

3|06

May/June 2006

Published By **German Industry & Commerce China**

» www.bfchina.cn

Main Topic

China On Line

The e-Commerce Industry

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Supply Chain Management

Service Procurement



The Ne(x)t Generation

e-Business in China



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No subject is more intensely discussed at the moment than the growing opportunities in China's Telecommunication, IT, Media, and e-commerce sectors (also known as the TIMES-Market). While the growth of the industrial sector is expected to slow down during the next years, TIMES-markets are just beginning their growth race.

Market Size

The importance and reach of the Internet has experienced a rapid growth in China over the past few years. There are currently more than 110 million Internet users ('netizens') in China, which represents the second largest online community after the US. However while in the US around 70 percent of the population is online, in China the 110m netizens only represent around 8.5 percent of the total population. As online usage spreads, China will undoubtedly become the most powerful player in the global development of the Internet.

Although China is the second largest producer of IT-hardware, there is still a great deal of catching up to do with regards to Internet infrastructure and the more sophisticated aspects of e-commerce. In order to increase the spread and use of the Internet, telecommunication appliances must be made available in more isolated regions of Mainland China to diminish the digital divide. The enormous population alone makes investments into the infrastructure worthwhile. Beyond infrastructure, lowering the costs of computer hardware will also play a big role in getting more people online. A laptop being developed in Shanghai will go a long way towards helping that; rumour has it that the producer will be able to sell it for under USD 150.

The Race Begins

e-Business has arrived in China, but it is clearly still in its infancy stage. The market is fragmented, but by no means saturated. There are many providers of similar services (none showing a clear market dominance), but there is also a glut of niche markets that have not yet been filled, offering many empty market positions for clever entrepreneurs to grow into. As the market consolidates, those who get ahead of the competition will gain a dominant and leading market position.

China badly needs a local Bill Gates to sustain e-business activities and lead the country to the top of global market. Up to now, business models have not been developed to their full potential and are not in a position to keep up with the fast changing market requirements. This is essential to gain a leading position, especially on the fast developing Chinese e-Market.

Recent Developments

Recent developments have all been heavily influenced by China's accession to the World Trade Organisation (WTO), which has opened the way for many new business opportunities; it is also responsible for inter-governmental negotiations on e-business.

The accession opened up the Chinese e-business market for foreign direct investment and provides a valuable forum in which China can interact with its international partners to shape a unified approach, including with regard to the legislation surrounding e-business, which only partly resembles traditional commercial transactions.

What needs to be done?

Overall, e-business in China still faces some limitations that impede its potential to grow exponentially. Foreign investors see the legal restrictions and unstable general conditions and restrictions as a barrier to investment. The accession to the WTO was certainly a first step to some liberalisation of the market, but it is by far not the only milestone necessary to push e-business development in China forward.

Another milestone is the adoption of the electronic signature law in China in 2005, which has definitely contributed to increasing the trustworthiness of online shoppers with regard to electronic transactions. A better security system and ongoing economic development will not only increase the number of people taking part in online transactions, it will also help to increase the low return per capita and reduce potential bad debt losses.

Implementing a sound security system needs authentication methods that in turn require personal information. This could represent a

problem, as Chinese consumers are still quite reluctant to disclose personal details online. They prefer strong individual relationships, especially when it comes to business deals. This trait is embedded in the Chinese culture and cannot be changed from one day to the next. Governmental instruments may be able to reduce concerns and thus the reluctance to e-business.

Another problem is the low rate of English literacy among the general Chinese population. Today, young and well educated Chinese people from big city areas make up the largest group of internet users in China. For this group, English literacy is not a problem anymore, but older people living in more rural areas face difficulties with the English language. Since most of the websites around the world contain information in the English language, the increasing number of Chinese websites and availability of Chinese electronic applications heavily support the general e-business development in China and its independency.

Last but not least, an efficient national postal system is essential. Chinese e-commerce companies can enhance and quicken distribution of physical products by forming strategic alliances with delivery firms. This is a weak point for the online sale of physical products at the moment, delivery sometimes taking several weeks as delivery systems are often quite labour intensive. Some large companies have already built up their own network for distribution, but the existence of a nationwide distribution network is necessary to further promote the diffusion of e-business and e-commerce.

Learning from the past

Obviously there is a lot that needs to be done in China. But seen in a positive way, these limitations may avoid too much investment enthusiasm with regard to the mistakes already made in the past during the dot.com hype in other countries. Although there is a huge business and market potential offered by the recent developments in China, it is vital that the same mistakes are not repeated that led to the failings of the dot.com economy: a speculation or internet 'bubble' must be avoided. Hopefully, China is

aware of this advantage of 'prior knowledge' and can turn it into its own competitive advantage without losing the necessary objectivity. The rest of the world should pay attention to e-business in China. The internet is a global platform and China is about to connect to the world.

In conclusion, online growth rates can only be achieved by increasing the investment into new and innovative business models that can handle the steady increase of private and business customers that are taking advantage of the online marketplace. A prerequisite for the growth will be a sound infrastructure. ■



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PROFILE

Professor Dr. Tobias Kollmann holds the Chair for E-Business and E-Entrepreneurship at the University of Duisburg-Essen, Campus Essen - Germany. Prior to that, he held the Chair for E-Business at the Christian-Albrechts-University/Multimedia Campus Kiel, Germany. He received his doctoral degree in 1997 from the University of Trier with a thesis on 'The acceptance of innovative telecommunication and multimedia systems'. His main research interest is 'E-entrepreneurship' - that is, all aspects of company founding and development in electronic business environments.

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