

Cross Border e-Commerce in China: What Does This Mean to Australian Small to Medium Size Enterprises (SMEs)?

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Abstract—Cross border e-commerce (CBEC) enables SMEs access to overseas market opportunities. With recent development in China's cross border e-commerce, China has become the world's largest cross-border market with over 200 million cross-border online consumers. In conjunction with the recent entry into the China-Australia Free Trade Agreement (ChAFTA), the China market has never been so accessible to Australian companies, especially SME exporters. This represents an unprecedented opportunity for Australian exporters seeking new customers outside their domestic markets via new platforms. However, our recent research shows yet not enough Australian SMEs appear to be aware of the export and investment opportunity the country offers through cross border e-commerce, let alone taking full advantage of the opportunities e-commerce opens up. This research intends to help Australian SMEs to maximize the opportunities offered by China's cross border e-commerce. It is significant because cross border e-commerce as the representative of a new business model is becoming a new driving force of China's foreign trade growth and Australian SMEs are a significant part of the national economy.

While there are a few studies on how different factors affect cross border e-commerce in different settings such as the EU, US and Canada. However, it appears that the research literature on China's cross border e-commerce is sparse and this research attempts to address this deficiency by analysing and discussing the unique e-commerce systems in China using a qualitative approach.

The findings of this research suggest successful exporting through cross border e-commerce requires more China-savvy in understanding and interpreting Chinese middle-class consumer's online behaviour, the potential size of the market, business practice and government systems and regulations in relation to cross border e-commerce. The research findings reveal the significant growth opportunities and challenges for those SMEs poised for business expansion into Chinese market via CBEC and offer a detailed understanding of the China's cross border ecommerce system.

Index Terms—SME, cross border e-commerce.

I. INTRODUCTION

In a broad sense, cross border e-commerce is digital equivalent of foreign trade. Cross border e-commerce (CBEC) is defined as an online import channel through which products can be directly sold to consumers via Internet [1]. Local online shoppers can use this channel to access a wider choice of foreign products at a lower price as this channel has a comparatively accessible entry strategy with some

exemptions to tariffs and other regulatory requirements which normally apply to traditional retailing channels. Fast growing Chinese middle-and upper-middle-class online consumers and their demand for foreign product as well as a push by government are propelling the CBEC trend. The CBEC transactions are expected to surpass US\$300 billion in 2018. China's Internet population has gone over 800 million milestone in July 2018 [2]. The official figures released by the China Internet Network Information Centre (CNNIC) in July 2018 revealed 788 million mobile users in China [2]. China's rising middle class increasingly use online channels to buy overseas products. A McKinsey study predicts that 76% of the urban population in China would be middle class by 2020 [3]. The Australia-China Relations Institute has cited the claim by Credit Suisse that "between 2009 and 2030, China's middle class is projected to grow by more than 850 million" [4]. In conjunction with the recent entry into the China-Australia Free Trade Agreement (ChAFTA), the China market has never been so accessible to Australian companies, especially SME exporters. This represents an unprecedented opportunity for Australian exporters seeking new customers outside their domestic markets via new platforms. However, our recent research shows yet not enough Australian SMEs appear to be aware of the export and investment opportunity the country offers through cross border e-commerce, let alone taking full advantage of the opportunities they present [5]. This research intends to help Australian SMEs to maximize the opportunities offered by China's cross border e-commerce. It is significant because cross border e-commerce as the representative of a new business model is becoming a new driving force of China's foreign trade growth. Australian SMEs are a significant part of the national economy. Development of cross border e-commerce is one of the major enablers of SMEs' access to overseas market opportunities [5]. This study aims to help small to medium enterprises understand the unique Chinese e-commerce ecosystem and develop an appropriate e-commerce strategy that enables them to leverage the China's CBEC to find and develop new customers in Chinese markets.

The rest of the paper is organized as follows: Firstly, I give a brief review of the relevant literature on cross border e-commerce. Then I describe the research methodology that I used to address the main focus of the research. I then discuss the relevant issues and present the findings of this research. I conclude the paper and discuss directions for future research in the final section.

