



# CHINA

## The Digital Revolution



1980

GDP \$190 Billion



2018

GDP \$12,250 Billion



2022

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# Why eCommerce?

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China's National Direction

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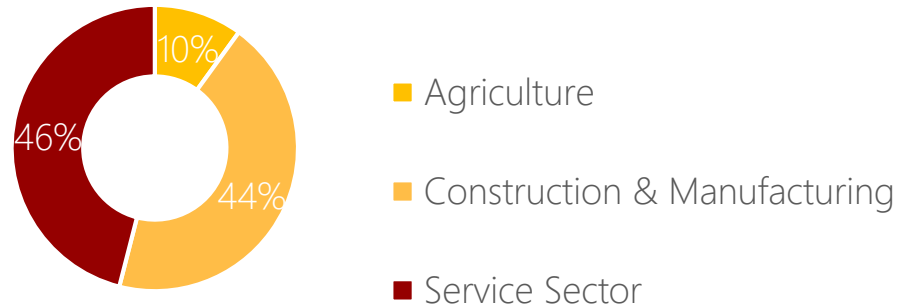
# Why eCommerce?

## China's National Direction

### Economic Reform

China intends to shift away from its manufacturing based model on to a consumption and service based economy

### GDP Composition



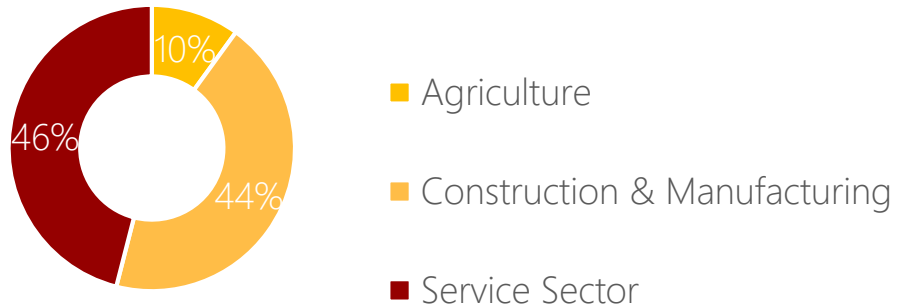
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## Resulting eCommerce Catalysts

1

### Increased Digital Infrastructure

\$323 Billion investment to improve broad band infrastructure by 2020 (Reuters)

2

### Supportive Policy and State Investments

China 13<sup>th</sup> five year plan aims for a 70-80% service sector contribution to GDP

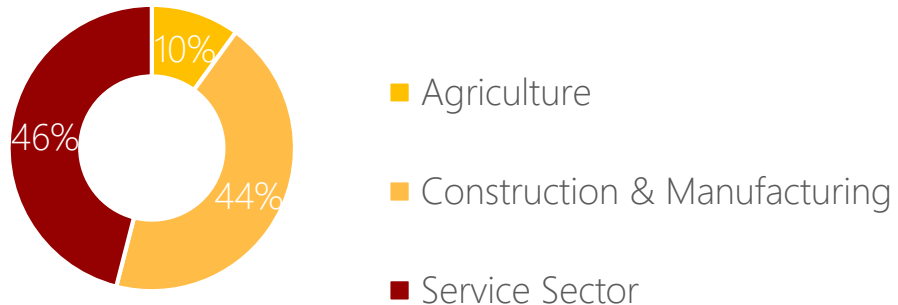
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### Evolving Demographics

China's middle class is experiencing rapid growth; 76% of the urban population will be middle class by 2022 (McKinsey)

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3

### Growing Consumption Needs

Household consumption will grow at 6% annually (Bain)

# Economic Impact

Area 1



B2C

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Connects China's wide  
consumer base with  
relevant suppliers

