

September, 2015

China's E-commerce Sector

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● History of China's E-commerce

➤ General introduction

It was nearly twenty years ago when e-commerce started in China, people were quite curious about it at the very beginning stage. Growing along with the development of internet, e-commerce has been deeply infiltrated into our work, our life. By the end of June 2015 there were 668 million internet users in China, the internet penetration rate reached at 48.8%, China Internet Information Centre (CNNIC) reported in the 36th "Statistic Report on Internet Development in China" which posted in July 2015. Today if you search 'e-commerce' in Baidu, you can find more than 10 million entries immediately. As someone once said, China had currently entered into a national e-commerce era

E-commerce usually refers to a new business model that allows Customers to shop, transact business and pay online, as well as other variety of business activities, transactions and other financial and related integrated services. E-commerce is operated under the background of global commercial trade activities and an open network environment. With the help of browser or server, buyers and sellers carry out various business activities without the need of face-to-face transactions. Different

government, scholars, businessman give many different definitions of e-commerce depending on their different status, different degrees of involvement and roles in e-commerce. E-commerce can be divided into: ABC, B2B, B2C, C2C, B2M, M2C, B2A (i.e. B2G), C2A (i.e. C2G), O2O etc... PUT DEFINITION ON EACH

E-commerce cannot be separated from the third-party e-commerce platform, platform operators, website operators engaged in trading and related services activities in e-commerce trading platform and payment system.

History of development of E-commerce development in China

1990-1993, beginning stage:

The era of electronic data exchange

1993-1997, embryonic stage:

"Three gold projects" led and organized by the government

1998-2000, developing stage:

Internet e-commerce

- In March 1999, B2C websites like www.8848.com were officially launch, online shopping developed into the

practical application stage.

- In 1999, e-commerce in the broad sense like government online, company online, e-government, online tax, and online education began and developed into the practical application stage.

2000-2009, stable stage:

Traditional industries B2B had gradually become the main body, marking that e-commerce has entered into the sustainable development phase.

➤ **Feature**

From the definition and development process of e-commerce, e-commerce has the following basic characteristics

Universality: E-commerce leads production companies, distribution companies, consumers and government into a new world of network economy and digital existence

Convenience: People are no longer subjected to geographical restrictions, and customers can carry out the previous complicated business activities in a very simple manner.

Integrity: Transaction workflow is

standardized, and the manual operation and electronic information processing are integrated into indivisible whole.

Security: the network is able to provide security solutions for both sides.

Coordination: coordination is needed among customers, companies, producers, wholesalers and retailers; at the same time it also requires the collaboration among banks, distribution center, communications department, technical services, and other sectors.

◆ **Advantage**:

- The transaction is completely virtualized
 - The transaction costs are reduced and efficiency is improved. The data shows that the companies usually can save 5-10% of procurement costs with the use of EDI (Electronic Data Interchange)
 - Transparency on transactions
 - Allocation of social resources is optimized
 - Technological innovation activities of companies can better connect to the market
- ◆ The problems that are usually encountered in e-commerce:

- The security of transaction
- The authenticity and integrity of information
- The identification and the credit of transaction
- The protection of the information security
- After-sales service and complaint handling

Taking some example from “E-commercial Market Report in China 2014” posted by China e-Business Research Centre (100EC.cn) regarding complaints in the field of online retail and online services for social activities and families. 11.53% of total complaints in the field of online retail related to product quality. The complaints regarding confidential information disclosure, in online retail section was 6.92% and 11.12% was in online services for social activities and families section; fraud complaints (including complain on selling fake products and false promotion) were 22.46% and 15.47% in online retail & services for social activities and families sections respectively. Here are the details.

2014 Top 10 Complaints on Online Retail

Return or replacement of goods	16.41%
Refund problems	13.47%
Selling counterfeits	11.69%
Quality problems	11.53%
False promotion	10.77%
Delay in delivery	8.86%
Information disclosure	6.92%
Internet fraud	6.76%
After-sale service	5.66%
Others	4.59%
Canceling orders	3.34%

2014 Top 10 Complaints on services for social activities and families E-commerce

Refund problems	24.23%
Fraud on group buying	15.47%
Imparity clause	12.66%
Information disclosure	11.12%
Delay in delivery	8.93%
After-sale service	7.88%
Others	5.94%
Invoice problems	5.21%
Selling counterfeits for group buying	6.76%
Difficulties on return and change	2.84%
Quality problems	2.13%

Data from “E-commercial Market Report in China 2014”

➤ Today’s market and its development

➤ Business Models

Today the business models of E-commerce have expanded to more than 10 different models in the world from initial B2B, B2C models. We summarize the available 9 models in China to explain .

Explanation about the abbreviated letters

B = Business

C = Consumer

G = Government

M = Manager

T = Team

O2O = Online to Offline

Models	Supplier	Buyer	Operation Mode	Characteristics	Trend	Reference
B2B	Business	Business	Trading, providing service and information exchange via internet between enterprises	<ul style="list-style-type: none"> • Long history, well-developed • Reduce procurement, inventory costs; save turnaround time • Enhance market opportunities 	<ul style="list-style-type: none"> • SME B2B、online micro-foreign trade. • Vertical online B2B; • Transitions from information flows to capital flows 	<ul style="list-style-type: none"> - Alibaba - Hc360.com - Global Sources
B2C	Business	Consumer	Business provides online stores for consumers through the Internet, consumers shop online and make online payment.	<ul style="list-style-type: none"> • The first generation of e-commerce model in China; • Online retail dominated; • Saving transaction time and space, high transaction efficiency 	<ul style="list-style-type: none"> • Development of subdivision; • Transition from verticality to integrity • Transition from self-supporting to open market • E-commerce of retail giants 	<ul style="list-style-type: none"> - Tmall - JD.com - Yihaodian - Suning
C2C	Consumer	Consumer	The sellers can provide and sell the goods to the buyers through the online platform	<ul style="list-style-type: none"> • Large amount of users with complex identity • Informative goods with different quality; • Large amount of transactions with small volume; 	<ul style="list-style-type: none"> • Developing towards fine and regional level; • The integration model of C2C and B2C 	<ul style="list-style-type: none"> - Taobao; - paipai.com; - eachnet.com

