

**THE REGULATORY AND TECHNOLOGICAL DEVELOPMENT
OF CHINESE E-COMMERCE
IN RESPONSE TO THE GLOBAL PANDEMIC**

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ABSTRACT

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Title: The Regulatory and Technological Development of Chinese E-commerce in Response to the Global Pandemic

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This past year, there has been an explosive growth in e-commerce due to the COVID-19 pandemic, and China has capitalized on this more than other countries. Its GDP grew in 2019 while that of other major economies declined. This is because today's Chinese economy can be traced to Mao Era government regulations and a Chinese Open Door Policy that ushered in outside knowledge which the government is now trying to cultivate by turning inward and focusing on national spending and growth.

The Open Door Policy 'opened' China to foreign investments and scientific modernization leading to mass urbanization and reforms experimentally applied in SEZs that spurred industrialization. This industrialization has supported China's transformation from a capital-oriented economy toward a knowledge-based economy. As a result, before the pandemic, China already exhibited features of an e-commerce economy such as e-payments, platforms for connecting businesses to suppliers, e-retail malls, and personalized customer service and experience. These features have benefited large technology companies like Alibaba and Tencent that now drive Chinese e-commerce by giving them access to large 'data inflows'; however, this has also taken away government and personal privacy control.

Given this background, Chinese e-commerce pre-pandemic was poised for growth in national consumption, and post-pandemic short-term and long-term changes in its e-commerce also promise future economic growth. A major part of this growth has been the government's proactive efforts through infrastructure investments, business incentives, and overall policies to stimulate e-commerce spending which has meant uneven growth and some setbacks for China, yet also GDP growth in 2020.

In this way, through overview, investigation, and analysis of a wide variety of resources such as journal articles, magazine articles, current online news articles, books, and my own internship research experience, this thesis gives the reader an understanding of China's current e-commerce economy as well as how it may change moving forward, especially as global post-pandemic e-commerce continues to unfold.

DEDICATION

I dedicate this achievement to my parents and professors
for their advice, encouragement, and patience
throughout this process.

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First and foremost, I am extremely grateful to my supervisors, Professor Miller and Professor Lai for their invaluable advice, support, and patience throughout the thesis process. I would also like to thank my parents for funding and encouraging my learning. They raised me to be thoughtful, hardworking, and persevering and for that, I am deeply grateful. In addition, I would like to thank Plan II for helping fund my bachelor's and my internship abroad in Shenzhen and for encouraging me to study abroad as early as orientation. I would especially like to thank my Plan II academic advisor, Ms. O'Donnell, for giving me the resources to research UT's study abroad programs, Dr. Wettlaufer and Dr. Davis for encouraging me to be proactive in writing my thesis, and Caroline Kraft, my thesis instructor, for spurring my progress on my thesis and helping me develop and run with my ideas. Thank you also to UT's Education Abroad Office for offering me the Freeman Scholarship to intern abroad. I am especially thankful to Ms. Uhlrich who encouraged me to search and apply for as many study-abroad scholarships as possible and helped me prepare for and reflect on my internship in Shenzhen. I would also have not been able to travel abroad without funding from the Gilman Scholarship fund which advocates and has encouraged me to advocate studying abroad programs to students across diverse majors. Finally, I want to thank Lovelys Powell, my McCombs academic advisor for encouraging me to reach out to professors and seek out academic opportunities, and my roommate and friend, Nathalie, for being a sounding board for my thesis.

PREFACE: MY INTERNSHIP

Would you do an internship in a country where you do not know the language? I made my first trip to China the summer after my sophomore year with my high school friend to intern at an investment firm in Shenzhen. We both did not speak Mandarin Chinese or any dialect. While my internship supervisor, the university-affiliated team that welcomed us, and the students we met in the program all knew English, my friend and I relied on Google Translate, gesturing, and everyone's help and kindness to navigate the city. As a result, I had a fun and insightful summer. I learned that communicating is more than just knowing the language and that the modern Chinese economy is technologically intertwined.

As I spent my weeks commuting to work on the metro or bus, eating lunch at the shops outside of my workplace, and exploring the city on the weekends with friends, I became what my supervisor would have described as an adventurous Chinese consumer. He encouraged me to do this because the best way to research a company is to become its customer. Also, while most of my work centered on my experience as an American consumer, I observed three things during my internship that have stayed with me and become foundations for this thesis.

The first observation was e-payments or electronic payments. In China, everyone communicates via WeChat, a multipurpose messaging, social media, and mobile payment app developed by Tencent (a multinational technology giant akin to Alibaba) and first released in 2011. The app allows you to add 'mini apps' or plug-ins from other companies to order food delivery or pickup and pay for your purchases without a debit or credit card. As a foreigner staying for only two months, I could not open a bank account and link it to my WeChat account, so I never got to use WeChat's payment features, but I still relied on it through friends that I made on the internship. WeChat payment was ubiquitous in China to the point where every store, from mom-and-pop shops to large outlets had a QR code for paying through WeChat, and some stores would not even take physical money. Being unable to pay with hard cash was shocking and led to two other observations.

I noticed that delivery, especially food delivery in China, was cheap and fast. During lunchtime, I would typically explore the eateries located in the commercial center where I worked. As a result, I had a lot of fun choosing a new place to try every day, and I never ran out of options. Some of my coworkers, though, would order food a few minutes before lunch and have it delivered to their desks at lunch. When asked about the costs, my coworkers said it was simply a few yuan more at most. Food delivery was fast because everything arrived on scooters that easily traveled around the busy city.

Finally, I noticed that Shenzhen had an overwhelming number of shopping malls. I dragged my friend to about five of them, and each was two to four stories tall and full of luxury, Western goods. As a research analyst during my internship, I found out that what I saw in

Shenzhen was not necessarily replicated in every Chinese city, but it was replicated online. Alibaba and its rivals had filled the Chinese internet with virtual shopping malls offering luxury, Western goods, and companies like Costco were profiting from being introduced to the Chinese consumer in a less costly way than operating physical stores, and just like food delivery, you could order from these stores and pay for your purchases through WeChat.

In this way, I learned about a technologically savvy form of commerce that I will refer to as e-commerce and define as “a transaction conducted commercially via the internet for [the] purchasing of goods and services” (“Global ECommerce Market (2020 to 2026) - Featuring Rakuten, Amazon & Alibaba Among Others - ResearchAndMarkets.Com”). But unlike U.S. e-commerce, e.g. Amazon and Uber, especially before the global pandemic, the Chinese e-commerce I encountered was ubiquitous and ruled by technology giants like Baidu, Alibaba, Tencent, and JD.com.

I left my internship with several questions in mind and chose to find some answers by taking an introductory course in Chinese history. This class answered many of my questions and gave me a framework for understanding the development of Chinese e-commerce both from the perspective of regulation and changing consumer behaviors. I have, therefore, since my internship, revised and simplified my questions down to two I answer in this thesis:

1. How have historic and modern changes in Chinese commerce led to a growing and innovative e-commerce system, today?
2. Given the effects the COVID-19 pandemic has had on commerce worldwide, what can China’s GDP growth, despite the pandemic, teach other countries about growing and rebuilding their economies?

When I began writing this thesis, I hypothesized that historic and modern changes in Chinese commerce could be traced to China’s Open Door Policy. I also suspected that Chinese e-commerce had played a large role in helping the Chinese economy grow despite the COVID-19 pandemic.

This was my hypothesis, because, at the start of the pandemic, e-commerce was thrust into the spotlight. To stop the spread of Covid-19, worldwide government mandates shut down nonessential brick-and-mortar retailers forcing those that could invest in an online platform to join the e-commerce market. As a result, there was a worldwide e-commerce boom. According to a report published by Salesforce in April 2020, “the number of unique digital shoppers rose 40% year-over-year (YoY)” with “digital shoppers [driving] 20% revenue growth compared to 12% in Q1 2019”, growth that actually “outperformed the pre-global pandemic 2019 holiday shopping season” and showed a decreasing gap between stronger physical store performance and lagging e-commerce sales. In fact, “just 10 years ago, e-commerce [had been] at 5.1% of total retail purchases (COVID-19 Thrusts e-Commerce into the Spotlight - ProQuest).

Therefore, I believed that e-commerce might be the key to post-COVID-19 economic recovery. If China's economy is at the forefront of e-commerce, shouldn't it be in the best position to recover the fastest? If this is the case, China's post-COVID-19 economic recovery could serve as a lesson for other countries struggling to do the same. But while China, since then, has economically recovered, especially in contrast to many Western countries, the reason for its recovery has not largely been e-commerce, although e-commerce growth has helped.

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INTRODUCTION

The modern Chinese economy can be understood by analyzing changes in recent history. In this thesis, I argue that pivotal modern economic shifts can be traced to government regulations that centered on opening China to foreign investments and internally capitalizing on these investments. These regulations have allowed the Chinese government to emphasize spending on infrastructure, help businesses resume exporting goods, and focus on national consumption, at times through e-commerce, to help the Chinese economy grow despite the pandemic's economic disruptions.

To guide the reader, I will begin with some background on Chinese economic policies that have led to China's current economic environment, and I will end this section with a brief discussion on China's economic development zones using Shenzhen as a prime example and application of China's current economic policies. The next section is divided into two: 1) modern characteristics of e-commerce and 2) the regulatory environment for e-commerce. In this section, I focus on China's 'technology giants,' multinational companies like Alibaba and Tencent that hold large market shares in several sectors and could be said to control Chinese e-commerce today. All of the sections up to this point primarily look at Chinese e-commerce before the pandemic and lay the groundwork for the following sections that look at how Chinese e-commerce has changed due to the pandemic. Therefore, the last two sections: e-commerce after COVID-19 and lessons moving forward, cover China's economic recovery through government support, the short and long-term impacts of the pandemic on Chinese e-commerce and conclude with the Chinese government's latest plans for moving forward.

I. BACKGROUND TO ECONOMIC POLICIES IN MODERN CHINA

Mao Era Economic Policies

China did not become ‘modern’ overnight but rather went through two main economic overhauls for the sake of modernization under Mao Zedong and Deng Xiaoping. The first major overhaul occurred during the Mao Era. Under Mao Zedong, the founder of the People’s Republic of China and Chairman of the Chinese Communist Party (CCP), China focused on land redistribution, building basic infrastructure for modernization, and transitioning from private businesses to government-owned factories.

Land redistribution was a big part of the CCP’s land reform efforts, and it helped to make the Communist Revolution a success since it meant taking “land from the landlords and giving it to peasants” who supported the party with the goal being “to end private ownership once and for all.” As a result, tens of thousands of landlords lost most of their property and belongings but were still left with their share and told: “they now had to till their land”. On the other hand, “according to one government claim, 300 million land poor peasants received 700 million acres of land” (Zheng, 160-161).

To fully begin modernizing, the regime realized it needed to build basic infrastructure. Therefore, it turned to the Soviet Union in 1953 to launch “its long-term economic policy, the First Five Year Plan, with two major goals: to focus on industrialization and to speed up the process of nationalisation in the economic sector” (Zheng, 161).

Focusing on industrialization meant “the building of basic infrastructure, the establishment of new aviation and automotive industries, the expansion of heavy industry and

agricultural modernisation,” to increase “the circulation of consumer goods and raise living standards.” A “great example is the development of Zhuzhou in Hunan Province,” which was originally “a tiny settlement of a few hundred people on the banks of the Xiang River.” Because it was chosen as “one of the eight industrial cities to be built during the First Five Year Plan,” “by 1958, the city was home to more than 100 government-funded factories, churning out China’s first airplane engine, first air-to-air missile, and first electric locomotive,” and it now “exports China’s high-speed trains and tracks [...] and has a population of 40 million” (Zheng, 161).

The First Five Year Plan’s second goal was to nationalize the economic sector. This meant taking “over small-scale family or village-run” industries, such as “tea plantations and local tea guilds” and “replace[ing] them with modern large [government-owned] factories”. As a result, ‘a centrally planned economy that denied peasants the opportunity to make supplementary income (a matter of “life and death at times of disaster) replaced the market.’ Apart from forcing owners to hand over their assets and operations, this ‘Joint State Private Ownership Scheme’ also dictated how they could plan and produce thereby constraining production and sales. Overall, the result was “a decline in morale, as no one had any incentive to work on land that was not their own and for-profit that was shared regardless of the work put in” (Zheng, 162).

The Open Door Policy

China’s leader after Mao, Deng Xiaoping “pushed for reform and the opening up of the economy” by reversing some of the economic policies of the Mao Era (Zheng, 183). He sought industrialization and scientific modernization, further investments in infrastructure, and decentralization of the economy.