Area 2



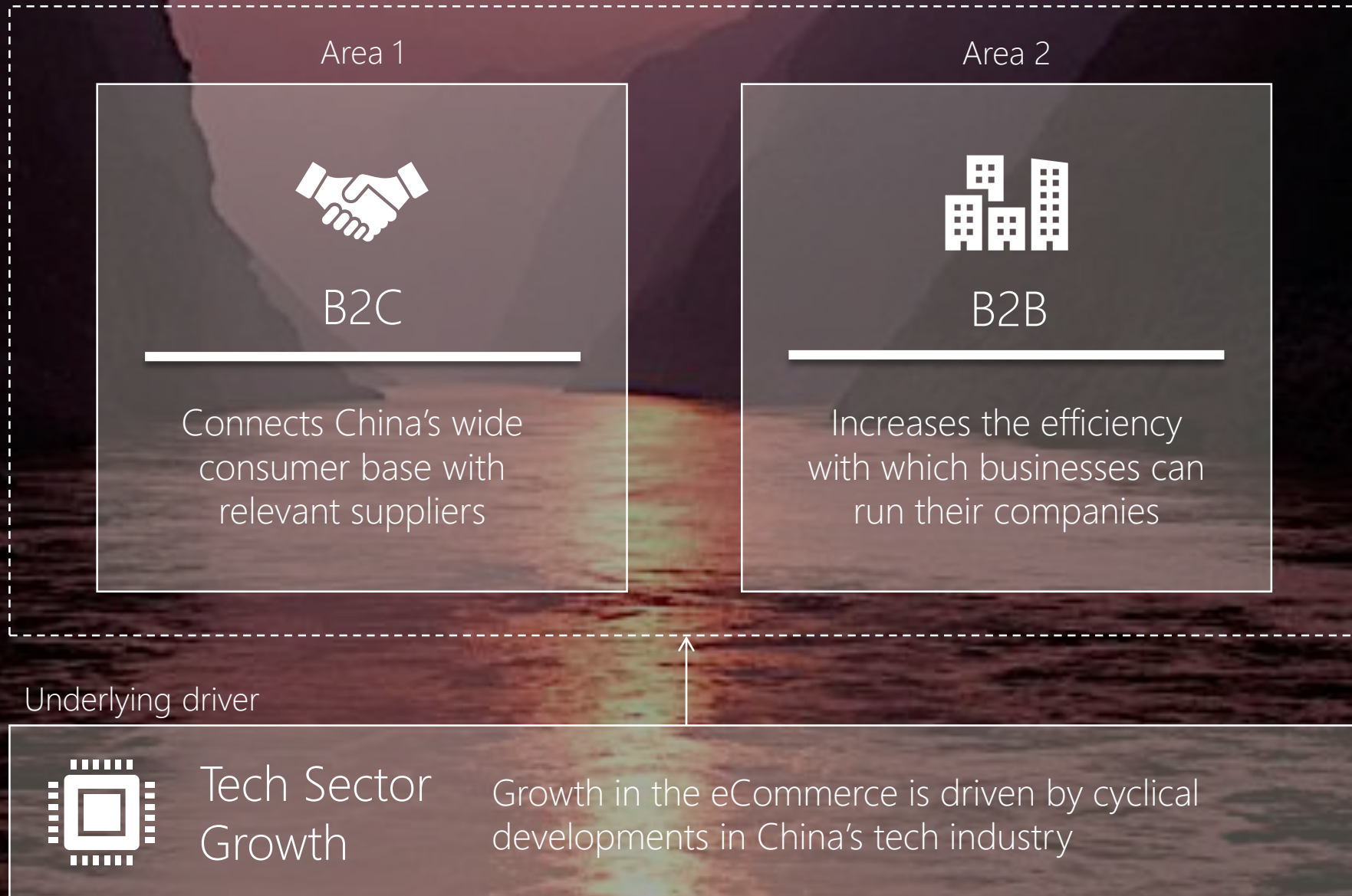
B2B

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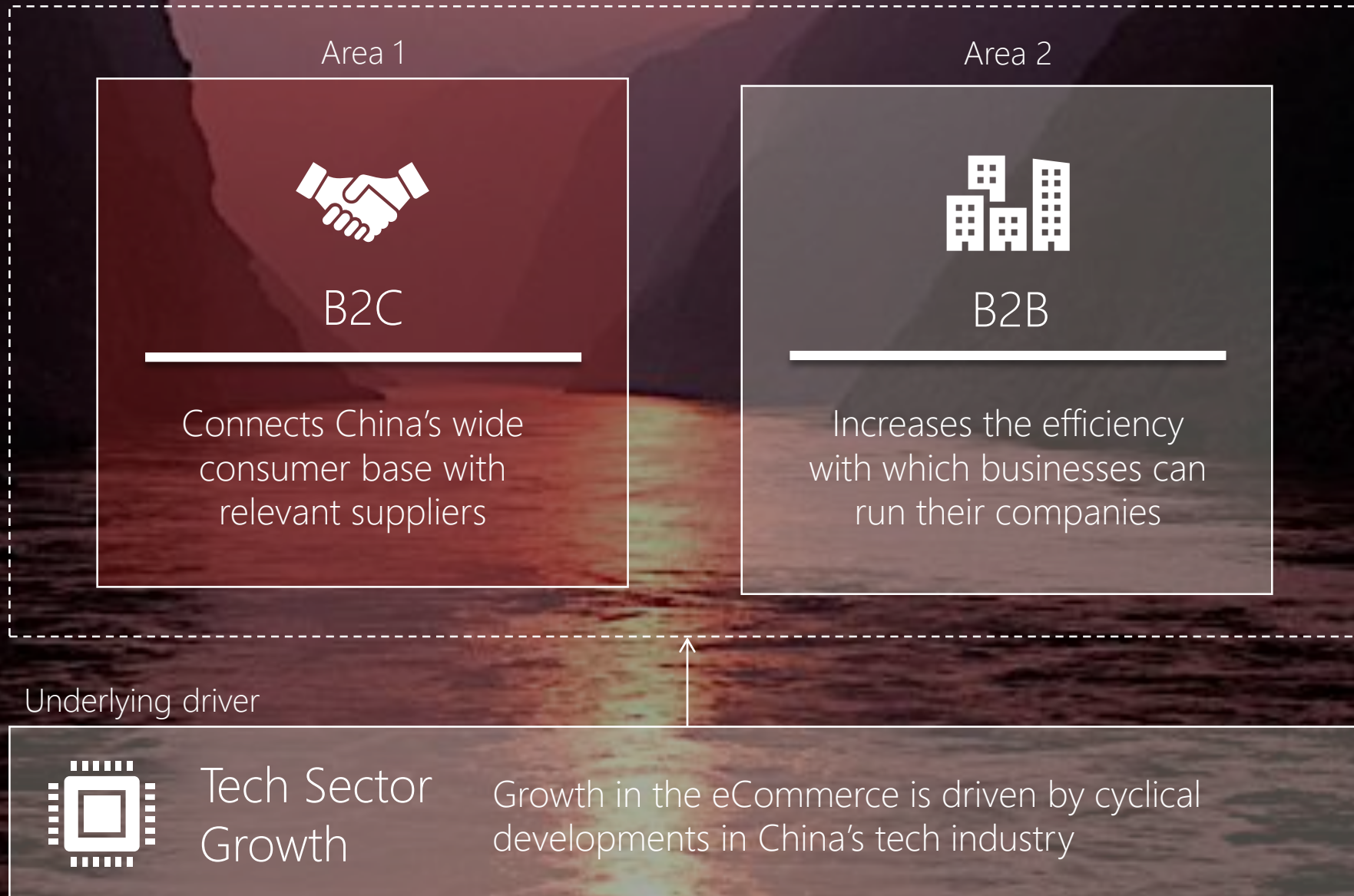
Increases the efficiency  
with which businesses can  
run their companies



# Economic Impact



# Economic Impact



## Product Journey

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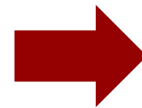
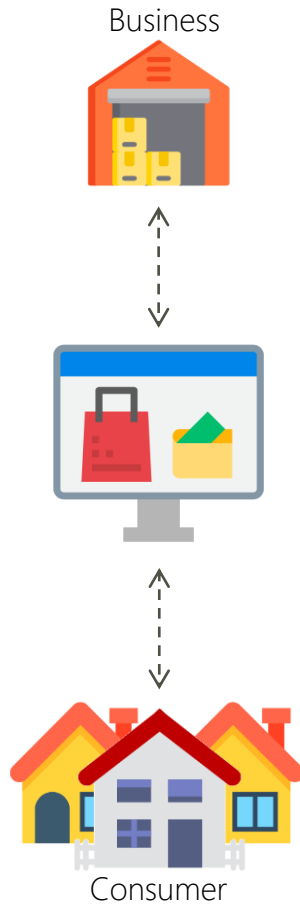




# B2C eCommerce

## How it contributes value

### Product Journey



### B2C eCommerce Overview



#### B2C eCommerce

Order fulfillment between business and consumer in a supply chain free of traditional intermediaries.



# B2C eCommerce

## How it contributes value

### Product Journey



### Driving Factor



#### Market integration of rural regions

1. Uncover markets unreachable by traditional retail
2. Connect rural suppliers directly to consumers
3. Alibaba to invest \$716 million in rural logistical network (*SCMP*)



#### B2C eCommerce

Order fulfillment between business and consumer in a supply chain free of traditional intermediaries.



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#### B2C eCommerce

Order fulfillment between business and consumer in a supply chain free of traditional intermediaries.