Models	Supplier	Buyer	Operation Mode	Characteristics	Trend	Reference
M2C	Manufacturer	Consumer	The manufacturers provide the products or services directly to the consumers through the online platform	<ul style="list-style-type: none"> • The circulation procedure simplified to the one-to-one model, the cost of sales reduce • Consumers can customize the products • Integration of channel resources 	<ul style="list-style-type: none"> • Overseas direct selling (cross-border e-commerce); • Domestic manufacturers need overcome the limitations of traditional channels, logistics conditions and the shortcoming of service 	<ul style="list-style-type: none"> - 3688.tv - wm2c.com
B2G	Business	Government	Business and government carry out transactions through the network	<ul style="list-style-type: none"> • Large amount of information; • Reduce the delays and costs of intermediate links; • Improve openness and transparency of government works 	<ul style="list-style-type: none"> • Development of subdivision; • Medicine sales adopt B2G model 	<ul style="list-style-type: none"> - b2g.trip8.com; - chinabiddingzx.com
B2T	Business	Team	Team of buyers buy products from the businesses through the network	<ul style="list-style-type: none"> • More favorable price • Use of word-of-mouth effect 	<ul style="list-style-type: none"> • Consumers customize the products • Developing towards verticality and specialization 	<ul style="list-style-type: none"> - meituan.com; - lashou.com

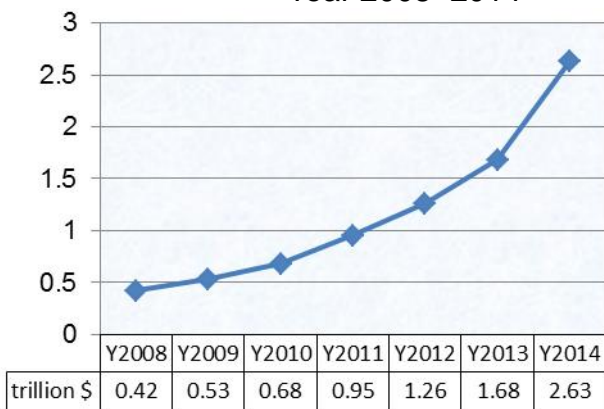
Models	Supplier	Buyer	Operation Mode	Characteristics	Trend	Reference
C2B	Consumer	Business	Consumers put demand information on C2B website, and the business produce and sell the products as required.	<ul style="list-style-type: none"> • Consumer-centered • Save more time, more energy and more money 	<ul style="list-style-type: none"> • The trend of the future • Three main model: the model of gathered demand, the model of offer and the model of customization 	<ul style="list-style-type: none"> - need.6ti e.com; - IDX; - kadang.com
O2O	Business	Business or/and consumer	The Internet has become the front desk for the offline transactions, the offline business can find customers through online service	<ul style="list-style-type: none"> • The effect can be checked • Each transaction can be tracked; • Reduce reliance of business on the location of physical stores 	<ul style="list-style-type: none"> • Transition from light industry to heavy industry) • Transition from the improvement of quantity to the improvement of management • Transition from the level of platform to the level of transaction • Transition from PC to mobile 	<ul style="list-style-type: none"> - ele.me; - Meilele; - Xuxian.com
B2B2C	Business or/and manufacturer	Business or/and consumer	The goods of sellers and additional services to the goods given by the online platform are provided to the buyers together.	<ul style="list-style-type: none"> • Tight connection among the industrial chain of "supplier → manufacturers → dealer → consumer"; • More comprehensive with better service 	<ul style="list-style-type: none"> • Innovation of Supply chain; • Provide high-quality user experience; • Foreign trade B2B2C 	<ul style="list-style-type: none"> - 365Gift; - Shang11.com

● **Today**

CNNIC reported that by the end of June 2015, the number of online shopping users reached 374 million RMB (\$58.83 million), compared by the end of 2014, 12.49 million RMB (\$1.96 million) were new users and accounted for 3.5% increasing.

Here are some figures to show the market from different angles

Size of e-commerce trading in China
- Year 2008~2014



Remark: The data in RMB is from Chinese e-commerce industry development report released by iResearch (iresearch.com.cn) and US dollars are converted according to the exchange rate on December 31 of that year.

According to the report from China e-commerce market data, in the 1st half of 2015 which released by China E-Commerce Research Centre (100EC.cn) on 21-Sep-2015, from January to June 2015, China e-commerce trading reached 7.64 trillion RMB (\$1.2 trillion), increased 30.4% year-on-year. In terms of business model, amount of B2B deals was 5.8 trillion RMB (\$911.8 billion) and up 28.8%; online retail

market transaction size was 1.61 trillion RMB (\$252.9 billion), which accounts for 48.7%.

◆ **By region**

The regions in China is not divided by direction like from North to South but from coastal area (east) to the inland area (west) in line with e-commerce development trend in China.



Developed region (coastal area, e.g. Jiangsu, Fujian, Guangzhou province etc... also including Beijing)

developing region (most provinces in North, center and South China.)

potential area (West China: Xinjiang, Qinghai, Tibet, Ningxia)

◆ **In terms of corporation scale**

The following data show the rapid development of the e-commerce: according to statistics, in 2014, there were 729 new e-commerce companies, which accounts for 13% of all the new companies in that year.

According to the Statistics released in August

by National Bureau of Statistics which shows that in 2014 the total e-commerce transactions volume reached 16.39 trillion RMB (\$2.57 trillion), which increased 59.4% year-on-year and is 13.5 times of the GDP growth rate (7.4%).