To promote industrialization and scientific modernization, “in 1979, the Central Committee and State Department approved the establishment of Special Economic Zones in Guangdong and Fujian provinces where they could experiment with reform and examine its results;” Shenzhen was chosen as the first of these Special Economic Zones. Because of its proximity to Hong Kong, it was considered “the only exit from China to the British colony and the outside world.” To promote the city's scientific modernization, the government encouraged foreign investment and setting up joint-venture enterprises “thereby exchanging cheap labor, tax incentives, and markets for capital, technology, and management know-how”. Thus, Shenzhen was successfully transformed from a tiny village of “a few hundred Hakka and Cantonese” into a fashion and advertisement capital. It also opened China up to the global market and helped it obtain advanced technology, which further enabled China to develop the financial and educational sectors and speed up consumption and urban development”. In its efforts to continue this development, “fourteen more Special Economic Zones were set up” (Zheng, 184-185).

The government also heavily invested in infrastructure “to facilitate industrial reform and the movement of goods and people”. The government built modern highways, high-speed railways, and even airports from scratch ‘along with a fleet of regional and national airlines like Hainan Airline which now fly internationally’ (Zheng, 187).

Decentralization “meant the overhaul of state-owned factories and enterprises” to transition from “a planned to a market economy”. Unfortunately, state-owned enterprises had become “an iron-bowl for their workers, as they provided not just housing, health care, and a pension, but also childcare, education, and guaranteed employment for their [workers’] children in many cases”. To enable this transition, some enterprises “were allowed to produce and sell according to market demands,” and “some were allowed to set up joint ventures with various

Special Economic Zones and even foreign companies” (Zheng, 185-187). Those that could do neither tried to diversify their production or simply went bankrupt.

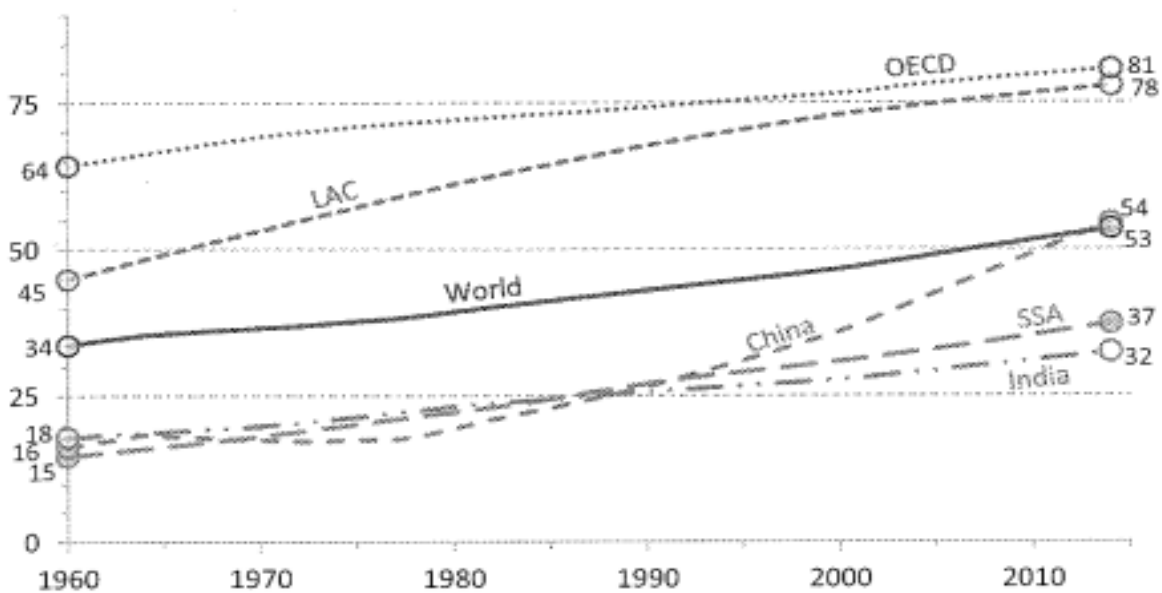
Decentralization could also be found through agricultural reforms. “Wars, disasters and then a planned economy and commune control had reduced agricultural productivity” and left peasants dependent on government support to survive. So the government introduced the ‘household responsibility system’ which gave peasants the right to own communal land and use it “for cash crops and sell their produce in the market as long as they fulfilled the state quota” (Zheng, 188).

Thus, Deng Xiaoping’s reforms sought to “open” China to foreign investments and scientific modernization as well as to modernize China’s infrastructure by directly investing in it and promoting a market economy by decentralizing the Mao Era’s state-owned factories and agricultural system.

II. FACTORS LEADING TO MODERN ECONOMIC POLICIES

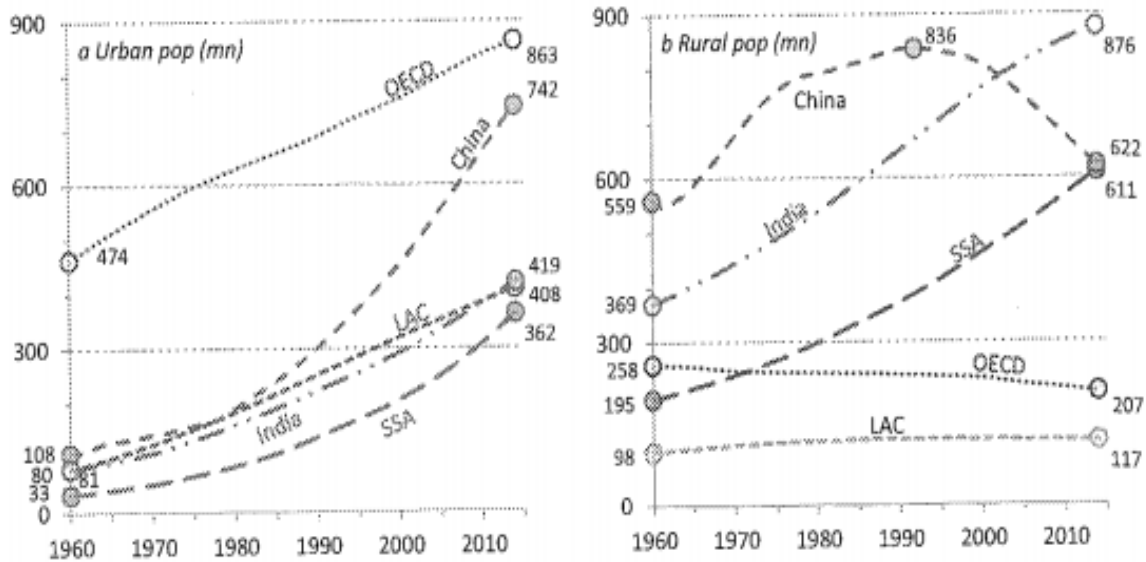
Urbanization

Partly due to Deng Xiaoping's reforms, China's era of modernization also resulted in urbanization. Industrialization helped speed up China's economic development process during this period to the point where China was "closing the [economic] gap with the U.S. at a much higher speed than India; "and "to enable this industrialization process, which largely occurred in big cities, a massive number of people moved from rural areas to the city" (Marrewijk, 103).



(Marrewijk, 105)

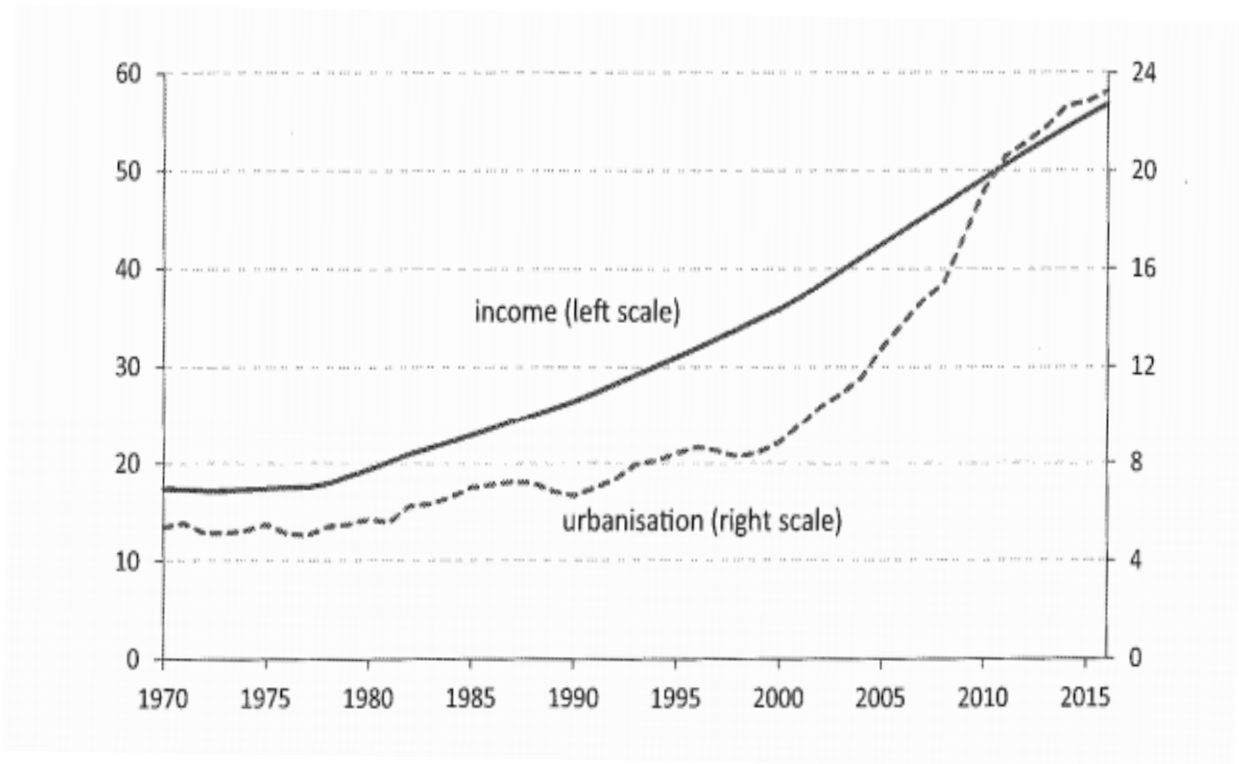
Figure 1: This figure compares urbanization (in millions) in China to OECD (*high-income* Organization for Economic Cooperation and Development countries, SSA (developing Sub-Sahara Africa), LAC (developing Latin America and the Caribbean), India, and the world from 1960 to 2010. It shows how China's urbanization was more accelerated during this period compared to the rest of the world.



(Marrewijk, 106)

Figure 2: The graph on the left shows urban population growth (in millions) and the graph on the right shows rural population growth (in millions) from 1960 to 2010 also comparing China to OECD, LAC, SSA, and India. While China's urban population shows exponential growth during this period, China's rural population grows and then declines to a level slightly higher than its 1960 level.

Figures 1 and 2 indicate how “China is responsible for [...] the largest urban population increase in this period, namely by 587% or 634 million people (from 108 to 742 million)” which is actually “higher than the total population of the European Union in 2015 and about twice the population of the U.S. in 2015” (Marrewijk, 106). Even if we consider the fact that some of the population growth in the cities and rural areas occurred independently, “under the simple assumption that the Chinese population growth is the same in the cities and the rural areas, the implied migration flow from the villages towards the cities in China is 461 million in the period 1960-2014” (Marrewijk, 106).



(Marrewijk, 108)

Figure 3: This graph depicts urbanization as a % of the total urban population and income per capita in China as a % of that of the US (relative to the US) between 1970 and 2016 showing a correlation between urbanization and economic development during this period.

This mass urbanization process has “a clear positive association” with “economic development in China in this period”, because “from 1978 onwards, at the start of the Economic Reforms, relative income per capita starts to rise from 5.4% of the U.S. in 1978 to 23.2% in 2016” as “the degree of urbanisation [...] starts to rise (with some fluctuations) from 17.9% in 1978 to 56.8% in 2016” (Marrewijk, 108). Thus, China’s economic reforms from the Deng Xiaoping Era onwards contribute to a mass urbanization process that supports and helps further the impact of these economic reforms.

International Trade and Supply Chains

Another important effect of China's economic policies that began with Deng Xiaoping was a shift in China's international trade activities and supply chains which explains China's current global economic position.

“Traditionally, the majority of China's trade has been with Asian counterparts [...] followed by Europe and North America”. This trading has involved trading intermediate goods by importing parts and components from different regional economies before assembling them and re-exporting the finished goods to the United States (US) and Europe (Salike and Willem, 116).

Due to the Global Financial Crisis in 2007, though, East Asia saw a “big drop in exports to its main markets, the US and Europe, as the purchasing power of Western economies fell” (Salike and Willem, 116-117). To combat this problem, China went through two main structural changes. “First, China increased its focus on the domestic market as the purchasing power of the Chinese people was going up over the years. Secondly, China geared up for increasing the innovation capabilities of its firms” (Salike and Willem, 117).

Thus, China saw a shift “from a capital-oriented economy toward a knowledge-based economy” following “the market-oriented reforms adopted by Deng Xiaoping since 1978.” “Trade and foreign direct investment were core elements of China's development strategy undertaken from that point onwards,” and these policy changes “led China to become one of the world's most attractive destinations for foreign investment” (Salike and Willem, 117-118).

