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INTERNATIONAL TRADE WITH E-BUSINESS: REVIEWS AND PROSPECTS IN CHINA

Xia Pan
College of Business Administration, University of Rhode Island
Kingston, RI 02881 xpan0114@postoffice.uri.edu

ABSTRACT

In this paper, the development of China's Internet and E-commerce was reviewed. The present situation and the prospect of E-business in China were depicted. Some aspects of China's international trade (foreign trade) were also reviewed. On the basis of this, issues on China's International trade through E-business were discussed. The impacts and prospects of E-business on China's foreign trade were investigated.

I. INTRODUCTION

International trade has kept increasing and shared more and more part of GDP in most of the countries since World War II. The so-called East Asian economic miracle was mainly driven by export. In China, for example, although the domestic market is large and in development, export and import currently contribute over 40% of the national economy. The recent demand of more efficient allocation and organization of the world's capital, material, technological, manufacturing, and service resources makes a global market necessary. International trade is the functional conveyer and plays a key role in allocating these economic resources along with the emergence of global market.

During the past ten years, China has grown as a more and more important import and export country in the world. After the Asian economic crisis in 1997, especially, China is becoming a focused foreign investment objective and the main manufacturing center in the world for the lower technological and labor concentrated products such as electronics and light-industrial products. Larger and deeper scale of economic communication, opening and permeation between China and the world is expectable after China's forthcoming entry to the World Trade Organization (WTO). Hence, China's foreign trade will take a substantial part of the global economy in the future and needs more concerns.

Meanwhile, the development of fast and convenient communication makes the earth's geographical distance less important and the global market possible--traditionally, geographical distance used to be a key factor in international trade. The dramatic emergence and popularization of Internet evokes people's boundless imagination and expectation about new economy. E-commerce, and then E-business, the core issue of the new economy, should be also the ideal way to realize the global market. According to a report, there were less than 40 million Internet users in the world in 1996. This number became 260 million by June 2000, and will be one billion in 2005. The total amount of world's E-business was US\$2.6 billion in 1997, is about US\$370 billion in 2000, and will be over US\$10 billion in 2010 (this might be based on the number of email accounts). In the next 10 years, according to an optimistic United Nation report, one-third of the world's total international trade will be network trade.

Here, to clarify the definition of terminology, we use E-commerce to refer external E-operations, either B-to-B or B-to-C, and E-business to refer the integration of internal and external E-operations. Both are based on Internet. Thus, B-to-C E-commerce is the commercial transactions through Internet between a company and the external consumers, and Bto-B E-commerce is the

transactions and the related operations through Internet between companies. E-business is the application of Internet and other related network technology on the whole process of a company's business and managerial activities. Ecommerce enables companies to carry out their marketing with less inventory and labor cost, more customer orientation, more dynamic interaction, more detailed segmentation, more reliable operation, and more personalized design and service. E business can provide even stronger power. It allows companies, through computer network, to allocate and organize the entire resources--both internal and external with most preciseness and efficiency, and finally to maximize the companies' achievements.

The application of E-aided management has longer history, including EDI (electronic data interchange) systems between companies and pre-Internet computerized management information systems. However, the emergence of Internet has totally changed feature of electronics aided business. Based on Internet, the past wave of Ecommerce is mainly composed of B-to-C type business, while B-to-B type business, according to many analysts from industries, capital markets and academy, will be the next wave. In fact, several important companies, like General Electric and Dell Computers, have been successfully implemented E-business (including B-to-B type E-commerce) and got quite positive fruits. However, among the up-to-date real cases of E-commerce, very few is about international trade, which is a typical B-to-B. Although multinationals like GE and Dell operate business all over the world, the main part of their cross-country E-business is still internal within subsidiaries and divisions. Their external E-business, say, international purchasing, is actually restricted with very limited number of suppliers. In the general sense, up to now the international trade through E-commerce or E-business has not started.

What is the impact of E-commerce and E-business to international trade? How differently will E-international trade benefit the small companies and the multinationals? The role of E-

business and B-to-B e-commerce in international trade needs more investigations. Specifically in this paper, reviewing development of China's foreign trade and E-commerce, I will try to answer the question "what is the situation and interaction of E-business and international trade in China?". This would be an interesting issue, as China will very possibly be world's manufacturing center in the next twenty years, in addition to China's entering the World Trade Organization (WTO).

