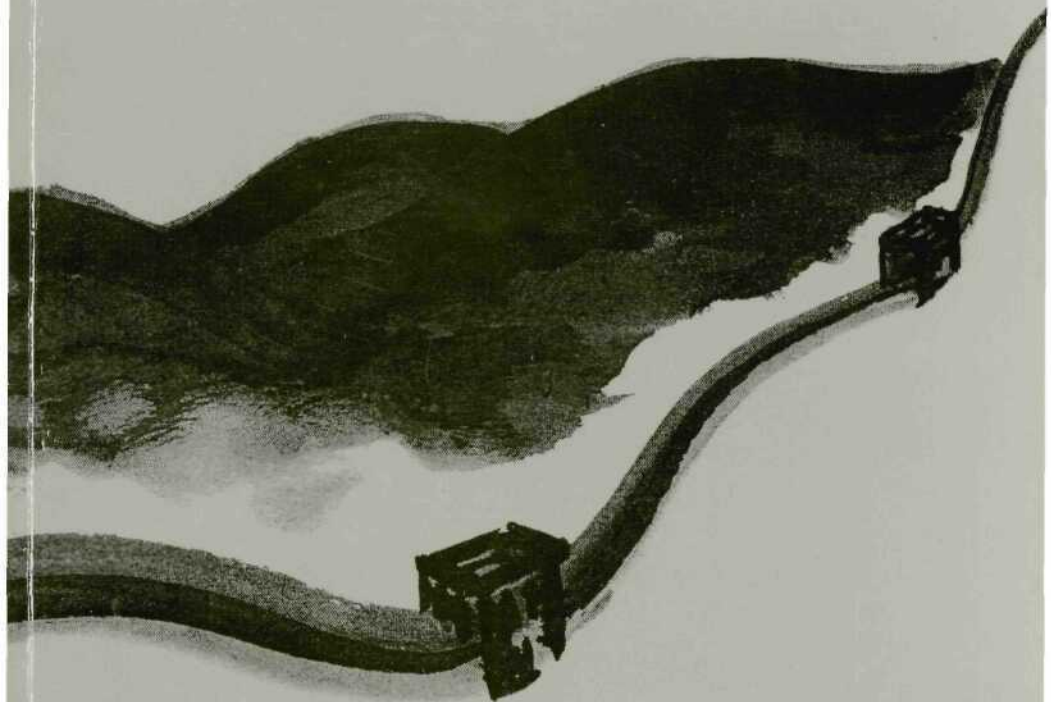


SCALING THE GREAT WALL OF E-COMMERCE:

Strategic Issues and Recommended Actions

Edited by Diana Lady Dougan and Fan Xing



China Electronic Commerce Project Report 1999
(2nd edition)

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IV. EXECUTIVE SUMMARY: PRINCIPAL FINDINGS, RECOMMENDATIONS AND PRIORITY ACTIONS

This initial CIIED E-Commerce Project report focuses on the policy and operational status of E-Commerce in China and the barriers that currently impede its further development and utilization. The following findings and recommendations are based on papers developed by experts from ten Chinese government agencies each of whom have operational or policy responsibilities involving E-Commerce. Their work incorporates input from leading international companies who deal with diverse aspects of E-Commerce globally as well as in China.

As noted by the Chinese officials involved in the CIIED E-Commerce Challenge Project, the forums and analysis work relating to this initial report have already served as important catalysts in China. In subsequent phases of this project and other follow on work, priority will be given to implementation of recommendations and practical applications of E-Commerce in both domestic and international market contexts

PRINCIPAL FINDINGS

E-Commerce in China is currently centered on business to business users who have international market dealings. Increasingly however, E-Commerce is a critical tool in promoting overall economic growth and competitiveness in China's internal as well as external market. Thus, the project members wish to highlight three additional areas for increased attention and initiative.

First, because government agencies as well as State Owned Enterprises are major users and providers of goods and services that can substantially benefit from E-Commerce, government agencies must **lead by example** in harnessing the potential efficiencies, cost savings and timeliness of E-Commerce in their own operations wherever practicable.

Second, while major business users are important, it should be noted that small and medium sized enterprises and consumer services are the fastest growing areas of the global economy. Moreover, the more widely E-Commerce is incorporated, the greater its ability to offset traditional barriers of size and scale as well as time, distance, and location. This phenomenon is especially important in nurturing the development and sustainability of new, smaller and non-coastal enterprises which are strategically important to China's long term economic growth. Therefore, both government and industry in China are urged **to increase their attention to facilitating access and uses of E-Commerce to foster the establishment and sustainability of small, medium and micro enterprises** in all regions of China.