Economic Development Zones

China's economic development zones, which are a key and enduring aspect of Deng Xiaoping's Open Door Policy, arguably had the most impact in modernizing China into a knowledge-based economy. Therefore, we will revisit China's Special Economic Zones and Shenzhen to better understand China's present technology or knowledge-based economy.

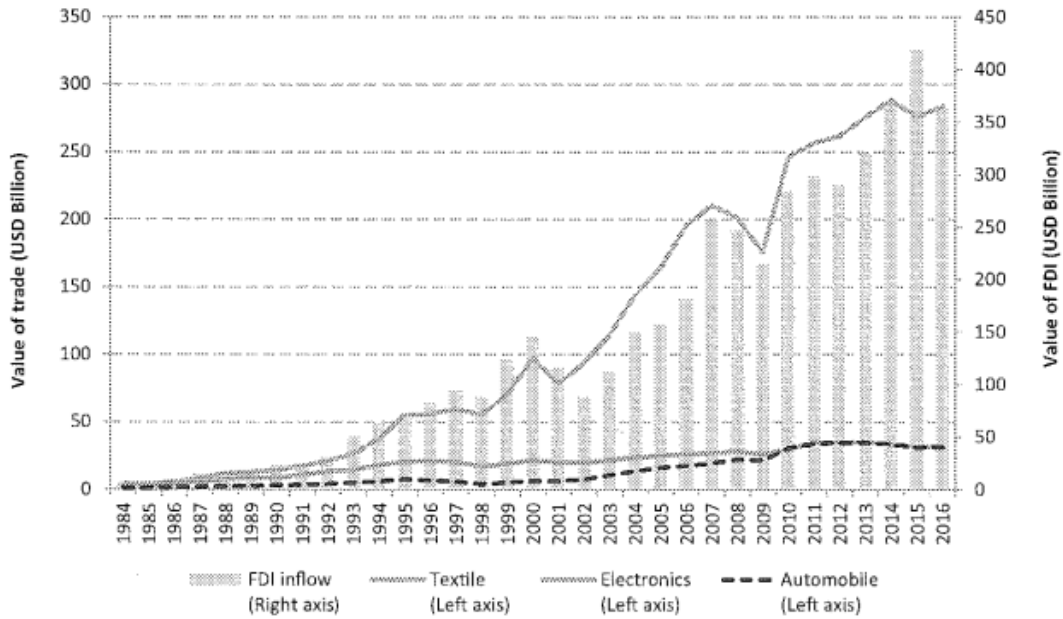
An important aspect of policy formation in China is its two-stage structure: "Firstly, the state determines the national priorities and then policies are tried on an experimental basis in specific regions to reduce the risk of failure". Then, "using lessons from experiment, the policy is implemented in the whole country" (Salike and Willem, 118). During the Deng Xiaoping Era, it was determined that industrialization was a priority, so trade and foreign investment as well as technology policies "were instrumental in attracting much-needed capital into the country" and promoting "continual industrial upgrading" (Salike and Willem, 118).

The first important regulation occurred in 1979 and was called the 'Law on Chinese-foreign Equity Joint Ventures. It "allowed foreign firms to have joint-equity ventures with Chinese partners that helped to expand international economic cooperation" and became "crucial in supporting advanced technology [...] to accelerate industrial upgrading" (Salike and Willem, 119). The second regulation, in 1986, called the Provisions on the Encouragement of Foreign Investment, "provided systematic preferential policies for FDI [foreign direct investment] and exporting enterprises," such as "priority of access to public utilities, loans, and credits, income tax exemption or reduction, tax refund for reinvestment, free duties for intermediate goods and final products' exports, etc." (Salike and Willem, 119).

In modernizing China's economy, Chinese reformers combined China's two-stage

structure in policy formation with trade, foreign investment, and technology policies in implementing Special Economic Zones (SEZs) for regional policy experimentation beginning in the Deng Xiaoping Era. As a result, an SEZ is “a specific geographical region within a national boundary that is set up with the specific goal of attracting foreign investment with the rules, laws, regulation, and governance only applicable to that specific region” (Salike and Willem, 120). Essentially, in China’s case, it is also “a designated experiment to evaluate if such an environment could be successful for the targeted goal and if successful could be implemented throughout the country” (Salike and Willem, 120). Therefore, SEZs aim to attract FDI, alleviate large scale unemployment, support wider economic reform, and act “as an experimental laboratory for broader use in [the] future” (Salike and Willem, 120).

SEZs have successfully met all these goals and then some. They have also “played a crucial role in the evolution of the East Asian Regional production networks that helped China to develop into the ‘factory of the world’” and “contributed significantly to national GDP, employment, exports, and foreign investment and new technologies, as well as the adoption of modern management practices” (Salike and Willem, 121).



(Salike and Willem, 125).

Figure 4: This graph compares the intermediate goods trade of textiles, electronics, and automobiles to the inflow of foreign direct investment (FDI) into East Asia between 1984 and 2016. The East Asian countries included are China, Hong Kong SAR, Taiwan, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, and Vietnam.

Figure 4 shows a positive correlation between FDI and trade in East Asia since the implementation of SEZs, which makes sense, as foreign investments during this period resulted in a transfer of technological know-how that transformed China into a knowledge-based economy. It also positioned China as a key player in the regional production network as a source of modern technological know-how and as a “production or assembly hub for [...] participating economies” (Salike and Willem, 127).

As a result, leading up to the global economic crisis, China had an economy with “high domestic investment, high dependence on the foreign market and low domestic consumption” (Salike and Willem, 131). It realized that it needed to rebalance itself to surpass its foreign dependence which meant “taking into consideration two main imperatives: increasing domestic

demand and promoting innovation.” So China shifted from an outward to an inward-focused economic policy with domestic consumption as “the main driver for economic growth” to combat sluggish foreign demand (Salike and Willem, 131).

Thus, China’s current economic policies are aimed at driving economic growth from within by utilizing “innovation enablers on both the supply and demand sides,” such as the “the availability of relatively cheap high-quality human resource;” government support “in providing specific funds and infrastructural assistance for startups and potential investors; “and a huge market of middle-income people (Salike and Willem, 132).

Shenzhen City Master Plan (2010 – 2020)

Now that we understand the history behind China’s modern economy: how industrialization and urbanization are correlated, how the Mao Era reforms were extended and changed by the Deng Xiaoping Era reforms, how Deng Xiaoping’s Open Door Policy has set China on a course of technological innovation that resulted in a dependence on foreign investment, and how the economic crisis forced China to look inward in further developing its economy, especially in terms of technological innovation; we should examine it in action on a smaller scale before trying to understand all of it in the context of e-commerce.

Shenzhen, China which was China’s first Special Economic Zone (SEZ). It grew from 0.3 million in 1980 to 8.9 million in 2009 and experienced extraordinary growth from a GDP of RMB 196 million in 1979 to RMB 820 billion in 2009, thereby attaining an “annual growth rate of 25.8% in 30 years” (Ng, 638).

The city has had four Master Plans, and its latest plan from 2010 to 2020 reflects many of China’s modern economic reforms as well as modern challenges. Since joining the World Trade

Organization in 2001, China has had an “obligation to create a level playing field for trade and investments” (Ng, 638). As a result, a city like Shenzhen, which benefited and rose due to China’s Open Door Policy, now faces fierce global competition for “domestic talents and overseas investments” (Ng, 638). It also faces bottlenecks like: “constraints of the carrying capacity of the natural environment, shortage of land supply, high mobility of a rapidly growing population, rising costs of production, escalating internal and cross-boundary traffic flow, pressure to renew the urban fabric and satisfy housing demand, and a pressing need to upgrade the economic structure and boost urban creativity”(Ng, 639). In other words, the city can “no longer rely on preferential policies to grow,” so it must come up with a plan that takes into consideration “various possible options for its future development” (Ng, 638).

Planning for the fourth Master Plan began in 2006 when “the Municipal Government engaged organizations outside the city and [...] outside the country, to undertake 20 inter-related research topics” such as: “collaboration between Shenzhen and Hong Kong, and Shenzhen and the Pearl River delta, sustainable development indicators, mode of governance in a city of transition, housing, transport, urban renewal, heritage, water, and energy conservation, etc.” (Ng, 639). The government proceeded to consult “the general public, trade organizations, government and economic enterprises, experts and professionals and non-government organizations” which responded by “ filling in questionnaires on the web; sending short messages to a designated platform; calling a designated number; writing to the Planning Bureau or joining the ‘planning and public’ fora” (Ng, 639).

The result was five-city functions and three developmental objectives.

The city functions are:

1. “An experimental site for integrated reforms to develop a creative, “circular” economy.

2. A national service base to support Hong Kong's development. Collaboration with Hong Kong to develop the place as an international financial, trade, and logistics center under the "one country, two systems" framework.
3. A base for national high-tech industries and cultural heritage.
4. An important border crossing point and an integrated transport hub for the country.
5. An internationally renowned tourism city by the sea." (Ng, 640).

And the city's development objectives are:

1. "To continue with the advantage as a reforming and creative city and to be a pioneering city in operationalizing the concept of scientific development to build a harmonious society.
2. To become an international model city with Chinese characteristics in building a prosperous economy, a harmonious society, and an energy-efficient, environmentally friendly, culturally vibrant, and ecologically livable city.
3. Rooted in the Pearl River delta, to build a world-class city-region through collaborating with Hong Kong and relying on southern China." (Ng, 640).

In this way, Shenzhen's Fourth Master Plan "tries to overcome resource constraints through promoting regional cooperation, intensified urban development and economic restructuring to build a sustainable and harmonious society," but this is not easily implemented. It requires "going beyond co-developing physical infrastructure to foster 'barrier-free exchange of people, capital, commerce and trade, information and service' when there are "major institutional, political and cultural differences between the cities" (Ng, 641-642). These are the underlying challenges present when analyzing China's economic growth through e-commerce.

III. CHINESE E-COMMERCE BEFORE COVID-19

Section III is the second of two parts on e-commerce before the economic upheaval of COVID-19 and uses Alibaba and Tencent as significant case studies. It discusses key modern characteristics of China's e-commerce and the regulatory environment that constrains these characteristics.

Part 1: Modern Characteristics of E-commerce

There are several important modern characteristics to China's e-commerce. These are e-payments, platforms for connecting businesses to suppliers, e-retail malls, personalized customer service and experience, and technology giants that drive e-commerce.

1.1 E-Payments

E-payments are an important modern characteristic of China's e-commerce because they have largely made e-commerce seamlessly possible and continue to drive it. Only recently, since 2000, have many "e-commerce" transactions in China typically involved selecting a product online but paying offline, usually via cash-on-delivery, much like pizza delivery in America" (Nah and Wong 56). As a result, that same year, "only 14% of China's 16.9 million or so Internet users reported having tried online shopping (including purchasing a product online, online auctions, online distance learning such as correspondence courses, etc.), compared to about 40% internationally" (Nah and Wong 57). This was because they "doubted the information posted on the internet, feared that after-sales services might not be provided, and feared that goods and services ordered online might not be delivered on time" (Nah and Wong 58).

The technology behind online payments has since improved and so has consumers' willingness to use it and company willingness to synchronize it with their websites and apps

creating the modern virtual e-retail experience present in Chinese e-commerce today. As a result, there has been a rapid growth in China's third-party mobile payment market which recently resulted in "226.1 trillion yuan" e-payment transactions in China during 2019 ("China Sees Reshuffle of Third-Party Payment Industry").

This growth has led to a third-party payment market in China, currently being restructured, "where related enterprises compete fiercely" ("China Sees Reshuffle of Third-Party Payment Industry"). It consists of "200-odd third-party payment companies that have obtained the permit to work on payment business." Two of them are Alibaba's Alipay and Tencent's Tenpay with a combined market share of over 93 percent" ("China Sees Reshuffle of Third-Party Payment Industry").

Online payments also continue to drive the modern market by offering opportunities in the Business-to-Business (B2B) marketplace and enabling cross-border e-commerce. For example, TD Holdings and JD Digits will soon launch a commodity payment platform that provides commodity trading companies with integrated solutions for online payments and FinTech needs ("FinancialBuzz.Com; E-Commerce Businesses Benefit as Traditional Retailers Struggle"). Also, e-payments have offered improvements to cross-border e-commerce by allowing Chinese companies to meet overseas demands and "experienced Chinese third-party payment companies to provide local enterprises in foreign markets with payment services and solution packages" ("China Sees Reshuffle of Third-Party Payment Industry").

1.2 Platforms for Connecting Businesses to Suppliers

Another important modern characteristic of Chinese e-commerce is the emergence of platforms for connecting businesses to suppliers. There are many barriers to entering the Chinese

market such as marketing and advertising, understanding the Chinese consumer, and “problems with counterfeits as even young designers are copied” (Indian Retail News), but the biggest challenge is *guanxi*.