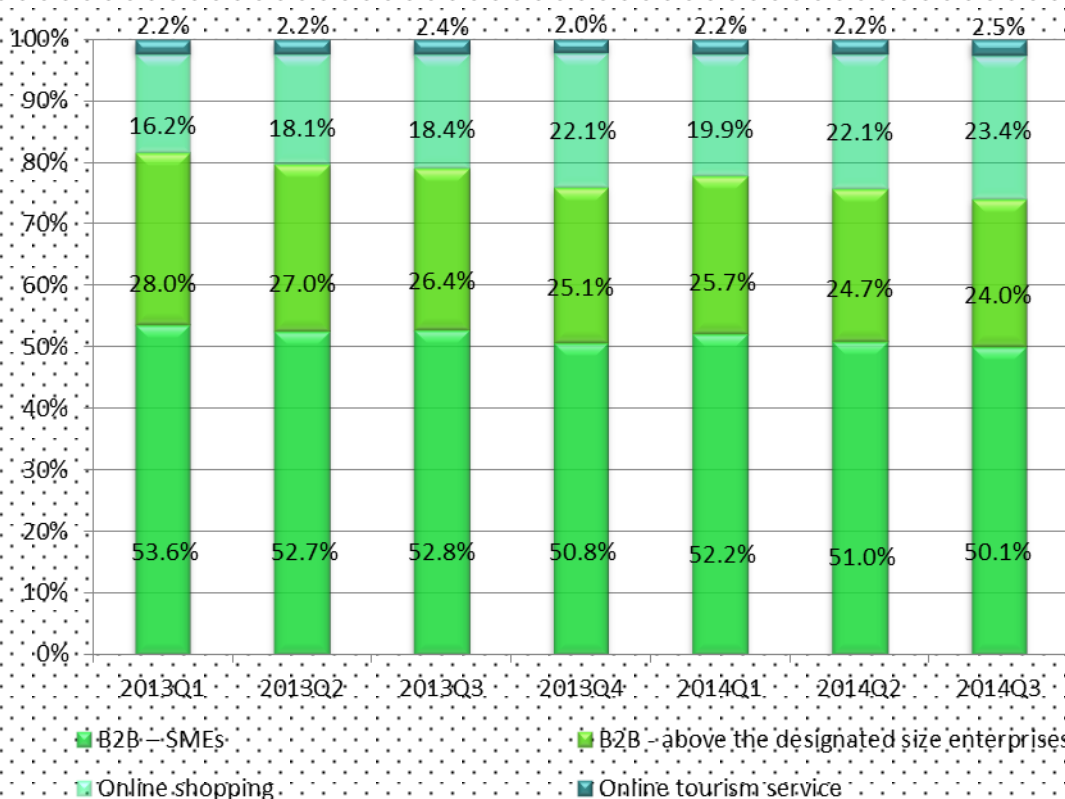
◆ In terms of business models 100EC.cn reported that in 2014, among entire e-commerce market in China, the market share of B2B e-commerce (including B2B enterprises above the designated size and SME B2B e-commerce model) was 74.6%. The market share of online retail was

21%. The market share of O2O (refers to the O2O e-commerce model about local service for social activities and families) was 4.4%,

Below is the graphic analysis from i-research concerning e-commerce market in 12 months from the 3rd quarter of 2013, we could also see the biggest market share was taken by B2B – SMEs and above the designated size enterprises B2B.

volume of goods was 12.25 trillion RMB (\$1.93 trillion); the sales volume of services was 0.5 trillion RMB. The sales volume of e-commerce platform to consumers

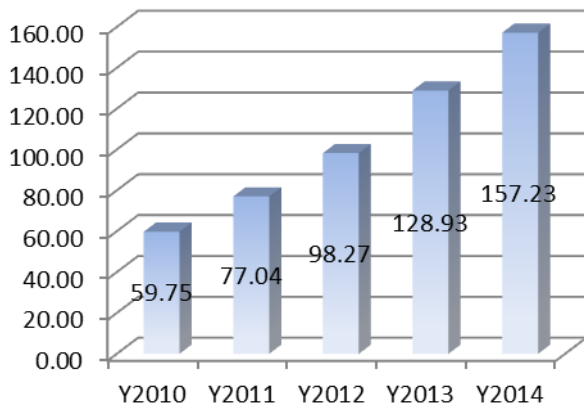
Market Share of China E-commercial Market from 2013Q1 to 2014Q3 - by business model



- B2B

By the end 2014, the number of e-commerce enterprises concerning B2B model was 12,500. Below is the development trend from 2010 to 2014.

2010-2015 Transaction Scale of B2B Market in China - million \$



Data from 100EC.cn

From the above graph we could see B2B model keeping a steady increase at about 20% or even more this year. Senior analyst Zhou at 100EC.cn said that, the steady development in B2B benefited from constantly providing information service with better quality and accuracy plus making more efforts in exploring online business.

◆ In terms of sales platform

- Self-operating platform

The transaction volume of self-operating platforms reached 9.13 trillion RMB (\$1.44 trillion) in 2014 accounting for 55.7% of transaction volume from all e-commerce platforms. Amount them, the transaction volume of platforms that are built by the

companies themselves (referred to as pure self-operating platform) reached 8.72 trillion RMB (\$1.37 trillion), indicating an increase of 65.9% year on year.

- Third-party platform

In 2014, the transaction volume of third-party platforms reached 7.26 trillion RMB (\$1.20 trillion), accounting for 44.3% of the transaction volume from all e-commerce platforms. Among them, the transaction volume of platforms that provides goods and services for other companies and individuals (referred to as pure third-party platform) reached 7.01 trillion RMB (\$1.1 trillion), indicating an increase of 53.8% year on year.

- Mix-operating platform

The transaction volume of mix-operating platforms reached 0.66 trillion RMB(\$103.82 billion) in 2014, which increased 41.1% year on year. Among them, the transaction volume of self-operating e-commerce from the mix-operating platforms reached 410 billion RMB (\$64.45 billion) and the transaction volume of third-party e-commerce reached 250 billion RMB (\$39.3 billion).