#### Capitalize on emerging markets

1. Brick and mortar stores underdeveloped in tier 3,4 cities.
2. Tier 4 city shoppers devote a greater proportion of income to eCommerce – 27%. (*McKinsey*)

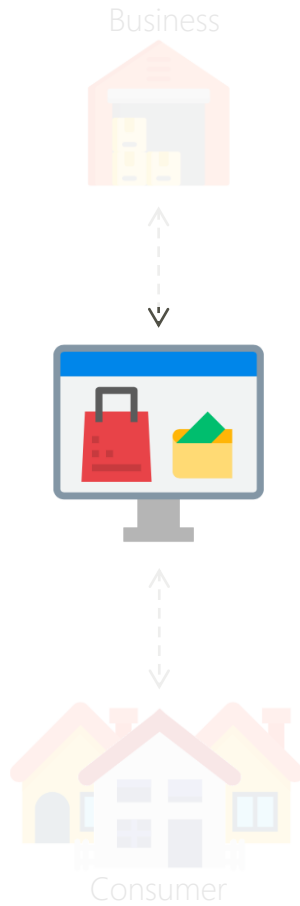




# B2C eCommerce

## How it contributes value

### Product Journey



### Overall Effect

Increase in overall private consumption level,  
fueling a shift towards a consumption-oriented  
economy.



# B2C eCommerce Use Case Analysis

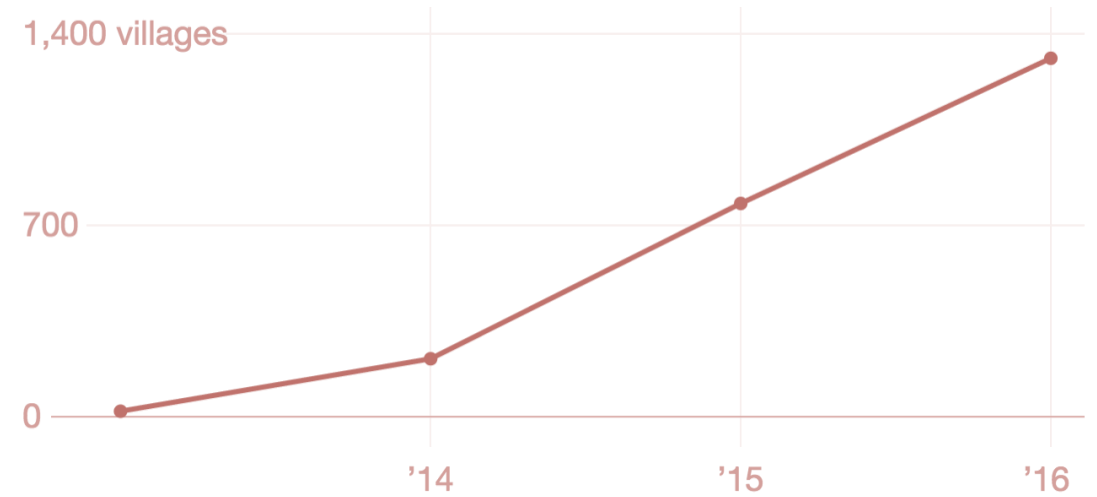
## Case Study

### Problem

Fruit cooperative in Wugong County, China with annual revenue of 3 million Yuan

Source: China Daily

Number of "Taobao villages" in China  
1,400 villages



Source: Alibaba





# B2C eCommerce Use Case Analysis

## Case Study

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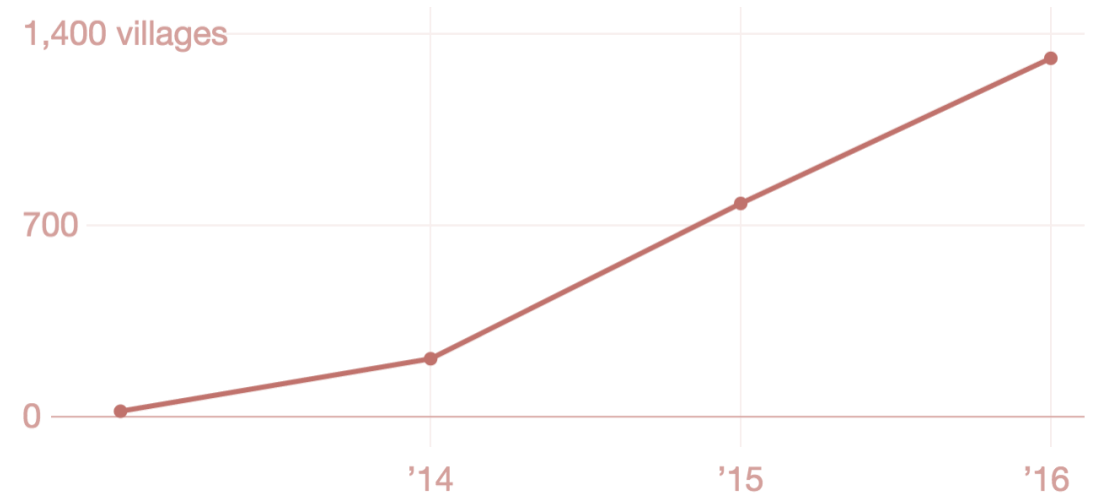


### B2C Solution

Owner launched on B2C ecommerce platform JD.com to connect directly with broader consumer base.

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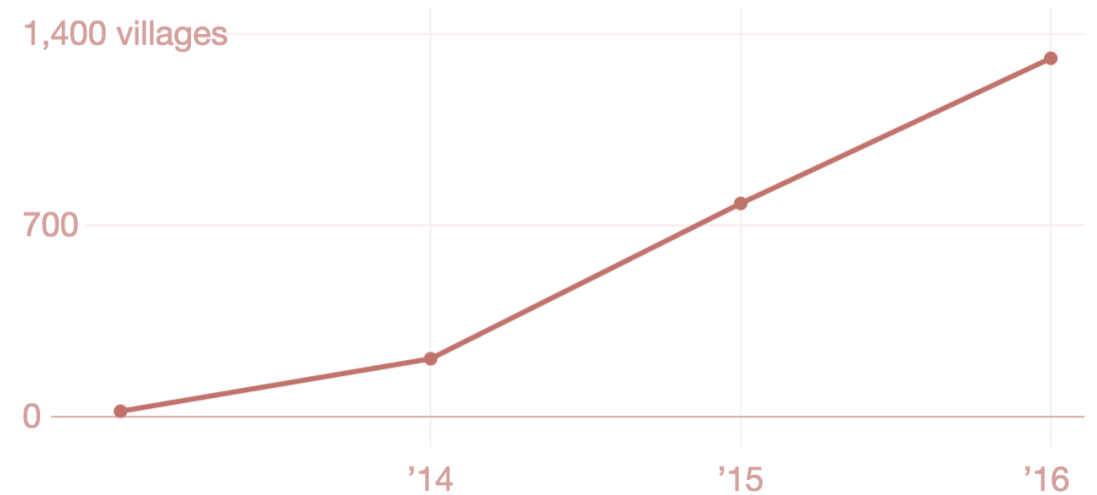
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### Potential/Results

In 2016, sales reached 300 million Yuan (\$50 million CAD).