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II. LITERATURE REVIEW

There have been a few studies concerned with cross border e-commerce [6]-[9]; [6]. Forrester Research [6] conducted an in-depth survey of 9006 global online shoppers and interview of 34 SMEs with cross border e-commerce operations in the 17 selected countries including Australia. Forrester Research [6] reported that the US, China and the UK were the top 3 exporters of online purchases while 82% of the respondents had cross border shopping experiences from all 17 international markets included in their study. The result of this study suggests that “cross-border e-commerce is a major revenue opportunity for small and medium-size enterprises and SMEs must differentiate by offering unique products while providing world class service”. [6] The empirical evidence presented in the Forrester study appears to be supported by a study conducted by Sahbaz [7]. The research findings highlighted the importance of promoting cross border e-commerce platforms and logistics fulfilment services to connect with overseas market opportunities [7]. The research result also shows that cross border e-commerce brings the benefits of higher productivity and better revenue and innovation to SMEs as they are exposed to competition, best business practice and advanced technologies [7]. Lendle *et al.* [8] examine how the eBay platform facilitates exports for SMEs in five different countries and demonstrate that there are strong benefits for SMEs exporters in bringing their sales online. Gomez, Martens & Turlea [1] compared online and offline cross-border trade and investigates the differences in drivers and impediments to both in the EU market. Gessner & Snodgrass [9] explored the potential for cross border e-commerce between Canada and the United States of America and found that there were substantial barriers to doing business with cross border e-commerce transactions such as customs and duty regimes and tax laws. These studies showed how different factors affect cross border e-commerce in different settings such as the EU, US and Canada. However, it appears that the research literature on China’s cross border e-commerce is sparse and this research attempts to address this deficiency by analysing and discussing unique Chinese e-commerce systems.

III. METHODOLOGY

To better understand the ecosystem of cross- border e-commerce in China and address the research question as to how Australian SMEs can engage with CBEC in China effectively, the researcher conducted extensive web-based document analyses and visited the websites of the relevant government agencies and the ecommerce firms with cross-border operations such as Alibaba.com and JD.com. Moreover, the researcher undertook a small scale field work to engage and work with relevant e-commerce service providers, government officials and online consumers in China to obtain first-hand data and experiences in November and December 2016. The researcher visited two e-commerce comprehensive pilot zones in the selected cities and interviewed four Chinese middle and upper-middle class online consumers and two managers of the ecommerce firms as well as two government officials. The interviewees were

selected due to their relevant knowledge and experiences in China’s cross border e-commerce as well as willingness to participate in this study.

The semi-structured interviews lasting about 50 minutes each session were digitally recorded and transcribed. Semi-structured interviewing is a fairly flexible structure that allows some probing to be done. The researcher can ask additional follow up questions for further explanation and clarification. The data from the interviews and the field notes were analyzed and interpreted using categorizing, coding, and contextualization techniques to look for patterns and themes both within and across the businesses. The research presents its data analysis through a combination of the literature and themes emerging from the in-depth interviews and the unstructured observation during the site visits.

IV. RESULTS AND DISCUSSIONS

Capturing the China’s cross border e-commerce opportunity requires SMEs to have a good understanding of the unique e-commerce landscape in China. This research reveals that there are number of key decisions that managers of SMEs need to make regarding participation in the China’s cross border e-commerce system. During the interviews different aspects were often mentioned by the interviewees as having a significant impact on SMEs who intend to sell to Chinese online customer via cross border e-commerce. Based on the analysis of the data, the aspects perceived as important include choosing an appropriate business model and CBEC platform and understanding the relevant Chinese legal and regulatory environment and online consumers and markets.

A. Business Models and Platforms of China’s Cross Border e-Commerce

1) Direct import (B2C) vs bonded warehouse model (B2B2C)

Business models for cross-border e-commerce can be viewed across two dimensions of e-commerce platforms and logistics. Direct import (B2C) and Bonded warehouse model (B2B2C) are two primary business models of CBEC. With direct import model (B2C), when a Chinese shopper places an order on the e-commerce platform, the e-commerce platform will submit all the transaction details to the connected Customer network. After the three particulars of order, payment and logistics are checked and confirmed in a real time, the goods will be dispatched from a warehouse located abroad and designated to the authorised cross border e-commerce area in China. Upon completing custom clearance, inspection and quarantine procedures, the product will be delivered to the online shopper in China. With boded import business model (B2B2C), the goods to be imported must be registered with the Customs authorities and are delivered into a bonded warehouse located in one of the authorised pilot project cities in China first. The e-commerce platform makes a real time declaration to the Customs when a Chinese shopper has placed an order on the e-commerce platform connected to the Customs system. Direct import model (B2C) appears to be more suitable for products with low turnaround volumes while bonded import model (B2B2C) could work better for goods with high turnover such as baby

care products and cosmetics and skin care products [9]. Although each of the cross border e-commerce models has its own features, SMEs need to consider the key factors underlying the business models. These include customs clearance, logistics and warehouse location as well as product suitability and tax rates. Chinese government policies and regulations have a significant impact on these factors, which are discussed in the subsequent sections.