◆ By target customer and product category

In 2014, the sales volume of e-commerce platform to enterprises (units) was 12.75 trillion RMB (\$2 trillion), indicating an increase of 62.8%. Among them, the sales

(individuals) was 3.64 trillion RMB (\$572.2 billion), indicating an increase of 48.6%. Among them, the sales volume of goods was 2.88 trillion RMB (\$ 45.27 billion); the sales volume of services was 760 billion RMB (\$119.47 billion).

On the other hand, the intensity of competition in the market cannot be ignored. In July 2015, China's first Internet entrepreneurs White Paper "2015 Internet entrepreneurs White Paper" was released. The White Paper was written based on massive data including 13,456 companies, 11,207 entrepreneurs, 1,485 institutional investors, 1,088 investors, 5,498 domestic investment events, 19,132 piece of news and 27,447 landmark nodes. The White Paper shows that in 2014, 135 companies closed down, accounting for 3% of all companies. Thus it can be seen that the companies find it hard to survive under the intense competition

◆ Internet Payment

According to research report <Internet plus, China New Bonus> by Tencent QQ Think Tank, as of the end of 2014, the user number who settle payment via third party reached 304 million, accounted for 17% increasing year-on-year, the trading amount was 807.67 million RMB (\$126.96 million), up 50.3%.

So far, alipay(zhifubao) is still China's leading third-party online payment solution. Apliy states on their home page that they hold 51% market share in China. Other available

payment channel in China are JD payment, 99bill (kuaiqian) Paypassport (Yifubao), ChinaPnR (Huifutianxia) etc.

◆ Logistic Courier Industry

Even there is no data to prove that the strong growth in logistic / courier industry benefited from the developing e-commerce, however as logistic is the essential of e-commerce, below is the trend in logistics industry in the last 5 years.

According to the statistics reported by State Post Bureau, in 2014, courier industry in China reached the "10 billion" era, the courier volume reached 14 billion, up 51.9% year-on-year being the top 1 in the world ahead of USA. It remained 50% increasing in past 4 years.

Below are the data in details together with the amount of e-commerce. It is obvious that the rapid developing in logistic industry was driven by e-commerce in some ways.

Year	Volume - -billion couriers	Turnover - billion \$	E-commerce - billion \$
2010	2.34	\$9.21	\$680
2011	3.67	\$12.15	\$950
2012	5.69	\$16.91	\$1,260
2013	9.19	\$23.10	\$1,680
2014	13.96	\$32.78	\$2,630

Refer to the data from by State Post Bureau
Taobao is the largest network of online retail in the Asia-Pacific region, which was invested and founded by the Alibaba Group on May 10, 2003. Alibaba Group is founded by Jack Ma and other 18 people in Hangzhou in 1999. From its launch in July 2003, Taobao quickly opened the Chinese C2C market with

the promotion of "free" for three years and substituted eBay to be the Chinese C2C boss within just three years. By the end of 2014, Taobao had nearly 500 million registered users, over 120 million daily active users, 1

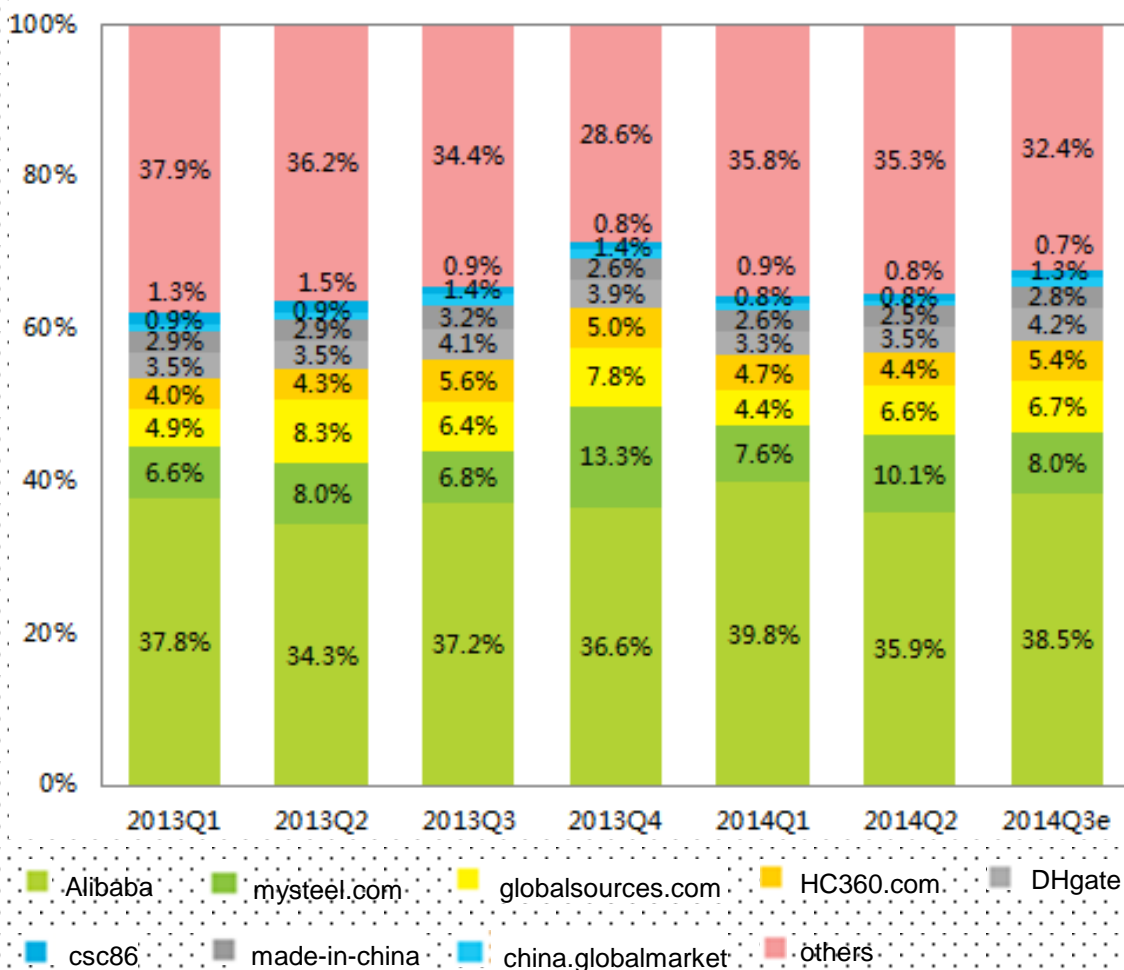
billion online products and accounted for 95.1% of market share in China C2C market.

