a system of retail E-commerce regulation has been gradually established.

### **2.1 Policy focus of domestic E-commerce in China**

Overviewing E-commerce policies, the study finds that the Chinese government adheres to the following key points in E-commerce:

#### *i. Lowering the access threshold to support E-commerce infrastructure construction*

The government strongly supports the construction of E-commerce platforms, and is simplifying procedures of capital registration, reducing barriers to access and cleaning up existing pre-approval issues in the field of E-commerce. Authorities are supporting the establishment of logistical terminals and intelligent logistical platforms, promoting the construction of trans-regional and cross-industry logistical platforms, supporting infrastructure construction of express distributing stations, and encouraging community management systems, village information service stations, as well as stores to provide express delivery services. Chinese central government requires each level of government to reserve land for logistical warehousing in town planning, to plan for land utilization and supply, to guide social capital to invest in the construction of storage facilities, and to encourage express enterprises' to take "warehouse distribution integration" services. The government focused on the development of E-commerce in the field of agriculture especially by establishing agricultural chain logistics and carrying out E-commerce demonstration pilot projects in rural areas.

#### *ii. Funding and strengthening financial support to E-commerce*

Government policy includes a tax incentive reform programme for high-tech SMEs to replace business tax with a value-added tax and a multi-channel financing mechanism to support E-commerce companies. The government encourages all commercial banks and other financial actors to launch intangible assets, real estate pledges and other forms of financing services to E-commerce SMEs. It also guides investment funds to strengthen support for E-commerce start-ups.

**iii. Strengthen credibility and promote the credit system**

The government is actively strengthening the construction of an E-commerce credit system. A proposal to establish a unified and standardized E-commerce credit information management system was made by the government, including all credit information of stakeholders. The government is also devoted to providing credit information of legal persons, trademarks and product quality of E-commerce companies to the public. At the same time, the relevant government departments jointly support a penalty mechanism by forwarding commercial credit evaluations. Based on the credit evaluation of sellers, the government can monitor companies with poor credit ratings, helping to prevent fake E-commerce goods.

There are other measures to establish a credit system, including E-commerce network ID cards and a Real-Name system, encouraging the development of trusted certificate services, developing public services of credible security in E-commerce transactions, improving the E-commerce credit service security system, and promoting the application of credit investigation, evaluation, guarantee and other third-party credit services in electronic commerce.

**iv. Risk prevention by building e-commerce security**

The government requires E-commerce enterprises to be in accordance with information security protection regulations and technical standards. It is vital to build a system of E-commerce transaction security management to clarify the responsibilities and obligations of each partner in an E-commerce transaction. To reduce risk, the government has promoted cross recognition of digital certificates and application of digital certificates among electronic certification authorities. The standardized management mechanism of electronic contracts was also constructed to improve data security. A supervising regulatory body could cover different government sectors as well as different regions and a risk monitoring body could conduct online spot checks. The government also aims at cracking down on fake and poor quality goods, network theft, and other illegal online trading activities.

**v. Perfect the legal system by strengthening laws**

Against a background of the rapidly changing business environment, the government is amending existing laws based on public feedback. The government has revised the *Advertising Law*, *Consumer's Interest Protection Law* and other laws based on the requirements of E-commerce. At the same time, the government has clarified the legal rights of electronic bills, electronic contracts, electronic inspection and other kinds of electronic transaction documents. In December 2013, the drafting work of the *E-commerce Law of the People's Republic of China* was launched, and was put into the Twelfth National People's Congress' legislative plan for the

next five years. The bill collected public comments and suggestions from 27 December 2016 to 26 January 2017. In addition, the State Administration for Industry and Commerce, the Ministry of Industry and Information Technology, the Ministry of Commerce, and other relevant ministries, issued rules and regulations concerning logistics management, product quality, network transactions and consumer complaints. The government also proposed to research basic product standards in E-commerce, and participates in the setting of international E-commerce standards.

## **2.2 Policy environment on China's cross border E-commerce**

The formation and development of cross-border E-commerce has greatly subverted the traditional business model in many countries, especially the impact of B2C on trading rules and regulations. Currently, there are two different international policy trends on cross-border E-commerce. One is to regard cross border E-commerce as a key trend in international trade and support it by simplifying customs clearance procedures and increasing tax exemption quotas. To some extent, it is form of trade liberalization. The other trend is protectionist. These governments treat cross-border E-commerce as a form of illegal international trading because of tax evasion and fake goods, among other issues.

In China, the government has sought to encourage the development of cross-border E-commerce and actively explore new regulations. On 16 June 2015, the general office of the State Council issued *Guidance on Promoting the Healthy and Rapid Development of Cross-border E-commerce*, a guide for promoting the development of cross-border E-commerce. In particular, the document encourages domestic enterprises to cooperate with foreign E-commerce enterprises to achieve win-win outcomes. As for barriers to cross-border E-commerce development, the guidance calls for an appropriate policy and supervision system. The main task for government is to create an environment conducive to E-commerce's healthy and rapid development. In terms of specific supportive measures, the guidance document lists five aspects-customs clearance, inspection and quarantine, tax policy, payment and settlement, financial support.

- i. Optimize customs supervision measures. To further improve cross-border E-commerce goods management model, optimize customs clearance processes in cross-border E-commerce;
- ii. Improve inspection and quarantine regulatory measures. Import and export commodities shall undergo centralized declaration and inspection. A record management system will be implemented to supervise business entities and goods in cross-border E-commerce.

- iii. Clarify import and export tax policies. The government will continue to implement the current cross-border E-commerce retail export tax policy and formulate appropriate retail import tax policies based on the principles of stimulating domestic consumption, fair competition, promoting development and strengthening the administration of import tax.
- iv. Perfect the management of E-commerce payments and settlement. The Central Bank and State Administration of Foreign Exchange will promote the trail of foreign exchange settlements and payment services for financial institutions, and encourage domestic banks and payment institutions to conduct their cross-border payment business within the law.
- v. Provide financial support. Relevant sectors shall provide necessary financial support to cross-border E-commerce enterprises operating in overseas markets, and provide suitable credit insurance services as well as effective financing and insurance support to cross-border E-commerce enterprises.

