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## Abstract

In the end of 2001, China re-entered the World Trade Organization, which means a pivotal step to further open. On the other hand, the advent of Internet makes it easier, cheaper, faster to find and communicate with potential customers and partners across the globe. The e-commerce, combined with the WTO entry, seems to become a powerful wagon for those foreign companies that have long salivated over China's huge market.

In the beginning of this paper, we briefly point out the huge potential of e-commerce in the country. Then we proceed to provide you with a picture of the e-commerce circumstances in China. At last, we give some suggestions to foreign companies on how to make a go of e-business in China.

## 1. Introduction

More than 2,000 years ago, invading tribes from the north were repulsed by the 1,500-mile Great Wall, built by vassal states of the Qin Dynasty to protect the fertile lands of China.

At the beginning of the 21st century, the walls that separate the Chinese economy from the rest of the world are poised to fall a notch with China's re-entry into the World Trade Organization. With that opening, tariffs will be lifted and trade barriers are about to fall. Certainly, the WTO will open China's market in a way they've never been open before. Besides the entry, Internet, one of whose promises is to make it easier, cheaper, and faster to find and communicate with potential customers and partners across the globe, seems to become anther powerful wagon for the foreign companies to open the door of the waken-up dragon.

With the combination of Internet and China's entry to WTO, foreign companies will now have an historic opportunity to get into the largest potential market of the world and reap tremendous rewards----many foreign e-businesses hope to utilize the Internet to tap into vast new markets and to link to new business partners.

China and its massive market, have long been the envy of the business community, ranging from huge international consumer goods companies to feisty entrepreneurs with an idea to sell or a niche to exploit. Nowhere is the potential for gain more evident than the lucrative Internet business.

Although China currently comprised only 4.2 percent of all Internet users, while trading through e-commerce in China came to less than 0.6 percent of the worldwide volume, with one-fifth of the world's population, China is viewed as one of the greatest untapped Internet commerce territories ——its Internet users could grow from an estimated 17 million now to 60 million by 2005, and its strong manufacturing base combined with WTO accession will make it a major e-commerce market. According to the WTO EMarketer. Inc., in New York, estimates of B2B e-commerce revenues in China will grow from $1.5 billion this year to $21.8 billion by 2004. International Data Corp predicts that China's Internet commerce revenues will get 70.1 billion by 2004.

The development of e-commerce gets strong support from the government, too. On August, 2000, at the World Computer Congress -- a gathering in Beijing of Internet entrepreneurs and regulators from 70 countries -- President Jiang Zemin said that "virtual reality is changing the way people produce, learn and live," and the "melding of the traditional economy and the information technology will provide the engine for the development of the economy and society in the 21st century."

Given the huge potential e-commerce market in China, it makes great sense for foreign companies with a desire to do business in China to use e-commerce to roll out their e-globalization strategies in that large country. But have patience! They should have a clear and specific understanding of the e-commerce circumstances in China to determine correct strategies of launching a successful e-commerce operation. Only in that way, can the foreign companies roll out their e-globalization strategies in China and can they further open the door of China's market.

We will discuss these problems one by one in the following of the paper

## 2. Is China ready for e-commerce?

To launch a successful e-commerce operation in China, foreign companies should first have a clear picture of the circumstances of e-commerce in China. Let's discuss them at length.

### 2.1 The Culture of the Market

First and foremost, there is no one Chinese market. Management gurus stress that it is key to realize that companies are working in cultures, not markets. China is one culture and many cultures at once. It is beyond the scope of this paper to provide a cultural map of China, but part of any preparatory work for e-business investment in China should include a series of briefings on the complexities of China's many cultures and on the "rules of the game" in the Chinese market.

### 2.2 Growth of the Internet

The exponential growth that has occurred in the number of Internet users in China makes it a prime target for foreign investment in e-commerce. In 1995, there were fewer than 50,000 Internet users in China. At the beginning of 1998, there were some 2.1 million users. By the end of 2003, the China Internet Information Center projects there will be 20 million users.

### 2.3 The Legal Framework

The fact is, there is no legal framework. However, work on an overall legal framework is underway. Some rules are expected to be published on a gradual basis, following China's entry into the WTO. In addition, center of computer and microelectronics industry and development (CCID) is collaborating with the taxation authorities to draft tax regulations.

Some regulations that foreign companies should keep in mind include a licensing requirement for all dotcoms, strict limits on direct foreign investment and a mandate to keep user records that are surrenderable to the government upon request. Another problem is the regulations now in place regarding encryption. Initially foreign businesses were required to register the encryption products they used in China. This would have given the state the ability to decode traffic passing through the Internet between branches of the same business. The state has since backed down on this requirement. But Chinese firms are still forbidden to use any foreign-made standalone encryption products. They may only use Chinese-made products registered with the new State Encryption Management Commission. This gives the state a means of monitoring computer traffic.

### 2.4 Payment method

Government restrictions aside, China’s e-commerce is also handicapped by a lack of convenient payment methods. In a survey "Greater e-China Insights," conducted by Cheskin Research and Chinadotcom Corporation, only 30 percent of mainland Chinese respondents said that they have a credit card. The most common payment method for online purchases in mainland China is cash-on-delivery (COD).

### 2.5 Trust Issues

Respondents to the survey were also distrustful of companies that exist only in cyberspace without a brick-and-mortar counterpart. According to the study, few Chinese would make a purchase from an e-tailer that they had never heard of before.