Source: China Daily

Number of "Taobao villages" in China  
1,400 villages



Source: Alibaba



# B2C eCommerce

## Growth Potential

### Growth Potential

1

B2C eCommerce sales projected to hit **\$956.5 billion** by 2022.  
*(Shopify Plus)*

2

60% of B2C sales are offline replacement, **40% is incremental**.  
*(McKinsey)*

3

**4-7% increase** in private consumption by 2022.  
*(McKinsey)*

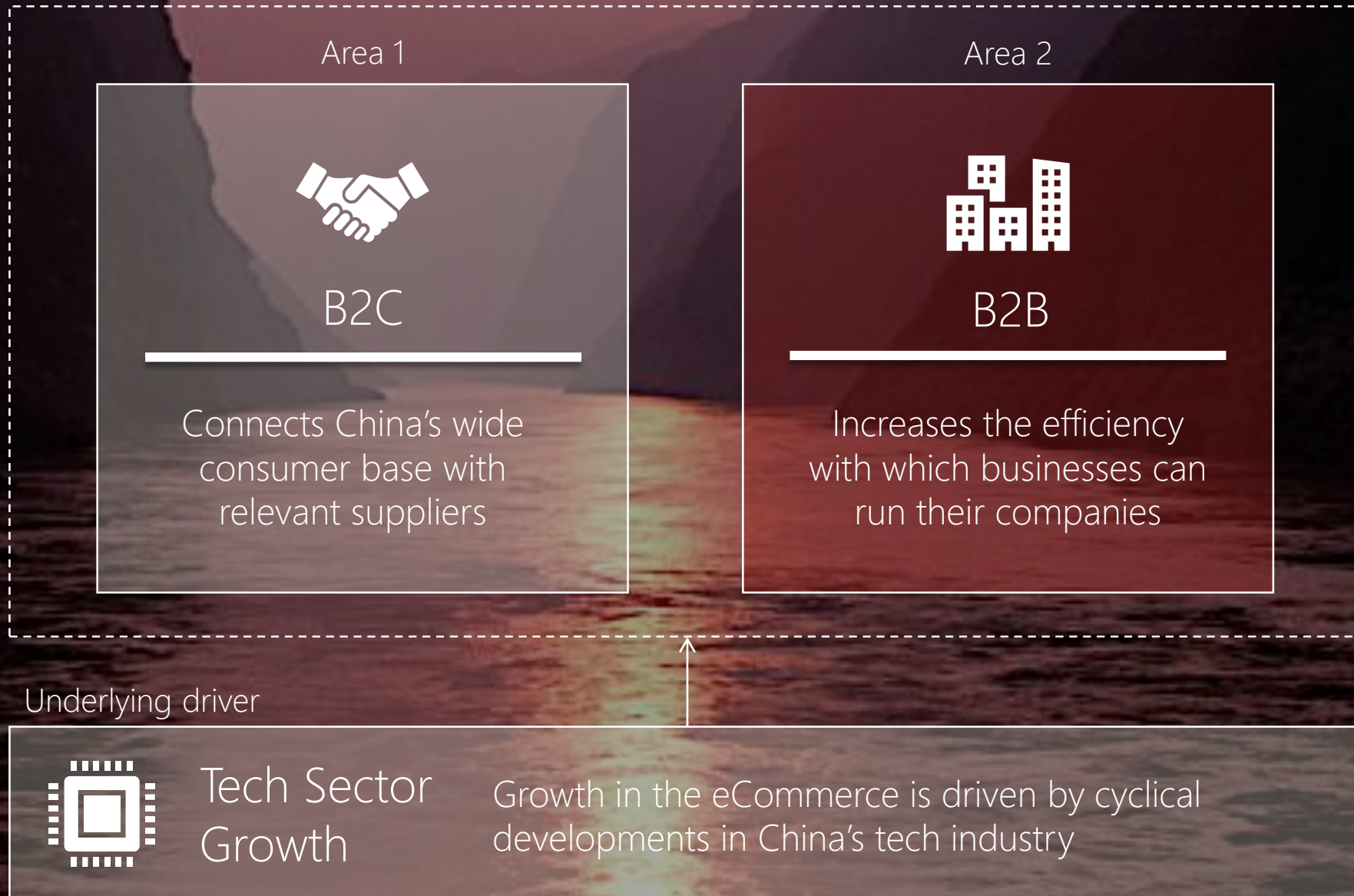


## Growth Potential

### Key Takeaway

*B2C ecommerce to be responsible for \$182.9 billion increase in Chinese consumer consumption by 2022.*