The guidance document requires that each level of governments works out a plan for cross-border E-commerce in detail and fulfills their responsibility of guidance and supervision. The governments should simplify the business procedure for enterprises, establish efficient, convenient and unified public service platforms, and collect comparable data. Government shall strengthen support to key enterprises, and actively coordinate relevant departments to solve problems encountered in implementation.

In recent years, the government has integrated cross-border E-commerce procedures of customs clearance, inspection and quarantine, settlement of exchange, tax payment and other key procedures, greatly simplifying the clearance process and increasing customs clearance efficiency. A *single window service system* is proposed by the government for efficient management. In July 2017, China's General Administration of Customs added the customs supervision code *1210*, and launched a new cross-border E-commerce model bonded cross-border E-commerce trade. The new regulatory model promotes safety and hygiene in cross-border E-commerce. It also shortens the freight transportation time. At the same time, the government intends to establish a list of cross-border E-commerce goods and risk monitoring systems to improve quarantine supervision. The government established a credit classification management system of cross-border E-commerce to prevent infectious diseases and invasive alien species. Another important work was support for a trial of cross border E-commerce integrated test areas to explore new regulatory systems and apply new policies.

On 15 January 2016, The State Council issued the document “Agreement on the Establishment of a Comprehensive Test Area for Cross-border E-commerce in Tianjin and Twelve Other Cities” The twelve cities have already announced their implementation plans and main objectives (Table 4).

**Table 4 Cross-border E-commerce integrated test area in China**

<b>Region</b>	<b>Extent</b>	<b>Main objectives</b>
Hangzhou	International	Form a set of management system and rules to global cross-border E-commerce development gradually. Provide general experiences to promote the national cross-border E-commerce. Set it as an important window of opening up and the carrier of economic transformation. Enhance the competitiveness and voice of China in foreign trade.
Shanghai	International	Make the first pilot on technical standards, business processes, regulatory models and information technology of cross-border E-commerce. Guide the cross-border E-commerce to scale, standardization and clustering. Create a fair and transparent business environment for all types of companies.  Explore the international standards and rules for the development of cross-border E-commerce.
Suzhou	National	Innovate the business model of "Internet + China made 2025 + independent brand international". Expand the developing space of traditional foreign trade and manufacturing enterprises through the "Internet +".
Ningbo	National	Enhance the capacity and level of cross-border E-commerce services; Form an environment of convenient facility, efficient supervision as well as normal rules gradually. Promote quality trade priority and build an upgraded version of Ningbo open economy
Guangzhou	National	Build the promotion system of cross-border E-commerce in Chinese characteristics and Guangzhou elements.
Chengdu	National	Establish a new foreign trade system consists of cross-border E-commerce applications, cross-border B2B innovation services as well as cross - border network retail integration. Promote foreign trade growth mode from the "domestic capacity-driven" to "outside demand-driven", from "outside demand-driven" to "China's manufacturing transformation and upgrading". Promote the structural reform of the supply side, and cultivate new impetus to foreign trade.
Hefei	region	Highlight the safety of brand and quality. Efforts to crack the development of cross-border E-commerce problems.

		Strive to cultivate a new engine of foreign trade transformation and upgrading, a new high economic development
Tianjin	region	Establish a management system and rules to cross-border E-commerce gradually. Form an environment of convenient facility, efficient supervision as well as normal rules gradually. Build the highlands of China's E-commerce innovation and development
Chongqing	region	Form a cross-border E-commerce industry chain and the ecological chain. Form a management system and rules adapted to cross-border E-commerce. Provide the replicable and generalizable experience for other country's inland areas
Zhengzhou	region	Form a complete cross-border E-commerce industry chain and ecological circle, to create new trade service chain. Improve the rules of cross-border E-commerce; enrich the development model in Chinese features. Stimulate public entrepreneurship, innovation and vitality; cultivate new advantages of foreign trade competition.
Shenzhen	region	Promote the development of E-commerce by building platforms to form a new mechanism to coordinate basic services and high level service. Create a new situation in international cooperation in E-commerce to serve the strategy of "The Belt and Road".
Dalian	region	Make the first pilot on regulatory models, technical standards business processes, and information technology of cross-border E-commerce. Explore replication and promotion experiences to achieve a breakthrough of cross-border E-commerce in Dalian.
Qingdao	region	Build the industrial chain and ecological circle of cross-border E-commerce in Qingdao. Promote new formats, foreign trade as well as industry development. Establish the cross-border E-commerce trading system and operational mechanism at the global level.

Source: "China's cross-border E-commerce development report", 2016

### **3 Key Problems in the Development of China's Cross-Border E-commerce**

Increasing global Internet penetration and the rapid development of E-commerce in neighboring countries are key factors in the rapid development of China's cross-border E-commerce. The Chinese government is attempting to address cross-border E-commerce problems through new laws and regulations. A major problem that remains is the mismatch between the traditional business supervision measures and business models that are continuously innovating.

Cross-border E-commerce involves five stages including product announcement, warehousing logistics, customs clearance, payment, and after-sales service. In general, China's cross-border E-commerce suffer from slow customs clearance, a complex tax rebate scheme, high risk foreign exchange payments, expensive and inefficient international logistics, unclear government supervision, and poor after-sales service. The reasons behind these problems are attributed to the following key issues.

#### ***Differences in cross-border product inspection standards***

The basic key standards of domestic and foreign goods are not marked clearly, which brings great difficulty to customs clearance and immunization test. At the same time, because of the lack of basic data, there is no specific scheme for the tax and refund of the custom clearance products. That makes these products cannot be cleared by customs. At present, the custom and quality inspection department can hardly test small and individual products since unpacking and testing small and individual packages one by one costs a lot. Therefore, only the basic quarantine inspection is available, which brings hidden trouble for the quality of cross-border E-commerce products.

#### ***Traditional “whole in and out” customs clearance mode cannot meet the “one by one in and out” of B2C***

In the traditional B2B trade mode, the single insurance policy is huge and only one kind of commodity is traded. It is efficient since customs clearance products are in bulk. However, for the cross-border E-commerce B2C model, the individual demand of buyers is strong, single orders are small and the cross-border trade is especially fragmented. If the “one by one in and out” model is taken as the major model for customs clearance, batch checks are not possible. This greatly increases the number of customs clearance inspections and work. Therefore, the “one by one in and out” model cannot meet the rapidly rising demand of clearance.

