



BUSINESS FOR DEVELOPMENT: IMPLICATIONS FOR EXPORT STRATEGY-MAKERS

CHINA

E-COMMERCE DEVELOPMENT

CONTRIBUTED BY

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- I. On e-Commerce Development
 - Development of B2B and B2C Market in China
 - Benefits of e-Commerce to Chinese companies
 - Problems of development of e-Commerce in China
 - E-Commerce, a Chinese Experience after SARS Breakout

- II. CCPIT and e-Commerce Development
 - e-Commerce Training
 - Infrastructure
 - Computer ownership
 - Local Area Network (LAN)
 - Internal Network (OA system)
 - Email system
 - CCPIT Net
 - CCPIT website
 - Special CCPIT websites dedicated to investment and foreign trade
 - Bilateral Website Construction
 - Training

- III. Concluding Remarks

I. On e-Commerce Development in China

Development of B2B and B2C Market in China

The number of Chinese e-commerce websites reached 3804 by the end of 2002, a 12% increase compared with 2001. Those websites that can sustain their operations numbered 1533, representing 7.6% increase over the previous year.

The types of e-commerce websites are tabled as follows:

Type of Websites	General	Specialized	Total	Effectively operational
Consumer Products Websites	285	1992	2277	737
B2B Websites	189	1338	1527	796
Total e-Commerce Websites			3804	1533

In terms of e-commerce transaction volume, the figures for 2002 in comparison with 2001 are listed in the following table:

Types	2001	2002	Annual Increase	2003 (estimated)
B2C	0.2	0.3	90%	1.1
B2B	13.1	21.8	60%	42.2
Total	13.3	22.1	66%	43.4

(in billion US dollars, with exchange rate USD 1 = RMB Yuan 8.2)

Benefits of e-Commerce to Chinese companies

Although there is some way to go before e-commerce could be described as popular in a developing country like China, it is definite that Chinese companies are beginning to realize the tide is rising again in their face after the dotcom bubble some time ago and some even try to excel on their surf.

1. Lowering cost and time saving

China Petroleum and Natural Gas Co. Ltd reported its e-commerce reduced its purchasing cost by an average of 5%. In one case, the company concluded an 80 million USD worth of purchase online in less than 7 hours, saving 8 million USD worth of cost. (By mid 2002, the company' e-commerce value amounted to over 2 billion USD)

2. Reduce of inventory

Haier Group set up the mySAP.com electronic purchase platform in 2001, on which 10% of the orders were placed. Purchase cycle reduced from 10 days down to 3 days. Storage area reduced by half, saving 80 million USD. Inventory cycle reduced from 30 days down to below 12 days.

3. Increase of customers

China Petrochemical Company through e-commerce helped increase its clients by almost a hundred from 2000 to 2002.

Problems of development of e-Commerce in China

General remarks about this sub theme include the following points.

1. Low level of computer and internet usage in Chinese companies

E-Commerce is practiced by less than 10% of Chinese companies, which is far from a popular form of business transaction as compared to developed countries like US, where the percentage is as high as 60% for small, 80% for medium and 90% for large companies.

It is worth noticing that although China boasts 59.1 million netizens, the figure represents only 4.1% of the total population, most of which concentrates in metropolitan cities like Beijing, Shanghai and Guangzhou. In contrast, the percentage for the developed countries, for example, is 67% for Sweden, 60% for Switzerland and 49% for Germany.

2. Technical barriers

Similar to lots of other developing countries, China suffers both low technical level of and market share by the Chinese native IT industries. Key hardware and software used in major e-Commerce application and engineering projects are dependent on foreign companies. System integration and information service level has lots to improve, while IT application and e-commerce standardization awaits lots of work for solutions. Wide band connection and quick response on line have been so far a luxury.

But it is not only IT side which constitutes the technical barriers. Three problems have been haunting Chinese companies in their acceptance and application of e-Commerce:

- a. National credit rating system for both companies and individual consumers not yet completed
- b. Electronic payment means on line not up to security expectation
- c. Logistically underdeveloped distribution and delivery system to conclude the demand and supply chain

3. Human resources issues

One of the outstanding issues is Chinese companies have very few access to personnel familiar with both IT technology and the business sector the companies are involved. It is a problem of education system not yet responding to the market demand, combined with lack of financial incentives for training and preparing such type of engineers.

