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The international trade peculiarities in China reflected in their e-marketplaces

Abstract

It is unusual and peculiar that a country chooses the voluntary restrictions and strict controls on exports as a development tool. In this article it is shown: (a) how export controls improve the competitiveness of Chinese export companies; and (b) how China uses the e-marketplace to compensate for language and cultural barriers related to international transactions.

This study presents an analysis on the international trade's strategies in China, issued from a research on Chinese SME exporters (Liu, 2009).

Keywords: electronic marketplaces, China's export process, international trade, exporting SMEs, e-strategy, competitive advantage, China.
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"Freedom is the faculty to choose our own constraints".
Jean-Louis Barrault

Introduction

Since China started its economic reform in the 1978, it has become more and more important to the global economy (Zhang, 2006). China's growth rate averaged close to 10 percent annually in the 1980s and more than 12 percent in the early 1990s. China has more than doubled its gross domestic product (GNP) per capita and substantially improved the living standards of the Chinese people in the last decade (Government of Canada, 2003). Since it started economic reforms in 1978, China has been the most dynamic trading nation in the world. In 2004, China's trade has surged to 75 percent of its GDP (Zhang, 2006). Its trade volume has increased by almost 56 times in 26 years, from US $ 20.64 billion to 1,154.74 billion in 2004. China has become the second largest trading nation in the world, and it's certain that it will become more important in the future (Zhang, 2006).

As it is shown in Table 1, one third of China exports is made by large companies, very well positioned to export because of their resources (finance, human resources, distribution network, marketing, relationship with the political system, etc.). But, less expected, two third of the exports are made by small and medium enterprises (SMEs). Those companies are facing a lot of hurdles to export (language, communication barriers, limited finance, lack of human resources, etc.). So, the question is how those SMEs are connecting so efficiently to the rest of the world?

Table 1. Importance of SMEs in China (Jiang et al., 2005)

Guide line	All enterprises	Large-size enterprises	SMEs
Number of enterprises	196,222	1,984	194,238
Percentage (%)	100	1.01	98.99
Gross industrial output value (billions RMB)	12,871.63	4,336.35	8,535.27
Percentage (%)	100	33.69	66.31
Employment (thousands)	57,485.7	13,066.8	44,418.9
Percentage (%)	100	22.73	77.27
Sale (billions RMB)	14,317.15	5,255.229	9,061.924
Percentage (%)	100	36.71	63.29
Gross export value (billions RMB)	2,694.175	856.706	1,837.469
Percentage (%)	100	31.8	68.2

In June of 2009, the United States submitted a grief to the World Trade Organization (WTO) against China in order to denounce, as disloyal, the Chinese practice of restricting the export of raw materials necessary to produce refined steel and reserve its exclusive use to its domestic market (Associated Press, 2009). Obviously, this policy deprives the international firms that are in competition with the Chinese companies of an access to low-priced steel. This incident shows that China uses the control of exports as a development tool. It is rare and singular that a country chooses voluntary restriction and strict control on exports as a development tool. We are generally used to the contrary. Section 1 exposes how the regulation of exports improves the competitiveness of Chinese export companies. Section 2 will demonstrate how China uses the e-marketplace to compensate for the linguistic and cultural barriers related to international transactions.

1. Using the control of exports as a tool for reinforcing the competitiveness of national companies

From the point of view of national interest, apart from rare exceptions such as the protection of fauna, flora or the safeguarding of cultural goods, most countries, especially developing countries, fix an objective in international trade, which is to maximize exports and minimize imports. National companies are encouraged to conquer as much as possible without any restrictions from the external markets. The obstacles that block the freedom of action in export companies are generally designed and implemented by the recipient countries that try to protect their domestic companies. The international bodies responsible of regulating international trade (WTO) are called upon to eliminate these obstacles considered to be incompatible with free trade.

From this point of view China is an exception. The Chinese government has implemented a meticulous regulation on the authorization to export (China Council for the Promotion of International Trade, 2001). This regulation is complex and it has multiple objectives such as: (a) distributing economic activities between cities and regions, between public and private sector; (b) fiscal control; and (c) control capability to export. This last objective consists of eliminating the companies that are judged as having neither the expertise nor the capabilities to market products and services to meet international standards and requirements for the quality of products and services. These authorizations are particularly difficult to obtain for SME in lowly prioritized economic regions. In most cases, they have no other choice but to join large export companies. The logistics regarding the transportation of products is standardized and closely synchronized with the invoicing and payment processes. A systematic procedure for retrieving foreign currencies, benefiting Chinese authorities exclusively is associated to these procedures.

Consequently, of the Chinese companies transacting with the international operators a few have been carefully selected and trained to operate effectively in a highly standardized and constrained environment. The advantages of this regulation are: (1) strict control over the quality of the exported products; (2) conformity of the exported products to the standards of the destination countries; (3) control and centralization of the entry of currencies; (4) fluidity of logistics; (5) integrity of Chinese export products.

