

# Chapter XVI

## Electronic Commerce in China: Can We Wake Up the Giant?

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### ABSTRACT

*This chapter introduces the four sets of prerequisites for successful electronic commerce (e-commerce) development, including national factors, related and supporting industries, firm strategy, structure and rivalry factors and demand conditions. It introduces the present condition of e-commerce development in China and explores the four sets of prerequisites in China. It aims to find the influential factors which impede e-commerce development in China. In this chapter, a four-level approach is taken, in accordance with the four sets of prerequisites of e-commerce development. The four aspects are mirrored against the current situation in China, and some suggestions are put forward on the four aspects. Understanding the e-commerce development in China based on the four sets of prerequisites of e-commerce development can offer some guidance to less developed countries, which have the similar conditions in their e-commerce development.*

### INTRODUCTION

China might not be a typical less developed country, but it is a very convincing “living laboratory”. Even though the total resources of China are huge compared with all other less developed countries,

the huge size of the country is a big challenge for all aspects of development. Resources per capita are not necessarily any larger than in many other less developed countries. If the Chinese can turn e-commerce into a success story, it should not be a “mission impossible” even for smaller, less

developed countries. To wield a mariner phrase, smaller ships should be even faster to turn around if needed.

E-commerce in China has grown at an astonishing rate since 1993 when the Chinese government took the first step towards implementing electronic commerce (e-commerce) through a series of “golden projects”. According to the 20<sup>th</sup> statistical survey report on the Internet development in China released by China Internet Network Information Centre (CNNIC), the number of Internet users in China has reached 162 million and the number of Websites has arrived at 918,000 by the end of June in 2007 (CNNIC, 2007).

E-commerce in China is multiplying almost as fast as Internet users in China. According to the survey conducted by iResearch centre in China, the revenue generated in business-to-business (B2B) e-commerce in China has arrived at \$169 billion in 2006, which takes nearly 95% of the total e-commerce avenue in China in 2006 (iResearch, 2007). The Chinese e-commerce market will continue to expand and perhaps total as much as \$654.3 billion by 2010 (CCID, 2006). In China, B2B is still the main e-commerce model, and business-to-consumer (B2C) and consumer-to-consumer (C2C) takes a small size in the e-commerce market.

E-commerce development in China is in line with the rate of adoption theory and the industry life cycle theory, which describes the IT diffusion process as initially proceeding through a slow, gradual growth period, followed by dramatic and rapid growth, then gradual stabilization (Klepper & Graddy, 1990). Currently, the U.S. is still the largest global Internet market, which takes nearly half of the global Internet market. Analysts predict that with the second largest user population and double-digit economic growth, China could potentially take the place of the U.S. to become the largest Internet market in the world (Du, 2006).

Though e-commerce in China has developed in the past several years, it falls behind some

developed countries because of various obstacles. There is a call for research on the obstacles and useful strategies to help China to live up to its great potential in e-commerce and catch the developed countries.

Our research question is

*What are the prerequisites for China to implement successful electronic commerce?*

This chapter discusses the current condition of e-commerce development from four perspectives—the national factors; related and supporting industries; the strategy and structure and rivalry factors of the firm; and the conditions of demand. It aims at finding the barriers in e-commerce development in China from these four perspectives. In this chapter, a four-level approach is taken in accordance with the four sets of prerequisites of e-commerce development. The four aspects are mirrored against the current situation in China, and some suggestions are put forward on the four aspects to push e-commerce development and live up to its potential. This study focuses on e-commerce development in China. It offers some guidance on e-commerce development for less developed countries, which have similar conditions in their e-commerce development. The study is based on a literature study and contains no direct own empirical research.

## **FACTORS INFLUENCING E-COMMERCE DEVELOPMENT**

E-commerce is a newly developed industry in the world. Its development has been influenced by different factors. As Porter (1998) identifies in his “National Diamond of Competitive Advantage”, there are four sets of prerequisites for a successful national industry development: national factors; related and supporting industries; firm strategy, structure and rivalry; and demand conditions (Porter, 1998). The theoretical context of the four

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