There has been no adequate training of employees, including senior management, on application and significance of e-commerce, which may be one of reasons for lack of motivation towards e-business in lots of Chinese companies.

According to a large scale survey aimed at Internet Usage and e-Commerce Application by Chinese Companies conducted by the Chinese government from August 2000 to June 2001, with 638 effective answered questionnaires solicited from 29 provinces and 30 key economic sectors, major problems with the Chinese companies in terms of e-Commerce are summarized as follows.

1. From 1995 to the end of 2000, IT investment (including computer, office automation, information management system and computer aided systems) totaled 0.21% of the total investment of the surveyed Chinese companies. The same figure for industrialized countries averaged over 8%. In terms of IT investment, SME was better than large companies, companies in the east China (economically more developed) better than the west China (economically less developed), private sector better than the state owned companies, and sectors like light industries, electronics, railway, tobacco better than other industrial sectors.
2. No clear defined e-commerce strategic planning evident
3. In answering the questions of "What good is e-Commerce?" , the order of choices is
 - i. Obtain information quickly
 - ii. Improve company's image
 - iii. Renovation of minds
 - iv. Increase sales
 - v. Lower the cost
 - vi. Raise working efficiency
 - vii. Improve management
 - viii. Shorten the decision making time
 - ix. Others

It is surprising that lowering the cost is far behind in the choices order. It seems that the surveyed companies are much more interested in the flow of information rather than the actual on line transaction.

4. B2B is the first choice for Chinese companies
5. E-Commerce purchase is more frequent than sale. Field surveys following the 12 companies active in e-commerce showed sales were less successful than purchase. When market is short of supply or is monopolized, e-commerce sale was likely to take the upper hand.

A more recent survey in the 3^d quarter of 2002 by the Government on IT usage on 100 Chinese companies with the most IT investment shows some additional development of e-commerce for the top Chinese companies at the forefront of IT application.

- e-Commerce was realized or partially so by 26.5% of the surveyed companies, with only 3.1% totally involved in e-commerce.
- Majors problems for these companies were account settlement disputes and transaction security.
- Weak internal IT system constructions for companies constrained the development of e-commerce, among which inadequate infrastructure and lack of professional specialists were the most encountered difficulties.

E-Commerce, a Chinese Experience after SARS Breakout

A typical trait of Chinese business culture is its traditional way of marketing. It is face-to-face communications for developing and sustaining interpersonal relations with clients that constitute the basis of a successful business transaction and more deals in the future. This method, however, has never been challenged so much in extreme as after the breakout of SARS.

For effective check of the spread of the epidemic and terminate it ASAP, government, business interests and consumers reached consensus as to minimize human contacts as much as possible

on a scale never witnessed in our generation. It turned out to be impossible to keep the traditional way of marketing during the SARS period. E-commerce, therefore, became an instant popular means of overcoming the restriction on human mobility imposed by the epidemic. More and more Chinese companies and ordinary consumers have become appreciative of the business model and even try it, despite its not being built on the intimacy of interpersonal communications, in physical but not virtual terms, which would have seemed unreliable in normal circumstances to ordinary Chinese businessmen or businesswomen. Chinese companies come to the realization that e-commerce means a competitive edge for their marketing capability in the special period and beyond, while consumers recognize as never before the feasibility of consumption through e-commerce.

To illustrate the point, two online businesses are selected for their impressive statistics.

6688.com had recorded 4 times as high sales income from mid April to Mid May this year. What is of special interest is its online payment increased by 5 times. Popular best sellers includes online entertainment products like games and digital books and music, as well as none virtual products like sanitation products. Major reasons for the phenomenal quantum leap in sales analyzed by its managers were as follows:

- Simple to operate
- Technical support reliable
- Quick in settlement of account

According to report by Alibaba.com, responses by the international buyers of Chinese products to business opportunities published on the website increased 2 times while inquiries on 30 types of Chinese products by international buyers increased by 4 times and Chinese suppliers registered anew also increased by 2 times. On April 17 alone, business opportunities posted online such as buy and sell, agent service and cooperation intentions amounted to 6890 on the Chinese version of the website and 2354 on the English version. The momentum kept on during April. It is worth noticing that before the special period, the figure had been around 3000 a day.

