



**Asia-Pacific
Economic Cooperation**

2013/SOM3/CTI/WKSP1/005

Experience Sharing and Opportunities with FTA

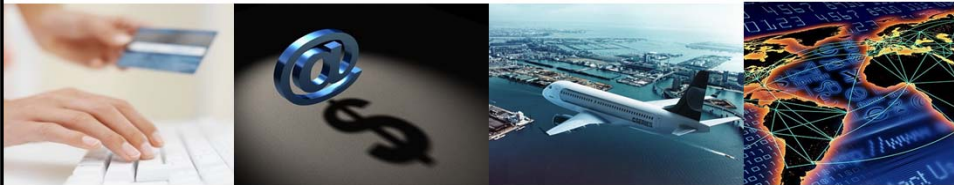
Submitted by: China



**Workshop on Building and Enhancing FTA
Negotiation Skills on e-Commerce
Medan, Indonesia
27-28 June 2013**



Experience Sharing & Opportunities with FTA



Dun Huang 敦煌 was the starting point of the famous ancient Silk Road - where international trade started in China

DHgate.com 梦想高远 脚踏实地

2004 • Established in 2004 with 10 employees

2005 自主研发电商平台正式上线

2006 成为中国首家通过ISO9001认证的B2B电商平台

2007 成为中国首家通过ISO14001认证的B2B电商平台

2008 上线“敦煌网”品牌，成为行业领军企业

2009 成为首家通过ISO27001认证的B2B电商平台

2010 启动“敦煌网”品牌国际化战略，成为首家通过ISO27001认证的B2B电商平台

2011 启动“敦煌网”品牌国际化战略，成为首家通过ISO27001认证的B2B电商平台

2012 启动“敦煌网”品牌国际化战略，成为首家通过ISO27001认证的B2B电商平台

2013 • 700+ employees over 5 offices in China

✓ More than 1,000,000 Sellers

✓ 25,000,000+ online products

✓ 100,000+ buyers login online every hour

✓ A transaction completed every 6 seconds

Cross-Border e-Commerce

Platform Service	Overseas Promotion	Logistics & Payment	Credit & Protection System
<ul style="list-style-type: none"> Account Mngt Product Mngt Cust Service Translation Service Training Sales Operation Merchants Support New Merchants Assistance Data Analytics Search Engine Op Agency Service 	<ul style="list-style-type: none"> Search Engine Marketing & SEO SNS Promotions Overseas PR Mobile Platform eDM Promotion Programs Online Marketing Strategic Cross-Border Co-Op Opportunities 	<ul style="list-style-type: none"> Diversified logistics Warehouse service Diversified payment facilities Financial services including loans & settlement Custom handling Loan support Return / Refund policy & arrangement 	<ul style="list-style-type: none"> Escrow Risk Management Dispute Handling After-sales Service Credit System, Feedback & Protection

China's 1st Cross-Border Trade Platform



China e-tailing Opportunities

A powerhouse industry ...

China has the world's largest online population, with **130 million** residential broadband accounts

E-tailing produced more than **\$190 billion** in 2012 sales

China's e-tailing industry has posted **120%** compound annual growth since 2003

More than **6 million** e-merchants list products on Taobao

Singles Day 2012 generated **\$4 billion** in online sales, surpassing Cyber Monday in the United States

... with huge growth potential

China's broadband penetration is only **30%**

Online sales could reach **\$650 billion** by 2020

By 2020, e-tailing could potentially lift China's private consumption by an additional **4-7%**

In Tier 4 cities, the average online shopper spends **27%** of disposable income through e-tailing

E-tailing could boost labor productivity in China's retail sector by **14%**

Source: McKinsey, March 2013



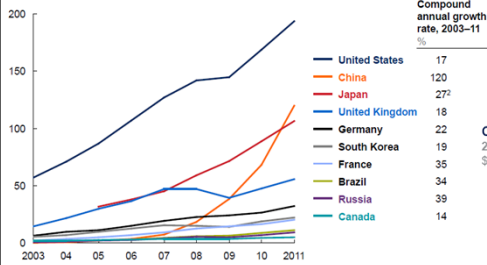
China's e-tailing market growth

2011

China's e-tailing market has posted the world's highest growth rate

2003-11 e-tailing market¹

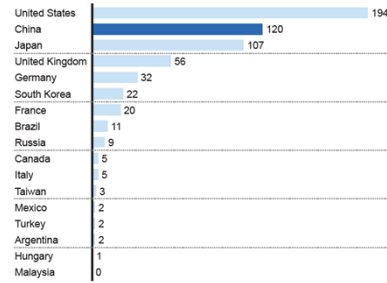
\$ billion



China was already the second-largest e-tailing market in the world in 2011

2011 e-tailing market size¹

\$ billion



Not much affected during economic slowdown in general

¹ Excluding online travel.

