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# NATIONAL REPORT ON E-COMMERCE DEVELOPMENT IN CHINA

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

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UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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## **Acknowledgement**

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## **Acronyms**

CECA	China Electronic Commerce Association
CPPCC	Chinese People's Political Consultative Conference
IDG	International Data Group
ISC	Internet Society of China
SMMEs	Medium, Small and Micro-Enterprises

## **1. Background Information**

### **1.1 Basic information about Small and Medium-sized Enterprises (SMEs) and E-commerce**

For the implementation of the Law of the People's Republic of China on Promotion of Medium and Small Enterprises, as well as the Several Opinions of the State Council on Further Promoting the Development of Small- and Median-sized Enterprises, on 18<sup>th</sup> June 2011, the Ministry of Industry and Information of China, the State Statistics Bureau, the State Development & Reform Commission and the Ministry of Finance jointly promulgated the Provisions on the Standards for Small and Medium-sized Enterprise Classification (the Provisions).

Upon the promulgation of the Provisions, the Interim Provisions on the Standards for Medium and Small Enterprises formulated jointly by the State Economic and Trade Commission, the former State Development Planning Commission, the Ministry of Finance and the State Statistics Bureau had been voided.

As prescribed in the Provisions, all the SMEs of the People's Republic of China shall be classified into three categories: medium, small and micro. The specific standards are formulated according to the amount of employees, revenues and total value of assets, as well as the feature of the industry.

The Provisions shall be applicable to the following sectors: agriculture, forestry, livestock, fishing, industrial sector (including mining industry, manufacture, power heating, gas and water production and supply), architecture, wholesale, retail, freight (not including railway freight), warehousing, postal services, accommodation, catering, information transmission (including telecommunications, Internet and relevant services), software and information technology services, real estate development and operation, property management, leasing and business services, and other unspecified industries (including scientific research and technology, water conservancy, environmental and public facility management, resident services, repairing and other services, social work, culture, sports and entertainment, etc.).

The applicable classified sectors are as follows:

1. Agriculture, forestry, livestock, and fishing. Enterprises with a revenue of less than RMB 200,000,000 shall be classified as Medium, Small and Micro Enterprises (SMMEs), among which, those with a revenue of no less than RMB 5,000,000 shall be classified as medium-sized enterprises; those with a revenue of no less than RMB 500,000 shall be classified as

small-sized enterprises; and, those with a revenue of less than RMB 500,000 shall be classified as micro enterprises.

2. Industry. Enterprises with less than 1000 employees or with a revenue of less than RMB 400,000,000 shall be classified as SMMEs, among which, those with no less than 300 employees and with a revenue of no less than RMB 20,000,000 shall be classified as medium-sized enterprises; those with no less than 20 employees and with a revenue of no less than RMB 3,000,000 shall be classified as small-sized enterprises; and, those with less than 20 employees or with a revenue of less than RMB 3,000,000 shall be classified as micro enterprises.
3. Architecture. Enterprises with less than RMB 800,000,000 or with a total value of assets amounting to less than RMB 800,000,000 shall be classified as SMMEs, among which, those with a revenue of no less than RMB 60,000,000 and with a total value of assets amounting to no less than RMB 50,000,000 shall be classified as medium-sized enterprises; those with a revenue of no less than RMB 3,000,000 and with a total value of assets amounting to no less than RMB 3,000,000 shall be classified as small-sized enterprises; and, those with a revenue of less than RMB 3,000,000 or with a total value of assets amounting to less than RMB 3,000,000 shall be classified as micro enterprises.
4. Wholesale industry. Enterprises with less than 200 employees or with a revenue of less than RMB 400,000,000 shall be classified as SMMEs, among which, those with no less than 20 employees and with a revenue of no less than RMB 50,000,000 shall be classified as medium-sized enterprises; those with no less than 5 employees and with a revenue of no less than RMB 10,000,000 shall be classified as small-sized enterprises; and, those with less than 5 employees or with a revenue of less than RMB 10,000,000 shall be classified as micro enterprises.
5. Retail industry. Enterprises with less than 300 employees or with a revenue of less than RMB 200,000,000 shall be classified as SMMEs, among which, those with no less than 50 employees and with a revenue of no less than RMB 5,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.
6. Freight. Enterprises with less than 1000 employees or with a revenue of less than RMB 300,000,000 shall be classified as SMMEs, among which, those with no less than 300



employees and with a revenue of no less than RMB 30,000,000 shall be classified as medium-sized enterprises; those with no less than 20 employees and with a revenue of no less than RMB 2,000,000 shall be classified as small-sized enterprises; and, those with less than 20 employees or with a revenue of less than RMB 2,000,000 shall be classified as micro enterprises.

7. Warehousing. Enterprises with less than 200 employees or with a revenue of less than RMB 300,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a revenue of no less than RMB 10,000,000 shall be classified as medium-sized enterprises; those with no less than 20 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 20 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.
8. Postal services. Enterprises with less than 1000 employees or with a revenue of less than RMB 300,000,000 shall be classified as SMMEs, among which, those with no less than 300 employees and with a revenue of no less than RMB 20,000,000 shall be classified as medium-sized enterprises; those with no less than 20 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 20 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.
9. Accommodation. Enterprises with less than 300 employees or with a revenue of less than RMB 100,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a revenue of no less than RMB 20,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.
10. Catering industry. Enterprises with less than 300 employees or with a revenue of less than RMB 100,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a revenue of no less than RMB 20,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.