Although there seemed to be a sudden surge in e-commerce demand during the SARS period, there definitely are problems with supply side of the e-commerce:

1. Products available for on line transaction are limited to a few categories, such as books and magazines, audio and visuals, computer games.
2. Infrastructure is at the level of "being usable", which means far from being advanced and optimal in configuration. Bank cards, for example, only 80% of them can be processed for payment on line in real time. Congestion in online bank settlement system is also a daily occurrence.

In regard to foreign trade, e-commerce was the focus of attention in the international trade fair business.

The tradition of China Export Commodities Fair (known also as Guangzhou or Canton Fair) was at its worst possible challenge posed by nature (we had tropical tornado before but not as this serious) for opening during the SARS period (April 15 to 30). The 93rd counted from the 1st one in 1957, this year's Fair could have been the largest Chinese export fair in history (over 9128 Chinese export companies came). But being at the center of the epidemic inevitably had its toll on the numbers of foreigner visitors. It forced the organizer to beef up the online version of the Canton Fair, which had been in operation since 1996 at the 80th China Export Commodities Fair.



On the first day of the virtual Fair, visiting to the website registered 3.68 million hits within 24 hours. Online registration by foreign visitors and foreign suppliers counted 50,000 and 10,000 respectively on the same day. To facilitate the virtual Fair, three websites were open for online business meetings and negotiations:

- www.cantonfair.org.cn,
- www.cecf.com,
- www.ccme.org.cn

Total trade volume for the Fair amounted to 3.9 billion USD and visitors numbered 22670? , both of the figures are lower than previous Fair(19.7 billion USD and visitors140,000). Statistics showed near the end of the Fair total number of visits to the online Fair amounted to 59 million hits (30 million hits came from outside China), an increase of 50.95% compared with the previous one in 2002. They mainly came from USA, Hong Kong, UK, India, Korea and Russia. 300,000 registrations by foreign visitors had been made and over 10,000 purchase intentions were published at online Fair. The 3 websites registered conclusion of a total of 218 million US dollars worth of contracts, among which 47.85 million US dollars were confirmed so far. It was also reported that the beneficiary sectors of the virtual Fair included machine and electronics (73.4% of all contracts signed), food and cereals, minerals and chemicals. It has been concluded that these websites should beef up online business negotiations, online order placement and contract drafting, electronic payment, logistics (distribution and delivery) and other functions.

The China Export Commodities Fair is held in spring and autumn very year. It accounts about one fifth of total annual China's export. The significance of the online Fair this year and its psychological impact has yet to be contemplated by both its organizers and Chinese e-commerce researchers. Exhibition organizers, trade promotion institutions, chambers of commerce, all are taking the case as very much relevant in their respective business and future e-strategy.

II. CCPIT and e-Commerce Development

e-Commerce Training

As an intermediary for trade promotion, CCPIT has been sparing no efforts in popularizing the usage of e-commerce among the Chinese companies. Seminars and training programmes have been organized and international support from IGOs are actively sought after in the area of e-commerce capacity building.

Last year CCPIT hosted a specialized forum on Traditional Enterprises and e-business, with the following persons and institutions invited to offer lectures:

- CEO of the largest Chinese native e-business company Sparkice, two times selected as Internet Elite by *Times*, A Hundred Future Leaders by *World Economic Forum*.
- President of 3721 Co. Ltd., who was nominated as one of ten Outstanding Leaders of Chinese Software Industry, Asia Outstanding ISP Award, etc.
- One of the seven members of the National IT Promotion Experts Team
- Expert from Chinese Academy of Social Sciences specializing e-Commerce.

A most recent example is a similar project this year on e-commerce training with financial sponsorship from APEC (Asia-Pacific Economic Council). CCPIT will continue its cooperation with

both IGOs and NGOs worldwide in helping Chinese companies to keep up with international development for enhanced competitive edge.

Under the impact of policy of e-Government, CCPIT has been constructing a digital resource for the promotion of international trade and two ways cross border investment in terms of both internal networks and external networks.