Understanding the concept of *guanxi* is pivotal to understanding Chinese society in general and Chinese business practices in particular. "Guanxi, which is an important concept for successful business in China, refers to ‘relationships between people’"(Davison and Ou 282). These relations have become part of Chinese business practices, because “in China, markets are characterized by high levels of risk, imperfect information dissemination (particularly from reputable third parties), and a legal system that is both inadequate in the protection that it affords to transacting partners, and inconsistent in the way that rules are enforced" (Davison and Ou 282). As a result, traditionally Chinese companies "do not like the idea of conducting business with new partners without any personal contact, given the lack of corporate and credit information" (Nah and Wong 25) and therefore do not transact with foreigners or people they do not know and trust. "Furthermore, when [they] do agree to do business, they seldom enter into a legally enforceable contract, instead counting on the strength of the *guanxi* to guarantee fulfillment of their informally agreed transaction terms" (Davison and Ou 282).

Given how e-commerce emphasizes efficiency over relations, it makes sense that foreign companies have traditionally found it difficult to enter the Chinese market, especially because relations or "*guanxi* cannot be readily established electronically” (Nah and Wong 25). However, this idea has been changing due to technology giants like Alibaba. Alibaba has been able to establish B2B platforms that include "a reputation system which shows suppliers' credibility scores thereby rendering explicit much of the tacit knowledge of Chinese business transactions" (Davison and Ou 287) or knowledge traditionally acquired through *guanxi*.

Through Alibaba's platform, "product information is freely available as well as the means to contact new business partners in the form of embedded IM tools" which greatly improves "firms' supplier search capabilities" (Davison and Ou 287). In addition, their platform includes a reputation system that "combines a credit-appraisal system and IM tools to help buyers verify the certification of sellers, as well as bring buyers and sellers together" (Davison and Ou 288). A key part of this system is its ability to independently verify suppliers' certificates. This is done by having suppliers purchase a TrustPass logo that requires them to pay a fee and complete an authentication and verification procedure, conducted by a third-party credit agency (Guanxi, 292). To encourage suppliers to buy a TrustPass logo, Alibaba gives "companies that are certified with TrustPass a priority ranking in search results" (Davison and Ou 292). Also, Alibaba's platform is a hybrid model aimed at business cooperation, so communication takes place online, but on-site visits are necessary to control product quality" (Davison and Ou 293).

In this way, "Alibaba is effectively functioning as a substitute for traditional, offline social networks and thus engineering radical changes in the way business can be conducted in China" (Davison and Ou 281). This helps foreign companies break through the biggest barrier to enter the Chinese market enabling e-commerce's current rapid, global growth.

1.3 E-Retail Malls

E-retail platforms that function as virtual malls for both foreign and domestic brands have also become a key characteristic of modern Chinese e-commerce.

For domestic businesses, moving online has become a way for them to transform and upgrade their operations. The move online has pushed them to adopt a "complete channel integration as a business model" where they do not "simply bundle all retail channels together,

but rather open up information about products, sales, and merchandise deployment according to demands to provide a more seamless customer experience across physical stores, online platforms, mobile devices, and social media.” In this way, companies have been increasingly able to “provide consumers with diverse products and multiple channels by either establishing their online stores or leveraging e-commerce platforms” (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*).

Those that have chosen to leverage already existing e-commerce platforms have turned to e-commerce players like “Alibaba, Tencent, and JD.com to revitalize their physical store business by reforming their conventional operation model” (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*). These platforms have provided companies with new operational concepts, such as staffless stores. One example is “Alibaba’s Tao Cafe launched during the Taobao Maker Festival in July 2017 which applied new technologies like artificial intelligence and electronic monitoring to enhance operational efficiency and customer experience. Consumers first scanned a QR code via the Taobao App at the entrance of the store. When they finished shopping, they would go through the checkout doors where the purchase would be automatically checked and paid through their smartphones.” As a result, customers were able to do their shopping quickly and efficiently without staff supervision or help. Although this new technology may not be flawless, it is concepts like these and experiential testing that are helping domestic businesses modernize and revitalize their business models (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*).

In contrast, although foreign businesses have also largely moved online, most of their challenges have stemmed from finding and being accepted into Chinese e-commerce platforms,

rather than integration. Before entering the Chinese market, many foreign companies have opted to test it through those same e-commerce platforms run by key e-commerce players. The largest and most well-known of these platforms, specifically catering to foreign businesses, is Alibaba's T-mall. "Launched in 2008, the platform offers more than 22,000 brands directly to Chinese customers," and its counterpart site, T-mall Global, has allowed brands without a presence in China to sell to consumers since 2015 (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*). While these platforms have served as crucial testing sites for foreign companies interested in entering the Chinese market, they have also presented challenges to foreign businesses.

Two of these challenges have been upfront investments and acceptance into these platforms. T-mall, for example, requires an entry fee of around 11,000 US dollars which does not consider additional costs, such as building up your own social media presence to promote your brand. In addition, "even if you've found your agent and build your social media account, it's not guaranteed that your product will be accepted by the top e-commerce players. They can ask you to lead a marketing campaign and still refuse your product" (Indian Retail News). As a result, even as Chinese e-commerce evolves, it still poses challenges to both domestic and foreign companies seeking to capitalize on its rapid rise.

1.4 Personalized Customer Service and Experience

A third key characteristic of modern Chinese e-commerce is personalized customer service which creates a personalized customer experience. According to a PWC Global Consumer Insights Survey in 2018, "Chinese consumers are much more willing to share data and have high expectations they will receive a personalized experience because of it."

In other words, Chinese consumers are demanding a personalized experience. This is happening as the size of the middle class expands with population growth and “consumers in the 35-45 age group,” comfortable with using technology to enhance their everyday experience and help their family do the same, “gain the greatest spending power” (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*). These consumers like the convenience that comes with being able to “access online stores and services right from their smartphone devices” and “the sheer personal nature of mobile devices create their expectation for a more personalized shopping experience” (“The Future of Online Shopping”).

However, this consumer demand is not just focused on necessities, but increasingly on more discretionary goods shifting the consumption structure from commodities to services like online tutoring and telehealth. As a result of this shift, consumers are expected to favor or value more the experience that comes with the service, especially how it can be used to enhance their lifestyle. The result may be greater consumer brand awareness, in terms of brand concept and product quality (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*).

Due to this boost in consumption, “the world's leading online stores have already embraced personalization in their stores and helped customers with personalized access to their preferred products and services,” thereby improving their customers’ shopping experience (“The Future of Online Shopping”). However, ‘embracing personalization’ has meant a change in service concepts for many companies. For the department store sector, it has meant changing from a “merchandise-centered” to a “customer-centered” service concept (*Building a Solid*

Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017). As customers' spending power increases and they place greater importance on experience, companies have needed to worry less about "promotion" and more about "providing customers with solutions," like more accessible shopping and language services for foreign customers (*Building a Solid Foundation Advancing with the Times: An Overview of the Retail Industry in China 1997 to 2017*).

Personalization has become a key characteristic of modern Chinese e-commerce, as "no e-commerce store now can ensure a great shopping experience without personalized product recommendations, display of items, and payment options based upon earlier purchases". This is true not just because it has become what e-commerce customers expect, but also because it has become a valuable tool for companies. "Just by analyzing earlier preferences and customer behavior, an e-commerce store can quickly help customers find and purchase what they need" thereby facilitating and encouraging customer repeat purchases which fuels demand. Also, this process of data-gathering and utilization has become cheaper and more effective for companies with the emergence of machine learning algorithms and sophisticated data analytics tools ("The Future of Online Shopping"). As these tools are digital, companies are increasingly focused on providing customers with digital content, especially short formats of 5 seconds or less, live broadcasts, and consumer participation (Birtwhistle 20). Thus, providing more personalized customer experiences is now imperative for companies hoping to succeed in e-commerce.

1.5 Rise of Tech Giants as Drivers of E-commerce

Lastly, the rise of technology giants as drivers of Chinese e-commerce is an important modern characteristic because it parallels e-commerce developments in the U.S. with Amazon's

rise and explains why certain companies in China now dominate e-commerce.

As e-commerce has continued to develop and grow in China, companies like Alibaba, Tencent, and JD.com have decided to pursue new strategies they call ‘New Retail,’ ‘Smart Retail,’ and ‘Borderless Retail,’ respectively. Regardless of what they are called, all these strategies represent a “move into offline retail” that these internet giants have chosen to pursue through a “number of highly publicized build, buy, and partner strategies.” Their end goal is to create a “seamless consumer experience” behind their “walled gardens” (Birtwhistle 21).

As a result, there are two main “internet ecosystems in China: Alibaba, and the Tencent and JD alliance”. Each ecosystem has evolved from different core competencies, but both “span the entire value chain of online consumer experiences”. For example, a consumer in the Tencent ecosystem can seamlessly move from discovering a new product endorsed by their favorite KOL (key opinion leader or influencer) on WeChat to buying it on JD’s transactional environment. However, if that same consumer tried to transfer their finding from WeChat to Alibaba’s T-mall, they would be blocked. “In China, seamless consumer experiences (and data) only exist if the consumer stays within the ‘walled gardens’ of the internet giants” (Birtwhistle 21).

The ‘walled garden’ strategy is not just limited to online, however. Internet giants are also enforcing their ‘walled gardens’ offline. For example, Walmart has a strategic partnership with JD and announced in 2018 that it would no longer accept Alipay in Western China in favor of WeChat Pay because they want to “offer the best all-round shopping experience for [their] customers” (Birtwhistle 21).

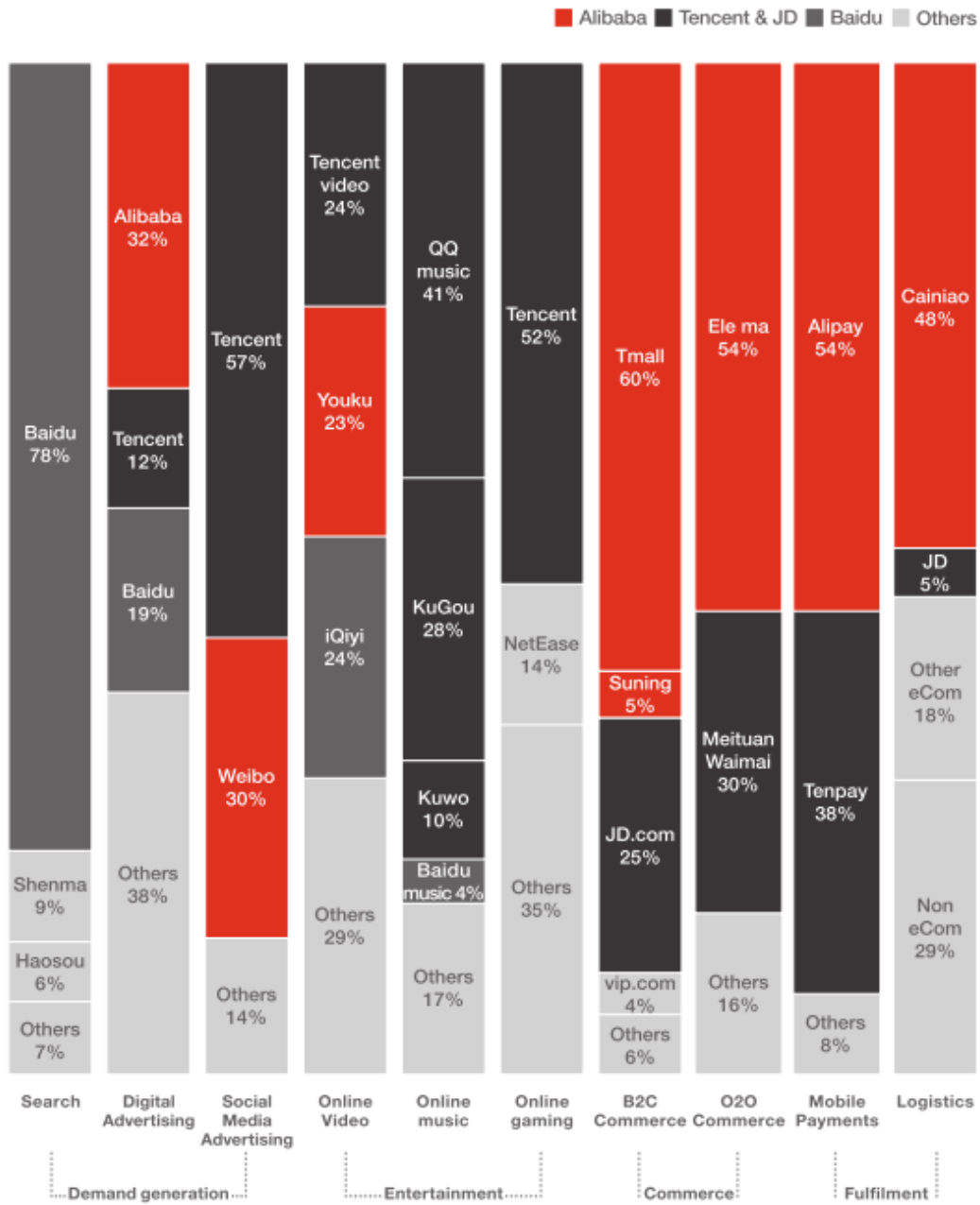
As previously discussed, the future of e-commerce does not only lie in market dominance and promotion but also in a company’s ability to provide ‘solutions’ to its customers. In this way,

the overall strategy for these internet giants is to “identify opportunities in the retail value chain where they can solve problems, build solutions and create new business models.” By following this strategy, they hope to capitalize on “China’s offline retail market worth around USD 4.5 trillion”.