***The quality of cross-border trade service platform is uncertain***

China's E-commerce SME trade occurs mainly through foreign trade integrated service platforms. However, the ambiguous definition and responsibility of these platforms has become a key issue restricting the development of China's cross-border e-business. At present, the Chinese government regards trade integrated service platforms as import and export entities, but the platforms are not manufacturers. These platforms essentially provide cross-border electric business services to SMEs. Therefore, it is not appropriate to classify them as import and export entities. In the current regulatory system, if an enterprise has product quality problems or evades tax during the cross-border transactions, the government will punish the platform and rather than the enterprise. The current regulatory system is hence biased against the platform.

***The management and function of cross-border payment agencies is not clear***

Payment agencies manage cross-border foreign exchange payments. These payment agencies mainly provide monetary payment and clearance services for E-commerce entities. Different from other financial institutions, they are a type of paying and clearing organization. However, the management and orientation of such nonfinancial payment agencies are not clear. Cross-border electronic payment itself involves large payment and foreign exchange risks. Especially, at present, RMB cannot fully be regarded as a cross-border settlement currency, which increases the payment cost. Therefore, the regulation and function of payment agencies is not clear, which is a serious cross-border E-commerce risk

***The cross-border disputes lack procedural regulation***

In 2009, the United Nations International Trade Commission proposed procedures for resolving cross-border electronic trade disputes; but countries have competing claims. Therefore, so far, the cross-border E-commerce trade lacks after-sales service and a means of reporting transaction disputes. For example, consumers find it difficult to return goods. Even if the return is successful, the goods undergo customs inspection, which increases costs and reduces efficiency.

***Economic statistics conflict with the new industry model***

At present, China's cross-border E-commerce is complicating export statistics. For instance, a platform that is headquartered in Shenzhen will record exports in Shenzhen City. However, the enterprises that produce the exported goods are not in Shenzhen. The current economic data statistics cannot keep up with the development of new formats.

### ***Untimely consultation and implementation of policies and regulations from different departments***

Although the Chinese government has introduced a number of policies and regulations related to E-commerce, the decrees from different departments lack systematic coordination and linkages. The cross-border E-commerce involves several government departments, such as the National Development and Reform Commission, the Ministry of Commerce, the Ministry of Industry and Commerce, the State Administration for Industry and Commerce, the General Administration of Customs and the Customs and Excise Department. It is difficult to harmonize the policies and regulations of cross-border E-commerce.

In addition, cross-border E-commerce as a new model should also pay attention to emerging issues. For example, the conflict in the definition of intellectual property rights of current cross-border products. Consumers who purchase goods from overseas have acquired trademark rights, but the mark may not be authorized in the consumer's country, therefore the business platform and merchants may not have the right to sell goods. Another issue is that China's Internet Security Law prescribes that the personal information collected in the territory and other important information should be stored domestically. But in order to protect the efficiency of information interaction between cross-border electronic business buyers and sellers, the Cybersecurity law allows personal data to be transmitted abroad if it passes a security assessment.

#### **4. Policy Suggestions on the Development of SMEs Cross-Border E-commerce in China**

To further develop China's cross-border E-commerce, the government should focus on solving bottlenecks in cross-border E-commerce for SMEs and expanding the market space of cross-border E-commerce. The study proposes the following policy recommendations.

- i. The products involved in cross-border B2C E-commerce should be classified as private goods. It is necessary for rules and regulations to adapt to the new business model.*

The primary problem for government is how to affirm the quality of goods in cross-border E-commerce. As mentioned above, traditional “whole in and out” customs clearance mode cannot meet the “one by one in and out” of B2C. It is because of the government regards the goods in B2C as general trade goods in B2B, which leads that China's cross-border E-commerce suffers from slow customs clearance. The government could classify goods in B2C as private goods or low-priced goods, in order to speed up customs clearance. The government should adapt and

amend related rules and regulations proactively and use an intermediate policy and temporary rules to bridge the shift from the old to the new business models.

*ii. Collect feedback from cross-border E-commerce practitioners for a better understanding on how to improve regulation.*

At present, China's cross-border E-commerce is at a stage of trial and error. The government should collect feedback from cross-border E-commerce practitioners and learn from their practical experience, adjusting policies and supervision effectively. The regulatory policy of E-commerce must also reflect the needs of SMEs. The feedback from cross-border E-commerce practitioners could reflect the true defect of E-commerce, which does well for the government to improve regulation and to prompt cross-border E-commerce healthy and sustainable development.

*iii. Focus on the supervision of payment institutions and establish an integrity system of E-commerce SMEs.*

In cross-border E-commerce, it is vital for the government to identify its role and policy intervention points, and clarify the division of market and government. The Government should focus on strengthening the supervision of payment agencies like Alipay, ensuring the safety and compliance of the third party payment system, and establishing an export credit system. It is the duty of the government to be the E-commerce law enforcement officer and punish commercial fraud, fake and shoddy products, infringement of intellectual property rights and other illegal acts. In addition, the individual small packages cannot be inspected one by one due to its decentralization. Hence, it is necessary to increase supervision and definite the responsibility of SMEs for fakes, which is a great way to insure the quality of products

*iv. Distinguish between the property of cross-border E-commerce platform and encourage large service platforms*

In terms of trade regulations, the government classes cross border E-commerce service platforms as general export companies. This means that cross border E-commerce service platforms undertake the liability of products. The government should distinguish the legal orientation of service platforms as soon as possible, reclassifying them general service industries and adjusting the corresponding regulation. Further, the fragmentation of cross-border E-commerce has increased the difficulty of government regulation. The government can encourage large E-commerce service platforms in which the E-commerce company could be easily supervised.

