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# The Effect of E-commerce on The International Trade of Small and Medium Enterprises in China

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THE EFFECT OF E-COMMERCE ON THE INTERNATIONAL TRADE OF SMALL AND  
MEDIUM ENTERPRISES IN CHINA

by

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B.S., Zhengzhou University of Light Industry, 2013

A Research Paper

Submitted in Partial Fulfillment of the Requirements for the  
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Approved by:  
Professor Chifeng Dai

Graduate School  
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## AN ABSTRACT OF THE RESEARCH PAPER OF

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MAJOR PROFESSOR: Professor Chifeng Dai

In modern world, economic globalization is the trend of the economic development. In order to adapt to the trend of economic globalization and survive, enterprises have to do the international trade to improve their competitive ability, especially for the small and medium enterprises (SMEs). SMEs do not have good way to get economic information and cannot sell their products in big markets like the big enterprises. The development of the e-commerce provides great opportunity for the SMEs to do the international trade. As we all know that China is called the factory of the world now. China's products are sold in the whole world and the small and medium enterprises' goods account for a large proportion. 21st century is the information age. The small and medium enterprises should use the e-commerce to do the international trade and expand their markets. The small and medium enterprises in China have their special characteristics and China has special policy. This research talks about the characteristics of the international trade of small and medium enterprises in China. Then it discusses how e-commerce is developed in China. By considering these information it discusses how e-commerce effects the international trade of small and medium enterprises in China.

**Key words:** e-commerce, small and medium enterprises, international trade.

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## CHAPTER 1

### INTRODUCTION

The most important characteristic of today's international trade is globalization. On the internet we can find the definition of the globalization is: the act or process of globalizing, the state of being globalized; *especially* the development of an increasingly integrated global economy marked especially by free trade, free flow of capital, and the tapping of cheaper foreign labor markets. There are some organizations were built to support countries during the globalization of the economy, like WTO, APEC, EU. The world has the trend of the globalization because different countries in the world have different advantages, some countries have resources and some countries have technology. Different countries produce goods with their advantage can improve the efficiency and save resources.

At this stage the globalization of economy is showing on the international trade. People in different countries can get information through internet, they want to enjoy the products they do not use before and the goods in different countries may has special meaning, styles, good quality and so on. With the development of Internet, e-commerce is used very widely in the world. There are a lot websites that we can find where we can buy goods made in different countries, like amazon, yamibuy, eBay, and so on. Online shopping has become a very important shopping way in modern world for people. In China November 11 is the same as the black Friday in the United States, all the shops have discount on that day, just on November 11, 2015 the online shopping website Tmall volumes 91.2 billion yuan.

China is called the factory of the world now, it means that international trade of China plays an important role in the Chinese economy. China sell its products in the whole world. Because China has very good policies for people to build their own enterprises, there are a lot of enterprises in China is small and medium enterprises. Almost 99% enterprises in China are small and medium enterprises and a lot of the products are produced in the small and medium enterprises and are sold in the world. The small and medium enterprises have very small scale of production, but the mode of operation flexible and varied and included all areas of the economy. However, the small and medium enterprises' competitiveness of is week, life is short and fail rate is higher. Especially they cannot get the economic information timely and comprehensive. E-commerce can effectively make up for the inadequacy of small and medium enterprises.

E-commerce is the buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the Internet. Just in 2013 e-commerce sales of goods and services has grew by 16.3% to 363.1 billion euros (Jadwiga Zurek). Now China is still a developing country, and China is experiencing a process from developing country to developed country. China has the fastest rate of growing e-commerce in Asia. China began use e-commerce a little late, so China can learn the experience of how to use e-commerce better from the developed country. The small and medium enterprises of China can benefit from comparing the experience of the development of the e-commerce in developing country and developed country.

By understanding the current situation of small and medium enterprises and the development of e-commerce can help us to understand how e-commerce impact

international trade of the small and medium enterprises in China. Then we can give some useful advises for the small and medium enterprises to develop international trade by using e-commerce.



## CHAPTER 2

### BACKGROUND

In modern world, e-commerce has become a very popular method for small and medium enterprises to use on international trade in China. We also know that China has join in the WTO already, so the enterprises have more opportunities to sell their products in the world. Most of the small and medium enterprises do not have enough ability to use the advantages of e-commerce and to avoid the risks of the e-commerce. There are some resources can give us more information to help us to understand how the e-commerce affect small and medium enterprises' international trade.