2) CBEC platforms

There are two major types of CBEC platforms. Many Australian products enter China's market through a third party CBEC platform. A third party CBEC platform is a marketplace mainly driven by brand owners, wholesalers and distributors. These product providers have their own virtual shops on a CBEC platform such as Alibaba's Tmall and pay for store rental fees and marketing costs. The other type of CBEC platforms is self-run system where they offer their own range of products and have developed their own logistics system. These include JD, the second largest B2C in China, Sunning and Amazon CN. A third party CBEC platform seems to have more product categories with attractive prices while self-run CBEC platform appears to offer better quality goods and more reliable delivery and after-sale services [10].

With the recent development of cross border e-commerce, China's cross-border import retail e-commerce rises rapidly with an annual growth rate of 22.4% [11]. Many e-commerce platforms offer a special sales channel for overseas products through direct import and/or bonded import business models. The market share of these major CBEC players in China is shown in the table below as of 2017.

TABLE I: 2017 MARKET SHARE OF MAJOR CBEC PLATFORMS

CBEC platforms	Koala.com	Tmall	VIP	JD	Ymatou
Market Share	24.2%	20%	16%	13%	6%

Source: [11]

Forrester researchers found that the majority of the cross border shoppers surveyed ranked well-known major multi-brand retailers and global online marketplaces as their first choice [6]. It was estimated by the e-commerce managers interviewed that around 100 Australian brands are sold through authorised online retailers on the CBEC platforms such as Tmall, NetEase's Kaola.com, JD Worldwide, and Amazon Global. There are around 50 Australian brands had flagship shops on the China's largest cross border e-commerce platforms such as Alibaba-owned e-commerce platform Tmall Global. The e-commerce managers suggested that Australian SMEs consider cooperation with an online retailer who is present on regular B2C platforms to yield better results for brand building and direct sale. Before expanding into Chinese market via cross border e-commerce, it is important for SMEs to choose a more suitable e-commerce platform and business model to generate best results for direct sale and brand building.

B. Impact of Government Policies and Regulations on Cross Border e-Commerce in China

Cross border e-commerce has been a top priority on the Chinese policy agenda. For instance, it is connected to

China's "One Belt, One Road" national foreign policy. The Chinese government has issued many new policies and rules to facilitate cross border e-commerce over the past few years. Based on our analysis, the positive list and establishment of the comprehensive CBEC pilot zones were the two major national level measures for simplified import procedures, efficient customs clearance, and lowered tax as well as new business models. These government policies have a significant impact on the business models and platforms of CBEC.

In order to further regulate cross border e-commerce retail imports, the Chinese government published the "Positive List" on "Cross-Border E-Commerce of Imported Commodities at Retail. There are 1293 categories of products on the Positive List that can be exempt from compliance with China's import requirements such as import licenses and other certificates and product standards when they are imported to China via CBEC [12]. Products on the positive list also enjoy a preferential tax rate of 11.9%. [12]

The State Council approved the Establishment of Cross-Border E-Commerce Comprehensive Pilot Zones in 2014. There were three stages of the development of cross-border e-commerce comprehensive zones. The city of Hang Zhou was approved by the State Council as the first CBEC pilot zone in 2015, followed by another 12 cities selected such as Shanghai and Chengdu in 2016. The third batch of 22 CBEC cities including Beijing and Zhuhai were announced in 2018. China currently has 35 cities that are entitled to carry out import and export for cross-border e-commerce. In these Free Trade Zones or cross border e-commerce pilot cities, cross border e-commerce is conducted as a bonded import model (B2B2C) or direct import model(B2C).

The policy behind the cross border e-commerce B2B2C model allows companies to store overseas products in a bonded warehouse in China and delay the payment of import taxes and the completion of customs clearance until products are sold. With both direct import and bonded import models, import license/permits will get exempted in the cross border e-commerce pilot cities. According to the China's cross border e-commerce report, a growing number of imported products, previously blocked from entering China through traditional wholesale imports (B2B) or retailing channels or paid higher taxes, are now arriving via online channels at lower tax rates and simplified customs procedure and import formalities such as import permits and the obligations of product labelling in Chinese as the Chinese government throws its support behind the cross-border e-commerce sector [11]. However, these incentives offered by the Chinese government have only applied to the selected products published on the Positive List and supplied from abroad and sold on a B2C e-commerce platform linked to a Customs network system in one of the authorized pilot project cities to Chinese end customers who purchase the goods for their own personal and domestic use.