II. A PROFILE OF CHINESE FOREIGN TRADE

International trade, or more specifically for Chinese cases, foreign trade, is one of the major driving powers for the miracle of China's economic growth in the past twenty years, especially in the past ten years. By strict terminology, international trade includes the business that a dealer of Country A buys from Country B and sells to Country C, while foreign trade only refers the import or export of one country with foreign countries. Here, when we talk about international trade, for simplification purpose, we often imply foreign trade. The growth of Chinese foreign trade was accompanied with a changing circumstance. Traditionally there are, in general, two classes of players in Chinese foreign trade--Chinese foreign trade companies, and foreign-invested/joint-ventures. Chinese foreign trade companies are import/export agents or middle dealers for Chinese stated-owned and medium-small end users/manufactures, while the foreign-invested/joint-ventures, who are, in most cases, manufacturers under Chinese foreign investment policy, usually import and export materials and products for themselves. Due to the high wave of foreign investment in China, foreign invested and joint venture companies share a remarkable part of Chinese foreign trade. On the other hand, although more and more Chinese domestic large-medium manufacturers are authorized with direct import/export license, Chinese foreign trade companies still played the main

role amid the foreign clients and the original Chinese manufacturers/end-buyers. After China's entering WTO in the near future, most of the Chinese domestic companies will acquire their own foreign trade license. Then the future pattern and situation of Chinese foreign trade will have interesting changes.

Factors influencing the power of competition of international trade include client channels, quality of products, quality of delivery and service, and performance of responding complaints and disputes, etc. Foreign invested and joint venture companies have the advantage of adopting foreign management introduced by the foreign investors and foreign partners. The foreign sides usually bring their existed trade channels, quality standards, and management styles, while Chinese domestic companies--Chinese foreign trade companies and manufactures--have to learn by their own practices. This used to be an significant factor distinguishing these classes of companies in foreign trade. However, the new economy, represented by E-commerce and E-business, will change the way of doing international trade (foreign trade). In one way, the impacts of E-commerce and E-business on these two classes of foreign trade players--with versus without foreign participants--have different patterns. In another way, the classification might be rearranged. Two classes would matter, with E-business versus without E-business. Usually multinational invested companies will adopt e-business early. Some Chinese domestic companies can be in the E-business class, while some small, low-tech foreign invested companies may be in the class of non-E-business. Reviewing Chinese foreign trade, of firstly the domestic companies, may help to understand the way of its changes.

Take Chinese foreign trade companies as an example, since they played major role for the import and export for domestic manufacturers and end users in the past twenty years. Chinese foreign trade companies have experienced the transition from a closed country to an opening

country, from a planned economy to a market economy, from state monopoly to market competition, and from knowing little about foreign markets to having established broad business relationships with foreign companies all over the world. During these changes, keeping existent business channel and developing new business channels are of key importance for the survival and development of Chinese foreign trade companies. Due to the more and more intense competition, the existent business channels may be interrupted suddenly and jeopardize the company's benefits and survival. The Chinese foreign trade companies have to keep acquainting new and potential clients.

The ways by which Chinese foreign trade companies to acquaint new or potential foreign clients are usually limited. And the situations for export and import are different due to the nature of this business. Export is usually more active and aggressive as well as more difficult than import although their amounts are often balanced. Traditionally, in export side the ways of new client acquaintance include exhibiting in commodity fairs, searching company lists, and being passively inquired by buyers, whereas exhibition fairs is the main way. In import side, initiative inquiry and being promoted and advertised are the main ways while participating fairs is of less importance.

Here, another very remarkable factor is the role of Hong Kong middlemen. During the whole 1980's and major half of 1990's, Hong Kong has been the key partner of Mainland China's foreign trade. China began to know the world market through Hong Kong agents. Gradually, the fast growth of China's export activities exceeded Hong Kong's volume. Acquaintance and direct communications with foreign clients induced more and more direct trade with foreign countries. Trading channels are diversified. Although the absolute trade volume through Hong Kong still increased, the percentage share of Hong Kong decreased.