With economic globalization, the development of e-commerce has great influence on international trade environment. The economic globalization and the new economy is changing China's economic environment and influencing all aspects of world trade. As we know that most of the enterprises in China are small and medium enterprises, so the small and medium enterprises must do the international trade in the globalization environment ( TANG Haiyan). By this the small and medium enterprises can overcome the barriers and develop well in the world.

As we know that e-commerce has large effect on the international trade and it will keep has influence on the international trade in the future. I also think that e-commerce will change the economic forever. Professor Ki Hee Kim tell us that march 6, 1998, the Beijing Century Intercom Technology Company sold its first item over the internet; it was also the first online sale in China's business history. China's e-commerce began to do its

first step at that time. Even though it starts later, it develops very quickly. Now e-commerce has become a very common way for international trade in China.

## CHAPTER 3

### DEVELOPMENT OF E-COMMERCE

The number of Internet users was 14161570 in the world in 2003, but in 2014 it has grown to 2925249355 users. The Internet users are 0.3% of the world population in 2003, but in 2014 we find it has become 40.4%. In 2003, China just had 97 million Internet users and the number of users is second only less than the United State, but in 2014 China has more than 641 million users and became the biggest user country in the world. The high utilization ratio of the Internet in China is an advantage for the development of the e-commerce. But the development of China's e-commerce is not smoothly.

It is well known that China began to develop e-commerce at 1997 and had an 8848 plan to develop e-commerce at 1995. During that time 8848 build B2C(business to consumer) model which is a new way to do the business online. However, at that time the e-commerce market is not big enough and the Internet user is limited, so 8848 plan died after a few years. Even though 8848 died, it laid the foundation for the development of e-commerce of China.

There are a lot of websites doing e-commerce in China from 2003 to 2007, such as Dangdang, Alibaba, Taobao and so on. During this time the e-commerce develop very quickly. There are some reasons. First of all, a lot of people in china have accepted the new shopping way online shopping. Secondly, the small and medium enterprises have the chance to do the e-commerce. The small and medium enterprises produce almost all kinds of goods. There are almost all kinds of goods sell online that can

satisfy diverse needs of consumers. Thirdly, the logistic system and pay online system become more complete.

After 2007, a lot of traditional enterprises and fund began to do the e-commerce. Even though a lot of enterprises still do the B2C, B2B also develop very quickly. From the success of Ma Yun, we can also find that e-commerce has become a very important part for the enterprises. Not only the enterprises but also the consumer has already adopt selling and buying through internet.

More than 90% of the enterprises doing the e-commerce is small and medium enterprises in China and more than half of the sales of international trade coming from small and medium enterprises. It seems necessary to do the e-commerce to help small and medium enterprises do international trade.

## CHAPTER 4

### CURRENT SITUATION OF CHINA'S INTERNATIONAL TRADE

From 2014 the international trade does not develop very well all world. The growth of the international trade in China is very slow. But the government of China adjusted its policy to adapt to the economic conditions in the world.

In 2014, the total amount of international trade of China is \$43030.4, up 3.4% from a year earlier. As a whole, China's international trade growth is 2.7% higher than the global trade growth. China is still the biggest international trade country in the world.

China's international trade market and domestic areas continue to optimize the geographical distribution. The import and export of developed countries has been stable developed. In 2014 the European Union and the United State import and export amount growth of 9.9% and 6.6% than the earlier year. In China the middle and west region developed very well and accepted the enterprises coming from east region. The international trade commodity structure and the management main body structure were further improved. During 2014 the e-commerce international trade growth ratio is 30% than early year.

In 2015 because the global economy is going down, the international trade of China is slow down. A lot of the small enterprises have shut down already. There are a lot of factors that may affect the international trade is not stable. There are some new risk factors adds which have the bad effect on the international trade, such as regional turmoil, dollar up valuation. So China may lose the stable international demand during 2015.

## CHAPTER 5

### E-COMMERCE INFLUENCE ON THE INTERNATIONAL TRADE OF SMALL AND MEDIUM ENTERPRISES IN CHINA

#### Advantage

- i. The using of e-commerce promote small and medium enterprise costs reduction.

It is well known that small and medium enterprises do not have enough funds like the big enterprises. Lacking of funds is an important factor restricting the development of small and medium enterprises. But if the small and medium enterprises make full use of the Internet, they can improve the utilization rate of capital, by this the small and medium enterprises can effectively reduce the cost. It can reduce marketing costs, procurement costs and can reduce inventory, which is very good to the development of small and medium-sized enterprises. Due to the use of the Internet information, the small and medium enterprises can directly receive customer orders through the Internet. For customers they can put their demand for the products online. The enterprises can analyze the information to produce better products. Especially some enterprises have the perfect e-commerce system can transmit the information of consumer demand directly to the automated production line in order to best meet customer demand. Because the products satisfy consumer demand so well, the produced products do not need to be stored in the warehouse and are directly delivered to consumers. Under the e-commerce environment, production enterprises can publish enterprise information through the establishment of professional business website. The enterprises can strengthen and expand communication through the website to get opinions on products, services, and so on.