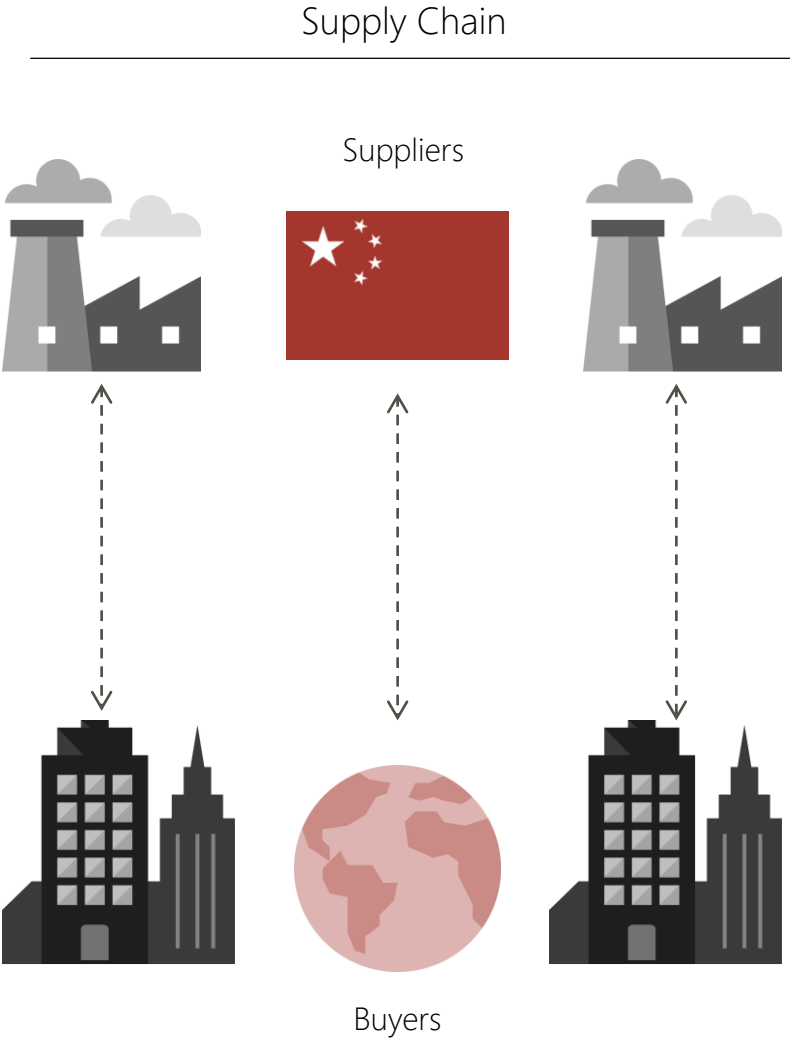
# Economic Impact





# B2B eCommerce

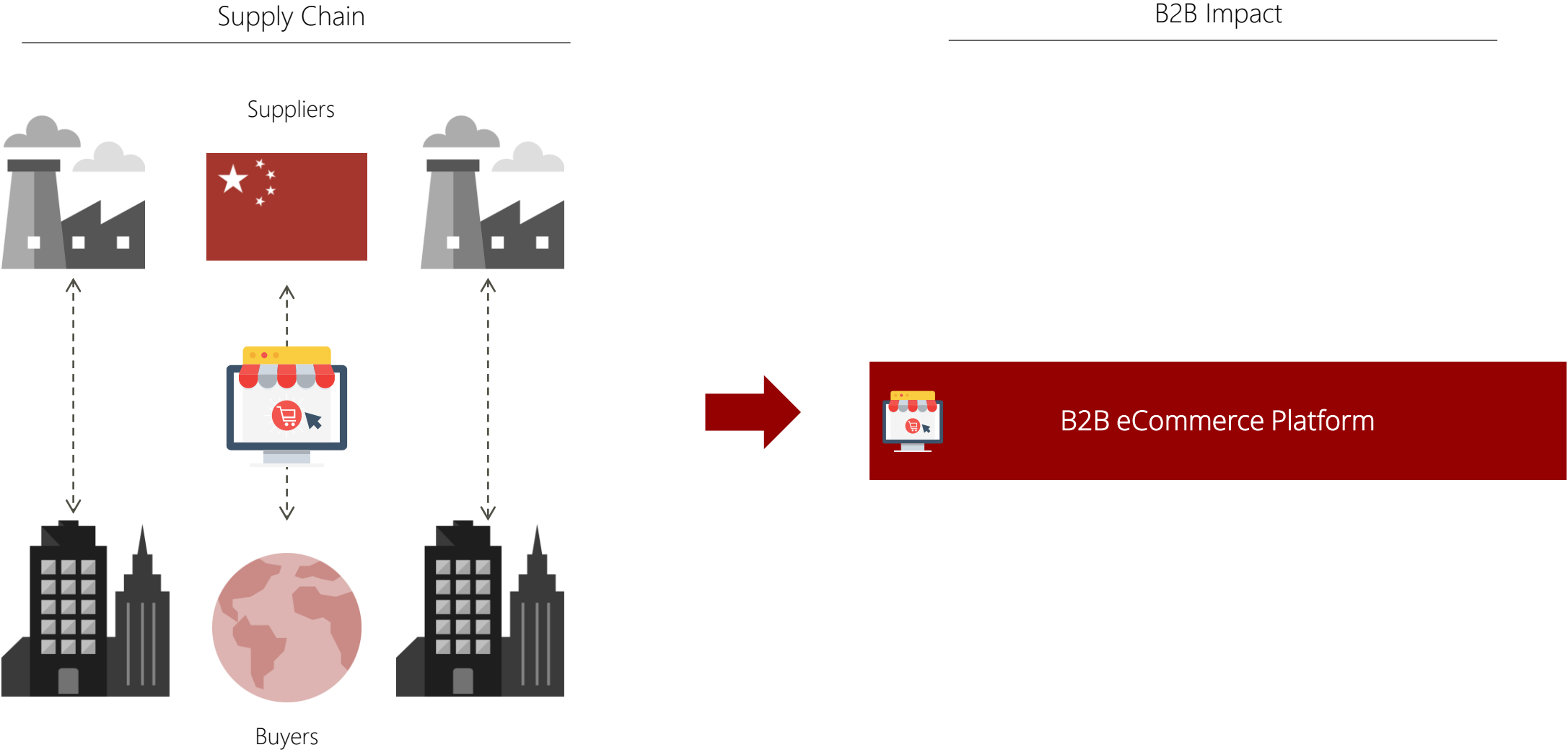
How it generates value





# B2B eCommerce

How it generates value

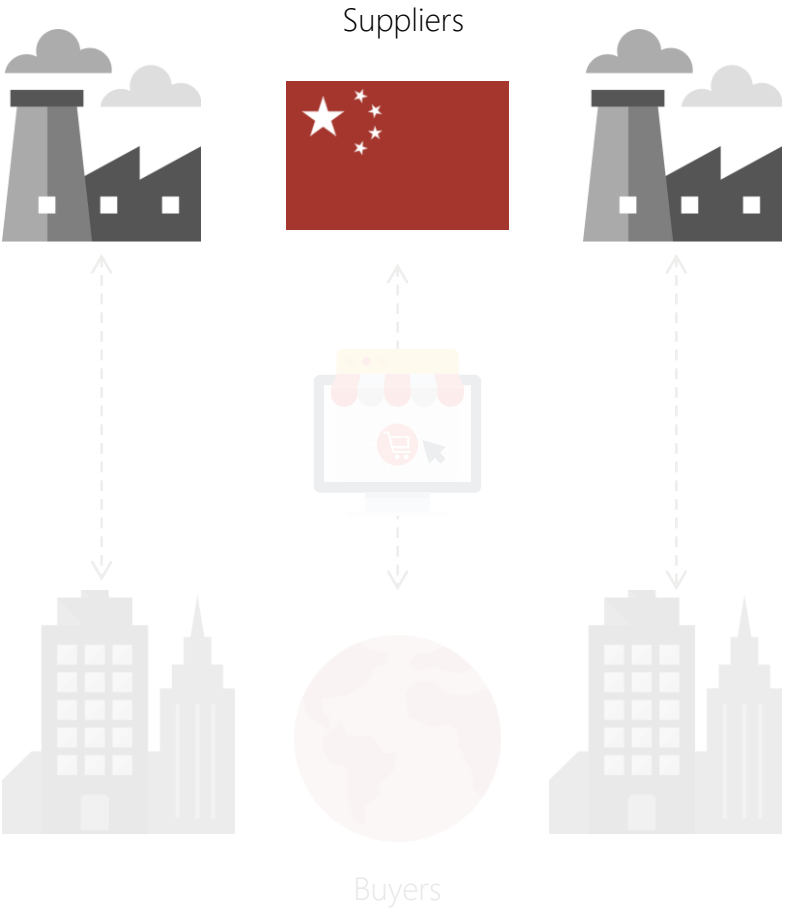




# B2B eCommerce

## How it generates value

### Supply Chain



### B2B Impact



#### Expanded supplier networks

1. Domestic manufacturers will be able to **access new markets**
2. Developing SME's can become **"Micro-Multinationals"** through enabling platforms