Since the Greater Chinese online market is just in its infancy, it's even more critical to pay attention to online trust. As technology penetrates global markets, access to e-commerce won't be the issue, creating loyal relationships through service, authenticity, and trust will be key. There is still a long way for China to build a certificate of authentication system and construct a healthy credit system.

### 2.6 Delivery services

E-commerce is not all about the technology. You have to be able to move things around speedily and in a flexible way to meet the customers' needs. The transportation infrastructure is not established. Even in the prosperous coastal provinces in the East, transportation can be very problematic. While packages in the United States can be shipped cross-country in a matter of days, for example, in China the roads--or lack thereof--mean that, even if B2B e-commerce were to take off, there is no efficient way to deliver products.

## 3. How to make a go of e-business in China?

Despite many barriers, potential of China’s e-commerce market is huge and growing. But a growing market is irrelevant unless you develop a strategy to make it work for you. Markets do not wait. Your success all depends on your strategy and your understanding of the power of e-commerce. Besides translating your web site to Chinese and providing contents that appeals local culture, here are some other suggestions for foreign companies to launch a successful e-commerce in China.

### 3.1 Have a good understanding of China’s e-commerce circumstances

A foreign e-commerce company should have a good understanding of China’s e-commerce circumstances: the telecom infrastructure, the number of people who often surf the net and the growth of this population, the on-line payment methods, people’s perspectives about e-commerce, to what extent the people accept e-commerce, the legal framework, the trust issues of on-line business, the commercial culture, the transportation infrastructure, the delivery services, etc. All of these are important for a foreign e-commerce company to make a correct strategy.

### 3.2 Strategic Planning: The Initial Stage

Most e-commerce companies can no longer afford to sacrifice capital on ill-planned experiments.

The path to a successful e-business strategy for Mainland China starts with the basic tenet of all good strategies—planning. This means that 12 months prior to your launch date, you should identify a China team to set goals, draft a strategy and map out the enterprise architecture to attain your business objectives. Who should be involved in this initiative? We recommend that they be key representatives of the marketplace (such as customers), those with execution capability (such as IT), and finance people. We've seen a maximum of four team leaders with 15 managers focused on project management, and a minimum of eight managers from IT and customer service involved at any one time.

### 3.3 Establish an appropriate company website

Firstly, the content of the company website should be expressed in Chinese. Although translating the website into Chinese is a demanding task——besides the translating machine, language experts probably have to stand by to assist the machine. Attracting customers is the first step of success. Compared with foreign language websites, websites in Chinese have an obvious advantage. It's hard to imagine customers or potential business partners would be willing to spend more time on an foreign language website (even he knows or master that language). It will be costly if company translates itself. There are many professional companies offering the solution for website translation. So e-commerce company can outsource the task of translation. But the company still need to supervise the results of translation.

Besides the local language content, what is more important is to provide localized products and services. That is, the products and services should adapt to Chinese culture, which means a lot of effort "below the web".

### 3.4 Consult law specialists

Equally important will be your choice of an international law firm with proven China expertise. We also advise employing an outside consultant to serve as an overall facilitator and troubleshooter in China. They should be responsible for briefing the head office on the complexities of the Chinese market.

### 3.5 Find the Right Ally

Leverage local relationships. The multicultural nature of global business creates a degree of complexity that cannot be easily satisfied just by establishing a Web presence.

Businesses cannot underestimate the value of a local presence and the insight that having an on-site window into the culture represents. Local partners can help provide the answer to problems of trade regulation, and tariffs, and legal and regulatory complexities. Foreign e-commerce companies can use network of local offices and distributors to fulfill orders, to figure out the pricing in local currency, and to arrange payment by the preferred method.

Partnering with Chinese companies is smart because:

(1) It offers benefits that go well beyond easing compliance with Chinese regulations. Business in China, as in many Asian countries, is built on trust and enormous amounts of personal contact. As a result, B2B e-commerce can be a tough sell. Finding a partner in China can help resolve some of those cultural issues.

(2) If you anticipate substantial technology costs or substantial operational expenses like brand recognition (such as advertising), then it would make sense to consider a partnership or alliance with a Chinese counterpart who already has a related business vehicle up and running. For example, consumer-oriented offerings require heavy investment in branding because of the fight for eyeballs in a crowded market. By choosing the partnering route, you avoid spreading your resources thin, and you're building expertise for the future.

Since a joint venture partner will have knowledge of the market, commercial network and political savvy that you, both as a newcomer and outsider, lack, you can expand your business opportunities network and better position yourself for the anticipated e-commerce growth in China. Make sure that your partner is selected with all due diligence.

### 3.6 Others

Besides what we have illustrated above, foreign e-commerce company should be cautious about the followings:

(1) Provide as many payment methods as possible. Since the payment system is not so advanced that foreign e-commerce companies should provide payment methods at different levels.

(2) Pay attention to trust issues.

(3) Outsource the delivery services to international cargo companies, such as DHL, UPS, etc.

## 4. Conclusions

China is viewed as one of the prosperous e-commerce market, and companies first investing in such market will undoubtedly take first-mover advantage. Empowered by the convenience and cost benefits that the web is designed for, and with correct understanding of e-commerce, foreign e-commerce companies who are patient and willing to play by China's complex rules can find a bright future.

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