11. Information transmission industry. Enterprises with less than 2000 employees or with a revenue of less than RMB 1,000,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a revenue of no less than RMB 10,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a revenue of no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a revenue of less than RMB 1,000,000 shall be classified as micro enterprises.
12. Software and information technology service industry. Enterprises with less than 300 employees or with a revenue of less than RMB 100,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a revenue of no less than RMB 10,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a revenue of no less than RMB 500,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a revenue of less than RMB 500,000 shall be classified as micro enterprises.
13. Real estate development and operation. Enterprises with a revenue of less than RMB 2,000,000,000 or with a total value of assets amounting to less than RMB 100,000,000 shall be classified as SMMEs, among which, those with a revenue of no less than RMB 10,000,000 and with a total value of assets amounting to no less than RMB 50,000,000 shall be classified as medium-sized enterprises; those with a revenue of no less than RMB 1,000,000 and with a total value of assets amounting to no less than RMB 20,000,000 shall be classified as small-sized enterprises; and, those with a revenue of less than RMB 1,000,000 and with a total value of assets amounting to less than RMB 20,000,000 micro enterprises.
14. Property management. Enterprises with less than 1000 employees or with a revenue of less than RMB 50,000,000 shall be classified as SMMEs, among which, those with no less than 300 employees and with a revenue of no less than RMB 10,000,000 shall be classified as medium-sized enterprises; those with no less than 100 employees and with a revenue of no less than RMB 5,000,000 shall be classified as small-sized enterprises; and, those with less than 100 employees or with a revenue of less than RMB 5,000,000 shall be classified as micro enterprises.
15. Leasing and business services industry. Enterprises with less than 300 employees or with a total value of assets amounting to less than RMB 1,200,000,000 shall be classified as SMMEs, among which, those with no less than 100 employees and with a total value of

assets amounting to no less than RMB 80,000,000 shall be classified as medium-sized enterprises; those with no less than 10 employees and with a total value of assets amounting to no less than RMB 1,000,000 shall be classified as small-sized enterprises; and, those with less than 10 employees or with a total value of assets amounting to less than RMB 1,000,000 shall be classified as micro enterprises.

16. Other unspecified industries. Enterprises with less than 300 employees shall be classified as SMMEs, among which, those with no less than 100 employees shall be classified as medium-sized enterprises; those with no less than 10 employees shall be classified as small-sized enterprises; and, those with less than 10 employees shall be classified as micro enterprises.

On 28 June 2016, the Ministry of Industry and Information Technology of China promulgated the *Small and Medium-sized Enterprises Promotion Plan (2016-2020)*. According to the Plan, in 2015, more than 20 million SMEs and over 54 million individual entrepreneurs were registered at the State Administration for Industry and Commerce in China. The tax revenue collected from SMEs has increased steadily. In the industrial sector, for example, the number of industrial SME enterprises reached 365,000 in 2015 accounting for 97.4% of the total number of industrial enterprises above designated size (industrial enterprises with annual sales of 20 million Yuan from their core business are called industrial enterprises above designated size. This standard was raised from million Yuan from 2011); Tax revenue collected from those enterprises reached 2.5 trillion Yuan which accounted for 49.2% of the total tax revenue paid by industrial enterprises above designated size. The profit created by those enterprises reached 4.1 trillion Yuan, or 64.5% of the total amount of profit created by industrial enterprises above designated size. SMEs provided more than 80% of employment in urban areas, and are important avenues for job creation.

According to the 2016 *13<sup>th</sup> Five-year Plan for E-commerce* Plan, China's E-commerce trade expanded from six trillion Yuan in 2011 to 21.8 trillion Yuan in 2015, and has become the largest and fastest-growing E-commerce market in the world. During the 12<sup>th</sup> five-year plan, annual online trade increased from 0.75 trillion Yuan to 3.881 trillion Yuan, of which online retail sales of physical goods reached 3.24 trillion Yuan (10.8% of the total retail sales of social consumer goods). At the end of the 12<sup>th</sup> five-year plan, venture capital for Internet startup companies selling physical goods, online services and digital goods reached US\$ 15.362 billion accounting for 28.5% of the total venture capital in China. Investment in E-commerce infrastructure was active; more than 1000 E-commerce parks were established. China's E-commerce inventory storage space reached 40 million square meters. At the end of the 12<sup>th</sup> five-

year, 32.6% of enterprises were engaged in online businesses. The market in E-commerce service reached 1.98 trillion Yuan, employing 26.9 million people in traditional and emerging industries.

By 2015, the total amount of Chinese netizens had reached 688 million, and Internet penetration reached 50.3%. Meanwhile, there was a constant increase in the use of E-commerce applications by Chinese netizens.

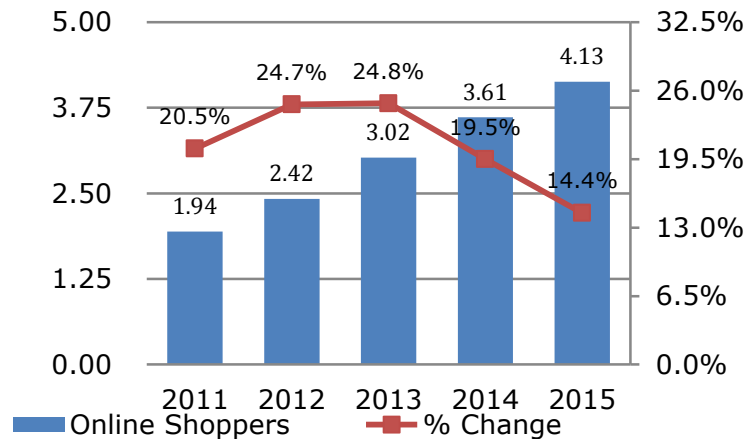
**Table 1: Use of E-commerce applications by netizens in China, 2015**

Application	Number of users (Unit: 10 thousand)	The percentage of users	Annual rate of growth
Online payment	41618	60.5%	36.8%
Online shopping	41325	60.0%	14.3%
Online banking	33639	48.9%	19.2%
Trip reservation	25955	37.7%	17.1%
Group purchasing	18022	26.2%	4.4%
Internet financing	9026	13.1%	15.0%
Online education	11014	16.0%	-
Internet medical care	15211	22.1%	-

Source: China National Network Information Center

In 2015, the number of online shoppers in China reached 413 million, an increase of 51.83 million from the previous year and equivalent to a growth rate of 14.3%. The number of online shoppers had grown rapidly. The total number of users was 340 million, an increase of 43.9%. 54.8% of the online sales were made through mobile phones, up from 42.4%.

