

An Exploratory Study of Cross Border E-commerce (CBEC) in China: Opportunities and Challenges for Small to Medium Size Enterprises (SMEs)

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ABSTRACT

Development of cross border e-commerce (CBEC) is one of the major enablers of SMEs access to overseas market opportunities. The boom in China's cross border e-commerce has been exponential. It has made China the world's largest cross-border market with over 200 million cross-border online consumers. This article explores the opportunities and the challenges for SMEs to leverage the China's CBEC to find and develop new customers in markets outside their domestic ones. It 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 enter the Chinese e-commerce ecosystem. This research reveals that the significant growth opportunities and challenges for those SMEs poised for business expansion into Chinese market via CBEC and offers a detailed understanding of the China's cross border ecommerce system. SMEs are a major and important part of the world economy in terms of making contribution to Gross Domestic Product (GDP) and employment. It is important to help SMEs to understand the significance of cross border e-commerce ecosystem and develop an appropriate e-commerce strategy that enables them to engage with CBEC and empower them to maximize the opportunities offered by CBEC in China. This article recommends that SMEs take a proactive approach to developing effective digital marketing strategies to engage with Chinese online consumers and keep up with new policies, programs and regulatory changes introduced by Chinese governments in a fast changing digital environment. It also suggests that SMEs consider cooperation with an online retailer who is present on China's cross border B2C platforms to yield better results for brand building and direct sale.

KEYWORDS

Cross border e-commerce, e-commerce, Gross Domestic Product, SME

INTRODUCTION

Cross border e-commerce (CBEC) refers to an online import channel through which products can be directly sold to consumers via Internet (Gomez, Martens & Turlea, 2013). Local online shoppers can use this channel to access a wider choice of foreign products at a lower price as this channel normally has some exemptions to tariffs and other regulatory requirements which 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 China's

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e-commerce sector is expected to surpass A\$ 5.5 trillion in total transaction in 2017 and the official figures released by the China Internet Network Information Centre (CNNIC, 2017) in January 2017 revealed 731 million Internet users and 695 million mobile users in China (CNNIC, 2017). 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 (Barton, Chen & Jin, 2013). 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" (Callick, 2017).

Development of cross border e-commerce is one of the major enablers of SMEs' access to overseas market opportunities (Chaffey, 2015). This research explores the opportunities and the challenges for SMEs to leverage the China's CBEC to find and develop new customers in Chinese markets. It 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 enter the Chinese e-commerce ecosystem. This paper starts with a discussion on the importance of cross border e-commerce for SMEs, followed by examining the China's cross border e-commerce platforms and business models, its online consumers and the government systems and regulatory differences that have made it historically difficult for foreign businesses to operate effectively in China's online environment. It ends up with conclusions and recommendations as well as future research.

SIGNIFICANCE OF CROSS BORDER E-COMMERCE FOR SMES

The result of a recent study by World SME Forum highlighted the importance of promoting cross border e-commerce platforms and logistics fulfilment services to connect with overseas market opportunities (Sahbaz, 2017). 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 (Sahbaz, 2017).

The conceptual framework of this research is based on a new model of small and medium size enterprises (SME) exporting developed by the eBay Public Policy Lab research team. The four key building blocks in this new model of SME exporting include:

- Connectivity to the global Internet at lost cost and without gatekeepers
- Global platform-based marketing, marketplace and payment services
- Efficient, modern and "connected" package-level logistics and delivery services
- Legal, regulatory and public policy framework supporting direct SME to consumer global commerce (eBay Public Policy Lab, 2016)

This new model combines a set of services and conditions enabling SMEs to transcend borders, reach customers on a global scale and compete in a global market, which is traditionally open only to the large businesses that have dominated global commerce. (eBay Public Policy Lab, 2016) This is transforming the traditional export growth model and providing new opportunities to small and micro businesses that were traditionally incapable of directly accessing global market opportunities. (eBay Public Policy Lab, 2016). Cross border e-commerce as the representative of the new model is becoming a new driving force of global foreign trade growth (Forrest Research, 2015). According to the recent research by the Accenture and Alibaba researchers, the value of the global cross-border e-commerce business to consumer (B2C) market will grow from US\$230 billion in 2014 to US\$994 billion in 2020 (Accenture & Alibaba, 2016). It is important to help small to medium enterprises understand the significance of cross border e-commerce ecosystem and develop an appropriate e-commerce strategy that enables them to engage in CBEC and empower them to maximize the opportunities offered by CBEC.

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