CHINA

How to Tap the World's Largest E-Commerce Market

China's enormous e-commerce market is alluring for foreign companies seeking to target consumers directly. A new law to take effect in January 2019 may make it more attractive by eliminating some of the risks and uncertainties, says Lukas Zuest, a board member of the Swiss-Chinese Chamber of Commerce who also serves as an attorney and head of the China desk at the Swiss law firm Vischer AG, based in Zurich and Basel.

Lukas Zuest, Board Member of the Swiss-Chinese Chamber of Commerce.

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The market potential is almost limitless. The number of internet users in China surpassed 800 million in the first half of 2018, according to the China Internet Network Information Centre – more than the combined population of the U.S., Russia, Japan and Mexico.

All those internet users are potential e-commerce customers. In the second quarter of the year, the Chinese internet giant Alibaba, which operates the e-commerce platforms Tmall.com and Tmall.hk, reported 576 million active users. And the market is growing – fast. "The Chinese are among the most enthusiastic internet users, in all age groups," says Zuest. "Older Chinese are very open to the internet."

Zuest distinguishes between two types of e-commerce in China: local and cross-border. The local industry – where Chinese companies sell their products to Chinese consumers on platforms like Tmall – is "a mature market, it has had 15 years to establish itself," Zuest says. Foreign companies can engage in local e-commerce as long as they have a subsidiary in China. The market, which totalled $400 billion in 2016, is expected to grow to $800 billion by 2020.

Cross-border e-commerce allows foreign companies to sell their brands directly to Chinese consumers without a local subsidiary. The first cross-border e-commerce platform was Tmall Global, which was followed by many others like JD Worldwide and Kaola, and the market is newer: it has developed over the past four years "in a low-regulation environment," Zuest says. Cross-border e-commerce sales are expected to increase to $160 billion in 2020 from $85 billion in 2016.

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Powerful Platforms

The size of the market, its rapid growth, and a low level of government regulation has meant that the enormous e-commerce platforms "have become very powerful," Zuest says. The new law, which takes effect on Jan. 1, 2019, is aimed "at protecting the interests of all participants – consumers, the e-commerce operators and the platforms," he says.

Consumers and e-commerce operators who sign up to a platform have until now had to accept terms and conditions that often change without notice, Zuest says. "Under the new law, there will be some restrictions," he says. "Platforms will have to seek public comments on proposed changes and publish any changes in terms and conditions seven days in advance."

Intellectual property will also be better protected, Zuest says. Companies will have the right to demand that the platform removes any products that infringe intellectual property rights, and failure to do so will make the platform jointly liable with the infringing party for damages. The law also strengthens consumers' right to data privacy.

"Good Foundation"

"The law offers more legal security," says Zuest. "We will have to see how it is enforced, but it is a good foundation for a healthy e-commerce environment."

Swiss companies which already engage in cross-border e-commerce in China include Migros, the country's largest retail chain, and the confectionary producer Lindt & Sprüngli. Zuest believes that foreign companies entering the Chinese consumer market should consider an omni-channel strategy by starting with cross-border e-commerce, then graduate to domestic e-commerce and classic retail markets to provide Chinese consumers with a seamless shopping experience.

"It is a very dynamic environment," he says. "If companies get involved, then they should probably not limit themselves to cross-border e-commerce in the long term. It is necessary to set up a base in China in order to have access to the whole Chinese market."

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