

# Potentials and Perils of E-Business in China

**James G. S. Yang**

*Montclair State University, USA*

## INTRODUCTION

E-business was not introduced in China until four years ago, but since then its growth was unusually spectacular. Coupled with its vast consumer market and tremendous production capacity, China looks like a gold mine. Is it really encouraging to join the gold rush? This article develops some insights by investigating its E-business volume, consumer commodities, market competition, taxation problems and commerce potential in the future. Analysis of massive data supports the conclusion. This article further offers some planning strategies for those contemplating an exploration into the E-business market in China.

## E-BUSINESS VOLUME IN THE PAST

In the U.S., the E-business started to emerge in 2001. At that time, the E-business volume was a meager \$35 billion a year according to the data from the U.S. Department of Commerce (U.S. Department of Commerce, 2013). However, it immediately took off at a growth rate of 25% a year. In 2008, the nation was hit by a financial crisis. The E-business was a victim too. In 2010, the E-business market resumed its growth. In 2012, the E-business volume had reached \$225 billion (U.S. Department of Commerce, 2013). In 2013, the E-business volume is expected to reach \$252 billion (Evans, 2013). The growth rate was maintained at a steady 16% a year. Evidently, growth of the E-business market has been slowing down considerably. This fact may indicate that the E-business market in the U.S. is now matured and stabilized in the near future. This observation is quite interesting in planning the E-business strategies for the future.

Another point of investigation is whether the E-business plays an important role in the whole retail market. The yard stick can be measured by its market share. In 2001, the market share was only 1.1% in the U.S. (U.S. Department of Commerce, 2013). In 2008, the market share was 3.6%. By 2012, the market share had reached 5.2%. In 2013, the market share is expected to grow to 5.6% (Evans, 2013). This fact shows that the E-business market share was never slowing down in history. Instead, it grows rather steadily, though slowly. This observation is also interesting in planning the E-business strategies too. The growth rate provides a clue as to what volume of E-business can be expected as long as the whole retail sales size can be estimated.

As compared to the U.S. side, the Chinese E-business market was not started until 2008. At that time, the E-business sales volume was as little as \$17 billion (China E-commerce Research Center, 2013). By 2012, the sales volume had exploded to \$202 billion. This volume has almost caught up with the U.S. side. The growth rate is as high as 55% a year. This level has far surpassed the U.S. side. In the year of 2013, the E-business volume on the Chinese side was expected to reach \$285 billion. This level will undoubtedly surpass the U.S. side. The growth rate in 2013 will slow down to 41%, but it is still

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much higher than the U.S. side. This fact clearly shows that the E-business market on the Chinese side has much greater potential than the U.S. side. This aspect certainly serves as guidance in planning the future E-business strategies.

With respect to the aspect of degree of importance of the E-business relative to the whole retail sales, the market share in China has also been steadily increasing from 1.3% in 2008 to 6.3% in 2012 (China E-commerce Research Center, 2013). The market share is even expected to rise up to 7.2% in 2013. In any viewpoint, the Chinese side is higher than the U.S. side. This fact clearly demonstrates again that the volume of the Chinese E-business will, beyond any reasonable doubt, surpass the U.S. side in the immediate future. This observation serves again to formulate E-business planning strategies in China. The data are summarized in Table 1.

## E-BUSINESS POTENTIAL IN THE FUTURE

In projecting the future market potential in the U.S. versus China, consider the size of population. According to the Internet Retailer Report, in 2012 the U.S. population was 313.9 million, and 1.35 billion in China. China is four times the size of the U.S. The Internet users are 254.3 million in the U.S. which accounts for as much as 81% of its population, while 571.1 million in China which accounts for only 42.3% (Internet Retailer, 2013). The Internet users in the U.S. are only one-half of China, while the percentage of users in the U.S. is two times as large as China.

These facts imply that the Internet users in the U.S. is almost saturated; whereas, there is still room for growth in China. In 2012, the E-business volume in the U.S. was \$225 billion, and \$202 billion in China. Had China been developed to its full potential, the E-business volume would have been \$808 billion in 2012. This is an indication of the future E-business market potential in China. This observation definitely plays an important role in planning the E-business strategies.

Table 1. E-business sales and market share in retail sales in the U.S. and China

Year	United States		China	
	E-Business Sales (in Billion)	Market Share in Retail Sales	E-Business Sales (in Billion)	Market Share in Retail Sales
2012	225	5.2%	202	6.3%
2011	193	4.6%	132	4.4%
2010	166	4.3%	85	3.5%
2009	144	4.0%	43	2.1%
2008	143	3.6%	17	1.3%
2007	138	3.4%	n/a	n/a
2006	114	2.9%	n/a	n/a
2005	93	2.5%	n/a	n/a
2004	74	2.1%	n/a	n/a
2003	58	1.7%	n/a	n/a
2002	45	1.4%	n/a	n/a
2001	35	1.1%	n/a	n/a

Sources: (a) The United States Department of Commerce, (b) China e-Commerce Research Center.

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