The diversity of trading channels introduced more competence, especially in the export side. Acquainting more new direct clients becomes more important for setting and keeping competence

position. The Chinese foreign trade companies are hungry in looking for new ways of setting up new channels. Since foreign trade companies are just agents, the original manufacturers and end users may have motivation to short cut the trading channels. Since the government control the import license tighter than the export license, and selling is always a more positive motivation than purchasing, Chinese manufacturers desire the export channel much more than that Chinese end users are interested in the import channels. The ways for the original manufacturing exporters to set up export channels are similar to that for foreign trade agents. Therefore, acquainting more new foreign clients are important for all the exporters. The emergence of Internet, in this sense, might be changing the way of doing foreign trade. At first, it may change the way of knowing new clients.

The rationality of the existence of Chinese foreign trade companies also relies on the other two functions they can provide: international business expertise and financing. Most of Chinese domestic non-foreign-trade companies do not have the expertise in international business including English as the international working language. Foreign trade companies can realize their value through serving as a medium between the foreign and domestic companies. Another functional availability of Chinese foreign trade companies is financial for the manufacturers and end users. China experienced long term economic growth associated with financial stress. Since foreign trade companies are generally stronger in financing than manufacturers and many end users, their roles can be strengthened through financing their customers. Even before Internet era, this is an important reason that manufacturers and end users accept the service of the trade agents. In Internet time, international business expertise and financing will be still factors for some time for Chinese small and medium domestic companies, but the importance may be different from it used to be.

III. THE DEVELOPMENT OF INTERNET IN CHINA

China is the world's most populous country and has one of the world's fastest growing economies. The country has seen significant economic growth since the early 1980s due to economic reform and its opening to the outside world. China's GDP has increased by almost 10% a year since 1980 and is forecast to grow at over 7% for the next five years.

Along with the rapid economic growth, China has had one of the world's largest and most rapidly developing telecommunications and Internet markets. This market also has excellent potential for future growth due to the strong expansion prospects for the Chinese economy, the reform of the monopolist Chinese telecommunication operators, and the lowering costs of Internet and telecommunications use. In the next five years, China's IT industry will increase three times faster than China's GDP growth. China's total length of fiber optic will increase from 1.2 million kilometers in 2000 to 2.5 million kilometers in 2005.

While Chinese academic networking began with X.25 in 1987, Internet protocol (IP) connectivity did not begin until 1993. The real sense Internet among universities (CERNET) and scientific research institutes (CSNet) took off in China in 1995. The availability for public access to Internet began to emerge in 1996. In the middle of 1998, there are 2.1 million Internet users in China. Dramatically, the number increased to 22 million in 2000 and is expected to grow to over 80 million in 2005. The faster popularization of China's Internet use is partially due to significant decreases in the cost for telephone installation and declining access fees. In 1997, the Internet access fee to a normal ISP is about RMB12.00 or US\$1.4 per hour, while in 2001, some ISPs are offering less than RMB2.00 per hour. Up to 2000--before the impact of NASDAQ collapse, over thousands of ISP and ICP companies were set up in China. Some of them were supported by foreign, mainly U.S., venture capitals.

China's Internet booming has also been stimulated by the rapid growth of Chinese computer industry and the falling price of personal computers. China's PC manufacturing started with IBM XT/AT compatible models in early-mid 1980's. But before 1994, foreign brand personal computers dominated China's PC market, and the prices were high relative to people's income. In 2000, Chinese local made PCs, most of them are domestic brand, share major of the market. The spring-up of Chinese domestic PC manufacturers and monitor manufacturers effectively reduced the market prices and dramatically boosted Chinese consumption of personal computers--a precondition of Internet popularity. In the single year of 2000, Legend Computer Co., one of the Chinese domestic manufacturers, produced over 3 million sets of personal computers, became one of the world's top ten PC manufacturers and shared about 30% China's PC market.

Internet use in China will also be boosted by the rapid growth of alternative modes of Internet access such as cable television, mobile telephones, and the build-out of broadband networks. There are already, for instance, more than 50 million mobile telephone users in China. Dozens of cities--large center cities or even medium cities--are under their ways of constructing broadband infrastructures--backbone, city area and community networks, with various access solutions for the latter--ADSL, HFC (Cable Modem), Ethernet, etc., although the contain service of broadband is still absent, or indifferent from narrow band ICP.

