China and India: The Growing Arenas for E-Commerce

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E-commerce, the use of the internet to make purchases of goods or services, is rapidly expanding in China and India. In 2012, China's e-commerce transactions amounted to approximately $190 billion and are projected to reach $540 billion by 2015 according to KPMG. India's e-commerce market, while much smaller in terms of value compared to that of China, has grown more than 300% between 2009 and 2013, and is also poised for rapid growth in the coming years according to the Internet and Mobile Association of India (IAMAI). This growth in both markets is largely due to the increase in mobile phone usage in China and India. Similar trends in these and many other emerging and developing economies are opportunities for U.S. and other foreign firms.

China and India's M-Commerce Landscape

China and India are the two countries with the largest number of mobile telephone subscriptions in the world, with China topping a billion mobile-cellular subscriptions and India ranking second in total quantity. The United States is a distant third at 306 million. While the relative size of the populations in China and India largely account for these differences, the relatively higher cost of mobile services in these two countries help to explain their lower Internet penetration rates (Table 1).

Table 1: China, India, and the United States by the Numbers

Metric	China	India	United States
Mobile-Cellular Telephone Subscriptions, 2013 (millions)	1,229	886	306
Mobile Internet Users, 2014 (millions)	557	173	165[a]
Percent of total Internet users that have mobile access	86	71	63
Mobile Subscriptions per 100 people, 2013	89	71	96
Internet Penetration (percentage of citizens with Internet access), 2014	46	19	87
E-commerce sales as a percent of Total Retail Sales, 2014	10.1	0.7	6.5
Cost of 500 MB of mobile data as a percentage of GNI per capita, 2012	3.8	2.9	2.1

[a] Estimated based on Pew Research Data

Rising mobile internet penetration has facilitated mobile commerce (m-commerce), i.e. the use of wireless handheld devices to connect to the Internet and purchase goods online. In 2012, China's mobile commerce market transactions totaled $7.8 billion and they are projected to reach $41.4 billion in 2015 according to KPMG. Moreover, while China's total internet population grew by 31 million in 2014, its mobile internet users grew even more (by 57 million). In India, growth in the value of transactions from 2012-13 to 2013-14 alone was 383% (from $1.25 billion to $5.79 billion), according to Forrester Research, and the percentage of e-commerce transactions on mobile devices in India increased from 2% in 2011 to over 50% in 2014.

Growing M-Commerce Sales

While China's year-on-year e-commerce growth rate seems to have peaked in 2012, it is still growing at over 30 percent annually and this is in part due to the significant growth in m-commerce. In 2014, China's equivalent of Cyber Monday saw TaoBao and Tmall bring in $5.7 billion in one day, and a quarter of those sales (in value) were done from mobile devices. Moreover, Amazon China announced last

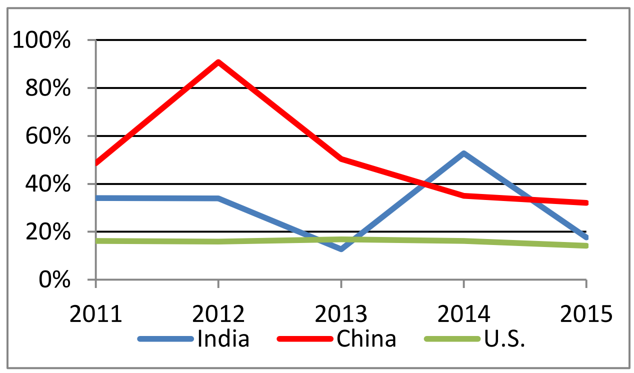
December that its percentage of sales from mobile devices had increased 142% since 2013. Mobile commerce is becoming a significant part of e-commerce in China.

In India, most of the major players in the e-commerce arena (Flipkart, Snapdeal, Jabong, and Myntra) don't have mobile applications, and instead customers rely on mobile versions of their websites which are frequently not as user friendly to navigate. This was the basis of one new marketplace's launch last year, Paytm, which offers not only a mobile application, but also a mobile messenger and a digital wallet for customer convenience. The site not only offers groceries, clothing, electronics, and sporting equipment, but even lets customers pay various bills online. As mobile commerce continues to gain popularity in both countries, liberalization of e-commerce regulations is an increasingly important issue for foreign-owned retailers seeking to increase their market share in China and India.

E-Commerce Policy Liberalization in China

China's e-commerce market is dominated by domestic companies such as Alibaba group and Weibo. Alibaba operates TaoBao marketplace, China's largest online shopping destination, and Tmall, China's largest third party platform for brands and retailers (both are the largest in terms of gross merchandise volume within their respective category). In January 2014, TaoBao accounted for 80% of the consumer-to-consumer market and Tmall accounted for 51% of the business-to-consumer market. Together, these two marketplaces are estimated to have totaled about 81% of consumer online purchases in China in 2013. However, in January of 2015, the Ministry of Industry and Information Technology (MIIT) announced that foreign investors are now allowed to set-up wholly foreign-owned e-commerce companies in the Shanghai Free Trade Zone (FTZ). Foreign ownership was previously limited to 55% in the Shanghai FTZ and 50% elsewhere in China. Moreover, the 2015 Catalogue for the Guidance of Foreign Investment recently went into effect, lifting the 50% foreign ownership cap on e-commerce. It remains to be seen what effect this has on market shares in Chinese e-commerce.

Figure 1: Percent Growth, E-Commerce Sales



Note: Percent growths for 2015 are estimates

E-Commerce Policies in India

While e-commerce liberalization has yet to occur in India, the Indian government has held discussions starting in 2014. Indian law forbids foreign investment in online retailing, and therefore all of India's top online sellers are domestically owned. However, some e-commerce firms such as Amazon and eBay operate in India since they are an intermediate Internet-based host for third-party sellers and not an actual online retail market themselves.

Sources: Alibaba Group Holding Limited, Asia Briefing Ltd., Associated Chambers of Commerce and Industry of India, AT Kearney, China Economic Review, CNNIC, eMarketer, Euromonitor, Forbes, Forrester Research, Global Policy Watch, International Telecommunication Union, IAMAI, KPMG Global China Practice, iResearch, Ministry of Industry and Information Technology of China, Pew Research Center, The Economist, United States International Trade Commission, World Bank.

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