Experience Sharing and Opportunities with FTA

Submitted by: China
Experience Sharing & Opportunities with FTA

Dun Huang was the starting point of the famous ancient Silk Road - where international trade started in China
## Cross-Border e-Commerce

<table>
<thead>
<tr>
<th>Platform Service</th>
<th>Overseas Promotion</th>
<th>Logistics &amp; Payment</th>
<th>Credit &amp; Protection System</th>
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<tr>
<td>• Account Mngt</td>
<td>• Search Engine</td>
<td>• Diversified</td>
<td>• Escrow</td>
</tr>
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<td>• Product Mngt</td>
<td>Marketing &amp; SEO</td>
<td>• Warehouse service</td>
<td>• Risk Management</td>
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<td>• Cust Service</td>
<td>• SNS Promotions</td>
<td>• Diversified</td>
<td>• Dispute Handling</td>
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<td>• Translation Service</td>
<td>• Overseas PR</td>
<td>• payment facilities</td>
<td>• After-sales Service</td>
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<tr>
<td>• Training</td>
<td>• Mobile Platform</td>
<td>• Financial services including loans &amp; settlement</td>
<td>• Credit System, Feedback &amp; Protection</td>
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<td>• Sales Operation</td>
<td>• eDM</td>
<td>• Custom handling</td>
<td></td>
</tr>
<tr>
<td>• Merchants Support</td>
<td>• Promotion Programs</td>
<td>• Loan support</td>
<td></td>
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<td>• New Merchants Assistance</td>
<td>• Online Marketing</td>
<td>• Return / Refund policy &amp; arrangement</td>
<td></td>
</tr>
<tr>
<td>• Data Analytics</td>
<td>• Strategic Cross-</td>
<td></td>
<td></td>
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<tr>
<td>• Search Engine</td>
<td>Border Co-Op</td>
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<tr>
<td>• Op Agency Service</td>
<td>Opportunities</td>
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</tbody>
</table>

**China’s 1st Cross-Border Trade Platform**

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## China e-tailing Opportunities

### A powerhouse industry...
- China has the world’s largest online population, with 1.3 million residential broadband accounts.
- E-tailing posted more than $190 billion in 2012 sales.
- China’s e-tailing industry has posted 120% compound annual growth since 2008.
- More than 6 million sellers 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 2015.
- By 2020, e-tailing could potentially drive 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%.

China’s e-tailing market growth

2011

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

2003–11 e-tailing market

$ billion

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

2011 e-tailing market size

$ billion

Not much affected during economic slowdown in general

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

A supplement against traditional offline trade in less developed areas


DHGate.com
Influence on associated industries
Cross Discipline Job Opportunities

E-tailing promotes associated value chain activities

<table>
<thead>
<tr>
<th>Online purchase cycle</th>
<th>Related Industry</th>
<th>Definition</th>
<th>Examples United States</th>
<th>Examples China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Find and compare</td>
<td>Marketing</td>
<td>Online marketing channels such as search engines, portal websites, mobile channels</td>
<td>Google, Baidu, Tencent</td>
<td></td>
</tr>
<tr>
<td>Purchase</td>
<td>Service</td>
<td>Service providers helping e-commerce optimize marketing activity and spending</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td>Third-party service providers that offer reliable payment methods (e.g., credit card, bank account)</td>
<td>PayPal, Alipay</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fulfillment</td>
<td>Warehousing</td>
<td>Companies providing services, including physical storage and order fulfillment, or warehouse management service without physical fulfillment</td>
<td>USA, Alipay</td>
<td></td>
</tr>
<tr>
<td>Delivery</td>
<td>Delivery</td>
<td>Express companies that provide delivery service; some may provide delivery tracking service</td>
<td>FedEx, STO Express</td>
<td>DHL Express</td>
</tr>
<tr>
<td>Integration</td>
<td>IT</td>
<td>Software developers that provide software such as ERP, CRM, and other small online tools, may also provide consulting services</td>
<td>Oracle, SAP, Oracle CRM</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Integrated</td>
<td>Online business operators to whom brands and merchants can outsource end-to-end or partial e-commerce operations</td>
<td>Digital River, 360buy.com,</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: Expert interviews, McKinsey Global Institute analysis