➤ China's e-commerce giants

With nearly 20 years development in e-commerce market, many enterprises are now non-existent because they were not able to adjust and cannot catch up the fast pace in this market. Some enterprises keep growing from small star-up companies till becoming giants, such as Taobao/Tmall and JD.com. Below are the gainers with the most market share in China.

◆ B2B model

Market Share of SMEs' B2B in 2013Q1 - 2014Q3



Refer to iResearch

During Q3 of 2014, the total market share of China SME B2B e-commerce operators, eight core businesses accounted for 67.6%. For mysteel (No.2) and Global Resources (No.3), there's still a wide gap to catch the No.1 Alibaba.

◆ B2C

In 2014, the top 3 B2C online retail giants in China are Tmall, JD.com and Suning. They take more than 80% market in China.

Top1, Tmall:

Market share 59.3%, turnover in 2014 \$119.94 billion

- * Well-known in market, large scale, broad range of products, bulk order volume;
- * Limited ability to control products, logistic relay on the 3rd party

Top2, JD.com

Market share 20.2%, turnover in 2014 \$40.9 billion

- * Self-operate logistic, low registration charge for online store, advantage to offer favourable price.
- * Does not have widely selection for products, low margin.

Top3 Suning

Market share 3.1%, turnover in 2014 \$4.05 billion.

- * Able to offer favourable prices for home appliances plus can also supply via stores; self-operate logistic in some regions

- * Not enough online stores and product, high operation cost

Top 4 vip.com

Market share 2.8%, net trading revenues in 2014 \$3.67 billion.

- * Large scale business, widely selection of product ranges, can offer favourable prices, self-operate logistic
- * High cost and low margin

Top 5, gome.

Market share 1.7%, turnover in 2014 \$2.83-3.14 billion

- * Price advantage for home appliance products, good quality brand image in market and, can also supply via stores;
- * not enough product ranges

Other enterprise follow gome : yhd 1.4%, dangdang1.3%, yixun1.1%. jumei0.6%.

- Giant 'Taobao' and "Tmall" operate by Jack MA

Taobao – C2C

Now Taobao has become a comprehensive retail network with a variety of e-commerce models including C2C, distribution, auction, direct supply, crowd-funding, custom-made,

"Tmall" – B2C

Tmall is a separated platform from Taobao. Since November 11th, 2010. Tmall a comprehensive shopping website created by Jack Ma, which has integrated thousands of

brands, manufacturers to provide a one-stop service between businesses and consumers. The sellers of more than 100,000 brand provide goods of 100% quality assurance to the consumers and also the after-sale service of return of goods without reasons within seven days. On February 19th, 2014, Alibaba Group announced the formal launch of Tmall.HK to directly supply for domestic consumers of overseas imported goods.

- On November 11, 2013, Taobao and Tmall make a bundle with the help of Singles Festival with the total transaction volume reached 35 billion RMB(\$5.5billion). This same promotion in 2014 brought the total transaction volume of 57.1 billion RMB(\$8.98 billion)

- In 2014, the total transaction volume of Taobao and Tmall exceeded 1.5 trillion RMB (\$235 billion)

- Giant JD.com – B2C
In 2004, Mr. Liu Jiandong founded JD.com. Currently, JD Group has covered JD Mall, JD Finance, Paipai.com, JD Intelligence, O2O and overseas business. JD has seven major logistics centres in the country, 166 warehouses about 1.5 million square meters in 44 large cities in China, and 4,142 distribution stations and from self-pick stations covering 2,043 cities and counties. In 2014, the market transaction volume of JD reached 260.2 billion yuan and net income reached 115 billion RMB(\$18.08 billion).

JD has announced the fiscal report of 2015 second quarter. By the end of June 2015, the total revenue in the second quarter reached 45.929 billion yuan with an increase of 60.52% year on year. Gross Merchandise Volume (GMV) reached 114.5 billion yuan with an increase of 81.75% year on year. The net loss in the second quarter was 510.4 million yuan, and a year earlier the net loss was 582.5 million yuan. Even so, according to the data of a third-party market research firm iResearch, JD is China's largest self-operated e-commerce enterprises and in the first quarter of 2015, the market share of JD in China's self-operated B2C e-commerce market was 56.3 %

➤ **How to set up e-business**

For an enterprise that might be interested in accessing the prosperous e-commercial market, below is the registration process and step by step guide on how to set up your online shop in JD.com and TMall via 3rd party platform.

◆ **Who could register e-business**

Both Tmall and JD accept the enterprises who registered in China mainland –to set up online store on their platform.

For foreign companies who did not register business in China yet, it is also possible to set up online shop at Tmall as long as the

company is already registered in a foreign country and it must have the qualification for retailing plus the ownership of a brand or the authorization to sell the branded products.

◆ **Required documents – minimal (for the enterprise who have registration in China)**

- Enterprise' registration certificates
- ID of legal representative and responsible person for the online shop
- Trademark registration in China for branded products
- Partnership: authorization letter
- Other required document in line with the products
- Besides above testing report of the product is also a required document at JD.com

◆ **Charge**

A company set up and operate an online store via platform service provider, e.g. Tmall, JD etc..., normally this company need to pay cash deposit and technical service charge plus certain per cent commission based on sales to the online service provider. The cost is different in line with category of products.