Despite of the high growth of Internet in China, the huge population and the low level of development basis determined some inferior positions for China. China's popularizing rate of computers is only 0.02 units per thousand people, while the world's average is 6.3 and the number for U.S. is 97. In developed countries, the contribution of IT industry to the growth of GDP is over 50%, while this contribution in China is only little. Although China's IT industry grows fast, there are only 20% of the employees of IT industry is in computer software and hardware. Although

domestic made personal computers share the major market, other Internet related equipment such as servers, routers, switchboards, and software are dominated by foreign brands and the price is still high relative to China's economic level. Generally, investments and operation costs of Internet companies are high and become their heavy burden that often destroyed their hope of making profit. Only when domestic manufacturers participate the market competition to sufficient extent and drive the prices down, can the costs of investment in Internet reduce to attract more companies to enter Internet business.

IV. THE DEVELOPMENT OF E-COMMERCE IN CHINA

About B-to-C commerce

Along with the popularization of Internet in China, attempts of doing business on Internet started to emerge in 1997. While most of the companies merely took Internet as a way of company and product promotion and some small web sites tried to sell products, the real-sense E-commerce did not occur until 1999. The first business-to-consumer company is 8848.com. They began to sell various commodities such as software, books, computer and accessories, music, etc., in the middle of 1999, when the volume of individual Internet users in China was less than 4 million. Many B-to-C Internet companies were set up in 1999, but 8848.com keeps being the largest and shares China's 15% of online consumers by 2000. The way of buying commodities online is hardly accepted by Chinese consumers at the beginning.

There are several big obstacles for Bto-C type business in China. Until a few years ago does China not have a credit cards system. The volume of cardholders is quite small. As the Internet population is young, most of them may not have credit cards or debit cards. There are no

personal checking account systems at all in Chinese banks. This lack of payment system restricts the development of B-to-C online seriously. Most of bank cards (credit or debit) can not be transacted online before 1999. This situation improved in 2001. Several banks have put their cards on line. And the number of card holders is increasing. More importantly, the number of Internet users is accelerating, and the number of B-to-C uses increases fast.

Another obstacle for China's B-to-C development is that China lacks of effective and reliable door-to-door delivery system. Unlike in U.S., Chinese Internet users are in the cities and only have small post boxes for letters with their living address. Many commodities can not be delivered to the post boxes. City residents can easily access traditional stores for everyday commodities that are usually cheap. Online commodities will not be attractive if they are not discounted largely. Therefore, only some specific types of business, such as financial service, and tourism, are suitable for Chinese commercial systems, because--say, traveling--travelers can just book rooms online but pay when they arrive. A successful example of tourism Bto-C Internet companies is Ctrip.com who runs well and is more like a web-aided traditional agent. A wireless online stock transaction site, byair.com, achieved RMB50 million (\$6 million) monthly volume.

Nevertheless, the B-to-C sales and visits are increasing, for several main sites. And the payment channels and delivery channels and service are improving. Earning models exist, but operation cost is also high. Profits for B-to-C business is still a long way to go. According to U.S. experience, the volume of 10 million Internet users is the threshold of B-to-C taking off. As China's consumption is low, times of 10 million might be the threshold for China. This threshold will be reached in the next few years. We will see some of the B-to-C companies with appropriate market positioning and strategy may be able to sustain to survive with their currently existent capital, while many of them

may die before they see the light at the end of the tunnel. The economic winter for Chinese Internet companies is just like in the U.S.

About B-to-B Commerce

On the another hand, the online B-to-B business has a bright far future but a dark present. The cost of economic circulation in China is high and online B-to-B should be an effective way to increase the efficiency of Chinese companies. However, the main role of B-to-B business should be traditional companies rather than the new Internet companies. The reality of Chinese traditional companies participating in E-business is not optimistic. The key obstacle is the low rate of infomationization of Chinese companies. Only 3% of the companies have ERP system. Only 10% of the companies have some types of CAD, OA or MIS. Half of the small companies --they share 99% of the total number of Chinese companies--do not have computers at all. Even the key state-own companies have low level of computerized management. Although 74% of them have homepages or websites, only 30% of them are designed and maintained well. Most of the companies do not have network security management. In average, the IT investment only share 0.3% of the companies' total assets, a sharp contrast to the 8% or 10% of multinationals in developed countries. IT talents are in shortage. Consequently, the basis of internal E-business is almost absent for Chinese companies.