As with the other forms of e-commerce, cross border e-commerce is subject to regulatory barriers in China. For examples, foreign companies can only open an official flagship shops on a cross border platform while only companies with a Chinese entity can open a store on a B2C

e-commerce platform. The local authorities in the pilot cities have implemented the cross border e-commerce models in their own ways. For instance, some authorities launch their own e-commerce platforms that are linked to a Customs system in the Free trade or pilot zones such as the official platform (WWW.kjt.com) in Shanghai and www.igemall.net in Chongqing where SME e-commerce companies exporting to China can set up an e-store on the platform. Foreign enterprises in the Shanghai Free Trade Zone are permitted to fully own their websites such as www.amazon.cn while in the other zones, they are required to have a Chinese partner registered as the publisher and operator of their websites. In the view of the e-commerce manager interviewed, uncertainties about tax policy and the regulatory change and difficulties in developing the cross border e-commerce model that complies with the policy requirements by various government authorities would have a significant impact on the further development of cross border e-commerce in China.

It is apparent that China's cross border e-commerce is in part driven by government policies and programs. As a government official in the interview commented, "the relevant policies issued in the recent years and the initiative of pilot cities for cross border e-commerce have facilitated the growth of e-commerce in China and enabled Chinese consumers to buy products from overseas at lower tax rates". For SMEs starting out on China's e-commerce platforms, it is vital to understand the relevant policies and appreciate benefits and barriers of cross-border e-commerce initiatives offered by Chinese governments.

C. Understanding Chinese CBEC Consumers and Marketing Strategy

Chinese consumers have a great demand for foreign products. In 2014 there were around 60 million cross border retail e-commerce buyers. This number has been increased to over 200 million by 2017 and was predicted to over 250 million by 2020 [13]. The transaction value of China's cross-border e-commerce platforms will grow from \$21 billion in 2014 to \$245 billion by 2020 [13]. Chinese cross border shoppers tend to have a higher education degree and higher income and they are particularly interested in imported products in certain categories. It appears that female customers account for a majority of cross border online shopping. With the rapid growth of cross border e-commerce, online shoppers have increasingly placed their orders on CBEC platforms in China since 2014 (Forrester Research 2015) while online shoppers used to buy overseas products through various sales channels such as Haitao (buying through overseas websites) and Daigou (buying through buy agents).

The four online shoppers interviewed reported that the most important factors that influence their purchase decisions are the quality of goods, prices and security of online transactions. The interviewees told the researcher that they paid particular attention to brand names and countries of origin for the products they bought as a sign of standard of quality and trustworthy when it came to buy overseas products. It appears that Australia is one of the most popular sources of products and the bestselling Australian products are formula milk powder, dairy products, health foods and supplements,

skincare products, UGG boots, wool products or mother-and-baby category products, fresh seafood and meat as well as wine according to the e-commerce managers interviewed.

Chinese consumers are constantly in touch with the latest trends and marketing on social media through their smartphones. Mobile-compatible websites and apps are more important for oversea brands and products looking to target Chinese online shoppers. The online shoppers interviewed said "I have four shopping apps on my mobile phone and do a lot of shopping on my phone". Australian SMEs need to integrate Chinese social media with their websites and online marketing to convince Chinese online shoppers as to why they should be buying their products over their competitors. The most important forms of Chinese social media are Wechat, the micro blogger Weibo, the video website Youku, the forum Douban and the search engine Baidu. E-commerce platforms hosted on a server in China or Hong Kong and offline advertisement with QR-codes can be an effective marketing strategy in China.

Our analysis shows that it is critical for Australian SMEs entering the Chinese market understand the distinct characteristics of Chinese CBEC consumers and marketing strategy.

V. CONCLUSION

China has been Australia's largest trading partner in terms of both exports and imports for some years now. The rise of CBEC presents unlimited opportunities for Australian SMEs to sell into China as it allows foreign brands without a physical presence in China to reach the huge Chinese consumer base. However, the cross border e-commerce activity in China is riddled with complexity and confusions. The issues that SMEs have to deal with include choosing an appreciate business models, establishing a presence on a CBEC platform and engaging with Chinese CBEC shoppers and market. A clear objective of this research is to assist SMEs in understanding of complexities of China's CBEC.

The research findings reveal the significant growth opportunities and challenges for those SMEs poised for business expansion into Chinese market via CBEC and offer a detailed understanding of the China's cross border ecommerce system. Successful exporting through cross border e-commerce requires more China-savvy in understanding and interpreting Chinese middle-class consumer's online behaviour, digital marketing strategy and government systems and regulations in relation to cross border e-commerce. When creating a CBEC strategy, SMEs need to consider options of CBEC business models and platforms.

This study acts as a starting point and provides a foundation for a future research project that will include a number of Australian SMEs intending to do business in China to carry out a more comprehensive study to empower them to engage in China's cross border e-commerce. Future study can address questions like how SMEs can apply CBEC to their business Strategy and what are the factors that affect SMEs performance in CBEC. It will not only benefit the

participating SMEs to enjoy the China's cross border e-commerce opportunity and but also contribute to the economic development of Australia.

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