This regulation, which would be perceived negatively in the western world, is better accepted in the Chinese cultural context. The multiple disappointments of the Chinese people in the course of their history have carried their distrust in regard to commercial exchanges, particularly international ones, to a higher degree (So & Walker, 2005; Anderson & Lee, 2008). This explains the importance attached to the "guanxi". This term is made up of two syllables: "guan", meaning the door, the obstacle, and "xi", evoking the bond, the relation. Before carrying out any commercial exchange, a strong relation of mutual trust must be established between the concerned parties in order to reach the symbolic threshold of the "guanxi". This state guarantees that all measures will be taken to decrease the risks and avoid the disappointments. The practice of the "guanxi" is all the more necessary because, in order to by-pass the language barrier, multiple face-to-face meetings are needed between the actors of the transactions, making it very difficult and abnormally slow, at least for the Westerners, to form business relations with the Chinese leaders.

Specifically Chinese SMEs are facing six major potential problems to export: (1) collecting relevant information; (2) overcome communication barriers; (3) establish trust between exporter and importer; (4) cut shipping delay (can cause other problems like financial problem, over stock, and delay of market reaction); (5) mastering very complicated export procedure; and (6) fill a large number of documents. All these problems are barriers to Chinese SMEs' exports business. A study led with 28 Chinese exporters of medium-sized companies confirms that they are experiencing numerous difficulties in collecting information, they would need about their business partners (Liu, 2009). Surveyed executives clearly identify that Internet-based tools can be used to overcome key hurdles, to find, for example, new foreign customers (highly educated young executives prone to use intensively Internet resources than traditional tools like international trade fairs).

The language constitutes cutting obstacles in the communication. The Chinese exporters often consider the trust as a condition necessary for good relations. The delays in the maritime transportation of the products remain an uncontrollable element. Finally, the complexity of the export procedures imposes heavy constraints.

2. The extensive use of the e-marketplace as a tool of overtaking linguistic and cultural barriers related to international transactions

How do the Chinese exporters, therefore, by-pass these difficulties? A second peculiarity of China is the appeal to the e-marketplaces (Navarre, 2005) which takes on the role of the facilitator towards the export companies, and becomes, at the same time, a range of many effective tools for the launching of their products. These market places are indeed spots of asynchronous communication (compensating for the linguistic difficulties) between pre-qualified actors (which reduces the risk and importance of the "guanxi"). Three of them cover the major part of international trade transactions with China:

1. DHgate.com relates to the back-to-back business. It defines itself as "a one-stop, customized end-to-end trade solution" for the international buyers. It acts as a platform enabling contact for direct purchasing in China (DHgate.com, 2009).
2. Alibaba.com has aimed for Chinese SME since its early stages before displaying itself as a back-to-back exchange platform for the biggest export and import companies. In fact, its astonishing growth makes it a world leader today. The business community of its international division includes beyond 30 million users in more than 240 countries (Alibaba.com, 2009).
3. Made-in-China.com is the property of focus technology, pioneer and leader of the Chinese electronic industry. Made-in-China.com as a back-to-back platform enabling contact between Chinese manufacturers and international buyers asserts, having the most complete, the most reliable and up to date list of the supplier and Chinese products (Made-in-China.com, 2009).

These three e-marketplaces support the Chinese exporters on five major aspects: (1) by facilitating the communication with the outside companies; (2) by guaranteeing through membership the reliability of the buyers; (3) by offering support for the management of administrative documents; (4) by helping to achieve conformity of the export products; (5) by implementing a model of management for deadlines matched with tools for follow-ups.

Conclusion

Finally, China has set up an original model for exports development built on: (1) a preventive, exhaustive, voluntary control of the exports resting on a meticulous regulation on the access of companies (particularly SME) to the exportation incomes with seizure of their earnings in currencies; and (2) supported by the launch of vast marketplaces of which the creation and durability are all the better assured because the Chinese exporters are filtered and prepared.

Besides these direct advantages, the exercise of these controls by the Chinese authorities, confers a competitive advantage to the export companies. The flow of buyers is channeled towards a restricted number of e-marketplaces. They propose catalogues which, when put together, reflect, in almost all of its totality, the offer of Chinese export products. These products, themselves, have received the Chinese stamp of conformity. The buyer obtains the guarantee of the financial solidity of the export company. The establishment of trust between all parties, without necessarily going all the way up to the point of "guanxi", is facilitated by the membership and the observation of the rules governing the commercial exchange.

Considering that these competitive advantages are added to those of the low cost of production, China has equipped itself with a successful business model, acting on the most crucial aspects of international commercial exchange, matched with the most modern technological supports. A model that seems already difficult to imitate.

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