

# **Rural E-commerce: A Country Case Study from China**

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# Overview

- ❑ Global Landscape
- ❑ Broad challenges in rural areas
- ❑ E-commerce-specific challenges in rural areas
- ❑ E-commerce opportunities in rural areas
- ❑ Opportunities for industry development through e-commerce
- ❑ Short case study: Dongfeng village in Jiangsu Province, China
- ❑ A country case study from China: Alibaba's Rural Taobao
- ❑ ICTPR Technical Assistance



# Global landscape

- ❑ Three billion people in developing countries live in rural areas.
- ❑ They include the majority of the world's poor.
- ❑ It appears their numbers will continue to grow until 2030.

Source: OECD 2016



# Broad challenges for rural areas

- ❑ Often remote areas away from urban centers and difficult to access. Achieving standard urban-rural connectivity more expensive (ie. through roads, power lines, etc.)
- ❑ Often sparsely populated. Difficult to achieve economies of scale. Underdeveloped commercial markets.
- ❑ Rural infrastructure may be lacking or poorly developed.
- ❑ Human capacities and institutional capacities may be limited.
- ❑ Rural services less well developed (ie. health, education, water, electricity, sanitation, etc)
- ❑ Labour drainage, low skilled, low paying jobs.
- ❑ Issues of migration and its related social dimensions.

Source: GIZ, Kloekner 2014; OECD 2010



# How Can E-commerce be Fostered for Rural Development?

- ❑ Building capacity of rural producers to use e-commerce to market and sell their products, or purchase intermediary products for their businesses ie. agricultural producers, smallholder farms, village factories, producers of local crafts.
- ❑ Building capacity of rural people to become online consumers.



# E-commerce-Specific Challenges

- ❑ Logistics: High delivery costs or delivery not feasible.
- ❑ ICT infrastructure: Weak ICT access and low internet penetration
- ❑ Payment infrastructure: No or weak electronic payment infrastructure and networks. Barrier to making and receiving payments remotely
- ❑ Literacy and ICT skills
- ❑ Limited purchasing power: widespread poverty, low income, and unemployment in rural areas.
- ❑ Lack of resources for building businesses: exacerbated by lack of access to business financing

# Rural E-commerce Opportunities

## Rural Consumption

- ❑ Rural areas constitute large potential consumer market
- ❑ Rural communities increasing purchasing power. In many countries, rural markets growing faster than urban markets
- ❑ Few options to shop in local retail shops can make e-commerce attractive to rural communities.
- ❑ Potential time savings, ease and transportation costs. No longer a need to travel into urban areas to purchase products.

## Rural production

- ❑ Can help rural producers overcome geographical reach constraints. No longer limited to selling to immediate local market.
- ❑ Local products and agricultural surpluses from rural areas offer rich potential to bring to market. Tap into urban and overseas consumer demand.

# Rural opportunities for industry development through e-commerce

- ❑ Create supporting ecosystem for local industry development.
- ❑ Clustering where support service and supporting industries grow in conjunction as e-commerce grows ie. logistics, manufacturing, processing and packaging industries.
- ❑ Catalyze improvement of roads, broadband infrastructure and product certification processes.
- ❑ Makes possible entry of small villages and small producers into global supply chains.
- ❑ New jobs and income generation in rural villages.
- ❑ Example: clustering of rural online entrepreneurs opening shops on Taobao Marketplace in China. Referred to as “Taobao Villages”.



# Short case study: Dongfeng village in Jiangsu Province, China

- ❑ Traditional livelihood by farming and migrant labour.
- ❑ 2006, young man sets up first online shop to sell simple assembled furniture in Ikea style
- ❑ Furniture assembly and manufacturing industry started to emerge from the development of online retailing.
- ❑ Other supporting industries emerged including wood processing, logistics, hardware accessories and packaging (clustering effect)
- ❑ 2010: the village had three hardware accessory factories, 15 logistics and express delivery companies and 7 computer stores.
- ❑ Now more than 400 online shops and combined annual revenue of over \$50 million.
- ❑ Named the top “Taobao village”. A village is designated a Taobao Village when it has grown a cluster of rural e-tailers. At least 10% of village households are engaged in e-commerce or at least 100 online shops have been opened by villagers through the Taobao e-marketplace.

