

## Chapter 50

# Understanding E-Payment Services in Traditionally Cash-Based Economies: The Case of China

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### INTRODUCTION

Electronic payment or e-payment refers to any payment transactions conducted electronically. In narrow terms, it usually refers only to online payment. E-payment is a crucial part of e-commerce. It increases transaction speed, improves merchants' liquidity, and enhances buyers' online shopping satisfaction. E-payment also reduces transport costs, robbery, and counterfeiting of fiat cash (Panurach, 1996).

However, e-payment development in emerging economies—most of which rely heavily on cash for e-commerce transactions—has not kept up with advances in e-commerce. As a result, inefficient payment methods have become a bottleneck of further e-commerce growth.

Over the past few years, China has witnessed phenomenal growth in e-payment. A variety of e-payment services have emerged in China. E-Payment penetration has also started to increase. As of June 2008, approximately 57 million (22.5% of) online shoppers have used e-payment services in China (CNNIC, 2008).

China's rapid e-payment development may provide ideas and lessons for the formulation of e-payment paradigms in similar economies. Despite numerous studies (Bin, Chen, & Sun, 2003; Daily & Cui, 2003; Davison, Vogel, & Harris, 2005; Hailey, 2002; Press, Foster, Wolcott, & McHenry, 2003) on China's e-commerce in general, little endeavor has been made on e-payment in China. This paper intends to fill the gap by examining a series of issues pertaining to China's e-payment services, which include China's e-payment growth, mechanisms, characteristics, opportunities and challenges.

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*Table 1. E-Commerce payment methods (Source: Ciweekly, 2006)*

<b>E-Commerce Payment Methods</b>	<b>Percentage of Merchants</b>
E-Payment	60.2%
Cash upon Receipt of Goods	39.4%
Postal Payment	12.3%
Bank Transfer	6%
Others	2.1%

The remainder of the paper is arranged as follows: Section 2 discusses e-payment development in China. Section 3 reports the major e-payment methods for online purchases in China. Section 4 focuses on the discussion of China's e-payment services. Section 5 analyzes the characteristics of e-payment in China. Section 6 and 7 discusses the opportunities and challenges of e-payment in China. Section 8 concludes the paper with major contribution of this study.

## **E-PAYMENT DEVELOPMENT IN CHINA**

China's e-payment services started in 1997 when China Merchants Bank initiated an online payment service for B2B transactions. In 1998, the bank allied with a few major stores in Beijing and Shenzhen and launched its first B2C payment service. In 1999, China Construction Bank established online banking services in Beijing, Guangzhou, Shenzhen, Chongqing, and Qingdao. Other banks soon followed by establishing their own online banking services. The development of online banking built a foundation for e-payment growth in China.

China's e-payment growth was steady but slow in the first few years. In 2001, the total annual online transaction was only 900 million Chinese Yuan. In 2004, it grew to 7.5 billion Chinese Yuan. 2005 witnessed the fastest growth—China's annual online payment transactions reached 16.1 billion Chinese Yuan, a more than 100%

growth over the previous year. 2005 has thus been known as "The First Year of E-Payment" in China. (Heading-Century, 2008). Today, nearly a quarter (57 million) of shoppers use some forms of e-payment services in China.

## **MAJOR PAYMENT METHODS FOR ONLINE PURCHASES**

Payment mechanisms for e-commerce transactions are more diversified in China than in countries with high credit card penetration. A variety of E-commerce payment methods are concurrently used in China. The most common ones include e-payment, cash upon receipt of goods, postal payment, and bank transfer (Table 1).

The majority (over 60%) of online merchants use e-payment. But a considerably large proportion of online businesses are still using traditional payment methods. In particular, nearly 40% of merchants are using "cash upon receipt of goods paradigm" — the buyer orders online, the seller physically delivers the goods to the buyer, and the buyer pays cash upon receipt of the goods.

## **E-PAYMENT SERVICES**

In broad sense, there are three major e-payment methods in China: online payment, mobile payment, and telephone payment (Table 2). Our discussion focuses only on the most common method—online payment, which represents over

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