² Japan's CAGR covers 2005-11.

SOURCE: Euromonitor, Forrester, iResearch, EIU, McKinsey Global Institute analysis

¹ Excluding online travel.

SOURCE: Euromonitor, Forrester, iResearch, EIU, McKinsey Global Institute analysis

Source: McKinsey, March 2013

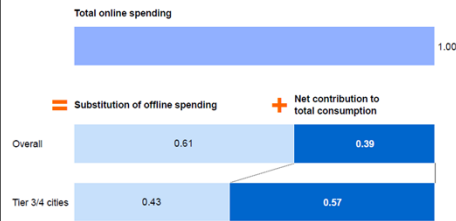


Less Developed Areas

More pronounced in tier 3/4 cities

Online spending raises China's total consumption—and the effect is even more pronounced in less developed areas

\$



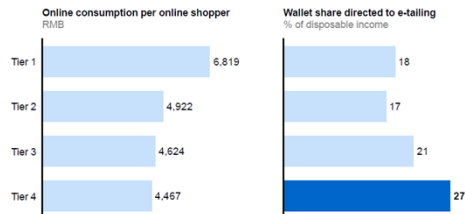
SOURCE: McKinsey Global Institute analysis

A supplement against traditional offline trade in less developed areas

Tier 4 cities have the highest wallet share directed to online spending

266 CITIES

China e-tailing consumption by buyer location



SOURCE: McKinsey Insights China database; McKinsey iConsumer survey; McKinsey Global Institute analysis



Influence on associated industries

Cross Discipline Job Opportunities

E-tailing promotes associated value chain activities

Online purchase cycle	Related industry	Definition	Examples		
			United States	China	
Find and compare	Marketing	<ul style="list-style-type: none"> Online ad Service 	<ul style="list-style-type: none"> Online marketing channels such as search engines, portal websites, mobile channels Service providers helping e-merchants optimize marketing activity and spending 	Google	Baidu 百度 点进 DianJin
				PayPal	支付宝 Alipay.com
Purchase	Payment	<ul style="list-style-type: none"> Third-party service providers that offer reliable payment methods (e.g., credit card, bank account) 	USA Network	顺丰 SF EXPRESS	
Fulfillment	Warehousing	<ul style="list-style-type: none"> Companies providing services, including physical storage and order fulfillment, or warehouse management service without physical fulfillment 	UPS	STO 申通快递	
Delivery	Delivery	<ul style="list-style-type: none"> Express companies that provide delivery service; some may provide delivery tracking service 	FedEx	先云软件 www.xianyun.com	
Operation	IT	<ul style="list-style-type: none"> Software developers that provide software such as ERP, CRM, and other small online tools; may also provide consulting services 	<ul style="list-style-type: none"> Software developers that provide software such as ERP, CRM, and other small online tools; may also provide consulting services 	ORACLE	文一城
				Digital River	宝尊电商
	Integrated	<ul style="list-style-type: none"> Online business operators to whom brands and merchants can outsource end-to-end or partial e-commerce operations 	gsi commerce	马北联	