A good example is Alibaba’s Hema which represents the company’s “modern grocery shopping format: consumer-orientated, digitally connected and smart logistics enabled”. Due to its innovative approach and future potential, it is already “being deployed by Sun Art Retail Group, a leading hypermarket operator with over 450 stores, as part of a USD 3 billion equity investment,” and similar strategies can be found “in the shopping mall and homeware sectors”. It is not hard to imagine a future where “brands and retailers plug into cloud-based solutions to enable next-generation applications in supply chain, product development, and production and sourcing” (Birtwhistle 21). Thus, the ‘walled gardens’ created by Chinese technology giants have been and are an ongoing characteristic of modern Chinese e-commerce worth examining, as these are the companies at the forefront of Chinese e-commerce developing and applying all the other major characteristics of modern Chinese e-commerce discussed: personalized customer experiences, e-retail malls, business to supplier platforms, and e-payments.

Value chain share breakdown for Chinese tech players, 2017(%)

Source: Stat counter; emarketer; china internet watch; Tech node iresearch china; Alibaba group; Website Research; PwC Analysis



(Birtwhistle, 23).

Figure 5: This is a value chain breakdown of China’s major tech companies as a percent of the market share each held in 2017. Companies under Alibaba are in red, under Tencent & JD in black, under Baidu in dark gray, and under other smaller companies in light gray.

Part 2: The Regulatory Environment for E-commerce

2.1 Antitrust Regulation

A crucial component of the Chinese regulatory environment and one that is now affecting top companies in China such as Alibaba and Tencent is antitrust regulation. This is because “China has had an anti-monopoly law only since 2008,” and since then, it has been selective in applying its anti-monopoly rules. However, recently Chinese regulators have been moving towards more stringent antitrust enforcement paralleling the U.S. to move from regulating what people read and say on technology platforms to regulating the platform’s size and clout (Zhong).

In recent years, Chinese regulators have mainly cracked down on foreign companies for violating antitrust rules. For example, in 2018, regulators in Beijing intercepted the \$18 billion purchase of Toshiba’s semiconductor chip operations by a group led by Bain Capital and South Korean chipmaker SK Hynix for 8 months for violating Chinese antitrust rules before they finally approved the deal. A probable reason for the deal’s approval may have had to do with “Beijing’s vested interest in the outcome as two of its so-called national champions —telecoms equipment maker Huawei and Lenovo, best known for its purchase of IBM’s laptop operations —rely on Toshiba chips”.

Another example is American chipmaker, Qualcomm’s takeover by Singapore-based Broadcom in 2015 which was eventually pulled since it violated Chinese antitrust regulations. Qualcomm has also been fined \$975 million by Chinese authorities following “complaints from the Mobile China Alliance, which represents the mobile phone industry, and the Internet Society of China”. Authorities concluded that “Qualcomm abused its dominant position regarding certain technologies and that some of its practices involved excessive pricing in return for access to

patents and the bundling of essential patents and less vital ones” (Sender).

By contrast, Chinese regulators have been much less sensitive to mergers between Chinese companies or anti-competitive tactics perpetrated by Chinese companies. For example, when investment firm “PAG merged its music-streaming company with that of Tencent in 2016, the two controlled 90% of the market. Yet neither worried anti-monopoly regulators” (Shan Weijian, group chairman and chief executive of PAG). Also, in December of last year, Chinese market regulators called out Alibaba and two other companies for failing to report some recent acquisitions and only fined each company about \$75,000 (Zhong).

The tactic of turning a blind eye to Chinese anti-monopoly seems to be changing, however, as regulators view technology giants like Alibaba and Tencent with more concern, just as U.S. and European Union authorities “curb the power of Western internet powerhouses such as Google and Facebook” (Zhong). The latest antitrust case in China has been against Alibaba which has become “a multinational conglomerate that includes retail, financial services, and cloud computing” (Kawase et al.), much akin to the U.S.’s Amazon.com, Inc. For perspective, “more than 750 million people — equivalent to over half of the country’s population — shopped on its platforms in the 12 months that ended in September” (Zhong).

In the past year (2020-2021), the company's co-founder, Jack Ma (Chinese name Ma Yun), gave up his board seat as chair of Alibaba, though he retains lifetime membership in the Alibaba Partnership which controls most appointments to the company’s board” (Kawase et al.). Stepping down was a strategic move as Alibaba’s market growth and dominance in recent years have given Mr. Ma an international status that may have struck a nerve inside the Communist party, which is determined to strengthen its hold on all aspects of Chinese society (Kawase et

al.).

In addition, Mr. Ma delivered critical remarks against financial regulators at a conference in October in Shanghai (Zhong). At the summit, he gave a speech in which he publicly attacked the country's financial watchdogs and banks, saying that "China's financial sector doesn't have a system" and that "Chinese banks operate with a "pawnshop" mentality" (Fang). Alibaba's monstrous growth, coupled with these comments, appears to have helped galvanize officials into putting Ant and Alibaba in their place, especially since people in China have viewed these companies as major beneficiaries of the authorities (Zhong).

As a result, in December 2020, the country's market watchdog "opened an investigation into whether the e-commerce group Alibaba had engaged in monopolistic practices" and separately confronted "Ant Group, Alibaba's finance-focused sister company, to discuss new supervision." Officials also proceeded to halt Ant's initial public offering days before its listing. Ant was likely targeted for its Alipay app which has become "an indispensable payment tool for hundreds of millions of people in China." Regulators have worried that Ant's growing influence in small loans and credit products could threaten the government-backed and regulated banking industry (Zhong).

Finally, a week after the IPO was delayed, "China's market regulator released proposed rules aimed at combating anticompetitive behavior by internet companies" like "using a platform's power to collect unnecessary data on users and locking users into specific platforms by making it hard for them to switch to others." One specific form of this anticompetitive behavior that the State Administration for Market Regulation has confronted Alibaba on is "exclusivity agreements, which in Chinese are described using a phrase that translates as 'choose

one of two.”” These agreements have long been used by large e-commerce sites in China to block merchants who sell on their platform from selling on others, particularly during big sales events, such as the annual Singles’ Day”. For example, Tencent “blocks its WeChat messaging service users from directly opening links to Alibaba’s Taobao site — the equivalent of Facebook blocking links to Amazon within its Messenger app” (Zhong).

By being more stringent on antitrust regulation, especially on its largest technology companies, Chinese authorities hope to control the e-commerce market, even as its growth becomes more intertwined with the national and international economies.

2.2 The Data Privacy Issue

Just like antitrust regulation, data privacy has become a growing concern for governments all over the world due to “the rapid development of the Internet, notably social media and e-commerce” which have helped generate “very large pools of personal data on digital platforms.” As a result, there has been a “fast growth of both legitimate and illegitimate collection and exploitation of personal information” (Han, 1) because the internet has been able to grow much faster than governments can regulate it.

Therefore, data privacy is a crucial component of China’s e-commerce regulation that needs to be analyzed.

Due to the internet’s explosive growth, several problems hinder the protection of personal data in China such as “unspecified overarching rationale, ambivalent market regulation, inadequate enforcement, as well as safety risks of governmental databases”(Han, 1). Some of these problems can be traced to advertising in China. For companies to grow their demand, they need to understand their customers, so they can accurately target them with ads or incentives to

buy or try their products. It is therefore not surprising that “advertising in China has resulted in an ever-increasing market demand for information on potential customers not as faceless consumers but as individuals with different preferences and needs” (Han, 2) and that harnessing this market demand has been difficult for Chinese authorities.

One way of gathering user data effectively has been through “China’s messaging applications, like WeChat and QQ” which have been able to accumulate “760 million and 860 million users, respectively” (Han, 3). Unlike messaging applications in the West that serve as a way to connect with friends and family such as Snapchat and WhatsApp, WeChat and QQ also offer other conveniences, such as food delivery, restaurant reviews, and banking, all of which require users to input more information besides their phone number and name. Therefore, “although Chinese Internet users tend to be on guard against explicit data collecting activities, they are more likely (compared with their US counterparts) to share their experience and information on social media platforms, even with strangers” (Han, 3).

This willingness to share personal information helps tech giants like Alibaba and Tencent grow and deliver a more personalized user experience but has been detrimental to government efforts to consolidate and control citizens' private information. An example is China’s credit reporting industry “which involves the collection of individual’s banking and credit records to assess one’s creditworthiness.” Historically, Chinese citizens have opened bank accounts through government-controlled banks connected to a central bank. However, due to “inadequacies of the central bank’s database,” which have resulted in a decline in bank account openings, “the database now only effectively covers 35 percent of the population”. It also does not have access to “consumer information on e-commerce platforms and social media sites and thus cannot fully meet the demand of the market in the fast-growing economy” (Han, 3).

To fill this demand and make full use of their user bases, “Chinese Internet giants have all created credit rating subsidiaries.” Alibaba’s Ant Financial Services, for example, “gathers data from more than 300 million real-name registered users” through its different businesses: “transaction records on Taobao and Tmall, payment histories on Alipay (similar to PayPal), and investment activities on Yu’e Bao (an online money market fund with 150 million users)” (Han, 3-4).

The result is that credit reporting and banking has largely been outsourced to large tech and e-commerce giants which has helped provide citizens with more banking options while also facilitating the banking process for them. It has also taken away government control on banking thereby making it harder to regulate. “In 2016 alone, Chinese police cracked more than 1,800 criminal cases involving the illegal acquisition and trading of personal data” (Han, 4).

2.3 A Study on Data Privacy

To better understand the issue of data privacy in China, specifically why Chinese citizens are seemingly more willing to give away more personal data than U.S. citizens, Tao Fu, a Doctor of Philosophy in Mass Communication and Media Arts at Southern Illinois University Carbondale conducted a study. This study chose to analyze Alibaba, Baidu, and Tencent as the “leading e-commerce platforms, search engine and instant messaging service providers,” because their growth and popularity are dependent on consumers’ data (Tao, 95). Also, to get a general opinion from clients of these large companies, the study recruited participants via email and WeChat solicitations to complete a 31 multiple-choice survey with two open-ended questions. Finally, “to avoid the community bias of this snowball sampling method, the researcher began with a diverse set of initial informants who were also encouraged to spread the survey to a

diverse group of people” (Tao, 101).

The results that this study found were that “Alibaba, Baidu, and Tencent comply well with Chinese laws,” yet Chinese consumers do not necessarily know how much information is being collected on them. These results make sense, because although “as a response to the increase of consumer data and the potential intrusion of privacy by Internet and information service providers (IISPs), the Ministry of Industry and Information Technology, a regulator of China’s Internet industry, enacted laws to regulate the collection and use of personal information by the IISPs,” the average consumer may not have read these laws or possibly does not take the time to scrutinize online privacy notices (Tao, 5).

Although the tech giant “Tencent provides the most information about the collection, use, and disclosure of consumers’ personal information,” its “consumers know little about Big Data technologies in terms of collecting their personal information”. Also, while citizens know that the government can access their personal information without their knowledge, they still tend to trust the government the most and therefore are not concerned about the government accessing their personal information.

Chinese consumers are more concerned about individuals who can access their online chats, images, and emails. They are much less concerned if individuals perform searches on them, track the websites they browse, and analyze their shopping and viewing habits. This is because they are worried about individuals harming them physically or socially. As a result, “Chinese consumers make more efforts to avoid being tracked by people who might criticize, harass, or target them; advertisers and hackers or criminals”(Tao, 6). The question, therefore, is why are Chinese consumers more willing to allow large companies or the government to access

and handle their private information more than individuals, especially if there is the possibility, they might misuse it or accidentally leak it to third parties?

2.4 Privacy Defined and Forms of Privacy Loss

While privacy, at first glance, may seem like a simple or straightforward concept but it is not. It is a 'Western' concept in China that is new and not as widely developed or understood as in the West. In fact, "privacy protection in China is at least 30 years behind that of Western developed economies and there is currently "no comprehensive legal system for privacy protection" (Tao, 22).

Before analyzing privacy law in China, it is important to define privacy from a Western view, which we can then use to compare to the Chinese definition, or understanding, of privacy. We will define privacy as "the claim of individuals, groups, or institutions to determine for themselves when, how, and to what extent information about them is communicated to others (Tao, 23). In defining privacy in this way, the concern will be "whether or not the flow of personal information is appropriate, which is governed by social norms subject to different contexts" (Tao, 34).