**Figure 1: The constant growth of the number of online shoppers in China, 2011-2015**

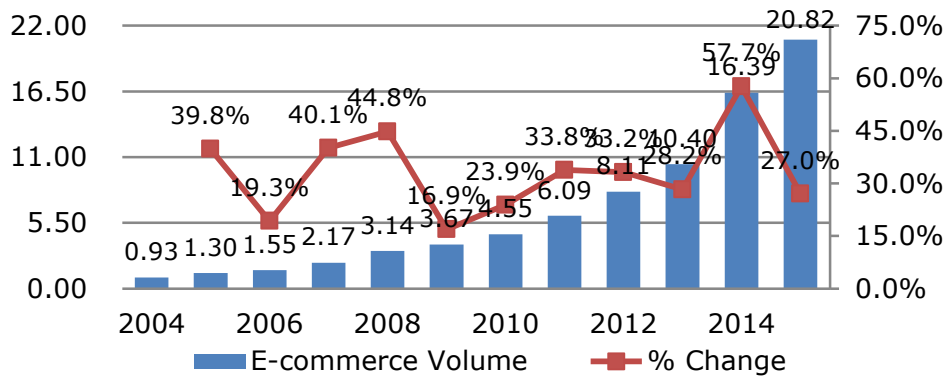


(Unit: 100 million)

Source: China National Network Information Center

In 2015, China’s E-commerce revenue is estimated to have reached 20.8 trillion Yuan, an increase of 27%, exceeding the target (15.6%) of the *Plan for Development of E-commerce during the 12<sup>th</sup> Five-year Plan*. E-commerce revenue has doubled, and is the new driver of economic growth.

**Figure 2: The growth of China’s E-commerce revenue, 2004-2015**

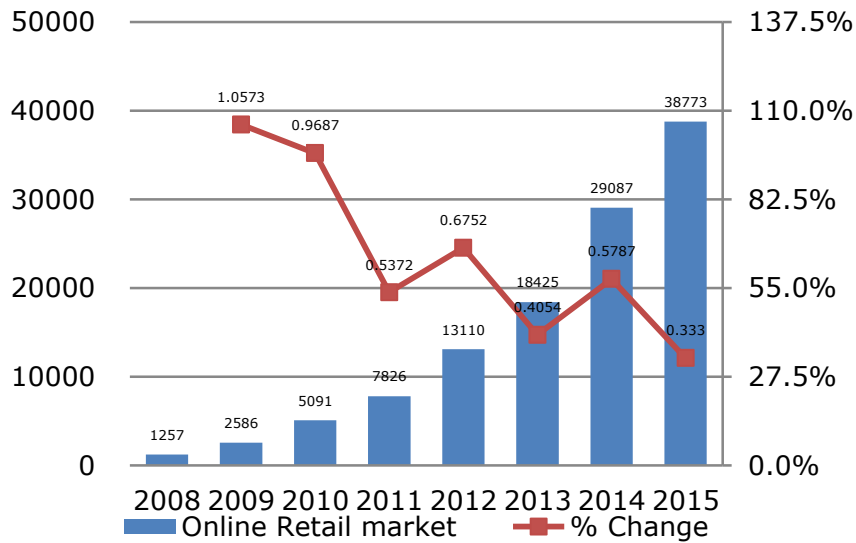


(Unit: trillion Yuan)

Source: The Ministry of Commerce

In 2015, China’s retail E-commerce sales reached 3.8773 trillion Yuan, an increase of 33.3%. The sales of physical goods reached 3.2424 trillion Yuan, or an increase of 31.6%, and 20.9 percentage points higher than that of total retail sales of consumer goods, which also accounted for 10.8% of the total retail sales of consumer goods with sales of 30.0931 trillion Yuan. Sales of non-physical products reached 634.9 billion Yuan, an increase of 42.4%.

**Figure 3: The growth of China's retail E-commerce sales, 2008-2015**

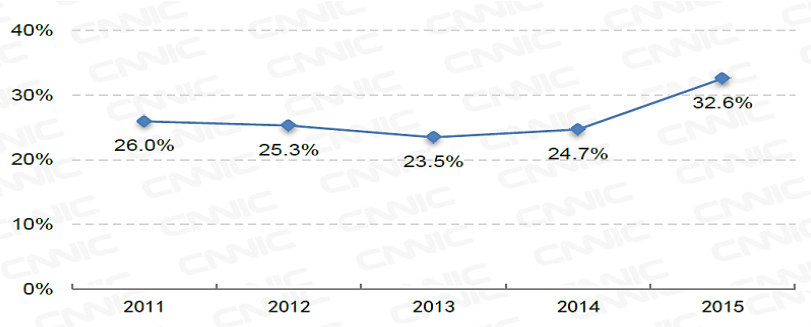


(Unit: 0.1 billion Yuan)

Source: The State Statistics Bureau, The Ministry of Commerce

Driven by the expansion of China's retail online sales, the number of enterprises engaged in online sales has risen. By December 2015, 32.6% of enterprises were engaged in online sales.

**Figure 4: The percentage of enterprises engaged in online sales in China, 2011-2015**

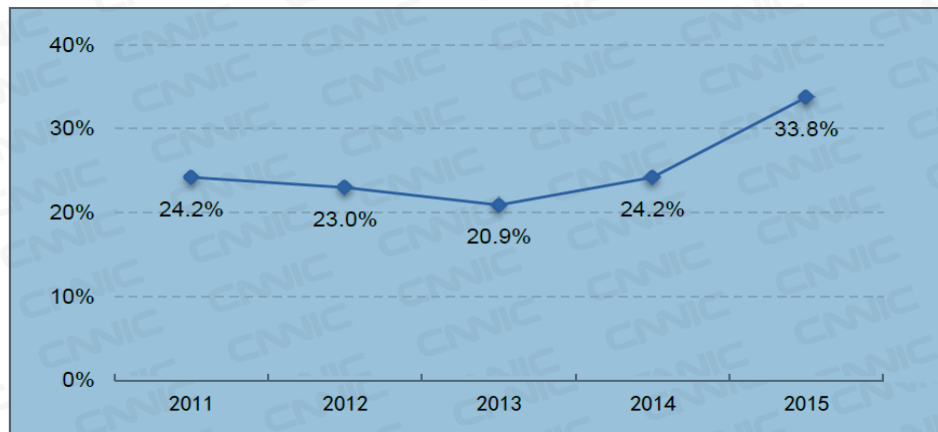


Source: China National Network Information Center

Five major tasks were established at the 2015 Central Economic Work Conference; (1) cut excessive industrial capacity, (2) reduce excess stock, (3) de-leveraging, (4) lower corporate costs, and (5) improve weak links. By implementing these tasks, the B2B online purchasing industry reversed its downward trend. 31.5% of enterprises engaged in online purchasing.

Online marketing is essential for SMEs and E-commerce. In 2015, the proportion of SMEs engaged in online marketing rose by 9.6 percentage points.