Cash deposit: Sellers must pay a cash deposit to guarantee that they followed the rules set by platform service provider and pay penalty fees to them and consumers according to the fixed terms and conditions in

Store Service Agreement' in case the sellers violate any rule. Any seller approved to set up a store must pay the full sum of annual deposit, which varies according to the type of stores. Amount - depends on the category of store.

Cost	Tmall	JD.com
Cash deposit	\$800 to\$48,000	\$1,500 - \$15,000
Technical service fee	\$4800 / year or \$9,600) / year	\$950~\$1,900// year
Commission	1% ~ 5% of sales	1% ~ 10% of sales

● **Future Development**

➤ **Government Strategy, Policies and measurement**

China is facing couple of problems; economic downturn, the slowdown of import and export, the excess production of traditional industries with the pressure of transition and industrial upgrading, the pressure of population and employment, the backward development of vast rural market and the need for a new economic growth point. On the other hand, as the emerging industry, e-commerce has played more and more important role in promoting various sectors, industries, the financial system and even employment. Under the influence of this series of factors, China has increased support policies for e-commerce.

During the 12th Five Year, in October 2011, the Ministry of Commerce issued the "Ministry of Commerce Guidelines on Development of E-commerce during the 12th Five Year" and included e-commerce in the strategic emerging industries. With the rapid development of e-commerce and its significant boost to the national economy, the Ministry of Commerce "2015 E-commerce working points" clearly stated the start of top-level design for e-commerce development during "13th Five Year". In May, the Deputy Minister of Commerce said at the routine meeting of the State Council policies, "13th Five Year" planning work on retail and e-commerce will start, and the reform of traditional marketing model and the acceleration on the integration of online and offline are encourage.

On May 7th, The State Council officially issued " Opinions on Accelerating the Development of E-commerce to Develop New Economic Power" (in short "the Eight Points on E-commerce") and proposed policies like increasing financial services support and encouraging qualified e-commerce enterprises to be listed in China from eight aspects. Then a series of supporting policies are continuously issued including Internet +, the cross-border e-commerce, Internet finance, agricultural modernization and so on.

For Internet plus

In July 2015, the State Council issued the

"State Council Guidelines on Promoting the 'Internet +' " and clearly indicate the development objectives and tasks of promoting the "Internet +", entrepreneurship and innovation, collaborative manufacturing, modern agriculture, intellectual energy, inclusive finance, public services, efficient logistics, e-commerce, convenient transportation, green ecology, artificial intelligence and other key areas to form a new industry model. And it has also determined the relevant support measures

For Rural E-commerce

In May 2015, the Ministry of Commerce issued " 'Internet + circulation' Action Plan". One of the specific objectives is to develop 200 e-commerce demonstration counties in China, the e-commerce transaction scales of which will indicate an annual growth rate of no less than 30%.

In July 2015, the State Council issued the "State Council Guidelines on Promoting the 'Internet +' ". One of the key actions is to positively develop rural e-commerce, improve the rural e-commerce distribution and integrated services network, and make efforts to solve the standardization issues of a variety of products.

On September 24th, 2015, the Ministry of Agriculture, the National Development and Reform Commission and Ministry of Commerce jointly issued "Action Plan to Promote Agricultural E-commerce

Development" and clearly indicate the overall objective in the next three years. It proposed that by the end of 2018, agricultural e-commerce infrastructure conditions will be improved significantly, institutional system and policy environment will be basically sound and the proportion of e-commerce in agricultural products and circulation of agricultural production materials will increased significantly. The Plan has formulated 20 goals including the development of agriculture business and expand market channels through the joint with e-commerce platform and promote the growth of agricultural e-commerce

Internet Finance

In July 2015, the People's Bank of China and other 10 departments issued "Guidelines on Promoting the Healthy Development of the Internet Finance" to actively encourage internet finance platform, product and service innovation, stimulate the vitality of the market; support the cooperation between financial institutions, small and micro financial services institutions and Internet enterprises, promote business model innovation, establish a good financial environment and industry chain; broaden the financing channels, improve the financing environment and improve the tax incentives

➤ **Status of internet plus & cross-board e-commerce**

Internet plus and Cross-board e-commerce are the two main sections what central government support.

◆ Internet plus

Internet + traditional industries is different from the transformation that internet conduct on traditional industries. But it presents one-stop connective solutions which are more comprehensive. In May 2015, Penguin Think Tank (Tencent' research institution on internet industry) carried out "internet plus" analysis and research report on nine industries including agriculture, education and health care.

Take internet + agriculture as an example
Currently in rural areas, internet penetration is 28.8% with 178 million Internet users. Rural market is facing two aspects of problems. They are how the online retail goods enter into the rural market and how agricultural products expand to a broader market.

Online retail enter into the rural market: 80% of rural Internet users have shopped online through the e-commerce, which is very close to the ratio of cities. In 2016, the scale of rural online shopping is expected to exceed 460 billion RMB(\$72.35 billion) with an increase of more than 150%. However, due to the different income and culture, when compared to the city users, rural users pay more attention to the responsibility of sellers on their products and they are more price-sensitive and are looking forward to the free delivery.

Agricultural products expand to a broader market: there are rich agricultural products in the rural areas. But they will face many difficulties about how to coordinate the transaction chain from planting to selling. The complex traffic condition is a big challenge for warehousing and logistics, how internet finance services win the trust in rural areas and the access of supply and demand information about agriculture transaction is not smooth, all of which have directly affect the whole chains of internet transactions.

.According to Alibaba, China's e-commerce heavyweight, there are more than 1.6 million online stores selling farm produce on Taobao and Tmall. Rural e-commerce was worth more than 140 billion RMB (\$22.02 billion) last year. Alibaba plans to invest 10 billion RMB (\$1.57billion) to establish 100,000 village service centres in the next three to five years, mostly to teach rural people how to make best use of the Internet.

Many companies have begun to promote their products to enter in and out of the rural areas. But they encounter many problems such as the infrastructure. Chinese government should provide policy and capital support to promote the real development of the rural areas and agricultural e-commerce.