Source: UNCTAD IER 2015

# Country case study from China: Alibaba Rural Toabao Initiative



# Background

- ❑ UNCTAD E-commerce Strategies for Rural Development Expert Meeting (April 2016, Geneva, UNCTAD E-commerce Week)  
<http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=1097>  
[https://www.youtube.com/watch?v=iB\\_aO75ZPM0](https://www.youtube.com/watch?v=iB_aO75ZPM0)
- ❑ Keynote speaker: Mr. Lijun Sun, Vice President and General Manager Rural Taobao, Alibaba
- ❑ Rural development a priority area in Alibaba's core mission as well as as part of corporate social responsibility.
- ❑ Alibaba - Chinese e-commerce giant founded by Jack Ma in 1999. B2B, C2C, B2C e-marketplaces, as well as financial, search engine, cloud computing and other services.
- ❑ Alibaba's Taobao platform - C2C e-commerce platform (similar to eBay) driving domestic e-commerce. 80% of China's national online sales (September 2014).



# Rural China

- ❑ Approximately 600 million rural residents, estimated to be about 44% of the population (World Bank 2015).
- ❑ Household incomes of rural residents have registered significant growth over recent years. In 2014, the annual per capita disposable income of rural residents increased by 9.2% to 10,489 yuan, beating the 6.8% growth rate of urban residents, according to the National Bureau of Statistics of China (NBS).



# Rural China (continued)

- ❑ In 2014, the number of online shoppers in rural areas in China hit 77 million, a 41% increase against 17% growth in urban areas, according to China Internet Network Information Center (CNNIC)\*.
- ❑ Alibaba has estimated that the rural e-commerce market in China will be worth over 460 billion yuan in 2016, narrowing the gap in market size between the rural and urban areas.

# Rural Taobao strategy approach

- ❑ Envisioned to be more than just delivering e-commerce in the rural areas.
- ❑ Aims to leverage e-commerce to create change in the current rural development and a better life for the general public.



# Rural Taobao:

## Main components of strategy

Conceptualized as an ecological ecosystem made of a multi-layered foundation structure supported by three types of nets:

- ❑ 1. Skynet: Cooperation with local governments
- ❑ 2. Earthnet: Building infrastructure
- ❑ 3. Humannet: Building up human capacity



# "The Skynet"

- ❑ Closer cooperation with local governments
- ❑ In 2015, about one hundred discussions with different offices of local governments regarding offers and cooperation arrangements, sharing opinions and exchanging ideas.
- ❑ Organized seminars with participation of approximately 2,500 local officials at the governor level, vice chief or higher position levels on how to enhance e-commerce in rural areas.
- ❑ Example: In September 2015, Alibaba Group and Ganzhou City signed a cooperation agreement on e-commerce promotion aiming to establish a favourable rural e-commerce environment and setting out several concrete joint initiatives.



# "The Earthnet" and the "First Tunnel"

- ❑ Building infrastructure for e-commerce - "Two tunnels, one loop".
- ❑ First "tunnel": Priority on constructing road infrastructure. Chinese saying: "Building up roads is the first stage to acquire wealth".
- ❑ Major breakthrough in cost reduction for logistics in rural areas through help of research team from Stanford, Berkeley.
- ❑ Big "miracle" drop in logistics cost to 7 CNY from the original 10 CNY. Big help for rural market as makes it possible to deliver agricultural products to the target markets for only 1.5 CNY.
- ❑ China has large abundant territories, but lots of agricultural products go to waste. Reducing logistics cost is tremendous help for fostering e-commerce and tapping the agricultural market.