Three current and common forms in which personal information is shared or flows on the internet are through profiling, 'cookies', and cloud services. Profiling refers to the practice of "collecting and using pieces of information about individuals to make assumptions about them and their future behavior" (Tao, 44). This practice is common in marketing, where companies use such profiles to segment and target consumers. While not perfect, profiles give companies some insight into general consumer behaviors they can then incorporate into their business strategy.

Another strategy companies use to acquire user information is using ‘cookies’ to track user browsing. A ‘cookie’ is “a little piece of software code that embeds itself on your computer and records your movements around the Web” (Tao, 45). Cookies help companies deliver a ‘personalized user experience’ by enabling sites “to recognize returning customers or to keep track of the state of a given session, such as the items placed in an online shopping cart” or remembering that a user is still logged in (Tao, 45).

Third, companies can also acquire user data by providing cloud or storage services. Users can outsource their data into the ‘Cloud’ to enjoy “flexible universal access despite geographic locations,” but this process takes away users’ physical possession of their data or documents and puts it at Cloud service providers’ disposal. It can also be particularly dangerous to user privacy since cloud service providers like Apple’s iCloud, Google Drive, and Dropbox have all suffered from data breaches (Tao, 47). Additionally, a good example of how easily user data can be acquired by third parties is an algorithm that was developed in 2008 by Narayanan and Shmatikov at The University of Texas in Austin that could identify a subscriber from the Netflix Prize dataset only by knowing a bit about the movies a Netflix subscriber watched (Tao, 49).

What is even more alarming though, is that these strategies and others are used in combination by companies to acquire user data and to provide their core business services resulting in a constant flow of private information from users to companies. Therefore, privacy laws are more crucial than ever, although they might not be up to date.

2.5 Context for Understanding “Privacy”

Chinese consumer behavior, specifically social norms, can be traced to “Confucianism which gradually gained its dominance in China’s feudal history” (Tao, 21). Under Confucianism,

although privacy was not viewed negatively, “being committed to the public or the greater good was an expected virtue “and therefore more important than one’s privacy (Tao, 21). The Communist regime, which came into power in 1949, used Neo-Confucianism and this idea of working for the greater good to put “both urban and rural Chinese residents under peer surveillance in the name of social good” (Tao, 21). The result was that the word ‘privacy’ gained negative connotations.

For example, “the closest Chinese word to privacy is yinsi” (Tao, 71). “Yin means ‘hide, conceal’ as a verb, or ‘hidden, concealed or secret’” as an adjective. Si means the opposite of public, selfish, private, or illegal” (Tao, 71). Additionally, “Yinsi pertains to shameful conduct that, if revealed, could damage the reputation of the individual and community” (Tao, 71). If true, then privacy is damaging to individuals in Chinese society, because it can make others believe they have done something shameful they need to hide thereby destroying their and their community’s reputation. “Such damage could be deadly since Chinese tend to make great efforts to maintain their mianzi, or face” (Tao, 71).

Nonetheless, even though privacy can be viewed negatively in the Chinese social context, it was not nonexistent in ancient China, and it is not nonexistent now. “In ancient China, it was a privilege enjoyed by the elites (Tao, 71). For example, “in the Ming (1368-1644) and Qing (1644-1912) dynasties, building exquisite and poetic private gardens was a fad among literati, to whom they were an “otherworldly realm apart from noisy city life” (Tao, 72). A parallel can be drawn to today, where “privacy and retreat have become the pursuit of the new Chinese middle class” (Tao, 21) as a result of several factors such as “the ebb and flow of predominant ideologies from Confucianism to socialism to consumerism and the shift from a planned to a market economy and from nationalization to privatization” (Tao, 70).

2.6 Data Privacy Regulation

As previously shown, privacy as a concept in China is new, and personal data protection laws are also new and evolving. Because of this problem, China currently has many laws and regulations which pertain to personal data protection, since both the government and citizens are still in the process of acquiring a somewhat Westernized concept of privacy. In fact, “a researcher working at the Ministry of Industry and Information Technologies (MIIT) counts about 40 laws (enacted by the National People’s Congress [NPC], the supreme legislature), 30 regulations (promulgated by the State Council, the cabinet-style central government), and 200 lower level rules that protect personal information” (Han, 4). The problem is not that China lacks laws that offer data protection, but that the government lacks a definition and complete understanding of data protection, especially as it continues to evolve through everyday citizens constantly sharing their information with China’s e-commerce giants.

Although the concept of privacy is related to data protection, there is a key difference between privacy and data protection. “Privacy is about preventing disclosure of certain facts, but personal data protection is about the control and exploitation of information that may or may not be private.” In other words, privacy as a Western concept is a way in which people are allowed to keep information for themselves as independent individuals, while personal data protection extends those rights and allows individuals to control that information, especially its use if it gets out. As a result, while the idea of privacy has been evolving in China since the Ming and Qing dynasties, personal data protection is newer, so the protection of privacy seems to fare better than personal data protection under Chinese law (Han, 5).

One of the most important recent legal frameworks for personal information protection in

China is the “Information Security Technology Guidelines for Personal Information Protection on Public and Commercial Service Information Systems [commonly referred to as Guidelines].” It came into effect in 2013 and is “the first national standard for personal data privacy protection in China” (Tao, 22;56). Under Guidelines, ‘personal information’ is defined as “computer data that is handled in computer systems, that are related to a specific natural person, and that can be used independently or in combination with other information to distinguish that specific natural person” (Tao, 56).

Furthermore, personal information is classified into two types: ‘general personal information’ and ‘sensitive personal information’. Sensitive personal information is simply “personal information that may harm the subject once leaked or altered”. This definition includes “Chinese identity card numbers, mobile phone numbers, ethnicity, political viewpoints, religious beliefs, genes, and fingerprints.” Anything else is simply considered general personal information. According to Guidelines, only tacit consent, or a lack of clear opposition, is necessary for the collection and use of general personal information, while explicit consent, or clear authorization, is necessary for the collection and use of sensitive personal information (Tao, 56-57).

Another important and recent regulation is “The Provisions on Protection of Personal Information of Telecommunications and Internet Users (hereinafter Provisions).” It also came into effect in 2013 and provides “rules for telecommunication service providers and Internet information service providers (TSPs and IISPs) in the collection and use of users’ personal information” (Tao, 57). The Provisions define ‘personal information’ as “information relating to individuals collected by telecommunications operators and Internet information service providers,” such as “names, dates of birth, identity card numbers, addresses, telephone numbers,

account numbers, passwords and other information that could be used, either independently or when combined with other information, to identify the individual to which the information relates” (Tao, 57).

In this way, the Provisions are similar to the Guidelines, but unlike the Guidelines, the Provisions do not distinguish ‘sensitive personal information’ from ‘general personal information’ and lack the Guidelines’ “very careful structure and considerable detail,” suggesting that “China is moving away from having a patchwork of largely unrelated sectoral data privacy laws (somewhat like the US) toward a more coherent structure” (Han, 5). Unfortunately, although the government may have originally intended to legally back the Guidelines, they were not reevaluated on their expiration date in 2015, so its legal status is currently uncertain (Han, 5). By contrast, the Provisions and its subsequent reiterations like the Information Security Technology – Personal Information Security Specification (the “Specification”), which came into effect on May 1, 2018, are not legally enforced and simply recommendations or ‘best practices’ that the government has asked companies to follow voluntarily.

Personal data protection under Chinese law still has a long way to go before it is defined well enough “to draw a line between acceptable commercial practices and individual control over information on her/his life” (Han, 6).

IV. CHINESE E-COMMERCE IN RESPONSE TO COVID-19

The COVID-19 pandemic has had global effects and overall contributed to a decline in economic growth in many countries like the U.S. It has also increased the number of millennials watching more TV on subscription services to nearly 60%, fueled social commerce, which is now predicted to grow from 3.2% to 4.3% of all e-commerce sales this year, increased online sales to 45% year-over-year for the 2020 holiday season, grown grocery delivery and pickup five times between August 2019 to November 2020, increased the number of hours consumers spend per day online by 15% year-over-year from 6 hours and 49 minutes in 2019 to 7 hours and 31 minutes in 2020, and forced social media outlets like Facebook to remove organic posts that have false claims, such as COVID-19 misinformation (“How Coronavirus (COVID-19) Is Impacting E-commerce [February 2021]”).

While many of these trends apply to Chinese e-commerce, an important differing aspect of Chinese e-commerce is that the Chinese government has used it as a factor towards economic recovery. Therefore, China saw overall economic growth rather than a decline in 2020.

Part 1: Government Support of Economic Recovery

The main reason why China has been able to begin economically recovering from the pandemic has been due to government support, such as investments in infrastructure, stimulations in consumer spending, especially in e-commerce, and incentives for businesses.

1.1 Growth and Growth Plans

Unlike many other countries, China saw economic growth in 2020. “The Chinese economy rose 2.3 percent last year,” according to “the country’s National Bureau of Statistics”

(Bradsher 1). This growth is surprising, because when the virus emerged in Wuhan, “travel and business ground to nearly a halt” shrinking the economy by 6.8 percent in the January-March period compared with 2019, “the first contraction in nearly half a century” (Bradsher 1).

Luckily, the government took action immediately by "completely locking down multiple affected areas, constructing hospitals in record time, and providing lifeblood to the economy and citizens through [...] stimulus measures" (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*). As a result, China saw recovery during the second quarter of the year going “up 3.2% year-on-year after [its] steepest decline” (Cheng et al, “2020 Global Consumer Insights Survey China Report”). “Since then, the economy has improved steadily, finishing the year with a last quarter growth of 6.5 percent” (Bradsher 1).



(Bradsher, 1).

Figure 6: This graph from the National Bureau of Statistics depicts China’s GDP growth in the first two quarters of 2020 going from -6.0% to 3.2% which is lower but closer to its ~6.5% GDP growth in 2018.

In this way, "China has shown exceptional resilience and adaptability" in facing the COVID-19 pandemic (Cheng et al, *Back to Business: An Update on How China’s Consumer*

Market Is Recovering from COVID-19). Moving forward, it plans to continue its economic growth by creating "over 90 million jobs in 2020, while maintaining urban unemployment within 6%" and offering "further tax cuts and reduced fees for businesses" (Cheng et al, "2020 Global Consumer Insights Survey China Report"), which so far, has meant investments in infrastructures, a push towards national consumer spending, and business incentives directed at the resumption of factory work and international exports.

1.2 Investments in Infrastructure

Although "every major city in China was already connected with high-speed rail lines, enough to span the continental United States seven times," China still chose to increase its infrastructure spending to add new lines to smaller cities and to do this rapidly, "construction companies [even] turned on floodlights at many sites so that work could continue around the clock"(Bradsher 4). As a result, "fixed-asset investment in everything from high-speed rail lines to new apartment buildings climbed 2.9 percent last year," and these investments and exports are "expected to power the economy in 2021" (Bradsher 4).

1.3 Business Incentives and Exports Resumption

Another key aspect of China's economic recovery in 2020 has been government measures to recover its export levels by resuming factory work as quickly as possible and providing business incentives. During China's lockdown of Wuhan, the government "moved to get manufacturing up and running again in other areas" by providing "long-haul buses to get workers back from their home villages to factories after Chinese New year," extending special loans to factories, and giving partial refunds of business taxes that had been paid before the pandemic" (Bradsher 3).

The government has made these investments to combat a halt in overseas orders and increased difficulties in fulfilling existing orders “due to [a] disrupted supply of intermediate products and raw materials” even after Chinese factories resumed production at capacity (Cheng et al, “2020 Global Consumer Insights Survey China Report”). As "the pandemic situation in overseas countries [...] added to the uncertainty of the manufacturing industry at home,[...] insufficient demand in international markets, difficulty in capital turnover, and poor cross-border logistics [...] caused a number of recovering enterprises to face production cuts and shutdown risks" (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*). "Supplier lead times across different categories [...] increased by 222% on average in China and 200% in the U.S" and most importantly, the " factory outputs of [...] high value-added items involving upstream and downstream supply such as consumer electronics and medical equipment" decreased (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*).

To recover, global industry supply chains have had to undergo a process of reconfiguration that has increasingly favored a "China + 1" strategy as a way to diversify [...] supply chain risks while retaining [...] exposure to China's market opportunities" (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*). They have also added to this model by combining it with “more efficient and larger-scale manufacturing models shaped by customer-driven demands, or the C2M (Customer to Manufacturer) model"(Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*). American and European companies have increasingly favored this approach because the Chinese government’s efforts to quickly resume factory activity have made it increasingly clear that Chinese factories can meet the demand factories

elsewhere have struggled to meet by turning “to nearby suppliers to replace imports as transoceanic supply lines [have become] less dependable” (Bradsher 3).

When surveyed, “84% of American companies operating in China had no plans to move production or operations outside the country due to COVID-19, [...] 72% said they had no plans to shift sourcing[, and] 68% of surveyed companies said they expect China operations to recover from coronavirus-related disruptions within three months” (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*). Since then, China’s exports have grown: “18.1 percent in December compared with the same month a year earlier, and [...] 21.1 percent in November” (Bradsher 4).