Third, the combination of the Internet, competitive pricing of high speed international networks and wide availability of enabling applications have turned E-commerce into an intrinsically global phenomenon regardless of how local its origins. Therefore, China's government and industry should avoid promoting standards and practices in China which are incompatible with or difficult to adapt to the international environment. In order to fully benefit from E-Commerce, China's government and industry should promote standards and practices that **are flexible enough to take advantage of the fast changing international marketplace and at the same time fully compatible with the prevailing international environment.**

AREAS OF PROGRESS

China's interest in E-Commerce is not new. The "Golden Projects" launched by the former Ministry of Electronic Industry in 1993 created an early appetite, if not an altogether digestible menu, for the basic nutrients of E-Commerce. These included development of value-added data networks, credit card pilot projects, electronic customs networks and a toehold on competition in basic telecom services with the creation of China Unicom.

Most dramatic has been China's progress in building the basic telecom infrastructure needed to support E-Commerce. At the beginning of this decade, China had one of the poorest tele-densities in the world with fewer than 35 million phone lines for well over a billion people. The Ministry of Post and Telecommunications (since consolidated into a new Ministry of Information Infrastructure) set a goal of installing more than 100 million phone lines by the end of this century. It had already installed a 100 million lines by 1998 two years ahead of what many had thought was an impossible goal. If the present pace continues and the announced liberalization of investment and competition are put into practice, China may well reach closer to 150 million by the time the millennium clock strikes in Tianamen Square. The fact that virtually all the new phone lines and central switches are digitalized substantially enhances China's near term potential to incorporate higher end dimensions of E-Commerce more broadly.

Both Chinese and international Project participants are quick to point out that anti-competitive interconnection practices and absence of an effectively independent telecom regulatory body continue to thwart the competitiveness and innovation which fuel E-Commerce in the West. However, some progress is being made on this front as well.

In the spring of 1999, the Ministry of Information committed to substantially reduce basic phone installation and toll charges. It also announced the break up China Telecom into more bite size pieces and renewed its pledge to support competition in value added services. These moves towards competitiveness in

telecommunications along with liberalizing initiatives in financial services, foreign investment and related trade were highlighted during Premier Zhu's April 1999 visit to the U.S. In addition to advancing China's positioning in the WTO and the broader global marketplace, this can translate into immediate good news for E-Commerce in China's internal market.

From an application standpoint, the initiatives of the Ministry of Foreign Trade & Economic Cooperation (MOFTEC) are especially noteworthy. The recently established TechFair – a user-friendly web site service promoting Chinese export products is already paying dividends. However, the China International Electronic Commerce Center (CIECC) is fast becoming a full range central nervous center for China's external trade utilizing the tools of E-Commerce. CIECC has set up a standardized coding system for China's export-import enterprises, instituted electronic on-line bidding for contracts, and launched electronic processing, inspection and management systems for a variety of exports and imports. These are just a few of the new examples of progress and commitment to utilize E-Commerce in China. They represent exciting examples of how E-Commerce can substantially enhance China's trade transparency as well as efficiency.

Financial services remain a critically weak link for a variety of reasons outlined in this report. However, the energetic leadership of the Peoples Bank of China is paying off on the technical side. The development of electronic payment systems and the build out of the high speed digital networks required to service them are progressing well. While these technical advances cannot offset the continuing problems of minimal access to third party payment systems, currency inconvertibility and other transactional related barriers identified in this report, the senior level commitment of leadership and resources in the electronic payment networks is having a positive impact.

While most of the focus is on the national level, major cities in China are each launching their own ambitious plans to improve their economic standing through E-Commerce. The involvement of officials from Beijing and Tianjin as well as Shanghai in this Project highlights

their growing interest in the potential of E-Commerce to expand the delivery of local services as well as stimulate new investment and trade opportunities.

At the working session of Chinese and international experts where draft report findings and recommendations were reviewed, the list of problems and barriers seemed depressingly long. But as CIIED's International co-Chair, Ambassador Diana Lady Dougan observed "All countries are trying to scale the "Great Walls" of E-Commerce, China is neither unique in its problems nor opportunities. But China is perhaps uniquely poised to benefit. Its vast geographical size, young and growing population, unifying written language and new market dynamism will no longer be held back by the traditional barriers of time and distance."

Following is a summary of principal barriers to E-Commerce in China and recommendations for overcoming them. They are based on the presentations at Shanghai Forum and the papers developed for this report by the Chinese project participants, most of whom have direct rather than theoretical involvement with E-Commerce.