**Figure 5: The proportion of SMEs engaged in online marketing, 2011-2015**



Source: China National Network Information Center

## **1.2 Challenges faced by cross-border E-commerce**

China's cross-border E-commerce is growing rapidly. At the same time, it faces a number of challenges, namely the low level of logistic development, high risk payment systems, lack of competitiveness in foreign markets, and a difficult international economic environment.

## **2. Introduction**

### **2.1 SMEs and E-commerce and their impact in China**

The 2014 *Report on the Work of the Government* states that employment has a vital bearing on livelihoods. Premier Li Keqiang of the State Council has said on a number of occasions that the fundamental task of economic growth is job creation.

Without doubt, both SMEs and E-commerce are vital in tackling unemployment in China. Over 80% of jobs in China's urban areas are in SMEs. At the same time, E-commerce has created many jobs. At the end of the 12<sup>th</sup> five-year, China's E-commerce service market reached 1.98 trillion Yuan, providing jobs for up to 26.9 million people working in traditional and emerging industries.

### **2.2 Comparison of GDP in the last 5 years in relation with SME and E-commerce**

On 2 March 2015, the National Committee of the Chinese People's Political Consultative Conference (CPPCC) held the Press Conference at the 2<sup>nd</sup> Session of the 12<sup>th</sup> CPPCC at the Great Hall of the People in Beijing. The spokesman of the Press Conference, Lyu Xinhua, introduced the important role played by SME in China's economic growth. Lyu Xinhua said

that SMEs are the essential driving force in China’s economic development, contributing over 65% of GDP in China.

On 24 December 2016, the Ministry of Commerce of the People’s Republic of China, the State Internet Information Office and the National Development and Reform Commission jointly issued the 13<sup>th</sup> Five-year Plan for E-commerce. According to this Plan, after 20 years of active promotion and innovation, in the course of the 12th five-year, China’s E-commerce trade market expanded from 6 trillion Yuan in 2011 to 21.8 trillion Yuan in 2015, and has become the largest and fastest-growing E-commerce market in the world.

According to the official statistics released by the State Statistics Bureau, from 2012 to 2016, China’s GDP is 54.04, 59.52, 64.40, 68.91, 74.41 trillion Yuan, respectively, and the growth rate of GDP is 7.9%, 7.8%, 7.3%, 6.9%, 6.7%, respectively.

**Figure 6: China’s GDP**



During the period of the 12<sup>th</sup> five-year, E-commerce has become increasingly essential in boosting the economic development of China. The average annual growth rate of China’s E-commerce revenue is more than 35%, and has achieved the strategic goal of doubling E-commerce revenue. In 2015, China’s E-commerce revenue is estimate to have reached 20.8 trillion Yuan, exceeding the target of the *Plan for Development of E-commerce during the 12<sup>th</sup> Five-year Plan*. China’s E-commerce retail sales are set to reach 3.88 trillion Yuan, increased by 33.3%, accounting for 10.8% of the total sales of consumer goods. China remains the largest online retail market in the world. Meanwhile, cross-border E-commerce has become China’s most important import and export channel. The slowdown in global trade has not prevented cross-border E-commerce from expanding. Cross-border E-commerce sales reached 701.5



billion US dollars in 2015, increased by 21.7%, of which cross-border retail E-commerce sales were worth more than 100 billion US dollars. Propelled by government and market initiatives, E-commerce in rural areas has witnessed rapid improvement in regard to distribution infrastructure and service penetration. Moreover, E-commerce helps to support more than 10 million direct and indirect jobs, and is now the first option for “startups”.

In 2015, China’s E-commerce sales exceeded 2 billion Yuan, for the first time. It is also the first time for B2C sales to surpass C2C, and the first time for sales made through mobile devices to surpass PCs. The distribution industry has grown rapidly together with booming E-commerce, the business volume of which exceeded 20 billion, for the first time, remaining the largest in the world.

E-commerce has passed the transitional stage and is now an essential driving force in China’s new economy. Among all the ten largest Internet enterprises in the world, four are from China. The social influence of E-commerce is expanding, and has become a new driving force in promoting social scheme, system transformation and business model in an innovative way.

In 2015, government authorities at all levels strengthened their support for E-commerce by improving new commercial infrastructures, such as e-payment and logistics, and also by promoting and guiding the development of E-commerce service industry. The main tasks, including the establishment of E-commerce demonstration system consisting of National E-commerce Demonstration Cities, National E-commerce Demonstration Bases, National E-commerce Demonstration Enterprises, etc., as well as tasks of establishing cross-border E-commerce services pilot cities, cross-border E-commerce services comprehensive pilot zones, E-commerce services comprehensive pilot counties in rural area, E-commerce and distribution pilots, alleviating poverty through E-commerce, etc. The system of the Inter-Ministerial Joint Meeting for E-commerce has been established, and has constituted a set of promotion scheme, with which the national and local entities may work closely in propelling E-commerce services.

In 2015, a series of policies to promote E-commerce were issued, represented by the *Opinions of the State Council on striving to develop E-commerce to speed up the cultivation of new economic driving force*. During the period of the 13<sup>th</sup> five-year, the Chinese government would also, on the basic principle of “active promotion, progressive regulation, strengthened guidance”, continue its effort to develop E-commerce, to support supply side reforms, and to improve operational efficiency.

E-commerce will be an important element in achieving China’s development goal of building a moderately prosperous society, improving social resource allocation efficiency, and cultivating

new drivers of economic growth. Government authorities will implement the “Belt and Road Initiative” and the “Internet Plus” action plan, by developing E-commerce, promoting supply side reform through innovative procedures and models. They will concentrate on solving bottlenecks in E-commerce development, creating an open, orderly, reliable and safe environment for E-commerce development that boosts the upgrading and transformation of traditional industries, and builds a global innovation and trading powerhouse.

### **2.3 Description of government departments and industry associations involved in SME and E-commerce**

In China, the government departments that are involved in SMEs and E-commerce include the National Development and Reform Commission, the State Internet Information Office, the Ministry of Commerce, the Ministry of Industry and Information Technology, the Ministry of Finance, the Ministry of Human Resources and Social Security, the People’s Bank of China, the General Administration of Customs, the State Administration of Taxation, the State Administration for Industry and Commerce, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Administration of Foreign Exchange. Industry associations that are involved in the SME and E-commerce include the Internet Society of China and the China Electronic Commerce Association.