➤ **Cross-board e-commerce**

According to preliminary statistics of customs, in the first half of 2015, the country's import and export reached 11.5

trillion yuan with a decrease of 6.9%. Among them, exports reached 6.57 trillion RMB (\$1.03 trillion) with an increase of 0.9% and imports reached 4.96 trillion RMB (\$780.2 billion) with a decrease of 15.5%. Meanwhile, according to the data of third-party organizations EMarketer, the cross-border consumption of China reached \$20 billion in 2014 from the \$ 2 billion in 2010. In one hand, the imports and exports has slowdown, on the other hand, the consumers in China have strong overseas purchasing power. These are perhaps the starting points for the supporting of cross-border e-commerce.

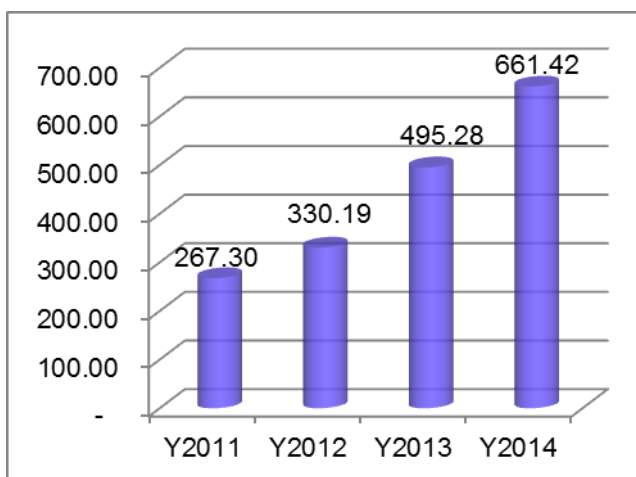
"2015 E-commerce Work Points" which is issued by Ministry of Commerce put forward 16 key tasks including the promotion of cross-border e-commerce. In addition, the national "Belt and Road", FTA and other development strategies have also provided favourable conditions to the development of cross-border e-commerce. "China (Shanghai) Overall Program of Free Trade Test Area" which is approved by the State Council also made it clear that the main task of the FTA includes accelerating the development of cross-border e-commerce services, establishing a suitable pilot supporting systems of customs supervision, inspection and quarantine , tax rebates, cross-border payments, logistics and so on.

There are about 5,000 cross-border e-commerce platform enterprises in China, and there are more than 200,000 foreign

trade enterprises carrying out cross-border e-commerce business through various platforms in China. In 2014, cross-border online retail sales reached 449.2 billion RMB (\$70.65 billion) with an increase of 44%. Among them, the imports reached 129 billion RMB (\$20.29 billion) with an increase of 60% and exports reached 320.2 billion RMB (\$50.36 billion) with an increase of 40%. B2B transactions accounted for 93.5% and B2C transactions accounted for 6.5%.

"2015 Annual Data Monitoring Report of China E-commerce Market " shows that in the first half of 2015 , the scale of cross-border e-commerce transaction was 2 trillion with an increase of 42.8% year on year, accounting for 17.3% of total imports and exports .

2011-2014 Size of E-cross Board Business in China - \$ million



Data was from "2015(first half) Annual Data Monitoring Report of China E-commerce Market"

In terms of the structure of imports and exports, the export in 2014 it accounted for

84.8% and import accounted for 15.2%. Cross-border e-commerce B2B accounted for 91.9% and B2C accounted for 8.1%

According to the prediction of Ministry of Commerce, in 2016 China's cross-border e-commerce import and export trade volume will reach 6.5 trillion yuan. In the next few years, the proportion of cross-border e-commerce in China's import and export will increased to 20% and the annual growth rate will be more than 30%.

Cross-border e-commerce is developing towards the diversification of product category and sales market, and towards the regionalization of trading partners. According to the retail data of 2014 eBay China's cross-border e-commerce, the top ten markets of cross-border e-commerce are USA, UK, Australia, Germany, Canada, Russia, French, Brazil, Israel and Spain. Cross-border e-commerce has not only promoted the transformation of foreign trade, but also become a strong booster for cross-border logistics. Essences Securities told the press in September that Cross-border logistics service revenue is expected to hit 200 billion RMB (US\$31.4 billion) within the next five years.

Due to the reduction of intermediate process, the cross-border e-commerce has brought greater profit margins to enterprises and companies also establish a brand image in

overseas markets. The supporting policies of government inspire more companies to join the market of cross-border e-commerce. Although there are many advantages of cross-border e-commerce, there are still many discordant elements, which impede and restrict the development of cross-border e-commerce. The discordant elements are specifically in three areas including the efficiency of customs clearance, logistics and electronic payment and tax refund. The Government was aware of these constraints and began to solve the problems of small and micro enterprises by taking some measures such as setting e-commerce platforms in some pilot cities and using more electronic documents to simplify the declaration and clearance process. In addition, they are also trying to promote the establishment of new cross-border third-party logistics enterprises to improve the efficiency in dealing with warehousing, inventory, orders, logistics and distribution. For example, Zhejiang Province plans to build 60 public overseas warehouses that can cover the world's major exporting countries within three years to achieve "local direct delivery".

We believe that with the continuous improvement of facilities, there will be a brighter future for cross-border e-commerce.

● **Successful Foreign E-commercial Enterprise in China**

Today, not only domestic enterprises succeed in e-commerce market but there are also some foreign companies who operates either via own-operate platform or cooperate with an "e-giant" in China in order to build up their "internet business world". Here we take "Amazon" and "Metro" as example to show you what they are doing

➤ **Amazon in China – B2C**

In August 2004, Amazon acquired Joyo.com at a price of \$ 75 million and entered Chinese market.