MAJOR PROBLEMS AND BARRIERS TO E-COMMERCE IN CHINA**For Business:**

- Insufficient, uneven access to high speed networks and Internet protocol infrastructure needed to provide fully competitive and cost efficient E-Commerce services
- Inadequate procedures to facilitate electronic payments and settlements
- Insufficient legal safeguards to sustain transactional trust (authentication, certification, privacy, protection of intellectual property, etc.)
- Absence of regulatory structure to support market driven investment in and interconnection of competitive telecom networks
- Monopoly practices in telecom networks and value added services
- Lack of foreign capital and expertise to insure China's ability to function in a national and global marketplace
- Limited planning and procedures to facilitate relationships between electronic ordering and physical delivery of goods (including customs, taxation and transport industries)
- Insufficient linkages to international business suppliers, distributors and customers through the Internet and on-line networks

MAJOR PROBLEMS AND BARRIERS TO E-COMMERCE IN CHINA**For Consumers:**

- Limited public access to computers and telecom networks outside academic and specialized workplaces
- Lack of choice or availability of alternative consumer delivery systems such as cellular and cable TV services
- High cost of telephone installation, use charges and Internet access
- Limited flexibility in choosing for accessing ISP's for the Internet information
- Lack of public awareness and training relating to E-Commerce
- Cultural Barriers (e.g. distrust of technology, strong tradition of in-person transactions, language barriers)
- Concern over transaction security and integrity
- Limited availability of personal credit cards and other third party payment systems
- Distrust of quality and higher price of products purchased online
- Limited availability and efficiency of physical delivery systems of goods purchased on-line

MAJOR PROBLEMS AND BARRIERS TO E-COMMERCE IN CHINA**For Government Agencies:**

- Conflict between operational and regulatory functions in telecom sector
- Inadequate resources to develop customized applications and user group services
- Shortage of basic understanding of E-Commerce applications among senior management and policy officials
- Insufficient cooperation in resolving E-Commerce issues among private and public sectors
- Inability to strike balance of flexibility needed to support innovative and customized applications and coordination/compliance requirements needed to support basic standards, protocols and databank management
- Requirement for more rapid responsive and adaptability to E-Commerce conditions
- Uneven policies in cost allocations, network/infrastructure subsidies
- Limited avenues for tapping non-governmental expertise and resources to supplement/compliment government requirements as user as well as provider of E-Commerce services
- Lack of contingency planning to deal Y2k problems and impact
- Insufficient safeguards and procedures to deal with concerns over intellectual property piracy, data integrity, privacy protections and liability redress

OVERALL RECOMMENDATIONS FOR ADVANCING E-COMMERCE IN CHINA

- 1) Design and implement policy, regulations, and oversight functions which promote development of and access to telecommunications infrastructure.
- 2) Operators should be separated from regulatory functions. Telecom operators should be corporatized into share-holding companies.
- 3) Investment should be drawn from diverse national and foreign sources. Encourage build-out of high speed and broadband infrastructure through favorable investment policies and reduced regulatory and bureaucratic barriers.
- 4) Establish equitable interconnection policies for cellular, cable TV and satellite and other alternative delivery systems to enhance overall network capacity and user choices.
- 5) Promote competitive market at domestic, regional, and international levels. Introduce cost based access and customer choice through measures to stop monopoly practices, and support innovations and competitive forces. Priority for development should be given to the most profitable sectors like wireless services.
- 6) Improve public education and enforcement procedures in dealing with protection of intellectual property rights (IPR), privacy and computer crime.
- 7) Encourage domestic cooperation among China's industry players, R&D facilities, and government organizations to foster China's domestic E-Commerce related industries.
- 8) Form appropriate State Council ad-hoc committees or task forces to promote and speed up China's E-Commerce development, planning, coordination and enhancement.
- 9) Focus the primary task of government bodies on projects to raise public awareness, launch demonstration projects, provide guidance and support to medium and small enterprises.
- 10) Promote professional (technical and regulatory) training programs to raise the professional qualifications of personnel for E-Commerce.

OVERALL RECOMMENDATIONS (CONTINUED)

- 11) Encourage businesses to pay close attention to advances in E-Commerce in global marketplace, actively construct LAN networks, and deploy advanced IT.
- 12) Set up pilot projects to facilitate cooperation of commerce, customs and banking sectors to determine the feasibility and reliability of appropriate technologies and procedures for e-taxation.
- 13) Establish favorable taxation policy for E-Commerce, specifically no special tax on domestic e-transactions of goods and services. As well, favorable taxation for high tech enterprises that provide E-Commerce services.
- 14) Pay increased attention to physical delivery of goods and services purchased on line. Encourage joint pilot projects involving both transport and transaction industries.
- 15) Promote tax and investment policies to assist export-import companies in E-Commerce
- 16) Establish a policy framework to facilitate electronic payments and settlements that includes authentication, encryption and certification.
- 17) Encourage greater Y2K commitment to insure compliance requirements for government agencies, implement incentive procedures and simplified guidelines for vendors, and assist with contingency planning for areas of vulnerability and non compliance.
- 18) Promote E-Commerce business to individual consumers as major building block for small, medium and micro size enterprises.
- 19) Reinforce industry led initiatives and solutions to develop voluntary standards and practices for transactional issues such authentication, privacy, liability and certification.
- 20) Encourage appropriate balance of flexibility in equipment and software standards to promote innovation, customer choice and customization.