*(McKinsey)*



#### B2B eCommerce Platform

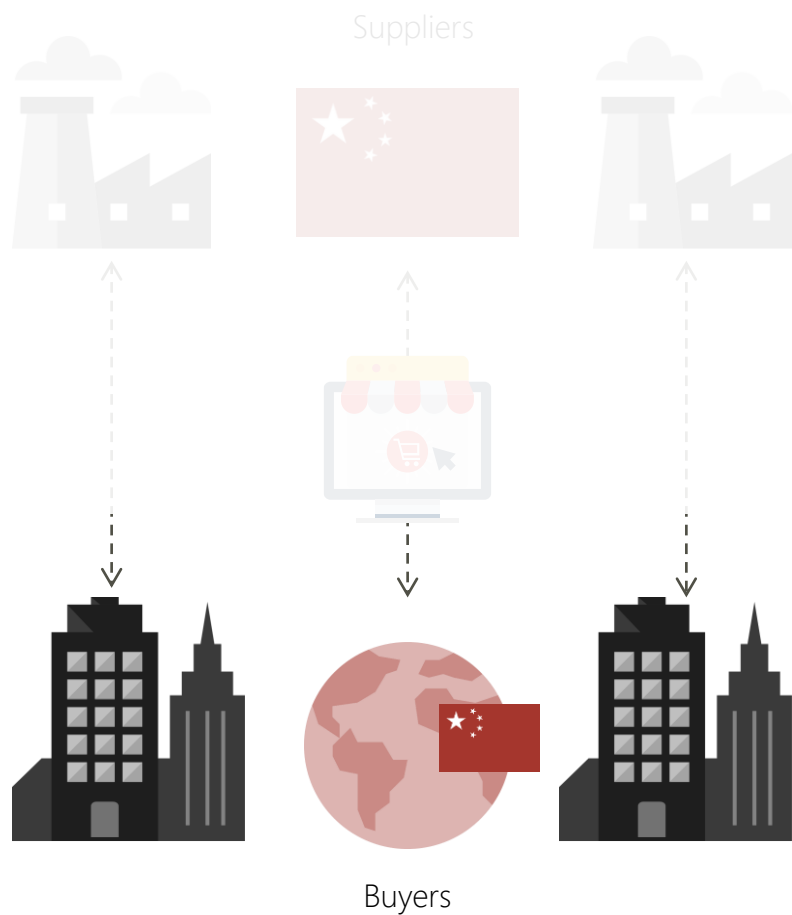




# B2B eCommerce

## How it generates value

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#### B2B eCommerce Platform



#### More efficient internal networks

Digitalized pipelines for

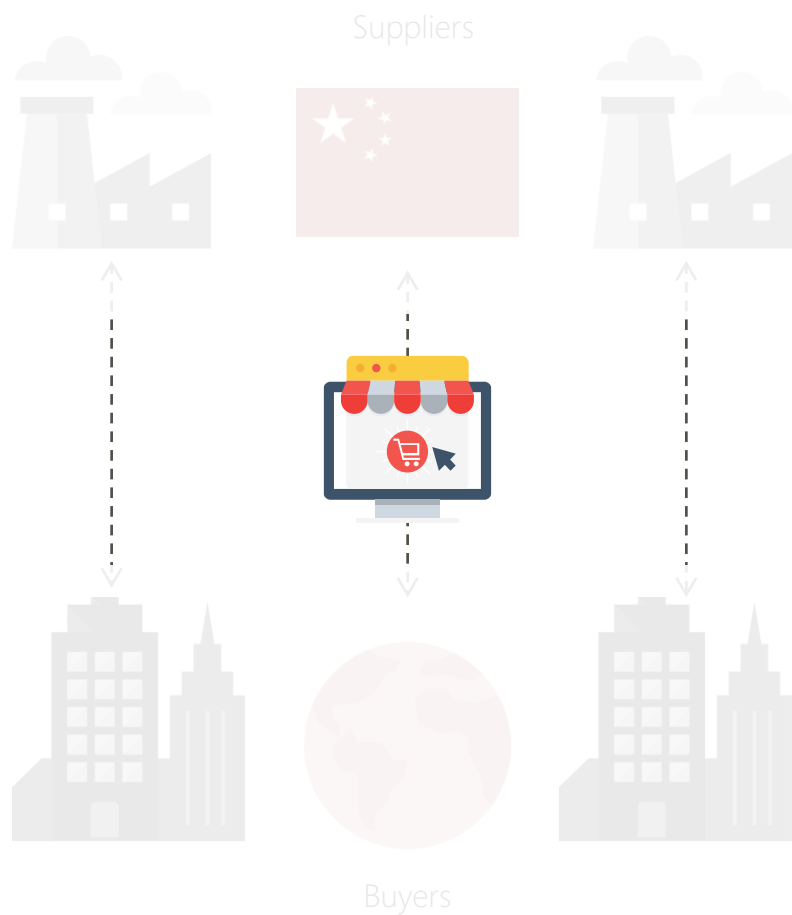
- **"Made in China 2025"** high-tech manufacturers imports
- Internal supply chains



# B2B eCommerce

## How it generates value

### Supply Chain



### B2B Impact

Digital Platforms create value through disintermediation and efficiency gains in existing B2B networks while also generating countless new connections at a global scale



# B2B eCommerce

## Use Case Analysis

### Industry Analysis



### Problem

Highly fragmented Chinese automotive aftermarket



Highest volume of automobile production in the world since 2008  
(Economist)



Automotive aftermarket expected to reach 214 Billion USD  
(China Daily)



# B2B eCommerce

## Use Case Analysis

Industry Analysis



Problem

Highly fragmented Chinese automotive aftermarket



Top ten players make up only 10% of the total independent automotive aftermarket (IPSOS)



Automotive aftermarket expected to reach 214 Billion USD  
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# B2B eCommerce