Logistics distribution plays an important role in e-commerce. Amazon has 15 operations centers in China with the total operating area of more than 700,000 square meters. They are responsible for complete logistics chain including the goods receipts from the manufacturer, goods delivery and replacement. Meanwhile, Amazon also cooperates with big express companies like STO Express, YTO Express, ZTO Express, Yunda Express, S.F. Express, ZJS Express and so on. With the help of self-operated and third-party logistics, the one-day delivery services and next-day delivery services of Amazon have covered 1,400 cities and counties. In addition, Amazon China also has

its own distribution team and call center. The goal of Amazon is that Amazon should become the first choice of online store for Chinese consumers with most abundant product selection, most competitive prices and the best customer experience. According to the survey of China E-Commerce Research Center in 2014, Amazon was one of China's top ten online retailers with best customer experience.

There are tens of thousands of products with 32 categories in Amazon China platform. However, according to the data of China E-Commerce Research Center, by the end of December 2014, Amazon only accounted for 1.5% of market share in China's B2C online retail market which ranked No. 6. While in 2008, the market share was 15.4%.

Although, from the figures, the growth of Amazon seems to fall behind other e-commerce giant, in fact Amazon has never stopped the pace of expansion in online market.

- In May 2015, Amazon announced the launch of its Fresh Store.

- In May 2015, Amazon signed a strategic cooperation memorandum with the city of Xiamen in Xiamen FTA, aiming at promoting the convenient customs clearance through the FTA, cross-border payments, tax rebates and so on.

- On August 20th, 2014, Amazon announced

that it would set up international trade headquarters in Shanghai FTA and achieve the direct delivery of US goods to China through the "cross-border links" platform.

It means that customers can directly shop online on the stores in United States, Europe or other overseas online stores with the same price for the same style and pay in RMB. On October 29th, Amazon China announced the launch of six overseas sites to provide direct delivery service to China. Consumers can enjoy a total of more than 8,000 kinds of international goods on Amazon from the United States, Germany, Spain, France, Britain and Italy.

The 2014 Annual Report of Online Shopping Trends released by Amazon China shows that in 2014 the number of international brands in Amazon China increased by 14 times, the number of self-operated international brands increased 56% and the sales of overseas direct purchase increased by 5 times. In November 28, 2014, during the week of the first black Friday "Overseas Shopping Festival", overseas sales of the sales promotion week increased by 24 times than the previous week.

Some analysis believes that Amazon cannot run as successfully as JD. Some analysis also said that in fact Amazon has not return the cash flow which came from its operation to shareholders as profit, but it has been putting them into the Amazon high-efficient ecosystem—the e-commerce logistics and

distribution system and cloud services platform to create a powerful growth engine to its ecosystem.

The three cores in its ecosystems are logistics infrastructure, cloud services and storage services:

75% of the spaces in Amazon's global offices, warehouses, data centers and other buildings are leased to other vendors. And the 90% of Amazon cloud services are available to worldwide third-party partners. In 2014, 40% products sold by Amazon were from 2 million global third-party sellers with a total of 2 billion goods.

The eco -strategic goal of Amazon is - to earn future competitiveness without profit.

When Amazon entered into China, it is also the same time when Taobao and JD started their business. Perhaps only from the view of current profit margin, the report of Amazon is not as good as their Chinese counterparts. But as a veteran e-commerce businesses who has set up for 20 years, entered into China for 11 years with the market value of \$ 214.8 billion, it has maintain the most advanced technology, the most modern warehousing and logistics and a long-term strategy which bewildered so many people but has gradually revealed the potential of strong competitiveness. As e-commerce giant, Amazon will soon keep its counterparts'

eyes polished not only outside China but also in China.

➤ **Metro - O2O**

Metro came to China by cooperating with the Jinjiang Group to establish the Metro Jinjiang Cash & Carry Co., Ltd. in 1995. It is the first joint venture approved by Chinese central government to establish chain stores in several major cities in China. In 2014, the sales of Metro Group in the Chinese market reached 18.9 billion RMB (\$2.97 billion) with an increase of 11.2% over the fiscal year of 2013. In 2015, Metro has opened 89 stores in China's 56 cities.

In China, Metro has always been operating by the way of physical store until 2011 when it began to try to conduct online business. In May 2012, its on-line shopping mall was launched. In April 2014, president of Metro China Jeroen de Groot revealed that e-commerce was in their new strategy in China and they would choose O2O to break through by using their own physical store network and logistics system to achieve synchronization between online and offline and the direct delivery from the physical stores for customers' online orders. It is expected that by the end of 2015, the e-commerce business of Metro will cover all their physical stores.

Different to Amazon, Metro's online business do not just rely on their own online platform. In January 2013, we found that Metro opened a

flagship store on Tmall. In September 2015, Metro and Alibaba Group announced an exclusive strategic cooperation and Metro official flagship store will be settled in Tmall.HK. Metro has comprehensive supply chain system, and Alibaba will provide business infrastructure in various areas including cross-border business, logistics, marketing, rural business, online supermarket and the integration of online and offline. Meanwhile, Alibaba will join forces with Metro to help more local enterprises in the European market to establish fast-track access to the Chinese market.

➤ **Others**

Foreign companies and brands which have no stores or have not yet registered in China have now entered into the Chinese market by the channels of Free Trade Zone and Tmall.HK, such as United States' mid-range department store chain Macy's Inc, German baby care brand WELED, UK's Royal Mail, Japanese TESCO and so on. By the end of November 2014, 5,400 foreign brands from 25 countries and regions settled in Tmall.HK, 30 stores of which have the single-store turnover of more than 10 million RMB (\$ 1.57 million).

E-commerce has developed and experiences ups and downs in China for nearly 20 years. E-commerce has now completely changed many people's consumer behavior in their lives and work in China. Currently, no matter in terms of users, the proportion, sales or

from the level of development, China's e-commerce market is leading in the world.

The development of e-commerce has promoted China's traditional industries, import and export, the rural economy and employment. It has become more and more important in Chinese economy. Although there are some rules and regulations that need to be improved and there are more markets that are waiting to be explored, we have sufficient reasons to believe that, with the support of national policies, e-commerce will move to the peak era of development in China.

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