The Internet Society of China (ISC) was inaugurated in 2001, and was initially founded by more than 70 sponsors including network access carriers, service providers, facility manufactures, system integrators, research and educational institutes. ISC is now a national non-profit association with 1000 members from the Internet industry. ISC is under the general administration of the Ministry of Industry and Information Technology of China.

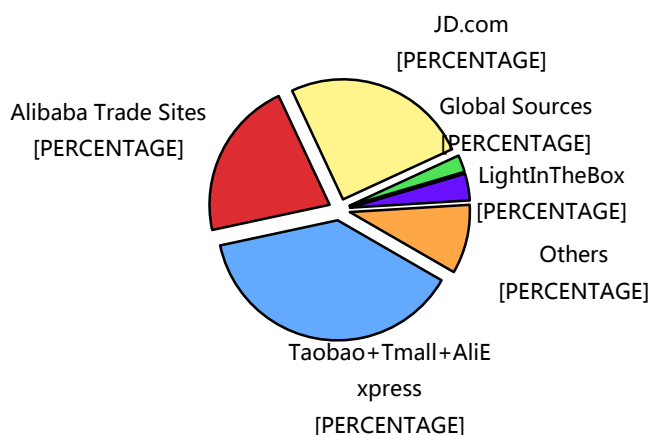
The China Electronic Commerce Association (CECA) was founded in 2000. CECA is a non-profit organization joined voluntarily by companies and individuals in relation with E-commerce. CECA is dedicated to the scientific development of E-commerce, and its business activities are guided by the Ministry of Industry and Information Technology of China under the supervision and administration of the Ministry of Civil Affairs of China.

Since 1991, with the aim of protecting consumer rights, China Central Television hosts an annual evening ceremony on 3·15 International Day for Protecting Consumers’ Rights. The “3·15 Evening Ceremony” has become an important event protecting consumer rights, and for regulating economic orders, and improving laws and regulations. Meanwhile, as the E-commerce sector develops rapidly, there have been more and more disorders taking place in relation to E-commerce that are reported on the “3·15 Evening Ceremony”.

### 3. Current status of SME and E-commerce development

China’s SMEs mainly rely on several giant platforms, led by Alibaba, for their E-commerce business. In 2015, Alibaba (Taobao, TMall, AliExpress, Alibaba International Trade Site, Alibaba Domestic Trade Site) was the largest E-commerce platform in China thanks to its user base and abundant experience, as well as advanced technologies, such as big data. Alibaba has 59.2% of the market, followed by JD.com with a market share of 25.2%. Competition among the rest is even more severe.

**Figure 7: Different E-commerce platforms and their market share in China, 2015**

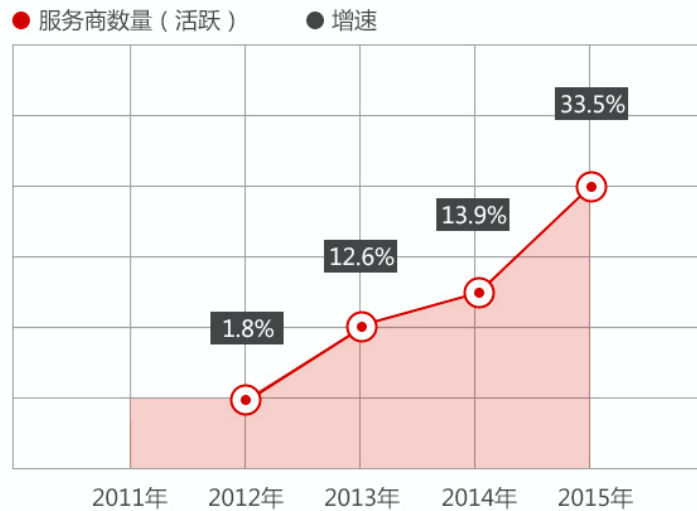


Source: CCID Consulting Company

Based on the ecosystem built by China’s leading E-commerce marketplaces, there are a number of SME E-commerce service providers, which are an essential element and a new approach for China’s SMEs to engage in E-commerce.

According to the statistics released by AliResearch, the percentage of the active marketplaces engaged in Alibaba’s ecosystem has grown tremendously; 33.5% in 2015, up from 1.8% in 2012. By 2015, more than ten marketplaces had annual revenue of over 100 million Yuan, and more than ten marketplaces had revenue of over 10 million Yuan. In addition, many enterprises independently got listed, and many others received venture capital funding of over ten million Yuan.

**Figure 8: The growth of active marketplaces engaged in Alibaba’s ecosystem, 2011-2015**



Source: Alibaba

The fastest-growing regions for E-commerce in China are mostly first-tier regions, such as Zhejiang, Beijing, Shanghai, Guangdong, Fujian, of which Guangdong has the largest number of marketplaces. In terms of density of E-commerce marketplaces, Beijing and Shanghai rank the highest. The marketplace with the best performance is Zhejiang. In addition, Chengdu, Wuhan, Xiamen, Suzhou, Jinhua, Xi’an, Nanjing, Jinan, Zhengzhou, Shijiazhuang are also popular among E-commerce marketplaces.

By March, 2015, China had 510 E-commerce industry parks, more than 20 of which are engaged in cross-border E-commerce, scattered in 29 provinces, cities and autonomous regions, most of which (over 70%) are in Zhejiang, Guangdong, Jiangsu, Fujian and Shandong. The top five cities with the highest density of E-commerce marketplaces are Hangzhou, Jinhua, Guangzhou, Wenzhou and Taizhou. Service industries related to E-commerce have developed collectively in E-commerce parks. The ecosystem has expanded from a basic service industry that consists of photography; training, consulting and administrative affairs to a new service system that includes finance, talent services, data, and supply chains.

Given that successful examples of E-commerce SMEs are too numerous to mention here, we list one example - the Three Squirrels, founded in Wuhu, Anhui province.

It took five years for the Three Squirrels to grow from its first order in 2012 to reach revenue of 5.5 billion Yuan in 2016. The Three Squirrels is located in the National High-Tech Industrial Development Zone in Wuhu, Anhui province, by a team of 5 people. Now, it has more than 2000 employees. The Three Squirrels’ products can be found on all of China’s leading E-

commerce marketplaces, including TMall, Taobao, JD.com, Yihaodian, and VIPS, and has established eight distribution centers across the country. Thanks to this, 80% of customers in China can use the express service and receive packages within two days.

### ***Overview of the company's development***

In February, 2012, a team of five people established the brand *The Three Squirrels* in Dubao, Wuhu, Anhui province.