**v. *Strengthen international negotiations on cross-border E-commerce and open markets overseas for SMEs***

The main reason for the difference of dealing with disputes in cross-border E-commerce is the lack of agreement among cross-border E-commerce countries. There are no legal procedures to deal with disputes. The government should strengthen international negotiations for developing unified cross-border E-commerce rules. International organizations could play a role in coordination and advocacy. Respective ministries of commerce of each country could sign an MOU to strengthen partnership in E-commerce. Countries could jointly organize workshops to train SMEs on the business environment and regulations of each country.

The recommendations mentioned above aim at addressing current bottlenecks in cross-border E-commerce in China. In addition, it is important to further consolidate international economic and trade cooperation to foster cross-border E-commerce development. E-commerce is already embedded in the international trade. In view of further developing China's cross-border E-commerce at the international level, the study recommends the following:

**vi. *Take advantage development finance institutions to establish E-commerce infrastructure funds and risk control funds***

International cooperation in cross-border E-commerce should take advantage of development finance institutions (DFIs) such as the World Bank, the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). The Chinese government should take the initiative in cooperating with DFIs. They can assist SMEs through increased access to finance and establish cross-border E-commerce infrastructure based on international standards. For example, the AIIB and the NDB provide financial support to SMEs directly and promote E-commerce infrastructure through project procurement.

DFIs also control financial risk of cross-border E-commerce. For instance, the NDB has long been committed to build a financial safety net in the BRICS to avoid the impact of currency instability. There are risks of exchange rates and third-party payment in cross-border E-commerce. The lengthy and complex capital trading chains also harm funds operations. Therefore, the government could establish an international cross-border E-commerce risk control fund under the auspices of DFIs and set up cross-border funds contingency plans to prevent capital loopholes and financial risks in cross-border transactions.

*vii. Encourage large enterprises and platforms to participate in the cross-border E-commerce market and play a role in SMEs development*

In the early days of cross-border E-commerce development, the Chinese government should encourage large enterprises and platforms to join the cross-border E-commerce market. First, large enterprises and platforms are relatively risk tolerant, especially faced with the immature cross-border E-commerce market. Large enterprises and large platforms have higher success rates than SMEs. Second, low quality and fake goods are a prevailing problem in the current E-commerce market. Large enterprises have an incentive to protect their reputation and reduce the prevalence of poor quality and fake goods. Third, large enterprises could drive, support and protect a large number of SMEs. SMEs could provide services to large enterprise such as third party contracting business and would face less risk by participating in cross-border E-commerce in this way.

*viii. Promote "database" and "single window"*

The establishment of an integrated "international E-commerce database" is an important measure to support SMEs in cross-border E-commerce. Based on the database, the information on products, markets, business, standards, as well as legal rule would be shared, helping SMEs to engage in cross-border trade efficiently. At the same time, to ensure accurate and effective data collection, cross-border E-commerce should regard the country as a unit, unified centralized trade port data and put in place "single windows" to collect data on a country's cross-border E-commerce. A unified single window that collects cross-border E-commerce data should be established accordingly to ensure data accuracy and timeliness.

*ix. Focus on the development of countries along "The Belt and Road".*

"The Belt and Road" countries of Central Asia, South Asia, the Middle East, and Europe can benefit from E-commerce. Currently majority of countries along "The Belt and Road" lack E-commerce facilities but have huge market space and potential for development. Cross-border E-commerce is not limited by geography. The biggest obstacle to cross-border E-commerce is logistics. Infrastructure along the "The Belt and Road" would address logistics issues, greatly reducing the costs of E-commerce. The Chinese government should cultivate E-commerce partnerships among the counties along "The Belt and Road".

*x. Establish a BRICS E-commerce Alliance to serve as a platform for E-commerce development*

The BRICS countries are a significant economic and trade cooperation group, accounting for 26% of the world's territory, 42% of the world's population, and 23% of the world's total economy. In China, the BRICS have the world's largest commodity producing and consumer market, but also the world's most abundant resource countries such as Brazil, Russia, as well as South Africa. India offers a modern service industry for the BRICS' market system. The BRICS countries also have a strong economic growth momentum. The BRICS enjoys a mature partnership. In 2017, the BRICS countries will enter a second decade of cooperation. In September 2017, 9th BRICS National Summit, whose theme is deepening partnership to open up a brighter future, will be held in Xiamen, China. China could play a significant role driving BRICS towards a similar national E-commerce environment and solid trade base. In addition, Russia, India and South Africa are all countries along "The Belt and Road" and have much to benefit from cooperation.

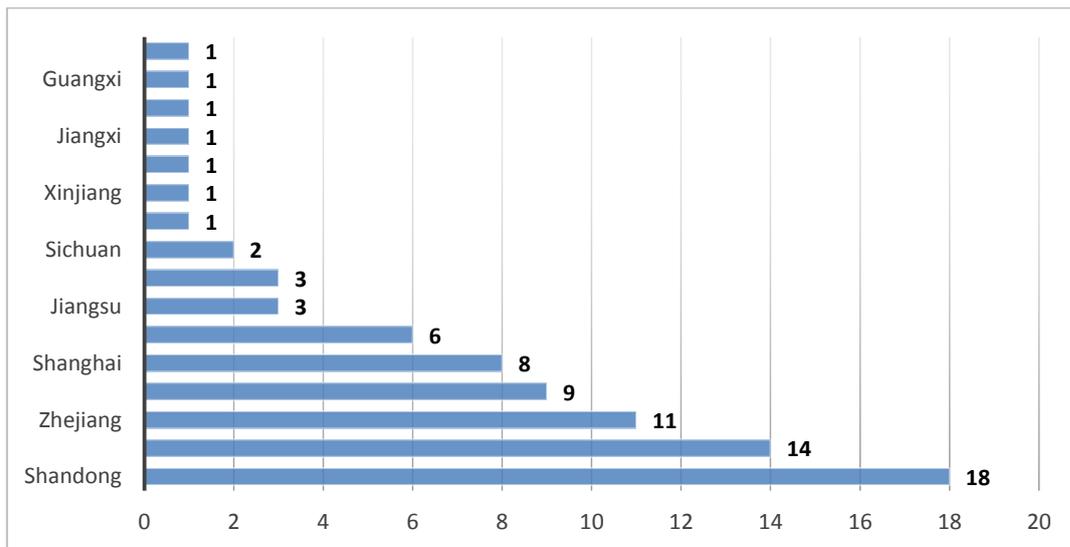
Recently, UNIDO advocated establishing a BRICS E-commerce Alliance, which consists of government departments, enterprises, associations of industry and commerce, universities, research institutions and training centers, as well as development finance institutions. The purpose of Alliance is to promote SMEs E-commerce development and cooperation through information sharing and technology transfer, institutional capacity building, legislation and standardization, facilitating public-private partnership and mobilizing trust fund from public and private sectors. Regional technical support centers as the supportive body of Alliance could provide technical and logistical support and to organize exhibitions, forums, workshops and training courses in cooperation with relevant stakeholders. The Alliance could be used by China to spread its experience of E-commerce development and to assist other countries develop E-commerce trade. The Chinese government should actively participate.