Many can see the great future potential of Bto-B. But the present issue for the B-to-B Internet companies set up during the 1999 Internet fever is to survive. The weakness in internal E-business of traditional companies makes the external E-business almost unavailable. The B-to-B companies have to educate the traditional companies to equip information management system and then connect their business to Internet. However, none of the current Chinese B-to-B Internet

companies is good at ERP. Therefore, room for the Internet B-to-B companies is limited. They have to switch their roles as Online Mall, Online Marketplace, Message Exchange Center, ASP (Application Service Provider), IDC (Internet Data Center), or the combination of these. Strictly speaking, ASP and IDC are not the so-called B-to-B any more but provider of services to other companies to do B-to-B. In ordinary sense, B-to-B commerce should be about supply-chain. Traditional companies interested in B-to-C selling may potential customers of Online Mall, where they can meet and transact with consumers using the payment and delivery ways similar to B-to-C. Although the general conditions of IT application in Chinese companies are disappointing for B-to-B business, some industries have better situation. Industries like IT (say, computer manufactures), financial service (banks, security companies, insurance companies) and government administration (taxation and Customs) have higher level of computerized management or ERP and provide more chances to E-business. In fact, the computer networking Three Gold projects (Gold Bridge for public economic data, Gold Customs for export/import data and Gold Tax for taxation) launched by the central government host 80% of the Chinese economic information on computer network. The application of computer networking in banks is better than other industry. Therefore, Chinese B-to-B will grow in these areas at first.

V. INTERNATIONAL TRADE RELATED B-TO-B COMMERCE

Online Marketplace is a typical B-to-B model. It usually provides online service of certificate confirmation, contract assurance, and if possible, payment channels. When these channels are unavailable, it is desirable for a successful Online Marketplace that the participating (traditional) companies have ERP ability. Otherwise, this Online Marketplace is actually a Message

Center. Up to now in China, there is not an Internet company that can be classified supplying Online Marketplace service, due to undesirable environment. Like a message board, Message Center provides a place for traditional buyers and seller to distribute or exchange their buying/selling messages. The function of this type of B-to-B commerce is to introduce merchant s to initially know each other. Message Center B-to-B Companies prefer claiming themselves as Online Marketplace. By strict definition, marketplace should be a place where people can do transactions, not only getting buy/sell messages.

Obviously, medium and small exporter, importer and vendors in international trade have the largest demand of Message Center function, while merchants in the same country usually have other existent ways to acquaint. In China as well as in the world, the leading web site of this type for international trade is Alibaba.com. It is a typical first generation B-to-B. Exporters and importers can advertise their product information at online message board but negotiate and transact off-line them selves. Large importer and exporters usually have known each other before the Internet era so they need more advanced B-to-B platform to operate transactions. As the number of medium-small companies that are pre-ERP but interested in export and import is large, Alibaba.com is a suitable way to begin to set up new business channels. Up to April 2001, Alibaba.com have over 600 thousand registered merchant members from over 200 hundred countries and regions. There are 3000 pieces of messages posted per day. In average, according to their statistics, each posted message can get 8 responses, 45% of the responses are for responding buying messages, 38% are for responding selling messages. On the Chinese version of Alibaba web site, sellers can get more response rate. In 2000, 30% of the members experienced successful transaction initialed at Alibaba.com.

Right now all the services of Alibaba are free. Although Alibaba.com is still losing money, it is conceivable that someday it may charge membership fees when the volume of the members become large enough and the member really find this web site helpful. However, the more important thing is not whether Alibaba.com is a good B-to-B model, but how much it can really help international trade business. According to reports, big transactions initialed from Alibaba are rarely reported. Most of the beneficiaries from Alibaba model are medium-small companies.

Another typical B-to-B company in international trade is MeetChina.com. Recently it expanded to other countries and its name was changed as meetworldtrade.com. This is a model between Online Marketplace and online Message Center. Unlike Alibaba, MeetChina's service was focused more on large buyers. They tried to help large importers to find appropriate suppliers. MeetChina's target registered members are manufacturers, instead of foreign trade companies. Unlike in Alibaba where salespersons at a same foreign trade company can register separately--this makes the number of registration amplified--MeetChina.com has only 3000 manufacturer members and charges each member monthly membership fees of less than US\$100. Although the idea looks good--merely one single buyer, Stanley Works has US\$800 million purchasing plans in 2001 for China, the services MeetChina.com can hardly help these potential orders, unless they behave as a traditional foreign trade company to look for the manufacturing suppliers. The large orders usually consist of a lot of items and need many suppliers to fulfill. The number of registered manufacturing members of MeetChina is too limited to meet the demands of large importers such as Stanley Works. Although MeetChina successfully introduced several million U.S. dollar transactions, they can not charge commission fees so that MeetChina is still losing money--only the membership fees can not cover the cost. Recently MeetChina is considering to charge service fees from buyers.