- ii. Small and medium enterprises can have more opportunities and bigger market

There are some benefits for the small and medium enterprises use Internet to do the business. First of all small and medium enterprises can get rid of the original narrow space limitations. Secondly, small and medium enterprises can frequently contact with potential customers inside and outside with the convenient and cheap network information service. Thirdly, small and medium enterprises can introduce their own products, services and enterprise culture to consumers directly and quickly. The small and medium can also answer customer questions quickly and introduce their products to the potential consumers. By this the small and medium enterprises can win more business opportunities. Small and medium enterprises do not have enough ability to promote their products. When they use Internet they can have more opportunity to promote their products and sale their goods in big markets.

- iii. No restriction by time and geographical

In addition, the e-commerce trade has no time and geographical restriction. It is well known that all the activities of traditional trade are limited by time and geographical. However, natural conditions have small influenced on e-commerce. The enterprise can provide "all-weather"(like winter has the shirt and summer has cotton-padded clothes) products and information services for customers through Internet. For consumers they can get information on the Internet related businesses of all kinds of products no matter where and when. The enterprises can answer the buyers' questions about their products quickly through Internet. They do not need to talk about all the details face to face. Most of the consumers do not have enough money and time to go to the other city or country to talk about the details about their demand for the products and to get their goods.

E-commerce continuous operation without the limit of time, weather and geographical can help customer all over the world to get the required information at any time. When the products satisfy the foreign consumer's requirements it will bring more orders to export enterprises and can greatly improve the success rate of the international trade.

#### Disadvantage

##### i. New trade risk

The existence of the network economic crimes and the hacker intrusion greatly increase the electronic business trading, payment of credit risk, technology risk and quality risk. There are two points for e-commerce security issues. First, the information about the e-commerce is not safe. For example, the site of safety information is stolen by hackers, then the online trading combined with social engineering attack resulting in the failure and the trade deal amount maybe stolen by others when we do online transfer. Second, if the e-commerce of enterprise is credibility. It is well known that credibility is very important for any enterprises. Sometime when the enterprises have problem to transfer amount online, even they cannot make sure the amount has transfer to clients successful. If the enterprises fail to transfer amount to the clients on time, it has very bad influence on the enterprises' credibility. The loss because of bad credibility has more bad influence than the economic loss.

##### ii. Do not have good logistics system

The logistics system for business in China is not complete, especially the logistics system for e-commerce. For example, there are a lot logistics companies in China, but not all of the logistic companies can deliver the goods everywhere in China. We can also find that different website using different logistic companies. The consumers want to buy



something online is limited by the logistic company. The logistic company serveries for that website may not deliver to the consumer's city. The rapid development of e-commerce in China is limited by the development of the logistics. The e-commerce development embodies in the following aspects: first, the logistics information system development lags behind. Second, the small and medium enterprises lack professional talents and ability for the development of integrated logistics. Thirdly, logistics and e-commerce companies lack strategic cooperation.

iii. The law about e-commerce in the international is not complete

Now a lot of the laws and rules to support the international trade through e-commerce is built by developed countries. Now there is no standard law for the e-commerce in the world. When the small and medium enterprises from developing countries face some difficult situations in international trade, the law and rules cannot help them anymore. The trade policies, laws and regulations of Europe, America, Japan and Singapore, Hong Kong and some other relative to developed countries and regions are according to their own e-commerce development needs. The policies, laws and regulations do not adapt to the e-commerce situation of China. Constraints of traditional trade policies, laws and regulations applicable to e-commerce is not complete. A lot of parts of e-commerce do not have related law right now, such as the electronic contracts, electronic signature, electronic commerce certifications, electronic data evidence, online trading and payment, online intellectual properties, e-commerce and online dispute resolution jurisdiction, etc. Because of the lacking of laws and regulations, the enterprises have high risk to do e-commerce, which hinders the development of the e-commerce.

The government should create a positive and strong environment for the development of e-commerce

- i. The strategy for the government to create a favorable environment for e-commerce development.