# "The Earthnet" and "the Second Tunnel"

- ❑ The "second tunnel" - resolving the problem of information asymmetry in rural areas.
- ❑ Information asymmetry - information imbalance between rural producers and consumers and relating to farmers lack of access to market information.
- ❑ Alibaba helps bridge the information highway to rural areas. Alibaba provides internet access and through the Rural Taobao e-marketplace tackles the difficulty of connecting rural producers and farmers to consumers.
- ❑ The two tunnels (addressing road infrastructure and information asymmetry) construct the infrastructure loop and build the Earthnet.

# "The HumanNet"

- ❑ HumanNet aims to help resolve the brain drain and human resources challenges China faces in its rural areas.
- ❑ High levels of rural-urban migration in China. Youth have left many rural villages. Villages face a shortage of skilled workers and talent.
- ❑ Socio-demographic impacts: villages inhabited primarily the elderly and women taking care of children. Many "left behind" children who never see their parents working in the cities.
- ❑ Aims of the Humannet: The creation of more rural opportunities for business startups and employment. Encouraging reverse migration, addressing social problems caused migration, catalyzing entrepreneurial dynamism in rural areas.



# Rural Taobao Business Model: Key components

- ❑ Rural Taobao Service Centers: the construction of service centers across rural villages in China. Alibaba provides internet access and service in helping rural consumers, businesses and farmers to search for products online, place orders, or sell products on Alibaba's online marketplaces.
- ❑ In 2014, Alibaba announced plans to invest 10 billion yuan (\$1.6 billion) to build 100,000 service centers in rural areas in China in five years.
- ❑ Rural Taobao Partners Initiative: Comprehensive youth training programme encouraging aspiring entrepreneurs to return to their hometowns to set up Rural Taobao Service Centers. The entrepreneurs run the service centers as their own businesses, receive initial support, and earn commissions from sellers.

# Rural Taobao Entrepreneur: Her Story

"In the very beginning, I was just doing some general service for the locals, especially procurement service. However ... it was so difficult for the locals to accept me and come to my service center. Consequently the idea of changing myself has come to my mind: via doing volunteer service in churches including operating medias and computers ... I began to wonder how we could make a change in people's life, especially for the old. ... To enrich their life, I started to help them to organize the Guangchangwu, a kind of popular entertainment for the old ... [There were children] suffering from the sudden death of their father due to a traffic accident ... and they had no way to live but with their old grandfather. Gradually I invited these children to my service center to learn some simple English, buy something online and experience some motion sensing games."

Wang Qian

Rural Taobao Partner, Henan Province

UNCTAD Rural Strategies Meeting, April 2016

# Impacting the rural village

- ❑ As of May 2016, Alibaba has set up Rural Taobao Service Centers in more than 16,000 villages. Has received about 570,000 applications from aspiring youth entrepreneurs.
- ❑ Though still early to tell, indications that rural investments are paying off. Monetization is difficult. E-commerce orders placed by rural consumers or placed with rural sellers resulted in the delivery of more than 7 billion packages in 2015, up from 4.5 billion the previous year
- ❑ Wang Qian played an important role in connecting a local clothing factory with hotels and generating large B2B orders and sales for the factory.
- ❑ In addition to e-commerce support, the service centers also provide support in helping small businesses including getting loans and in providing general services for villages such as medical registration, social insurance, pension, payment for utilities, etc.

# Case study lessons

- ❑ Opportunities for e-commerce's cluster effect to grow industries and jobs.
- ❑ Infrastructure development: central versus local responsibility
- ❑ Logistics sector is crucial for rural e-commerce
- ❑ How best to create a presence at the rural village level crucial and integrate e-commerce and tech in daily living
- ❑ Many e-commerce opportunities in farming and agricultural sector.
- ❑ Consider how best to tap the passion and inspiration of entrepreneurs, in particular youth, through e-commerce.
- ❑ Important to integrate socio-demographic considerations, including rural-urban migration in e-commerce planning
- ❑ Multi-stakeholder and public-private partnership and participation essential.

**"A lack of infrastructure, which is a common situation shared by many countries, could actually have a silver lining [through e-commerce]. People in such areas have such an intense need for daily necessities and raw materials ... The backwardness can be made into an opportunity."**

**Lijun Sun**

**Translated from Chinese**

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# Thank you for your attention!

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