Both Alibaba and MeetChina depend on venture capitals to survive. Alibaba claims that they can survive several years with current cash and costs, while MeetChina has troubles in operating cash. Comparing other aspects of the business models, MeetChina provides online service of sample ordering but Alibaba does not have similar service. Ordering sample products is related to money transaction. As foreign importers, often from developed countries, the ready ways of online payment is available--MeetChina collects the money for the sample and passes to the supplier. Although this platform is still not online payment--it is not online between buyers and sellers--it is at least a little more like a marketplace than Alibaba where no online payments available.

Which model between Alibaba and MeetChina is better depends on viewing angles. Interestingly, both the two companies start to call themselves a traditional company using Internet, rather a pure Internet company. This means they are introspecting from flaunting as Internet company to really focusing on profit creation. Anyway, their real spring does not finally depend on the favor of venture capital but the substantial improvement of the environment for E-business and how much they can seamlessly match with the traditional companies.

As multinationals are more effectively integrating world's resources and sharing more world market by the help of E-business, their E-business can penetrate the whole internal and external supply chain. A more and more clear trend of E-business is that the smaller suppliers will be required to adopt real-sense E-business so that they can connect seamlessly together. Can the message center type of Alibaba.com beat the E-business supply chain? Very likely the answer is no. This is an issue of cost calculation. Multinationals and real E-business supply-chain members have to invest significantly to set up the E-network. Meanwhile small companies are also short-cutting vendors through free platform such as Alibaba.com. Finally multinationals will reach lowered operation cost through E-business. But Alibaba is helping to delay multinational's victory.

E-Foreign Trade: The Attempt of CEIEC

The emergence of Internet made many people inspired about E-commerce. Without successful examples at hand, many people, including those in the active and aggressive export business, were still aware of the tremendous potential opportunities of its application in international business. China National Electronics Import/Export Corporation, (CEIEC), is probably China's first international trading company who tried to use Internet in helping its foreign trade business. At the beginning of 1997, Internet access and email boxes became available for salespersons of many CEIEC branch companies in several cities and a homepage with export product information was set up at its head office in Beijing, China's Internet the center. A web site at United Nation provided the similar function like later Alibaba.com for export and import demand messages. CEIEC started to benefit from Internet.

1997 was a hard time for CEIEC's business, due to Asian economic crisis. Some of the CEIEC branches, acquired quite a lot new business clients through Internet. And the related business really helped those branches. There were no online transactions at all, but acquaintance only. In fact, Ecommerce had not occurred yet in 1997. CEIEC people have the similar idea of Alibaba model. Alibab.com was set up much later. However, CEIEC is a traditional company. What they saw is the profit from the traditional business. Internet can help business. Fine. But Alibaba model will help competitors too. And the profit is unforeseeable.

In deed, what CEIEC people hoped about the Internet is similar to multinationals are doing now: transaction online. It was impossible in 1997. It is still a hard task today. CEIEC has its internal MIS system. The company developed and equipped China's first Foreign Trade Electronic Data Exchange System by its own R&D. This was before the formal launch of the famous

nationwide Three Gold's projects. However, CEIEC's environment is not in network. Banks, Customs, suppliers, shippers, they have different development level of network. Banks, shipping companies, and Customs may be networked internally, but it is far for them to connect externally each other. Most of CEIEC suppliers are medium-small manufacturers and they are even far from their own MIS.

Thus, CEIEC is still like before. Like other traditional companies, they do not have to be the dot-coms. What they should do is to fit the new changes. An interesting report from Alibaba said that many registered merchants are from foreign trade companies. Chinese foreign trade increase significantly in the past a few years. Chinese foreign trade companies are still growing, while more and more manufacturers can directly acquaint the foreign buyers. The explanation is that pie is increasing, although the way to share it is also changing.