In April 2012, it received angel investment of US\$ 1.5 million from the International Data Group (IDG), which was their first round of startup funding.

In May 2012, the construction of its head office and factory in Wuhu National High-Tech Industrial Development Zone was completed.

On 19 June 2012, the Three Squirrels started its first day of trial on Taobao TMall. It received 1000 orders in seven days.

In August 2012, 65 days after it was launched, the Three Squirrels became the number one seller of nuts.

On 11 November, 2012, the Three Squirrel took part in the grand promotion of 11·11, achieving total sales of 7.66 million Yuan in revenue, ranking first in terms of online sales of food products.

2013 (the year of growth)

In January 2013, monthly sales reached 22 million Yuan, ranking top in online sales of food products.

In April 2013, the Three Squirrels received an award for *China's Top 10 Nuts Retailer*.

In May 2013, the Three Squirrels received its B round of financing of US\$ 6.17 million in total from Capital Today and IDG. It was valued at 250 million Yuan, and decided to invest the capital into building its backend.

In September 2013, Beijing Distribution Center was founded.

In October 2013, Guangzhou Distribution Center was founded.

On 11 November 2013, the total sales of the Three Squirrels on the “11·11” grand promotion day was 35.62 million Yuan, a record in the history of E-commerce food retail in China.

In December 2013, its online annual sales exceeded 326 million Yuan.

2014 (the year of foundation)

In January 2014, monthly sales exceeded 160 million Yuan.

In February 2014, the Three Squirrel set the target to reach the total sales of 10 billion in 2020.

In March 2014, IDG and Capital Today invested 100 million Yuan in the C round funding. The total valuation of the Three Squirrel reached 1 billion Yuan.

In April 2014, the Squirrels' Cute Factory Animation Company fully owned by the Three Squirrels was founded.

In November 2014, the office of the Three Squirrels was moved to the new Squirrel Tower.

On 11 November 2014, the total sales of the Three Squirrels on the "11·11" grand promotion day reached 109 million Yuan, a record high.

On 12 December 2014, online annual sales exceeded 1 billion Yuan.

In December 2014, the Three Squirrels held the ceremony to mark the completion of the Squirrel Tower and sales exceeding 1 billion Yuan.

2015 (the year of transformation)

In February 2015, the Three Squirrels' sales for Chinese New Year reached 735 million Yuan.

In June 2015, the first China Internet Plus Food Industry Conference was held in Wuhu, and the 3<sup>rd</sup> Anniversary Evening Ceremony "The Three Squirrel of Ten Billion Embarked for Three Years" was held in Wuhu.

In September 2015, the Three Squirrels received its D round funding of 300 billion Yuan from FreesFund. The Three Squirrel's valuation exceeded 4 billion Yuan.

2016 (the year of products)

On 12 April, at the 2016 Global E-commerce Forum, the company announced its "Entertainment Strategy".

From the development of the Three Squirrel, three aspects stand out:

Venture capital:

The Three Squirrels received venture capital investment at the beginning, and because of this financial support, the company was able to advertise aggressively during its first month of opening on Taobao. At one point, five advertisements were on the front page of Taobao site at the same time, not to mention the promotions through the Taobao Zhitongche promotion platform, and other external platforms.

Pricing strategy:

In the early stage, the Three Squirrels stood out with its low prices. For example, the Three Squirrels sold pecans for RMB 31.9 for 840g, which was extremely low, given that the supply price at the time for 500g of pecans was RMB 26.

Branding:

There are many pecan retailers, however, only a limited amount of them succeed in branding. Apart from customer service and packaging, most people in the company work on branding and marketing, including cartoonists, art designers, copywriters and planners.

#### **4. Measures taken by the Government to encourage SME and E-commerce development**

##### **4.1 Major measures taken by the Government to encourage SME and E-commerce development**

On 21 August 2013, the General Office of the State Council of China forwarded the *Opinions on Implementing Relevant Policies to Support the Cross-Border E-commerce Retail Export* to the people's governments of all provinces, autonomous regions, municipalities directly under the Central Government, all ministries and commissions of the State Council, and all institutions directly under the State Council. The Opinions were jointly formulated by the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Finance, the People's Bank of China, the General Administration of Customs, the State Administration of Taxation, the State Administration for Industry and Commerce, the State Administration of Quality Supervision, Inspection and Quarantine, and the State Administration of Foreign Exchange.

On 5 March 2014, Premier Li Keqiang of the State Council of China reported on the work of the government, suggesting the implementation of supportive policies to encourage more imports of products in short supply in China and to extend trial programmes for cross-border E-commerce.

On 23 July 2014, the General Administration of Customs promulgated the *Announcement No. 56 [2014] of the General Administration of Customs - Announcement on Issues concerning the*

*Regulation of Goods and Articles Entering and Exiting China through Cross-Border Trade E-commerce*, aiming to promote development of E-commerce

On 16 January 2015, the Ministry of Commerce released the *Opinions on Promoting the E-commerce Talent Training Program*. The Opinions aimed to formulate a comprehensive education and training programme for E-commerce to create a large number of high-quality and innovative talented entrepreneurs and thus tackle the shortage of qualified E-commerce labour .

On 5 March 2015, the 3<sup>rd</sup> Session of the 12<sup>th</sup> National People's Congress of the People's Republic of China was held at the Great Hall of the People. Premier Li Keqiang of the State Council reported on the work of the government, suggesting that the Internet Plus Action Plan should be formulated to push forward the integration of Internet, cloud computing, big data and the Internet of Things with modern manufacturing, to promote the health growth of E-commerce, industrial Internet and Internet finance, to provide guidance for the Internet enterprises to explore the global market. China has set up 40 billion yuan government funds to encourage investment in emerging industries.

On 3 April 2015, the Ministry of Commerce of China promulgated the *Key Tasks for E-commerce in 2015*, promoting online consumption and supporting the development of comprehensive E-commerce service platforms, to encourage traditional enterprises to take up E-commerce, to cultivate a large number of professional and innovative E-commerce enterprises, to support the online business of SMEs, and to promote the integrated development both online and offline.