Internet Penetration vs Economic Development
A high correlation

Internet penetration is highly related to overall economic development

<table>
<thead>
<tr>
<th>2011 data</th>
<th>Internet penetration</th>
<th>GDP per capita (RMB thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>70</td>
<td>81</td>
</tr>
<tr>
<td>Shanghai</td>
<td>66</td>
<td>82</td>
</tr>
<tr>
<td>Guangdong</td>
<td>60</td>
<td>83</td>
</tr>
<tr>
<td>Fujian</td>
<td>57</td>
<td>59</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Nanjing</td>
<td>48</td>
<td>61</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>47</td>
<td>62</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>40</td>
<td>61</td>
</tr>
<tr>
<td>Shandong</td>
<td>39</td>
<td>61</td>
</tr>
<tr>
<td>Shanxi</td>
<td>38</td>
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<tr>
<td>Hubei</td>
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<td>Jiangxi</td>
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<td>Guangdong</td>
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<tr>
<td>Shandong</td>
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<td>Zhejiang</td>
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<td>Qinghai</td>
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<tr>
<td>Ningxia</td>
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<tr>
<td>Hebei</td>
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<td>58</td>
</tr>
<tr>
<td>Jilin</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td>Inner Mongolia</td>
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<td>58</td>
</tr>
<tr>
<td>Anhui</td>
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<td>58</td>
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<tr>
<td>Henan</td>
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<tr>
<td>Shaanxi</td>
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</tr>
<tr>
<td>Hubei</td>
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</tr>
<tr>
<td>Guangdong</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>Sichuan</td>
<td>28</td>
<td>58</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Low range¹</th>
<th>High range¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household products</td>
<td>8.5</td>
<td>15.0</td>
</tr>
<tr>
<td>Recreation and education</td>
<td>6.5</td>
<td>11.2</td>
</tr>
<tr>
<td>Apparel</td>
<td>2.2</td>
<td>9.6</td>
</tr>
<tr>
<td>Food</td>
<td>1.7</td>
<td>8.3</td>
</tr>
<tr>
<td>Housing and utilities</td>
<td>1.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Health care and personal products</td>
<td>1.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Transportation and communication</td>
<td>2.0</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Average online discount</strong></td>
<td><strong>4.0</strong></td>
<td><strong>9.2</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Component</th>
<th>E-tailing ecosystem</th>
<th>No service provider and marketplace</th>
<th>Reduction in IT investment level⁴</th>
<th>Capital for additional logistic layers⁵</th>
<th>Capital for physical stores</th>
<th>Offline assets on and off balance sheets³</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.6-4.1</td>
<td>0.2-0.3</td>
<td>0.4-0.5</td>
<td>-0.1</td>
<td>3.4-4.4</td>
<td></td>
<td>0.4-0.7</td>
</tr>
</tbody>
</table>

¹ Calculated from e-retailers’ 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 retailer and online examples, including rented stores and office buildings.
⁴ 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, 2003–20

$ billion

Compound annual growth rate [%]


1 Based on 2011 terms; 2015 and 2020 population forecasts are 1.368 billion and 1.387 billion.
NOTE: Numbers may not sum due to rounding.

Success Stories

• 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

- 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

"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!"

Robert Shaw, United Kingdom
Entrepreneur with 5 years experience running own e-shop

Our Challenges

- Continual Changes
  - Technology
  - Customer Behaviors
  - Market Trends

- Industry
  - Trust
  - Product Diversity
  - People & Training
  - Int’l Service Std
  - Supplier Diversity
  - Scaled Development
  - Logistics
  - Payment

- Sellers
  - After-sales Service
  - Product Quality

- Govt
  - Custom
  - Eco-System
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

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
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

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 ?