VI. DISCUSSIONS AND PROSPECTS

Venture capitals played important roles in the development of Internet industry. The collapse of NASDAQ on Internet concepts made all the Internet companies suffering. Investigating in details of the business of the Internet companies, especially in China, we can find that venture capital is a double-edged sword. The purpose of venture capitals is to sell the Internet companies they invested in stock market. Business decisions under the orientation of going to public offering to stock market often conflict to the long-run interests of the companies. Whether an IPO is a good chip in the market is too much influenced by the market analysts who often make judgment with simplified concepts and models. These simplified models, such as B-to-C and B-to-B, do not explain the whole feature of the Internet companies. When B-to-B substituted B-to-C to be the hot

topic, it does not mean a specific Internet company with B-to-C color is valueless. Different countries and different industries have particular cases. Business decisions should be made according to the concrete cases rather than simplified models. In fact, the use of these models may hurt not only the Internet companies, but finally also the investors. People who created these simplified concepts or models--many of them are from consulting industry and academy--should be more careful when they make conclusions. Remember the responses in the capital market always tend to amplify the impact of these conclusions. Especially for an industry as young as Internet, no conclusion of researches--either from consulting or from academy-is really reliable. More tests and observations are needed. Summaries should be less hurried. In this paper, for instance, the classifications of B-to-B models, such as Marketplace, Message Center, ASP, etc., is really not important. What is important is the specific company's potentials of making earnings in short run as well as in long run.

What is the impact of the emergence of Alibaba.com on large foreign trade companies such as CEIEC? On the one hand, Alibaba can help to acquaint new clients. On the other hand, it is hard to keep long time relationship with these kinds of clients, because dot-coms like Alibaba are always there and providing flexibility of changing buyers/sellers for lower costs. This is what large foreign trade companies do not want. Therefore, large trading agents like CEIEC who have MIS or even ERP system hope some type of semi-E-business so that they can establish advantage to small companies. However, The essence of E-business is to short-cut middlemen in the business chain. So once the manufacturers have E-business, they can connect directly to the importer or even the end buyer. International business expertise can be acquired by human resource soliciting, in addition to that the skills required for E-international trade will be different from that for traditional international trade. Then, the only possible advantage left to trade agents will be financing. And

whether this advantage exists will depend on the country's monetary situation. The country's marketization of banking industry will simply make it much easier for the end-borrowers to finance. In long run, the financial function of foreign trade companies must diminish to zero.

Therefore, E-business will force the traditional foreign trade companies change their roles. One possible role is product design and development. One of the benefits of E-business is personalized service to customers. Retailers are good at retailing, manufacturers are good at making, they are all not good at personalized designing. Foreign trade companies, doing import and export, are usually familiar with both domestic culture and foreign culture, so they are potentially suitable middlemen for designing suitable products. Of course this needs business integration. Note that engineering design is different from manufacturing but should cooperate with manufacturing. Designing personalized products for customers of foreign countries needs sufficient understandings about foreign culture. Along with the development of E-business, it is reasonable that the function of engineering design is separated from manufacturing. Why not integrate with those who used to be foreign trade agents? In this way, the designer is in between customers and manufacturers and should be more appropriate for E-business. They are still agents--designing agents--required by E-business.

In fact, the development of E-business will also change the profile of multinationals. In an E-world, are the diversified giants like GE appropriate for the requirement of efficiency? When one factor makes the multinational stronger in E-business, another factor may make them weaker. Every part of the world needs to adjust. E-business is both challenge and opportunity for everyone. The winners will be those who adjust themselves to fit the new environment.

If we must forecast, generally balancing all of the positive and negative factors to assess the prospect of E-international trade in China, I would expect the following pictures: There is still no

proof to infer that small firms will benefit significantly more than large firms. The former will be still followers and the latter leaders in E-business. The start-up of E-international trade depends on firstly between the multinational companies and their overseas subsidiaries. Secondly the supply chain between multinationals, thirdly the supply chain between large multinationals and medium companies, then finally, after all these E-business show significant pay-off, small firms will invest on their ERP and Einternational trade facilities. Specifically in China's case, it also depends on both policy environments such as foreign currency exchangeability and infrastructure environments such as electronicized Customs and banking systems.

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