Firstly, the related government functional departments should improve the level of e-governance, to ensure the process of e-commerce convenient and quick. Second, the government should formulate policies to encourage and support the development of e-commerce. Thirdly, the government should guide the e-commerce scientific development. By this the good environment can has its foundation. Finally, China's current information development level is relatively backward, which to a great extent, restricts the development level of e-commerce. So the government should plan each link of the development of e-commerce in a systematical way. The government use macroeconomic regulation and control to improve the utilization rate use of limited resources. In order to promote the rapid development of e-commerce the government also needs to develop the optimal solution for e-commerce.

- ii. Speed up the construction of hardware and software of e-commerce

The construction of hardware and software is very important for the development of e-commerce. The electronic commerce software construction which is to establish and improve the requirements of the relative policies, laws and regulations system for e-commerce development. With better software China can help the e-commerce develop quickly and healthy. Modernization of information infrastructure is the root of the electronic commerce development that is what we call the hardware. So the government

at the same time of establishing and perfecting the laws and regulations also should accelerate the pace of national network infrastructure. Only by this the government can meet the needs of e-commerce information communication. In addition, professionals are very important for the development of e-commerce, so the government of China should strengthen the training of e-commerce related professional talents and training mechanism construction. By this there will be a lot of professionals to improve the development of e-commerce. Only the professionals can solve the problem of e-commerce development lagging behind fundamentally. If more training and training mechanism constructions are provide, the small and medium enterprises can have more chance to improve themselves. The small and medium not only can hire the professionals easier but also they can send person to learn the knowledge. The small and medium enterprises can improve their ability of competition when doing international trade.

The enterprise shall actively adapt to the e-commerce development environment

i. Promote awareness of the electronic commerce development, actively reform of enterprise management.

Chinese enterprises of modern development time is short, has not yet formed in the process of operation for the correct understanding of e-commerce. Therefore, the small and medium enterprises need to fully understand the important role of e-commerce in business, especially in the international trade. The better understanding of the e-commerce of the small and medium enterprises can help them improve the competition ability and get more development opportunities. In addition, the small and medium enterprises also need to optimize enterprise management and innovation to

improve their adaptability and initiative. If the small and medium enterprises meet all of the requirements, they will develop very well in the world.

The information level of the enterprises is the foundation of enterprises' e-commerce development, so the enterprises must strengthen the investment in infrastructure to improve its information level. According to the actual demand of the development of e-commerce, the small and medium enterprises should optimize the enterprise internal management and information technology management and innovation, to ensure that they have in a competitive advantage in e-commerce.

iii. Make full use of the Internet.

For the small and medium enterprises to be better integrated into the e-commerce market, it is necessary to make full use of the advantages of the Internet. The small and medium enterprises should set up specialized information department which mainly responsible for enterprise information releases and customer contacts. By this the enterprises can better discover potential trade partners and to build the cooperation at the first time. At the same time, enterprises should also improve their consciousness to protect network security and related intellectual property rights. A lot of the small and medium enterprises do not pay attention to the protection of related intellectual property rights. When they have the dispute on it, they cannot solve the dispute timely and effectively. Even sometimes if the enterprises do not have the strength as the other enterprises, they may ruin. As we know that Internet has a lot of advantages for the development of the international trade, so the small and medium should use the advantages of the Internet reasonably and effectively to avoid the corresponding risk.

## CHAPTER 7

### CONCLUSION

In this research, we discuss how e-commerce plays a very important role in the international trade of small and medium enterprises. 21<sup>st</sup> century is the information age. E-commerce is both opportunities and challenges for the small and medium enterprises to do international trade. China is a developing country and has international trade for all the countries in the world. So it has deep influence on the world's economy. China is called the world factory and almost all the world market is open for China. It is very necessary for China's small and medium enterprises to find good way to do e-commerce. We talk about the development of e-commerce in China and the current situation of China's international trade. Then we analyze the advantages and disadvantages of e-commerce that affect the small and medium enterprise's international trade. At last we provide some advices to help the small and medium enterprises to do the international trade by e-commerce. China's small and medium enterprises must learn how to use its own advantages and overcome their own shortcomings. The government also need perfect the laws and regulations, formulate effective policies to ensure healthy and steady development of small and medium enterprises international trade.

As a whole, in China e-commerce provide opportunity for the small and medium enterprises to develop their international trade. Due to historical reasons, China missed the industrial revolution, so China's enterprises do not have enough ability to complete in the world. It is necessary for China's enterprises to develop e-commerce to do the international trade, especially for the small and medium enterprises. If the small and medium enterprises can use the e-commerce in their business perfectly, not only the

enterprises can strength their ability to complete on international trade but also can improve the overall competitiveness of China.

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