## Use Case Analysis

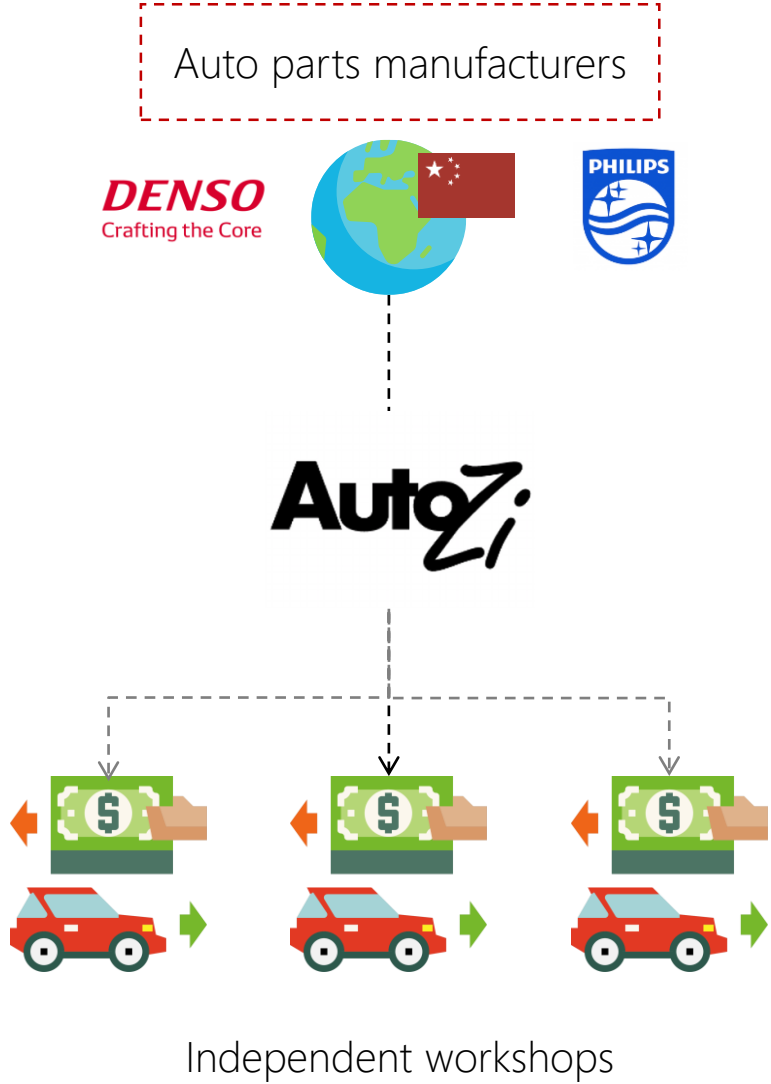
### Industry Analysis

#### Problem

Highly fragmented Chinese automotive aftermarket

#### Opportunity

Consolidation of Independently branded workshops and chains through B2B platforms





# B2B eCommerce

## Use Case Analysis

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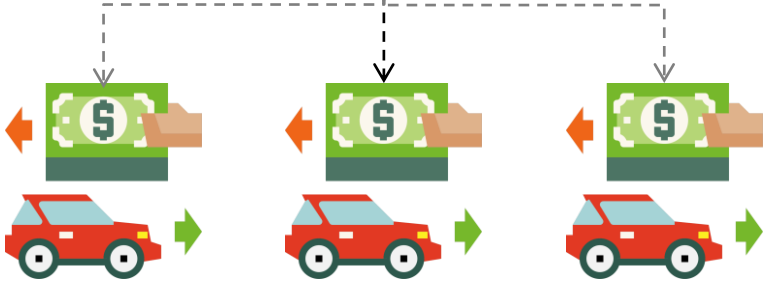
Consolidation of Independently branded workshops and chains through B2B platforms

Auto parts manufacturers

**DENSO**  
Crafting the Core



**AutoZi**



Independent workshops



# B2B eCommerce

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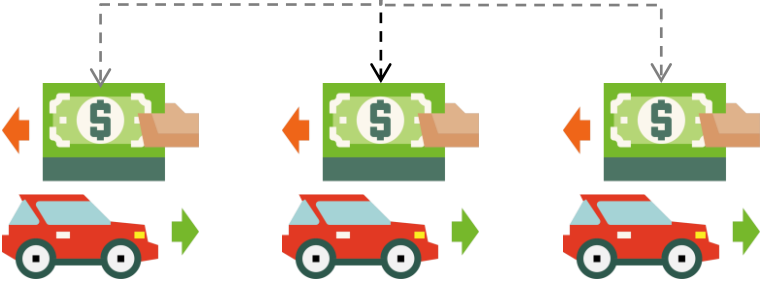
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Independent workshops



# B2B eCommerce

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#### Opportunity

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#### Economic Potential

1. reduced counterfeiting
2. optimized warranty processes
3. eased financial and logistical solutions



100,000 Workshop Covered by the end of 2017

30-40%

of parts requests still left unfulfilled....