1.4 National Consumer Spending and E-commerce

Apart from infrastructure investments and government efforts to support factory resumption and exporting activities, the government has also supported national consumer spending in e-commerce to boost the country’s economic recovery.

The first example is Hainan, a small southern island province in China that the government had previously positioned as “an international hub for consumption and tourism” and has used to boost local consumption by implementing new duty-free shopping policies that have successfully drawn tourists from other cities to shop in Hainan, rather than abroad, especially during the pandemic” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

In addition, more than 40 Chinese cities “have launched voucher campaigns to boost hard-hit domestic consumption,” which since March 13, have encouraged citizens to spend more and also, “leveraged consumption worth over 10 billion yuan” (Cheng et al, *Back to Business: An*

Update on How China's Consumer Market Is Recovering from COVID-19).

More directly, the Shanghai government initiated the "Double Five Shopping Festival" and "achieved sales of more than 58 billion yuan, with combined sales from online and offline channels exceeding 10 billion yuan just 20 hours after the event launched". The government's efforts were supported by top sellers like "Walmart, Starbucks, Muji, H&M, and Lyfen" which used "WeChat's mini-program to give away coupons worth a total of 2 billion yuan" (Cheng et al, *Back to Business: An Update on How China's Consumer Market Is Recovering from COVID-19*).

One other way the Chinese government has chosen to boost economic recovery during the pandemic has been through increasing national consumption through e-commerce, and they have been largely successful. Now, more than ever, demand in China "is being channeled towards e-commerce platforms."

The success was apparent on "China's 2019 11/11 Singles' Day, the world's largest yearly online shopping event" which "exceeded the sales volume of previous years setting a new record of 268.4 billion yuan (\$US 38 billion) in total sales volume on Alibaba's Tmall" and "outpacing that of Cyber Monday and Black Friday combined." In addition, the number of internet users has surged due to China's nationwide lockdown to over "904 million people as of the first quarter of 2020" (Cheng et al, "2020 Global Consumer Insights Survey China Report").

Nonetheless, it is important to understand that this rebound in consumer spending, known as 'revenge shopping,' may be temporary and has largely been a third factor to economic recovery, with infrastructure investments and industrial production being more direct factors (Bradsher 4). Although Alibaba "reported sales of 153.8 billion yuan (\$22.2 billion) and net

income of 47.6 billion yuan in the June [2020] quarter,” much of that stemmed from record sales during June “as heavy discounting lured shoppers who had delayed purchases during the national lockdown” (Bloomberg News), as well as “ad sales and selling other services to third-party merchants on its platform” (Lin and Prang).

1.5 Success in Growth with Setbacks

Although China has been successful in recovering and boosting its 2019 GDP, it is important to note that recovery is uneven, and the country continues to face setbacks. While “factories across China are running in overdrive to fill overseas orders and cranes are constantly busy at construction sites,” which has led to “a boom in exports and debt-fueled infrastructure investments that are expected to drive the economy in the coming year” providing plenty of jobs for blue-collar workers, there is job scarcity “for recent college graduates with little experience.” Also, while “service businesses like hotels and restaurants did well late last year in big coastal cities like Beijing and Shanghai,” many “never fully recovered in inland provinces,” and while consumer electronics or personal protective equipment producers have benefited from the pandemic, “exporters to poor countries devastated by long travel have not” (Bradsher 1-2).

Additionally, China continues to suffer small Covid-19 outbreaks, which the government has aggressively and efficiently responded to “by building hospitals, imposing mass testing and putting at least 28 million people under lockdown”. As a result, while China had nearly 100,000 total reported cases, it also had fewer than 5,000 deaths (mostly centered in Wuhan) which came out to about 150 cases a day while the United States has had “220,000 cases a day and 3,300 daily deaths” as of January 18, 2021 (Bradsher 2).

Part 2: Short-term impacts of the Pandemic on Chinese E-commerce

Just as the pandemic has affected global consumers, it has also affected Chinese e-commerce both in the short and long-term. In the short-term, there has been an evolution in digital platforms geared towards attracting savvy consumers; there have also been supply chain reconfigurations, increased reliance on a more direct customer model known as C2M, and increased demand for luxury goods.

2.1 Evolution of Digital Platforms for Digitally Savvy Consumers

Before the pandemic, live streaming had gained prominence “as a viable way to market, communicate, and sell products online” in China, and the pandemic has simply increased its use (Cheng et al, “2020 Global Consumer Insights Survey China Report”). In fact, “it is estimated that live-streaming shows will drive a transaction volume of 500 billion yuan (about \$US 71.4 billion) on Taobao in the next few years.” This is because companies see it as an engaging way to showcase their products through real-time visuals and audio, demonstrating their various applications and pointing out their benefits while also quickly responding to customer questions. “Most importantly, live streaming enables brands to be introduced to consumers through a richer experience”(Cheng et al, “2020 Global Consumer Insights Survey China Report”).

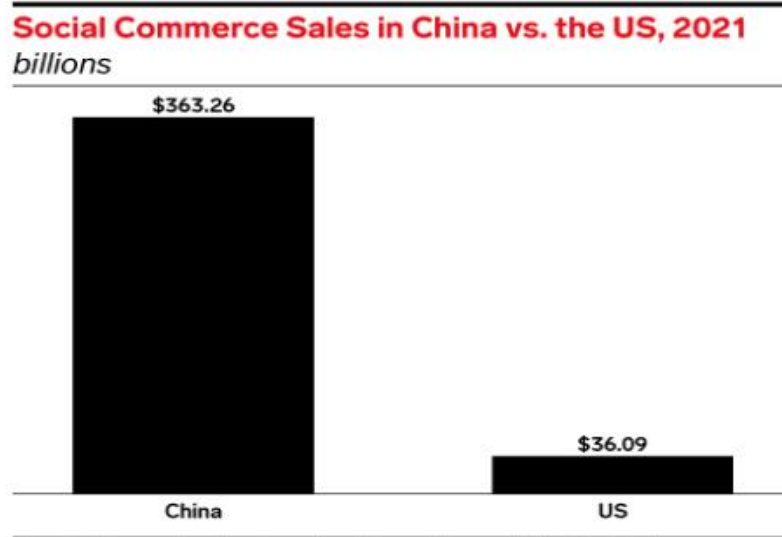
In addition, live streaming as social commerce, which includes “products or services ordered by buying directly on a social platform, or through clicking links on the social network that lead to the retailer’s product page with an immediate purchase option”(Lipsman), “allows consumers to buy products directly through social media networks” (Cheng et al, “2020 Global Consumer Insights Survey China Report”). This more direct form of reaching the customer has become more prominent in Chinese e-commerce since the government placed “measures to

control movement and contact between people,” which accelerated the “adoption of artificial intelligence, automation, and robotics” in the delivery process. “To achieve zero human-to-human interaction, tech companies have increased their use of automated delivery services”. For example, “online retailer JD.com used drones and robots to distribute medical materials in Hubei province during the lockdown period, while Baidu deployed autonomous vehicles to serve various purposes in the epidemic area” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).



(Lipsman).

Figure 7: This graph compares and estimates social commerce penetration between China and the US from 2017 to 2023 as a % of total retail e-commerce sales. It “includes products/services ordered via social networks (e.g., Facebook Marketplace, Instagram Checkout, WeChat Mini Programs, Line Shopping, VK Market) regardless of the method of payment/fulfillment and excludes travel and event tickets payments (e.g., bill pay, taxes, money transfers, food services/drinking place sales), gambling, and other vice goods sales” (eMarketer).



(Lipsman).

Figure 8: This shows how much social commerce sales in China are expected to outrun social commerce sales in the US in 2021 in billions. It “includes products/services ordered via social networks (e.g., Facebook Marketplace, Instagram Checkout, WeChat Mini Programs, Line Shopping, VK Market) regardless of the method of payment/fulfillment and excludes travel and event tickets payments (e.g., bill pay, taxes, money transfers, food services/drinking place sales), gambling, and other vice goods sales” (eMarketer).

Thus, live streaming has given rise to "retailtainment" which has enhanced supply chain efficiency and cash turnover for retailers and provided “brands with greater customer responsiveness, continuous engagement, and higher conversion rates” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

2.2 Supply Chain reconfiguration and Rise of the C2M Model

As previously discussed, global supply chains have undergone a reconfiguration, which in the short term has become a beneficial characteristic of Chinese e-commerce. Due to the pandemic, global supply chains have seen many disruptions. Even so, the Chinese government’s investments in infrastructure and business incentive policies have been able to convince manufacturers and retailers to keep their investments in China and to rely on them. They have

therefore increasingly adopting a "China + 1" strategy" which involves the use of "dual or multiple supply chains -with the core one catering to the Chinese market (also known as in-China for-China strategy)" and another "offshore based on benefits of specific operations" (Cheng et al, "2020 Global Consumer Insights Survey China Report"). This reliance has led to the rise of the consumer to manufacturer or C2M model which aims to implement supply chain cost efficiencies through technology.

For example, "Pinduoduo [...] has managed to offer its users highly competitive pricing" by connecting individual manufacturers and factories [to] consumer insights, such as [...] location, preferences, and behaviors" on a direct-to-customer platform" which has gained popularity among bargain-seeking customers, particularly in lower-tier cities". There, "buyers tend to be more price-sensitive and more likely to engage in group-buying" (Cheng et al, "2020 Global Consumer Insights Survey China Report").

Likewise, "a new app on Taobao, which works directly with factories instead of brands to create C2M products" aims to create "'super factories' to directly supply customers across 1000 categories over the next three years" by having buyers "directly purchase from a network of manufacturers offering unbranded, customized items from hair dryers to kitchenware" (Cheng et al, "2020 Global Consumer Insights Survey China Report").

In these and many other ways, C2M is being increasingly used "by retailers to address challenges in demand forecasting, product customization, and inventory management" (Cheng et al, "2020 Global Consumer Insights Survey China Report").

2.3 Growth in the Luxury Goods Market

One last short-term impact the pandemic has had on Chinese e-commerce is increased

spending in the luxury goods market. Before the pandemic, there already existed a preference among Chinese consumers to buy branded luxury items because of the added social value these items bring. In the wake of the pandemic, this has not immediately changed proving that China's luxury market is one of the “most resilient and best-performing sectors”.

In 2020, “purchases by Chinese consumers accounted for about 40% of total luxury sales globally, and this proportion is forecasted to advance further to 50% by 2030.” Nonetheless, the market boom in 2020 may still be short-term, because it seems as if Chinese consumers are ‘revenge shopping.’ “Many middle-class Chinese shoppers who had suppressed their consumption previously,” due to China’s lockdown and travel bans, “are now spending more on premium brands like Hermès, Chanel, and Gucci because of their attractiveness as [an] alternative investment and means of wealth preservation” (Cheng et al, “2020 Global Consumer Insights Survey China Report”). Some of this growth is fueled by online shopping mall platforms like Alibaba's Tmall platform which “reported record-level participation from luxury brands for its 5.20 (“I love you” in Mandarin) sales campaign on May 20” where it showcased “5,000 new products from 150 premium brands” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

Also, it is important to note that e-commerce growth in luxury goods due to the pandemic is not just a Chinese phenomenon. The pandemic has also “revealed just how important e-commerce is to the future of luxury goods” in the West. Last November, “Richemont, which owns Cartier and Van Cleef & Arpels, and the Chinese technology titan Alibaba announced that they were making a \$1.1 billion investment in the online fashion retailer Farfetch” which is “an invitation-only luxury” app that has “dominated the Western luxury e-commerce landscape” for the last decade by letting brands control how their goods are presented. This investment signals a

challenge to U.S. e-commerce giant Amazon which has shown interest in dominating the luxury goods market through two recent initiatives: special storefronts in the U.S. and Europe in conjunction with Vogue and local fashion councils and the introduction of a new app called Luxury Stores “geared toward Amazon’s 150 million Prime subscribers” (Paton and Friedman).

Growth in China’s luxury goods market is a global impact of the pandemic that has become more apparent in China than elsewhere because there already existed a strong market for luxury goods, which the pandemic, as well as outside investments, have strengthened.

Part 3: Long-term Impact of the Pandemic on Chinese E-commerce

Some long-term effects of the pandemic on Chinese e-commerce are a shift to online-based consumption, new opportunities for market growth with Generation Z consumers, and growth in urban consumption in lower-tier cities.

3.1 Shift to online-based consumption

As previously described, modern Chinese policies are centered on domestic consumption as a key growth driver, especially “amid global trade uncertainties” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

The result is that China has seen growth in online-based consumption sectors, such as online education, remote offices, and e-sports.

Because the “Chinese Ministry of Education announced in late January it was postponing the start of the spring semester in response to the virus outbreak” and “asked that schools provide remote education to home-bound students via recordings, live streaming, and cloud-based learning platforms,” it quickly needed to come up with a solution for “276 million students

countrywide”. This solution became “the national cloud learning platform, launched on February 17” which offers “learning materials for primary to senior high schools [...] serving up to 50 million students at a time” (Cheng et al, “2020 Global Consumer Insights Survey China Report”). This initiative, rather than lead to government control of online education, has given the market opportunities to privatize it through online supplemental education, online language education, and higher education offerings.