SOURCE: Expert interviews; McKinsey Global Institute analysis

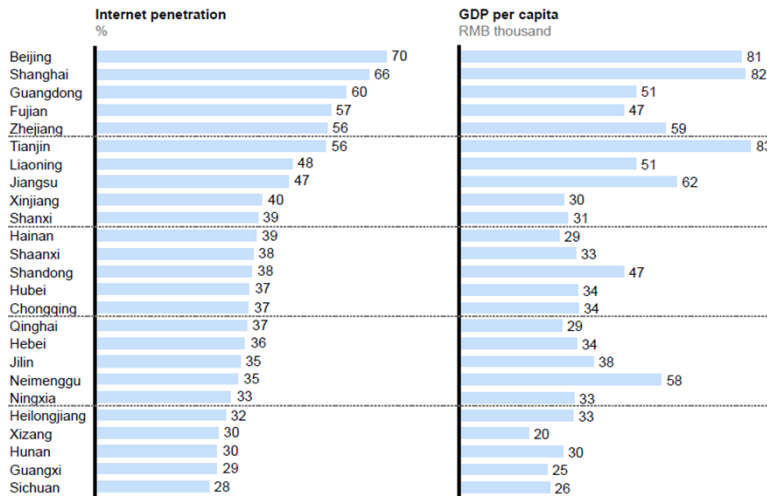


Internet Penetration vs Economic Development

A high correlation

Internet penetration is highly related to overall economic development

2011 data



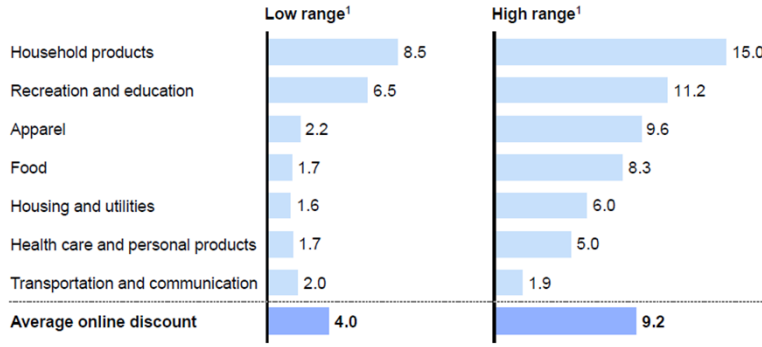
SOURCE: China Internet Network Information Center (CNNIC); CEIC; McKinsey Global Institute analysis



Balance to retail pricing

E-tailing has lowered overall retail prices

Online price discount
Percentage below offline prices



Impact on total retail price
in 2011/2012² (%)

0.2/0.3

0.4/0.6

¹ Low range comes from expert interviews, and high range comes from Taobao UED survey; both are discounted by the percent of standardized product.

² Multiplying average online discount with e-tailing in percent of private consumption, which is 4.8% in 2011 and 6.9% in 2011; 2012 figure based on estimation, excluding online travel.

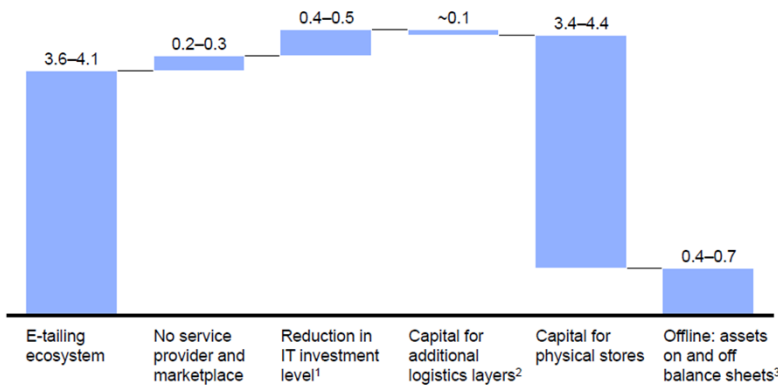
SOURCE: Expert interviews; Taobao UED survey; McKinsey Global Institute analysis



Employed Capital: offline vs online Can be 5-10x Higher

Employed capital could be five to ten times higher if e-tailing sales were realized through brick-and-mortar retailers

Capital productivity of online vs. offline ecosystem, 2011
Revenue/total employed capital



¹ Calculated from e-merchants' 2011 IT investment level.

² Assuming that e-tailing needs only 70% of logistics cost of offline retailer thanks to fewer logistics layers.

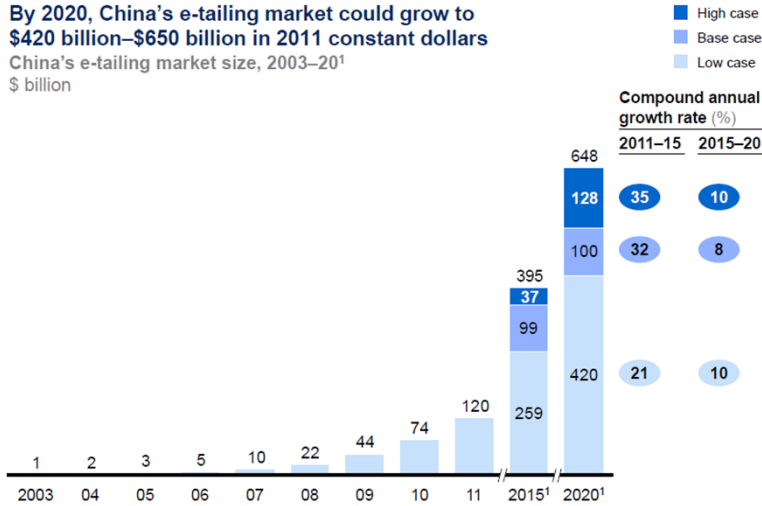
³ Using Suning and Gome as examples; including rented stores and office buildings.