Infrastructure

Computer ownership

After 3 years of efforts (1999 - 2002), each of the 300 plus staff in CCPIT has managed to possess one desktop computer so that each one terminal within the network is uniquely identified with its user. Aside from replacement of obsolete version of computers with the most updated ones as frequently as the budget permits, CCPIT has begun purchase more and more of laptops for those working on the move. At present leaders at department level possessed laptops and each division at least one. Staff on business could be guaranteed to have one laptop for use on his or her trip.

Local Area Network (LAN)

CCPIT increased its input in IT infrastructure from 2000. LAN for the CCPIT headquarters was completed that year and dedicated lines for internet access were installed. LAN enabled CCPIT staff to have access to each other's computer hard disks within the same department, making desktops connected and information sharing possible on a much user friendlier manner. Dialing into the ISP for access to internet quickly became history for its bandwidth limit, which gave way to dedicated lines for internet access. Online browsing and email communication began routine daily practice for quick and reliable internet accessibility (4 M in bandwidth).

Internal Network (OA system)

An internal network has been operative for internal document circulation and information exchanges (<http://oa.ccpit.org>) as of September 2002 on a trial basis. All internal documents now have their electronic versions circulated within the organization. Different level of authorizations is assigned according to relevance of the content. Users could check the development of internal document processing under their respective jurisdiction.

Email system

CCPIT email system could be accessed from anywhere in the world by access to the website of <http://mail.ccpit.org> 24 hours a day and 7 days a week. All staff of CCPIT has been assigned a unique email box identified with the user. The size of each mailbox is 10 M.

From this year on, anyone working with local CCPIT sub councils or even branches is entitled to one such mail box for free. It means all employees within CCPIT national network (all local councils and branches nationwide) could apply for an e-mail box with @ccpit.org as suffix for free with CCPIT headquarters in Beijing, despite the fact that local sub councils and branches have their financial support from different levels of the Government and have no budgetary connections with CCPIT headquarters. This attempt to cover potentially thousands of TPO staff all over China under a single @ccpit.org email suffix no doubt will have a strong impact both to CCPIT at all levels of government and to the targets CCPIT is serving in China and abroad.

CCPIT Net



China Council for the Promotion of International Trade(CCPIT)
China Chamber of International Commerce(CCOIC)

To facilitate e-Commerce in China, CCPIT has been actively involved in setting up online websites targeting Chinese companies to promote China's foreign trade and two way investments.

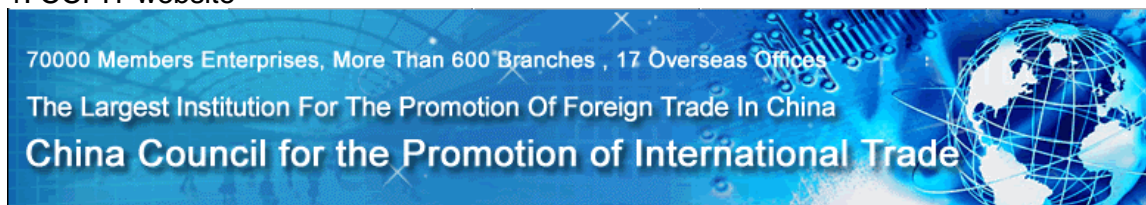
CCPIT Net is a mega project financed by public funds. CCPIT headquarters is the chief organizer and coordinator of the Net, while the constituent departments of the headquarters and all CCPIT local and industrial sub councils are participants as both users and managers. It is designed to cater to the service characteristic of chambers of commerce and TPOs in China. Within the Net, all participating parties could set up their respective websites for publishing contents relevant to the TPO activities such as exhibitions, business seminars, legal service, import and export opportunities.

The Net contains

- CCPIT official website(<http://www.ccpit.org>),
- CCPIT PRO-INVEST (www.ccpitinvest.org),
- CCPIT.INFO (<http://www.ccpit.info>),
- CCPIT Email (<http://email.ccpit.org>),
- CCPIT Office Automation (OA system) (<http://oa.ccpit.org>),.
- CCPIT bilateral websites in cooperation with foreign chambers of commerce

With the operation and development of the Net, it is expected that real time information and data flow would predominate as major means of communication within and beyond the TPO. Effective communication and information sharing among CCPIT headquarters, local CCPIT sub councils and branches, overseas offices and companies or institutions with CCPIT investment, shall be expected to jump the quantum leap forward.