## Annex

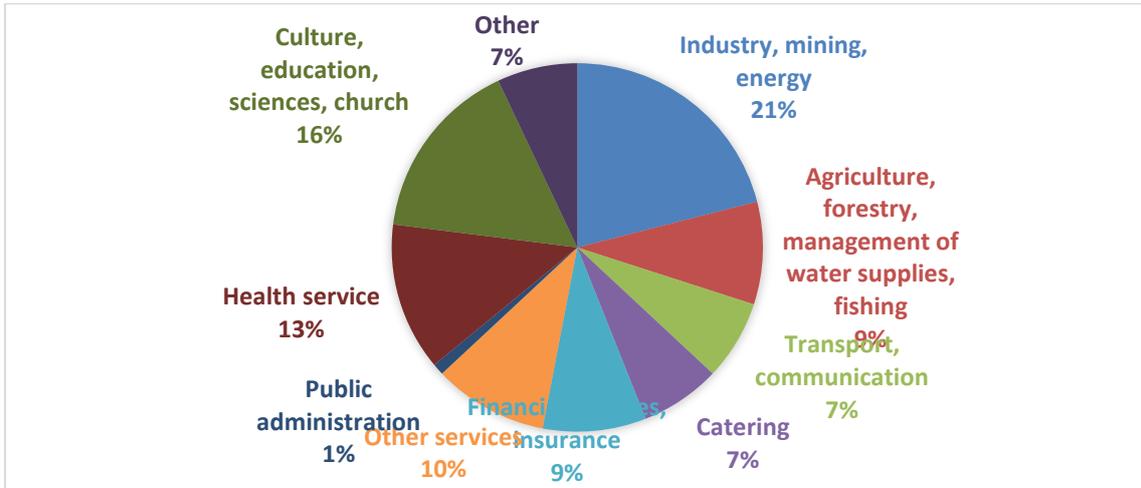
### Questionnaire Survey on SMEs E-commerce in China

Under the guidance of the UNIDO Asia and the Pacific Regional Office, the research group conducted a questionnaire survey of SMEs in China. A total of 82 questionnaires were received, 81 of which were valid (98.78% recovery rate). The questionnaire covers enterprises in Beijing, Shanghai, Shandong, Zhejiang, Jiangsu, Fujian, Guangdong, Jiangxi, Anhui, Sichuan, Hunan, Liaoning and Xinjiang provinces (Figure 9). Eighteen enterprises belong to manufacturing industry. Fourteen enterprises engaged in agriculture, forestry and transportation. Twenty-five enterprises are in technology, culture and health industry, seventeen of which are engaged in finance and other service. Six enterprises are catering business (Figure 10). Twenty-six enterprises are pure E-commerce enterprises whose E-commerce income accounted for 80% of the company's main business income, while 32 enterprises' E-commerce income accounted for 20%. (Figure 11)

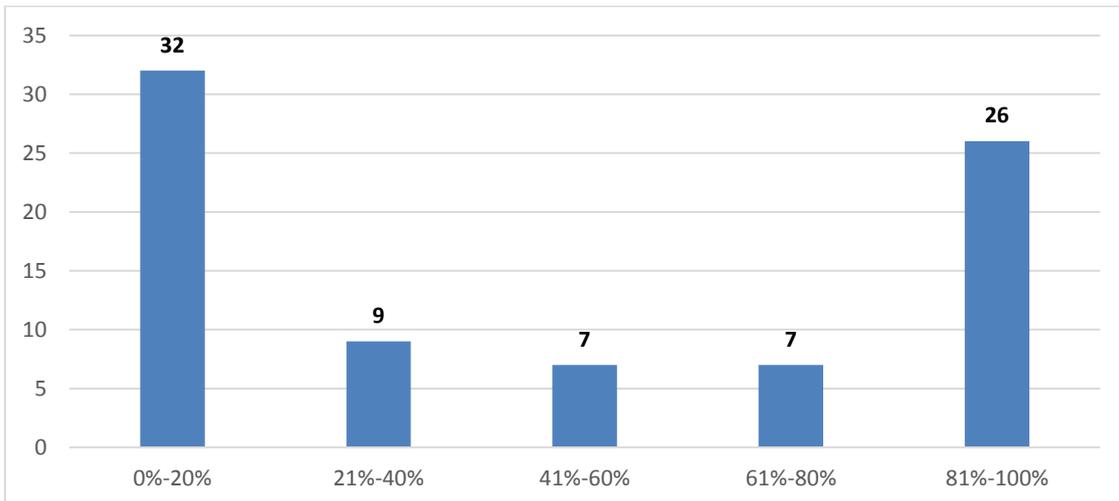
**Figure 9** Enterprise geographical distribution of questionnaire survey



**Figure 10** Survey of business areas of questionnaire survey



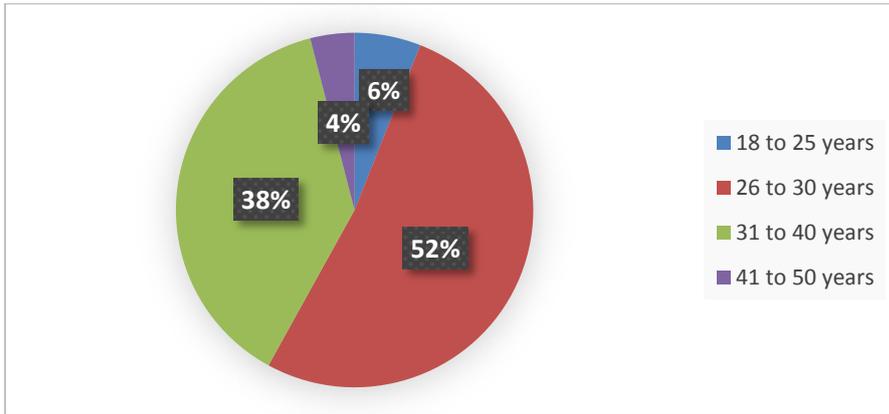
**Figure 11** The proportion of E-commerce revenue to company's main business income



