

Chapter 14

The Advantages and Disadvantages of Internet Commerce in China

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ABSTRACT

This chapter further considers the tax aspect of the internet commerce transaction, which found that the Chinese government imposes a value-added tax at a rate of 17%. The system to impose value-added is extremely complicated. The first buyer pays tax. The tax is transferred to the second buyer, so on and so forth until the last buyer. It requires detailed records. It makes the tax administration highly burdensome. On the contrary, in the United States, the sales tax rate is only 7% and is imposed only on the final consumer. There are no sales between the first buyer and the last buyer. The taxing system is much simpler than its counterpart in China.

1. 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.

2. 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

DOI: 10.4018/978-1-5225-5014-3.ch014

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 2016, the E-business volume had reached \$391 billion (U.S. Department of Commerce, 2017). The growth rate was maintained at a steady 16% a year. 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%. 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 2014, the E-business volume on the Chinese side has reached \$387 billion, as compared to \$299 billion on the U.S. This level has surpassed the U.S. side. By 2016, the Chinese side is almost twice as much as the U.S. counterpart, i.e., \$752 billion versus \$391 billion. 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 15.3% in 2016 (China E-commerce Research Center, 2016.) 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.

3. 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 2016 the U.S. population was 323.1 million, and 1.379 billion in China. China is four times the size of the U.S. The Internet users are 287 million in the U.S. which accounts for as much as 88.5% of its population, while 731 million in China which accounts for only 38.4% (Internet Retailer, 2017). 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 2016, the E-business volume in the U.S. was \$391 billion, and \$752 billion in China. Had China been developed to its full potential, the E-business volume would have been \$1,669 billion in 2016. 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.

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