1. CCPIT website



The CCPIT website, <http://www.ccpit.org>, has been under continuous improvement both in terms of format and contents. The most recent development is that staff working in different departments and divisions is now able to contribute to the content of the website provided the content has been examined and approved by a designated manager in each department to check the legitimacy of the information published on the web. Therefore the content of the website is no longer merely the business of the Economic Information Department, which is the official management body in charge of the daily operation of the website. Information at the very front of the trade promotion programmes and projects can be updated in a fly directly by those actually performing them on the field. Both accuracy of the information and efficiency in delivering them have been greatly improved.

2. Special CCPIT websites dedicated to investment and foreign trade

The organization is now engaged in building up two new websites with specific aims in serving Chinese companies by electronic means. They will help shape the mega size CCPIT Net, which has already been under construction for 2 years.

A. CCPIT PRO-INVEST



CCPIT PRO-INVEST (www.ccpitinvest.org) is a specialized website for the promotion of international investment. It is an organic component of CCPIT's official website CCPIT NET (www.ccpit.org). The site has both Chinese and English version with roughly the same contents.

The website contains vast information on selected Chinese projects now exceeding 7000 with the cooperation of local CCPITs. Meanwhile, with shared information from CCPIT's 15 overseas representative offices, overseas counterpart organizations, Chambers of Commerce and Associations, and Investment Promotion Agencies, it also comprises overseas investors' intent in China.

- How to be a member of CCPIT PRO-INVEST?

New users can apply membership via free online registration. Being a member, it can submit investment cooperation projects online, which will be released on the web upon approval by the web administrator. A member can also browse, release and maintain projects information according to its extent of access/authority given by the administrator. Moreover, with special application procedure, an ordinary member can apply the VIP membership. VIP member, who can develop its sub-members, according to its corresponding extent of access, has the authority to administrate and review the projects and investment information released by its sub-members.

Ordinary member Users can release their projects information freely on the site, which will be labeled "ordinary projects" and stored in the projects databank. Members themselves will be responsible for the promotion of their released projects, while CCPIT PRO-INVEST will not be involved in following the development and their feedbacks.

As far as Key Recommended Projects and CCPIT Investment & Financing Hub Assessed Projects are concerned, a certain amount of operational fees will be charged against each of them. These projects will be evaluated and packaged by professional investment agency, and further promoted through various channels. Feedbacks and development news about these projects will be delivered to releasers regularly. Please contact us for further details about this (Contact Us).

- Service Contents of CCPIT PRO INVEST:

For Ordinary member:

- ?Free online registration to be a member;
- ?Browse public information and information about ordinary projects;
- ?Online submission of cooperation projects
- ?Online submission of investment intent;

?Online consultation with investment experts;
?Online discussion of investment experience;
?Online training, or participating in relative training activities organized by CCPIT via online registration.

For VIP member users:

?All the services to ordinary users, and,
?Browse key recommended projects and CCPIT Investment & Financing Hub Assessed Projects;
?Submit and release project information online;
?Submit investment promotion news online;
?Maintain released projects information, investment promotion news, and information of its sub-members online.

B. CCPIT.INFO



CCPIT.INFO (www.ccpit.info) is an International Trade Informational Services Platform through cooperation with world-class global trade information service provider.

Aimed to bring real global trade opportunities to China in today's dynamic and digital international trade environment, CCPIT.INFO empowers China's small and large businesses to expand their market reach through a comprehensive suite of online offline services. At present, only the Chinese version is operative.

These services include:

- 1.customized market intelligence
- 2.international trade training
- 3.professional trade consulting
- 4.online software solutions

Another aim of the CCPIT.INFO is to bring global best products and services to china market. We use combination of online and offline promotion vehicles to reach importers, purchasing agents and buyers all over China, we also provide high quantity China market reports and China sources intelligence.