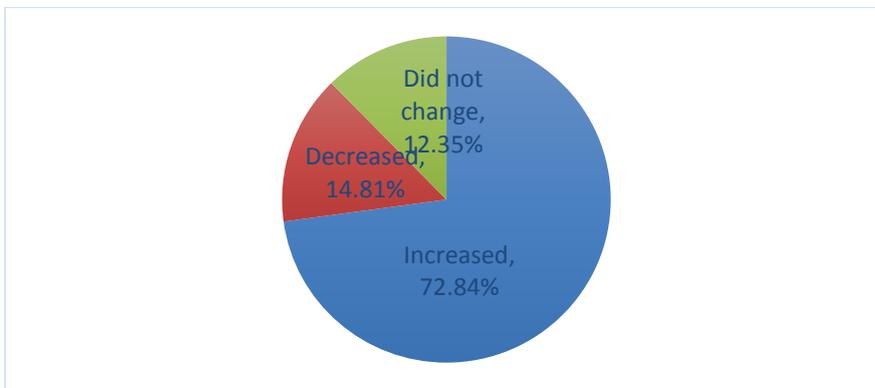
Survey results are as follows:

- 1) According to size and personnel structure, most employees are young and middle-aged; over half of staff is aged between 25 and 30. The size of domestic E-commerce enterprise is on the rise; 72.8% of companies have taken on employees in the past three years (Figures 12-13).

**Figure 12** Employees average age distribution

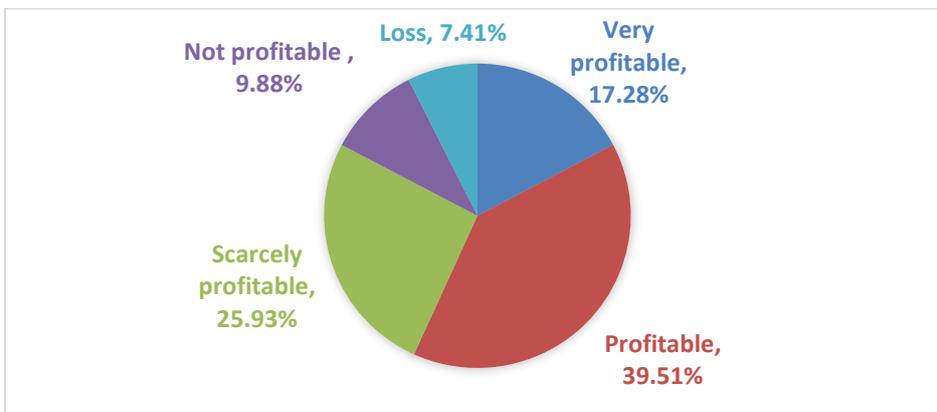


**Figure 13** Changes in the total number of employees in the past three years



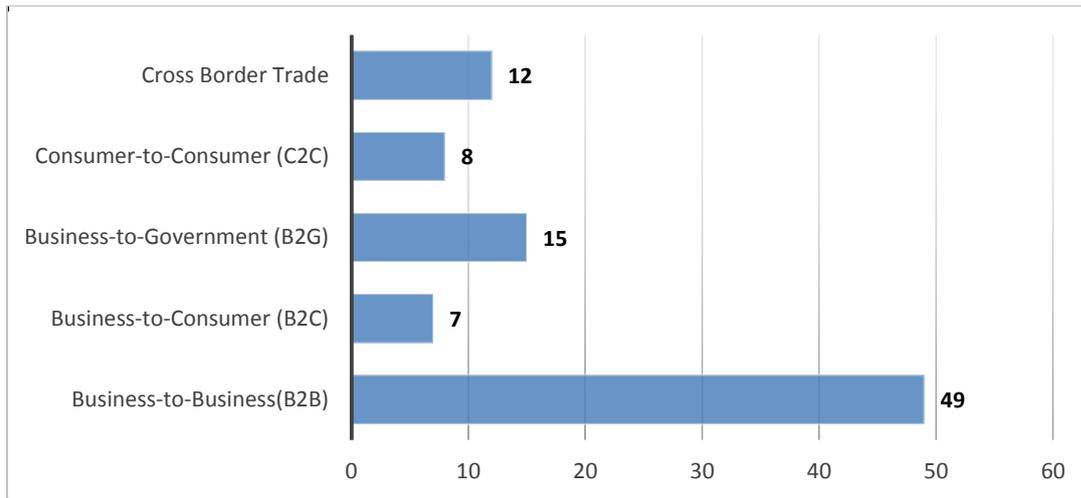
2) In terms of profit, 72.5% of the enterprises were profitable and 17.5% “very profitable” (Figure 14). By cross analyzing the income of enterprises and the industry classifications, we found that the enterprises surveyed are spread relatively evenly across product categories.