There has also been a boom in the remote office sector as it is a relatively new segment in China with only “1% penetration compared to around 20% in western countries”. It is “estimated that the remote office market in China will reach 36.8 billion yuan by 2020 and 60 billion yuan by 2024” (Cheng et al, *Back to Business: An Update on How China’s Consumer Market Is Recovering from COVID-19*).

Likewise, the e-sports and mobile games sector has also seen growth. It “globally jumped 39% in February [2020], with China taking the lion share of the increase” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

Just as online global consumption has increased, so has China’s domestic online consumption meaning globally “consumers expect more than ever to consume products and services [at] any time and any place”. To meet this rising demand, supply chain reconfigurations that utilize “omnichannel marketing and sales must reach a new level.” So far, this has occurred in China between leading players in the consumer sector both online and offline “who have chosen to collaborate to enhance their omnichannel presence - GOME with JD.com, Alibaba with Suning (苏宁), and Tencent-backed Pinduoduo with GOME” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

3.2 The Role of Gen Z Consumers in E-commerce Growth

Another long-term effect of the pandemic on Chinese e-commerce is new opportunities for market growth through Generation (Gen) Z consumers. Gen Z consumers (born after 1996) usually have “fewer family burdens and more time outside of work” which makes them “optimistic about their future” and more willing to spend money, especially on entertainment. They are also “naturally digital-savvy” so their “participation in Tmall/JD.com Prime Membership is [the] highest amongst all age groups surveyed”. In addition, they tend to “share their thoughts and feelings in the form of social media postings, blog articles, online reviews” generating consumer awareness of brands. Although this “segment constitutes 25% of the country's population,” it accounts for “60% of the growth in total spending” in 2020 (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

Just like before the pandemic, Gen Z consumers want “more personalized products or services,” except now, they are “also willing to pay a premium for things that accentuate their individualism and life values” (Cheng et al, “2020 Global Consumer Insights Survey China Report”). Due to the pandemic, a portion of this age group has “started to reassess their spending patterns and revalue certain things such as personal health and family relationships.” Some have “even subscribed to [the] concept of minimalism, or duansheli (断舍离)” which “means cutting off trivial things, so [one] can focus on pursuing more important things in life” (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

The trend towards minimalism has also turned inwards and meant a “surge in popularity for domestic brands or “guo huo,” as opposed to foreign icons amid ongoing trade tension and growing patriotism at home” (Cheng et al, “2020 Global Consumer Insights Survey

China Report”).

As a result of these changing behaviors among Gen Z consumers, retailers moving forward need to “be mindful of how their brands are being perceived [...] across different attributes such as sustainability, animal welfare, data privacy, and other topics” that concern Gen Z consumers and their families (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

3.3 Urban Consumption Growth in Lower-tier Cities

One final long-term effect of the pandemic is a shift in urban consumption growth from top to lower-tier cities as the market becomes saturated in top-tier cities. "According to [the] National Bureau of Statistics, some 850 million people” or “about 60% of China's total population, will be living in urban areas by 2020, up from about 650 million in 2010". Also, “disposable income in lower-tier cities was 9.6% in 2019, higher than 7.9% in major [or top-tier] cities”. Similarly, “a recent Alibaba study indicating that lower-tier markets have overtaken their first and second-tier counterparts in terms of sales of 3C products (computers, communication devices, and consumer electronics.” The urban lower-tier market was “projected to reach \$164 billion by the end of 2020 (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

The growth in urban consumption, which has shifted from top to lower-tier cities, is due to several factors such as closer social networks and more slow-paced lifestyles in lower-tier cities. Consumers in lower-tier cities tend to live in close-knit social networks. Higher-tier cities tend to be full of ex-pats, so consumers there tend to be “more concerned about privacy and social distance.” As a result, lower-tier cities have become more receptive to the phenomenon of “hit item” where having a social network helps to promote new products by instilling a sense of

wanting “to keep up with the mainstream and follow the trend” among consumers that are part of that social network. The result is that items or products have become so popular that they drive the majority of category revenue growth. “For example, sales of the top 1% local cosmetic brands contributed more than 60% of the total category revenue” in 2020 in lower-tier cities (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

There is also more room for growth in lower-tier cities. because consumers in lower-tier cities have more stable and slow-paced lifestyles, and therefore more time to demand entertainment, education, and travel. This slower lifestyle is complemented by the fact that consumers in lower-tier cities enter parenthood earlier which means they are much more “willing to spend on educational programs and content [...] reflected recently in the number of high and continuously-growing penetration of online education apps" (Cheng et al, “2020 Global Consumer Insights Survey China Report”).

To continue driving national consumption, the Chinese government, as well as China’s e-commerce giants, will need to continue paying attention to both the short-term and the long-term impacts of the pandemic on Chinese e-commerce.

CONCLUSION: LESSONS MOVING FORWARD

China's Newest Economic Plan

Presently, the Chinese government continues its agenda of driving national consumption through its newest economic plan, which it views as “a road map for cementing its rise in a post-COVID world.” Unlike the Shenzhen Plan examined in this thesis, Beijing’s plan aims to strengthen its grip on Hong Kong and immediately establish peaceful trading relations. It has recently overhauled “the territory’s election laws to ensure a system of “patriots governing Hong Kong” which “would make it exceedingly difficult for democracy advocates to even run for office” (Qin).

In addition, the government has promised economic growth of over 6% signaling “its commitment to keeping the world’s second-largest economy humming” and strengthening “the message that China’s political model of strong, centralized leadership is superior to the chaos of liberal democracies.” During the pandemic, the government hopes to reach this growth through spending, and it plans to increase its spending on research and development “by more than 7 percent every year over the next five years,” with “spending on basic research” increasing “by 10.6 percent in 2021.” The government “also pledged to increase resources to guard against emerging infectious diseases and biosafety risks” and “focus on several cutting-edge technologies, including next-generation artificial intelligence, quantum information, neuroscience, semiconductors, genetic research and biotechnology, advanced clinical medicine and health care, and deep-space, deep-sea and polar exploration” to reduce its dependence on the rest of the world and increase its military budget by 6.9% this year (Qin).

Additionally, the government wants to better manage and support its growing modern society. To deal with its aging population and shrinking labor force, it plans to roll in “pension

reforms and gradual changes to the retirement age.” Fearing the decline of the traditional family unit due to declining birth and marriage rates and increasing divorce rate, it also plans “to build a system to support “family development” and strengthen marriage and family counseling services.” Finally, the government plans to “continue to pursue the sinicization of China’s religions and actively guide religions so that they can be compatible with socialist society” (Qin).

Summary of Thesis Findings

China’s newest economic plan shows that it is becoming increasingly independent but determined to compete globally, which has changed my thesis. I originally focused on how Chinese e-commerce could be used as a model for other evolving e-commerce economies, but in writing this thesis, I have realized that Chinese e-commerce is more unique than I originally thought and not necessarily perfectly set up for success. As a result, my thesis has taken a more inward than outward look at Chinese e-commerce to understand how it could fit into the global economy rather than the actual implications it might have on the global economy. Although my thesis has aimed to answer the questions: 1) How have historic and modern changes in Chinese commerce led to a growing and innovative e-commerce system, today? 2) And given the effects the COVID-19 pandemic has had on commerce worldwide, what can China’s recent GDP growth, despite the pandemic, teach other countries about growing and rebuilding their economies? it has mainly focused on the first. In doing so, my thesis has answered that today’s Chinese economy can be traced to Mao Era government regulations that led to a Chinese Open Door Policy and an influx of outside knowledge the government is now trying to cultivate by turning inward and focusing on national spending and growth to help the Chinese economy grow, despite the pandemic's economic disruptions.

To reach this answer, this thesis first examined the rise of Mao's government which had some of its policies overturned and others extended by Deng Xiaoping's Open Door Policy. The Open Door Policy 'opened' China to foreign investments and scientific modernization and led to a mass urbanization process correlated with equally high industrialization through a series of reforms that supported China's transformation from a capital-oriented economy toward a knowledge-based economy. One such reform this thesis examined was China's special economic development zones (SEZs), specifically the first: Shenzhen. Historically, China has successfully used SEZs as an experiment to understand if it can implement certain policies on a wider scale. Following the economic crisis, China has used technological innovations it has acquired through foreign investments in these SEZs to invest inward in further developing its economy.

This thesis then discussed the modern Chinese economy before the COVID-19 pandemic, which due to technological investments, has become an e-commerce economy. This economy has characteristics such as e-payments which offer opportunities in the B2B market and enable cross-border and national e-commerce, platforms for connecting businesses to suppliers which have helped encourage foreign investments in the Chinese market, e-retail malls which have helped domestic businesses modernize and revitalize their business models and also placed hurdles for foreign businesses, and personalized customer services and experiences which have shifted from commodities to service allowing companies to increase brand awareness and loyalty as well as enhance the customer experience through more 'data inflow'.

The fact that this 'data inflow' is capitalized on in China by large technology companies like Alibaba and Tencent led to a discussion of antitrust and data privacy regulation in China. Companies like Alibaba and Tencent have grown quickly, and in the process, legitimately and illegitimately collected and exploited personal information on a large scale which has benefited

the economy and even helped in other ways, such as facilitating banking for many citizens. However, in the process, it has taken away some government control over the economy and allowed these companies to evade anti-regulation. As a result, the government is now starting to impose regulations on e-commerce giants like Alibaba to better control China's future economic growth.

Likewise, privacy laws are also becoming increasingly important in China, although more for citizens than the government. While the government has historically given 'privacy' a negative connotation in society, China's new middle class favors privatization, especially as the Chinese economy has become more of a global market rather than a planned national economy. The problem; however, is not that China currently lacks laws that offer data protection, but that the government lacks a definition and complete understanding of data protection, especially as it continues to evolve through everyday citizens constantly sharing their information with China's e-commerce giants. Although crucial to the development of China's future economy, data protection may take longer to implement than anti-regulation.

Given this background on Chinese e-commerce pre-pandemic, the thesis then moved to understand Chinese e-commerce post-pandemic. Since the pandemic started, China has recovered much faster than many Western countries by investing in infrastructure, stimulating e-consumer spending, and providing incentives for businesses. Also, although some of its recovery has been uneven and the country has continued to face setbacks, such as smaller Covid-19 outbreaks, the Chinese economy still grew during 2020. Also, even though the government's latest economic plan focuses more on government spending, rather than e-commerce growth, one can still expect the short-term impacts of the pandemic on Chinese e-commerce, such as the evolution of digital platforms for digitally-savvy consumers, supply chain reconfiguration and

the rise of the C2M model, and growth in the luxury goods market as well as the long-term impacts of the pandemic on Chinese e-commerce, such as the shift to more online-based consumption, new opportunities through Gen Z consumers, and urban consumption growth in lower-tier cities, to influence post-pandemic economic growth by driving national consumption.

Therefore, moving forward, one can expect an ambitious and increasingly independent Chinese economy.

Concluding Remarks

This thesis has aimed to give the reader an understanding of China's current e-commerce economy as well as how it may change moving forward. It has thus, concluded that the Chinese government's control of the economy has allowed it to successfully implement key development policies on a wider scale through the use of SEZs, but that it has not been able to avoid pushback from large technology companies like Alibaba and Tencent trying to capitalize on consumer data and citizens increasingly concerned with data privacy. Therefore, as China continues to recover from the pandemic, largely through government efforts, the question is for how long can it rely on government intervention to boost growth and how will this impact the global economy? Further points worth researching, that this thesis has not focused on are also the similarities and differences between Chinese and U.S. e-commerce and the possibility of using China's economic recovery as a model for other economies, especially as global post-pandemic e-commerce continues to unfold.

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BIOGRAPHY

Francisca Guerrero was born in Quito, Ecuador on December 30, 1998 and moved with her parents to the U.S. when she was two and a half years old. She has called The Woodlands, TX her home since then. She is currently a senior triple major at the University of Texas at Austin (UT) and will be graduating with a BA from Plan II Honors in Spring 2021, a BBA in Accounting in Fall 2021, and a Masters in Professional Accounting in Fall 2022. She began her college journey with the intention of pursuing a career in law, so she joined the Texas Business Law Association her sophomore year. This led her to explore a career in accounting through UT's iMPA program. She has also worked on a research project called UT Project SEED, a human developmental psychology research program focused on measuring and understanding the stress bilingual immigrants experience growing up. As a Spanish research assistant (RA) for the program, she had to complete 125 hours per semester, but she enjoyed it because she spent those hours not only scheduling appointments with families and training RAs but also mentoring friends and meeting families. These experiences have led her to choose a career in international tax as a way of combining her bilingual skills with her interest in law and mentoring others. She will virtually intern at Texas Instruments in Dallas this summer and at Ernst & Young next summer.