On 4 May 2015, the State Council of China promulgated the *Opinions on Striving to Develop E-commerce to speed up the Cultivation of the New Economic Driving Force*, specifying 29 opinions in eight aspects in regard to the establishment of a flexible environment for development, the promotion of employment and entrepreneurship, the acceleration of transformation and upgrading, the construction of logistic infrastructure, the improvement of opening-up, the establishment of safety line, and the improvement of supporting systems. The Opinions set forth the goal of establishing a liberalized, competitive, legally compliant, safe and reliable E-commerce market by 2020. The Opinions provided a forward-looking guidance and specific measures for the transformation and upgrading of E-commerce. In order to set up a flexible environment for development, the Opinions set several supportive policy measures in four aspects. First, lower the bar for market access. Second, reasonably reduce tax rates. Third, increase financial support. Fourth, safeguard fair competition, including, among others, measures to comprehensively clear pre-approval items, lift all pre-approval items not in line



with laws and regulations, prohibit illegal administrative permits or increased number of administrative permit conditions and procedures, implement the reform from “regulatory licence first and business licence later” to “business licence first and regulatory licence later”, to encourage direct cross-border investments of Renminbi, and relax the restrictions on the shareholding ratio of foreign parties concerning foreign investment in E-commerce business. In addition, the Opinions called for research and quality supervision of E-commerce products, and implementation of punishments on illegal activities including, among others, manufacturing and selling fake and shoddy products and unfair competitions. The Opinions also placed great emphasis on the investigation and handling of cases of monopolization agreements and abuse of dominant market position, by taking the measure of antimonopoly examination for undertaking concentration, to prevent the elimination and restriction of market competitions from taking place. Further, the government’s procurement with E-commerce should be strengthened as well. The Opinions also contained requests in regard to E-commerce’s role in promoting entrepreneurship and employment, including, among others, incorporating development of E-commerce and local employment plans and the overall plans of E-commerce development, providing relevant government support to those who start businesses or look for employment, and guiding incubators to provide support to E-commerce start-ups. Moreover, cultivation of talent should be strengthened, and the labour benefits of employees should be protected. The Opinions called for active promotion of new avenues for information consumption, promotion of the development of E-commerce by traditional trade distribution enterprises, and active development of E-commerce in rural areas. The Opinions also set forth measures to develop cross-border E-commerce that, in addition to streamlining customs clearance procedures for cross-border E-commerce exports and imports, relevant departments are required to study and formulate regulations and policies in regard to overseas listing of E-commerce enterprises. E-commerce cooperation with countries along the Belt and Road should also be encouraged, so as to expand the comprehensive pilots for cross-border E-commerce.

On 15 May 2015, the Ministry of Commerce issued the *Internet Plus Circulation Action Plan*, which urges promotion of the transformation and innovative development of E-commerce in agricultural regions, online-offline integration and cross-border E-commerce, so as to further realize the potential of consumption and to solve *the last one kilometer* and *the last 100 meters* E-commerce logistic problem. The main task of the Action Plan is to take measures to optimize the development environment, including, among others, completion of relevant policies, regulations and standards, improvement of logistic infrastructure, strengthening of Internet service ability, enhancement of inspection and intellectual property protection, and talent training programmes. The Action Plan intended to cultivate 200 comprehensive demonstration

counties for the application of E-commerce in rural areas, create 60 national-level E-commerce demonstration bases, nurture 150 national-level E-commerce demonstration enterprises, promote the establishment of 100 E-commerce warehouses in overseas locations, and guide the localities to set up 50 E-commerce training bases.

On 16 June 2015, the General Office of the State Council of China issued the *Guiding Opinions on Promoting the Healthy and Rapid Development of Cross-border E-commerce*, pointing out that in recent years, China's E-commerce has been developed rapidly, and has constituted industrial clusters and a certain trade size. Encouraging cross-border E-commerce development helps achieve quality imports and quality exports through *Internet Plus Foreign Trade*, and helps implement the national strategy of *the Belt and Road*. In order to solve the problems that hinder the development of cross-border e-commerce, it is necessary to accelerate the establishment of a regulatory system and supervision system adaptable to its characteristics. The Opinions also suggested specific supportive measures in five areas: (i) streamlining customs clearance procedures for cross-border E-commerce exports and imports; (ii) providing collective services for customs declaration, examination and release of goods; (iii) clarifying and formulating cross-border E-commerce import and export tax policies; (iv) encouraging domestic banks and third-party payment companies to launch cross-border e-payment services; and (v) offering financing support.

On 4 July 2015, the State Council promulgated the *Guiding Opinions on Actively Propelling the Internet-Plus Action Plan*, in which "E-commerce" was mentioned 28 times. The Opinions highlighted the importance of the rapid development of E-commerce and Internet finance in relation to the quality and speed of economic growth, and suggested *Internet Plus E-commerce* as one of the key actions. The opinions also pointed out that in order to achieve constant deepening of integration between E-commerce and other industries, to popularize Internet manufacture, logistics and consumption, and to achieve basic completion of supportive environment such as regulatory and public services, the following measures are to be taken First, to actively promote innovation of E-commerce; second to enhance international E-commerce cooperation; and third, to explore E-commerce development opportunities.

On 18 September 2015, the General Office of the State Council released the *Opinions on Promoting Online-Offline Interaction to Expedite the Innovative Development Transformation and Upgrade of Commercial Circulation*. In order to implement policies stipulated by the State Council, to promote online-offline interaction, and to accelerate innovative development transformation and upgrade of commercial distribution, the Opinions suggested to encourage

innovative online-offline interaction, boost development of substantial economy, improve the modern market system, and implement policy measures and clarify duty divisions.

On 5 March 2016, the 4<sup>th</sup> Session of the 12<sup>th</sup> National People's Congress of the People's Republic of China was held at the Great Hall of the People, and Premier Li Keqiang of the State Council of China reported on the work of the government. Li Keqiang pointed out that we would work to strengthen the growth of emerging areas of consumption such as information goods and services, smart homes, and personalized fashion, that we would promote online and offline interaction and encourage physical stores to transform themselves through innovation, and that we would help ensure the improvement of logistics networks and the healthy development of express delivery services.