**Figure 14** Enterprise profitability



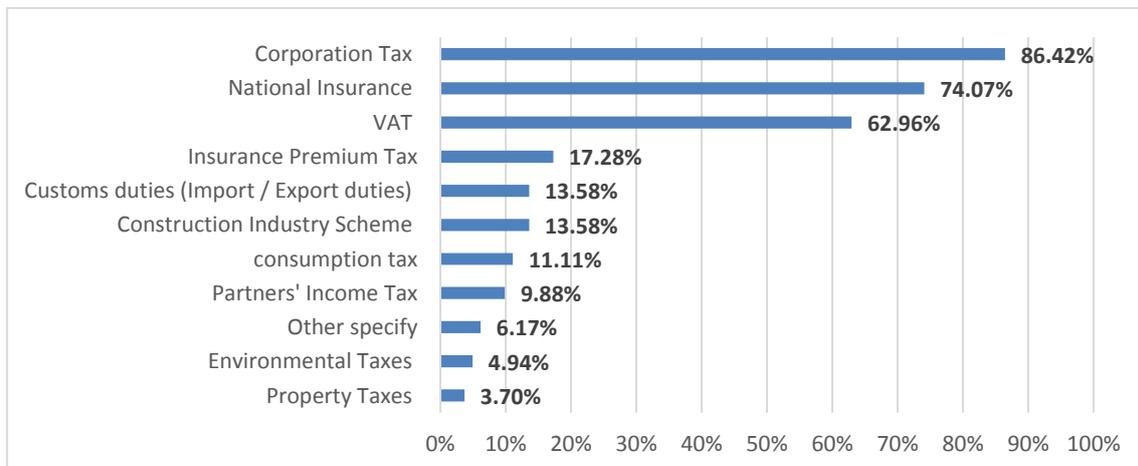
3) From a business model perspective, the proportion of B2C model of E-commerce enterprises is 57%, compared to 49% for the B2B model. The proportion of the B2C model in china is greater than the B2B model, as opposed to cross-border E-commerce, which is dominated by B2B model. There are 12 companies involved in cross-border E-commerce business in this survey, accounting for 14.81%. (Figure 15).

**Figure 15** Distribution of the company's e-business model



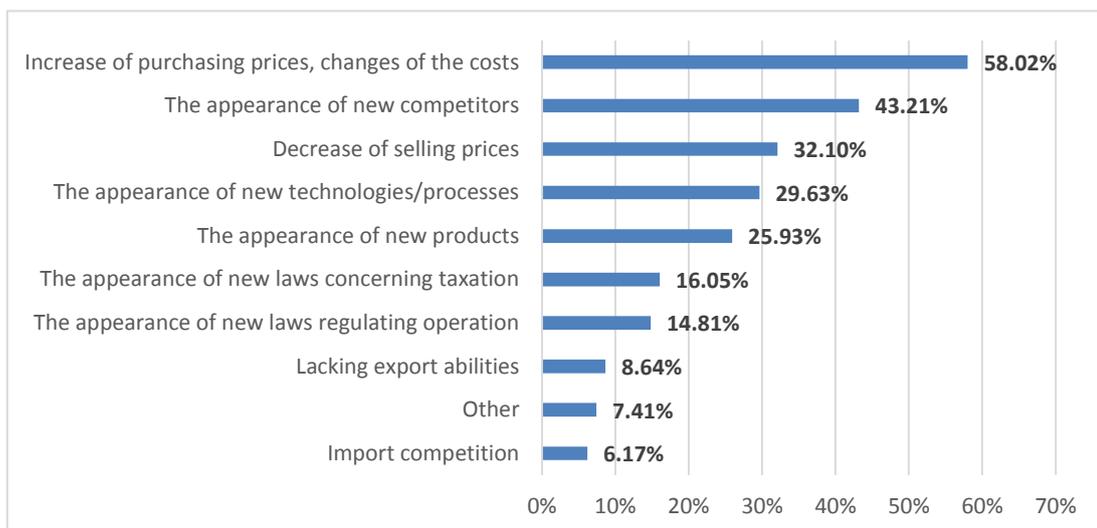
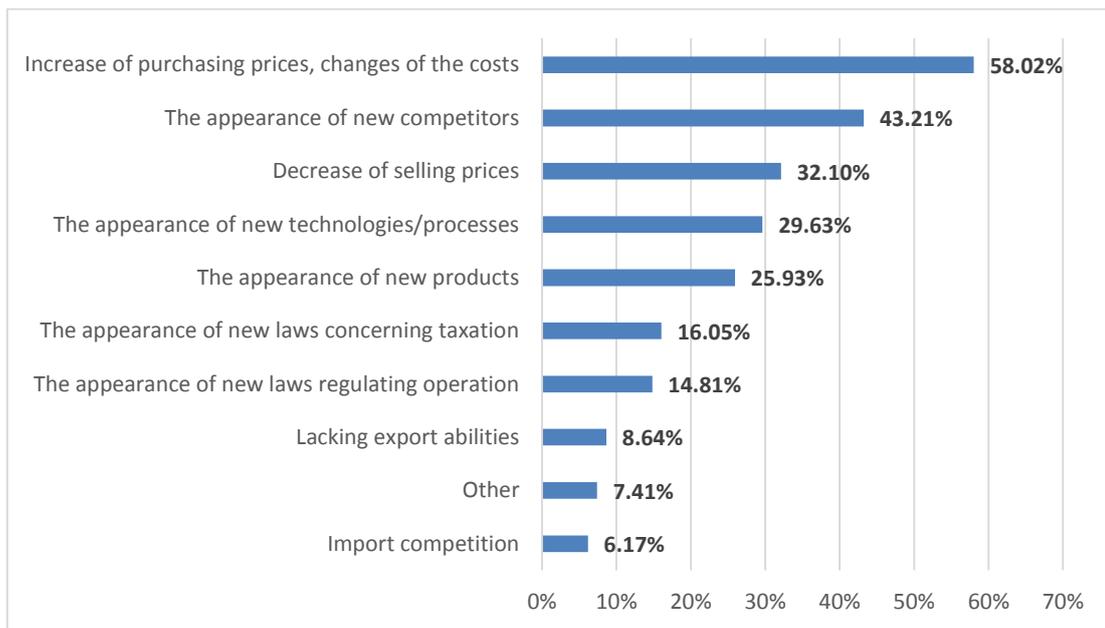
4) From the tax payment situation, custom duties and insurance tax are important in E-commerce in addition to income tax, value added tax and national insurance. Logistics insurance is a special part in the E-commerce. According to taxes paid by the enterprise, we found that insurance premiums represent a large proportion of enterprises' tax burden. (Figure 16).

**Figure 16** Tax paid by the company



5) The development of E-commerce has three major characteristics. First, E-commerce has low barriers to entry. Competition is fierce, encouraging companies to innovate in order to not be eliminated by the market. Second, the development of E-commerce enterprises is largely affected by cost. Third, the E-commerce regulatory system is still in an exploratory stage. Companies are worried about policy instability with 31% of questionnaire respondents reporting concerns (Figure 17).