SOURCE: Company annual reports; expert interviews; McKinsey Global Institute analysis



China's e-tailing Growth

By 2020, China's e-tailing market could grow to \$420 billion–\$650 billion in 2011 constant dollars
 China's e-tailing market size, 2003–20¹
 \$ billion



¹ Based on 2011 terms; 2015 and 2020 population forecasts are 1,368 million and 1,387 million.
 NOTE: Numbers may not sum due to rounding.
 SOURCE: iResearch, McKinsey Insights China database; McKinsey Global Institute analysis



Success Stories

5+ years

- SME manufacturer in Shenzhen, China
- Specialized in high-end wireless headphones
- Since using e-Commerce in 2007:
 - No prior export or e-Commerce experience
 - Introduced to e-Commerce via a training seminar and learned to setup an e-Shop using marketplace's built-in payment and logistics options
- Today, selling successfully in USA and Europe
 - Annual sales grew from US\$300K to US\$15M
 - Employees grew from 18 to 1,000 people
 - Today, operate 10,000 sf R&D + manufacturing center



Success Stories

5 years

- First online purchase from China at age of 18
- Initial sourcing budget: US\$150
 - Selling mobile cases to friends and family
- Results after 5 years
 - E-Shop operation selling over 800 products related to phone accessories, audio/visual, cables and golf equipment
 - 5,000 sf warehouse
 - More than 300 sales orders each day



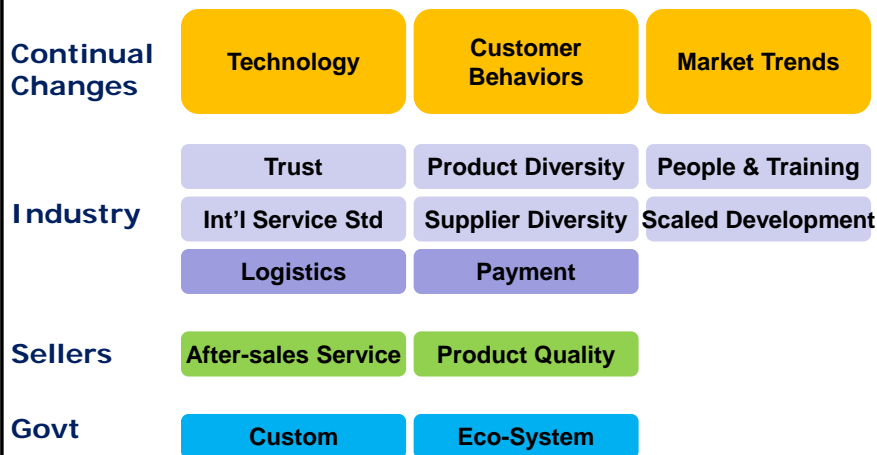
Robert Shaw,
United Kingdom

Entrepreneur with 5 years experience running own e-shop

"To think I started selling cases to friends and family now to selling on a global basis is massive. I'm now 23 and life has never been so good! Since starting my business I have never looked back and it has been a fantastic experience!"



Our Challenges



Future Opportunities with FTA

Industry Expectation

- Healthy growth of E-Commerce
 - Trust building
 - Risks reduction for both buyers & sellers
 - Dispute resolutions
 - More efficient & reliable logistics
 - Secured payment
- Cross-border Logistics
 - Simplified, cost-efficient & reliable cross-border logistic infrastructure
- Improvement of efficiency
 - Consider cost, time & labor

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Future Opportunities with FTA

Suggestions for Implementation

- Immediate Measures
 - Waive of custom duty
 - For products below \$\$\$ (to be discussed) within agreed categories
 - Committed custom clearance completed within 1 day
 - Promotion of cross-border e-Commerce to domestic buyers
 - Organize exhibitions, workshops
 - Sponsorship to industries on promotions
 - Connect domestic logistic players with cross-border e-Commerce partners
 - Arrange opportunities of meeting face-to-face

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Future Opportunities with FTA

Suggestions for Implementation

- Mid-Term
 - Establish a taskforce to focus on cross-border e-Commerce
 - With the objectives of promoting cross-border e-Commerce, tackle barriers and issues from time to time, and provide proposal or resolutions in an efficient manner
 - Participation from the e-Commerce industry
 - Propose pilot programs to test-run new policies or procedures
- Long-Term
 - Standardize custom handling procedures between countries
 - Objectives of efficiency with commitment of custom clearance within required time, e.g. 1 day
 - Use of technology which can be followed and integrated by the e-Commerce industry
 - Adopt agreeable systems and procedures

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Questions for Thoughts

- How we can help business organizations to survive in the next 20 years ?
- What and how an eco-system is needed for a sustainable growth of economy in the next 20 years to come ?

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