On 5 March 2017, at the 5<sup>th</sup> Session of the 12<sup>th</sup> National People's Congress of the People's Republic of China, Premier Li Keqiang pointed out that in order to adapt to the changing consumption and to improve policy measures, the development of consumption of service should be promoted through a new round of pilot programmes, supporting social services such as education, elderly care and health, promoting the innovation of service industry pattern and cross-field integration, fully developing rural areas, leisure and holistic tourism, expanding information consumption such as smart homes and online education, promoting introduction of E-commerce and express delivery to rural areas, and accelerating the integration and development of physical stores and online shopping. Second, the consumption of high quality products should be encouraged, and more products sold domestically should be produced on the same production lines, meet the same standards, and be of the same quality as products for export in order to better satisfy the needs of upgrading consumption. Third, the market economy needs to be standardized through implementing strict investigation and handling of cases of fake and shoddy products, fraudulent advertising and pricing, and through strengthened protection of consumer rights.

#### **4.2 Suggestions on the government's initiatives in promoting development of SMEs and E-commerce**

On 24 March 2016, the Ministry of Finance of China, the General Administration of Customs of China and the State Administration of Taxation of China promulgated the *Notice on the Tax Policies on Cross-Border E-commerce Retail Imports*. The policy imposed new tax rules on cross-border E-commerce limiting the value of per single cross-border transaction of E-commerce retail imports at 2,000 Yuan, and 20,000 Yuan per person per year. The temporary customs tariff for cross-border transaction of E-commerce retail imports whose value is below this limit is 0%. Buyers of all imported goods purchased online must pay a value-added tax and

a consumption tax. The temporary tax rate is 70% of the payable tax rate prescribed in line with law. Packages whose value exceeds 2,000 Yuan and goods mailed to one person in excess of 20,000 Yuan every year will be fully taxed as general trade items in accordance with applicable regulations.

On 6 April 2016, the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation of China released the *Announcement on Issuing the List of the Cross-border E-commerce Retail Imports*.

The release of the *Notice on the Tax Policies on Cross-Border E-commerce Retail Imports* followed by the *Announcement on Issuing the List of the Cross-border E-commerce Retail Imports* was intended to create a competitive market environment, and promote the healthy development of cross-border E-commerce retail imports. However, the policies, in practice, had a huge impact on the motivation of SMEs in China to develop their cross-border E-commerce businesses.

On 25 May 2016, with the approval of the State Council, the Ministry of Finance announced a one-year transition period to the relevant regulations prescribed in the *List of the Cross-border E-commerce Retail Imports*. The General Administration of Customs and the General Administration of Quality Supervision, Inspection and Quarantine have been notified to implement in accordance.

On 17 March 2017, the spokesman of the Ministry of Commerce announced that after the expiration of the “one-year transition period”, a new regulatory system will be adopted from 1 January 2018.

## **5. Main bottlenecks hindering SME and E-commerce development**

### **5.1. Existing problems and challenges**

#### *Misunderstandings still exist.*

In China, a large number of SMEs are already satisfied with their development patterns, and do not feel the need to invest in E-commerce. However, some SMEs realize the enormous potential of E-commerce but have limited capacity. Therefore, the most cases they might have an official website, and have opened an online shop with some mainstream E-commerce service platform, but without constant investment, these will not be sustainable. There are also some SMEs that go from one extreme to the other. They were ambitious and eager to succeed in E-commerce, but became impatient at the lack of profits in the short term.

***The information foundation for E-commerce is generally weak.***

E-commerce is about more than online transaction. It is a revolution in transactions thanks to Internet information technology. Therefore, informatization serves as the foundation for E-commerce activities, and has a direct impact on E-commerce activities. However, many SMEs rushed to develop E-commerce businesses before the realization of informatization, with the result that they cannot meet the basic needs of E-commerce.

***E-commerce platforms lack strategic and systematic planning.***

Different enterprises adopt different approaches to E-commerce business activities. Many SMEs lack strategic and systematic planning. However, this procedure is supposed to be gradual and step-by-step, including, among others, searching on the Internet, collection and publishing of contents, establishment of an official website, and improvement of supply chain management, all of which require long-term planning and implementation.

***There is a shortage of talented labour.***

SMEs cannot carry out E-commerce business activities without talented staff. However, in most SMEs those who have knowledge about Internet information technology do not know how to run a business, while those who are able to run business know nothing about Internet information technology. Another problem is that even though some SMEs search out talented individuals with good commands of both information technology and business, they often compete with larger and more powerful companies. At the same time, those SMEs are not patient enough to invest in their employees.

***The service support system for E-commerce is not yet complete.***

So far, the environment and condition such as laws and regulations, technology standards and infrastructure construction that are required to carry out E-commerce business activities are still incomplete. The financial supervision system in relation to E-commerce supervision, as well as administrative regulations for industry and commerce, taxation, customs and inspection are not yet promulgated. Moreover, e-payment system, logistics system, and credit management system also need to be improved.

## **6. Policies and suggestions**

### **6.1 For governments of all countries**

The current economic environment is unfavorable. Sluggish recovery in the global economy, the backlash against economic globalization, weak trade and investment, and growing global challenges cloud the global economic outlook. In the face of risks and challenges, China, Russia, Brazil, India, South Africa and other countries need to work together in a spirit of partnership for win-win outcomes, and to promote sustainable and inclusive development of SMEs and E-commerce. Trade protectionism and self-isolation benefit no one. The governments of China, Russia, Brazil, India and South Africa and other countries must enhance macroeconomic policy coordination and support a multilateral trading regime that is open, transparent, inclusive and nondiscriminatory, so as to build an open world economy.

According to a CCTV report, food produced from Japanese regions affected by nuclear radiation has entered the Chinese market. According to CCTV's investigation, food from Japan is packed with labels vaguely marked with Japan as its origin but not specifying regions affected by nuclear radiation. In addition to online platforms, journalists also found Japanese food from radioactive contamination regions at the offline stores of these E-commerce platforms. This reminds us that China, Russia, Brazil, India, South Africa and other countries must enhance international coordination and communication and exchange information on safety.

### **6.2 For international organizations**

International organizations should play an active and practical role in promoting SME and E-commerce development, as well as in regional and cross-region economic and trading activities in China, Russia, Brazil, India, South Africa and other countries.

### **6.3 For enterprises of all countries**

Information technologies represented by the Internet are undergoing rapid changes with each passing day. They have brought new ways of social production, created new space for people's way of living. In the course of this revolution, E-commerce is, without doubt, the preferred choice for SMEs. Therefore, SMEs in China, Russia, Brazil, India, South Africa and other countries should, in a timely manner, maximize available Internet platforms to carry out E-commerce business activities. At the same time, SMEs in China, Russia, Brazil, India, South Africa and other countries should form an SME alliance to normalize communication and coordination.

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