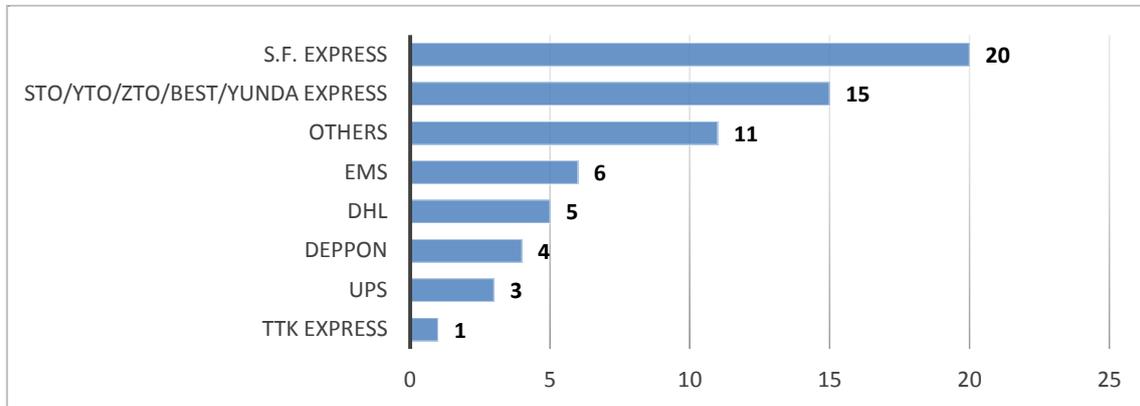
**Figure 17 The major factors on the market influencing E-commerce**



6) E-commerce logistics and payment is still dominated by third-party actors. The survey found that only three enterprises had their own in-house logistics, while 19 companies choose SF Express. Cross-border E-commerce mainly relies on UPS and DHL (Figure 18).

The traditional means of payment is still the main approach for E-commerce payment system. Nowadays, more than three quarters of enterprises use online payment. At the same time, WeChat pay, Alipay and other emerging means of payment are rising.

**Figure 18** Logistics partners' distribution of E-commerce enterprise



The questionnaire asked about the current industry situation, government incentives on cross-border E-commerce, and challenges faced by enterprises. The problems and views identified are as follows:

1) An optimistic attitude on the future of E-commerce

E-commerce SMEs surveyed are optimistic about the future prospects of the industry, especially in the era of big data. Most consider that the E-commerce model will become more efficient and that the market will continue to grow. E-commerce innovation based on large data creates new business models by refining information and applying it to various processes of E-commerce. Big data can help companies trace market dynamics, identify consumer needs, match consumers with products and services, and achieve on-demand customization, which is particularly prominent in the clothing retail industry.

2) The electricity market competition environment is extremely fierce

Respondents reflect that current entry barriers of domestic E-commerce are low, leading to fierce market competition. At the same time, product price information is intensive. High transparency means no price discrimination in E-commerce that works for the developing and upgrading of products. For cross-border E-commerce enterprises, the key point is how to survive. In the past, goods made in China relied on low cost to attract consumers. The price competition would only make profit for enterprises getting lower and lower in added value. The competitiveness of Chinese goods needs to be enhanced.

### 3) Risk of policy uncertainty

In the questionnaire, many entrepreneurs mentioned policy risk issues. Although most support the government's current policies, especially the establishment of free trade zones, financial support, tax reductions, platform subsidies, warehouse storage charges relief and other support policies, many worry that current E-commerce development is still in the early stage and there is still uncertainty on laws, regulations and tax policy. Entrepreneurs are wary of policy change.

### 4) After sales service and logistics

SMEs reflected that the seven days “no questions asked” return policy guarantees the rights of consumers and reduce consumers’ concerns, although this increases the return rate and adds to costs. Some consumers return fake goods causing losses to the E-commerce enterprises. For cross-border E-commerce, many companies reflect that the customs clearance process delays delivery. The transit of cross-border trade is long and it is common for packages to be lost and damaged. The safety and efficiency of transport are not guaranteed.

### 5) Talent and publicity

The questionnaire reflected that the development of cross-border E-commerce promotes enterprise upgrading. But many companies also complained of a shortage of qualified staff. The industry chain in the cross-border E-commerce needs professional interdisciplinary talents. The shortage of talent in marketing restricts development. However, as a new industry, a personnel training in cross-border E-commerce is not established. SMEs find it difficult to attract talent due to their size, resources, management level and other conditions. The shortage of senior talent has become a bottleneck in the development of cross-border E-commerce. Advertising and product promotion are also crucial. The development of E-commerce is an opportunity for innovate marketing. In the questionnaire, many companies mentioned issues of TV channels and promotion. At present, marketing of new products of China’s enterprises is weak and there is a limited understanding of overseas markets. Government support and guidance on product promotion would benefit cross-border E-commerce enterprises.

## References:

- "China's cross-border E-commerce development report 2015-2016", Tang Bingyong, Xiong Li, 2017, Chemical Industry Press.
- "The Future of Trade: Cross-border Electric Business to Connect the World", Ali Research Institute, Ali Cross-border Electric Business Research Center, 2016.
- "China's E-commerce network retail industry evolution, competitive situation and development trends," Wang Baoyi, 2017, "China's circulation economy" (Volume 31, No. 4)
- "China's E-commerce B2C enterprise development trends and business strategy experience", political as, 2014, "China E-commerce" Volume 17 (12)
- "China's cross-border E-commerce status analysis and recommendations", Wang Lianlian, Wang Mingyu, Liu Shuzhen, 2013, "E-commerce".
- "China's cross-border E-commerce development status and countermeasures analysis", Pan Yu-phase, 2017, "Economic Research Guide", total 315 periods.



UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

Vienna International Centre · P.O. Box 300 9 · 1400 Vienna · Austria  
Tel.: (+43-1) 26026-0 · E-mail: [info@unido.org](mailto:info@unido.org)  
[www.unido.org](http://www.unido.org)