Bilateral Website Construction

Bilateral websites are an important part of the CCPIT Net. Bilateral websites like CCPIT- 10 ASEAN Chambers of Commerce and CCPIT-Indian Chamber of Commerce have been listed within the intergovernmental cooperation agreements (China and ASEAN, China and India).

The China-ASEAN Business Net (<http://www.china-asean.net/>) is the official website of the China-ASEAN Business Council. It is co-hosted by CCPIT and the ASEAN Chamber of Commerce and Industry (ASEAN-CCI), and supported by the ten Chambers from the ASEAN member states.



Upon the requirement of establishing China-ASEAN Co-operation Fund raised by the Ministry of Foreign Affairs of the People's Republic of China and the Secretariat Office of ASEAN, China Council for the Promotion of International Trade raised its proposal on China-ASEAN Business Net. The China-ASEAN Business Council is a bilateral one established in 1997 by China Council for the Promotion of International Trade and the ASEAN Chamber of Commerce and Industry in accordance with their Agreement. It serves not only as one of the Co-operation through Dialogue Mechanisms between China and ASEAN but an important showcase of their trade and economic co-operation. It aims at boosting the business intercourse and economic and trade development between China and ASEAN member states. Its supporters include Supporters ten Chambers of Commerce from ASEAN member states:

- National Chamber of Commerce and Industry, Brunei
- Phnom Penh Chamber of Commerce, Cambodia
- Kamar Dagang dan Industri Indonesia, Indonesia
- Lao National Chamber of Commerce and Industry, Laos
- National Chamber of Commerce and Industry, Malaysia
- Union of Myanmar Chambers of Commerce and Industry, Myanmar
- Philippine Chamber of Commerce and Industry, Philippine
- Singapore Federation of Chamber of Commerce and Industry, Singapore
- Federation of Thai Industries, Thailand
- Vietnam Chamber of Commerce and Industry, Vietnam

The China-ASEAN Business Net targets at enhancing business exchanges between CCPIT and its ASEAN counterparts, and strengthening business info exchanges between Chinese enterprises and ASEAN enterprises. Meanwhile, it provides trade and economic information and e-commerce services to enterprises of both sides in order to promote the business and investment between China and ASEAN member states.

Aside from providing information about respective countries and business environment of policies, the website set up a part focusing on trade and investment leads, which, if properly developed, could well be tapped by the business community.

trade & investment leads



Trade leads Intro

-business matchmaker between China and ASEAN countries



Investment Hub

-investment promoter between China and ASEAN

Training

The internal and external networks and websites are infrastructure to serve its users. For better use of the infrastructure, CCPIT has been busy training both its staff and staff at local CCPIT sub councils and branches. CCPIT PRO-INVEST has been the most recent focus of attention of such training. It is hoped all divisions of CCPIT headquarters, 69 major CCPIT local sub councils and branches and 14 overseas offices are both proficient in using the Net and able to contribute valuable content to the Net for the benefit from the integration of all resources available nationwide and abroad. The training has gone into its third phase so far. The training within CCPIT headquarters has been compulsory for all its employees. For beyond the headquarters, in turn all major provinces will be covered by the training programme, whose budget mostly shall be shouldered by CCPIT headquarters.

Altogether CCPIT has 69 sub councils, 47 of them have respective websites of their own (33 local sub councils and 14 industrial sub council). It is aspired that all CCPIT Sub Councils could join hands to set a national CCPIT Net. For this purpose, training is considered to be of utmost importance.

The training of local CCPIT sub councils targets 3 groups of people:

- System managers of local councils (each local council should have 1-2)
- General staff of local councils
- Member companies of local councils

The training of system managers of the local CCPIT is deemed to be of special significance. The reasons are:

- They are the key links between local CCPIT and CCPIT headquarters
- They are the managers and trainers of local network
- They are entrusted with high level clearance and responsibility

III. Concluding Remarks

There is some way to go before CCPIT, as the largest TPO with firm support of the Government, to keep up with its expectation for a national TPO information highway for substantial improvement of Chinese e-commerce environment. With the fast development of e-Government projects by other ministries and commissions in China, CCPIT is feeling the ever rising pressure to complete a National CCPIT Net. It is aimed to be part of the efforts as a TPO of a developing country to create for the business community something tangible with an e affix that do not have to be a bubble in the first place.