# B2B eCommerce

## Growth Potential

### Growth Potential

1

Global B2B sales to hit \$12 Trillion by 2020

2

Expected CAGR of 8.7%

3

Chinese B2B market value of \$2.1 Trillion

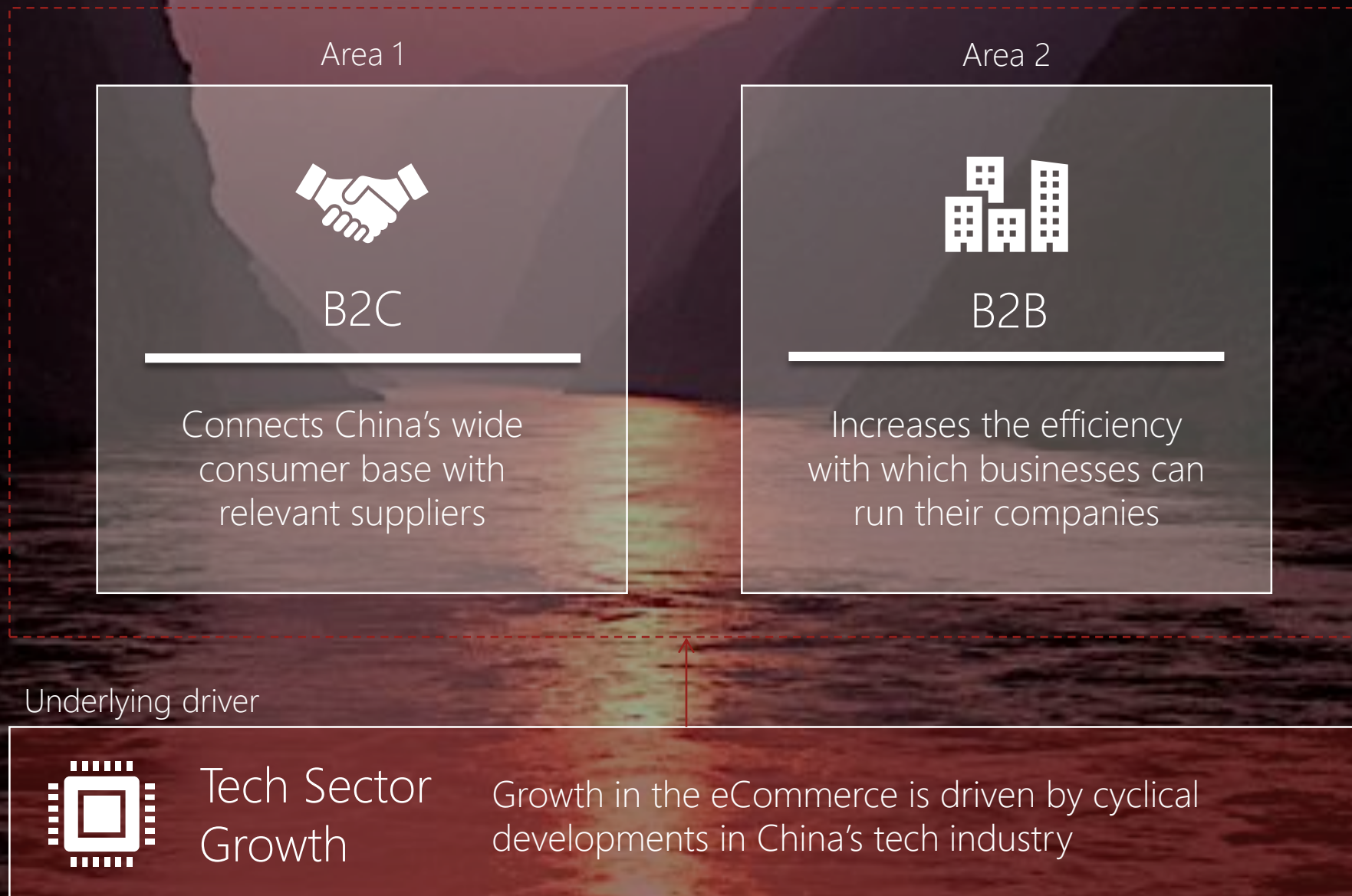


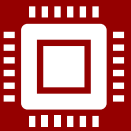
### Growth Potential

#### Key Takeaway

*The intersection between China's existing B2B networks and emerging B2B platforms will catalyze growth through supply-chain efficiency and global connectivity*

# Economic Impact





# The High-Tech Sector

## Current Activities

### Government Involvement

\$400 Billion investment in high-tech sector



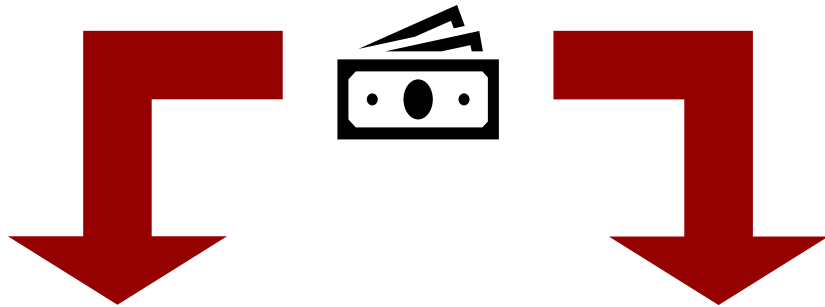
### E-Commerce & High Tech Innovation

Innovation in infrastructure



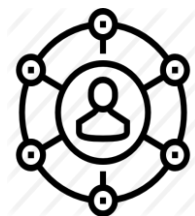
### Government Involvement

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#### Network Infrastructure

Outspent the USA by \$24 billion on 5G networks since 2015 (Deloitte).



#### Physical Infrastructure

\$50 billion investment in logistical platforms and express distributing systems (Deloitte).



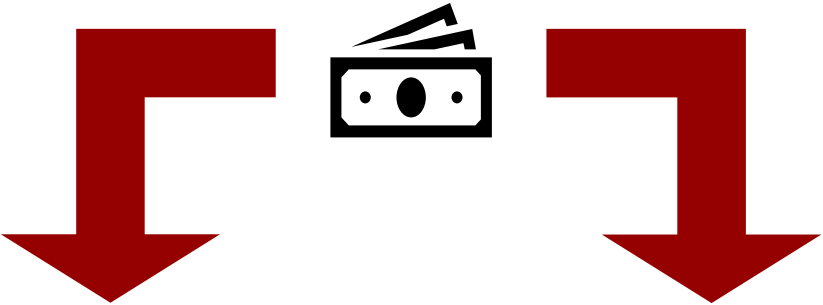
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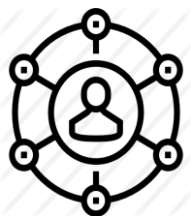
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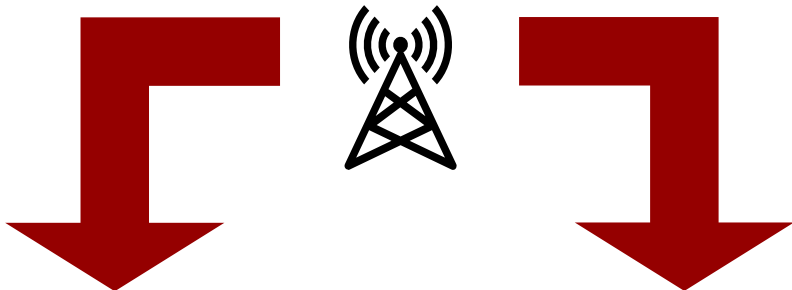
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### E-Commerce & High Tech Innovation

Innovation in infrastructure



New Tech Acquisitions

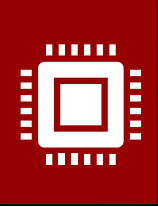
41% of unicorns are backed by E-Commerce companies (Fortune).



Research/Development

Alibaba tripled its R&D budget to \$15 billion. Focusing on AI and quantum computing





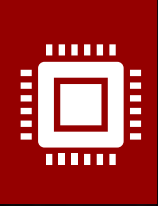
# The High-Tech Sector

## Cyclical Driver



### Innovation

- Boosts tax revenue through increase of efficiency
- Forces government to support the technology



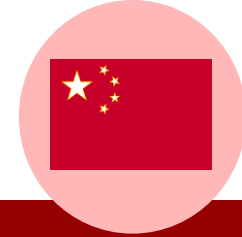
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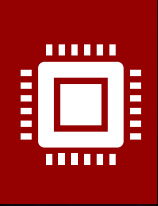
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### Government Activity

- Increases consumer base through infrastructure
- Direct expenditure into R&D of new technology





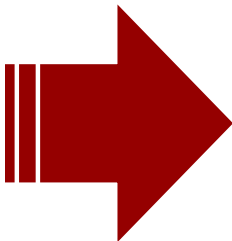
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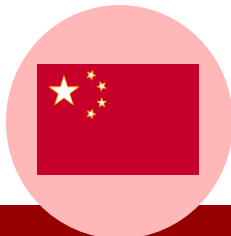
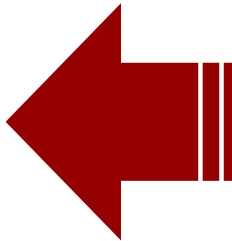


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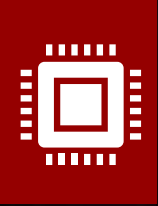


Growth  
Cycle



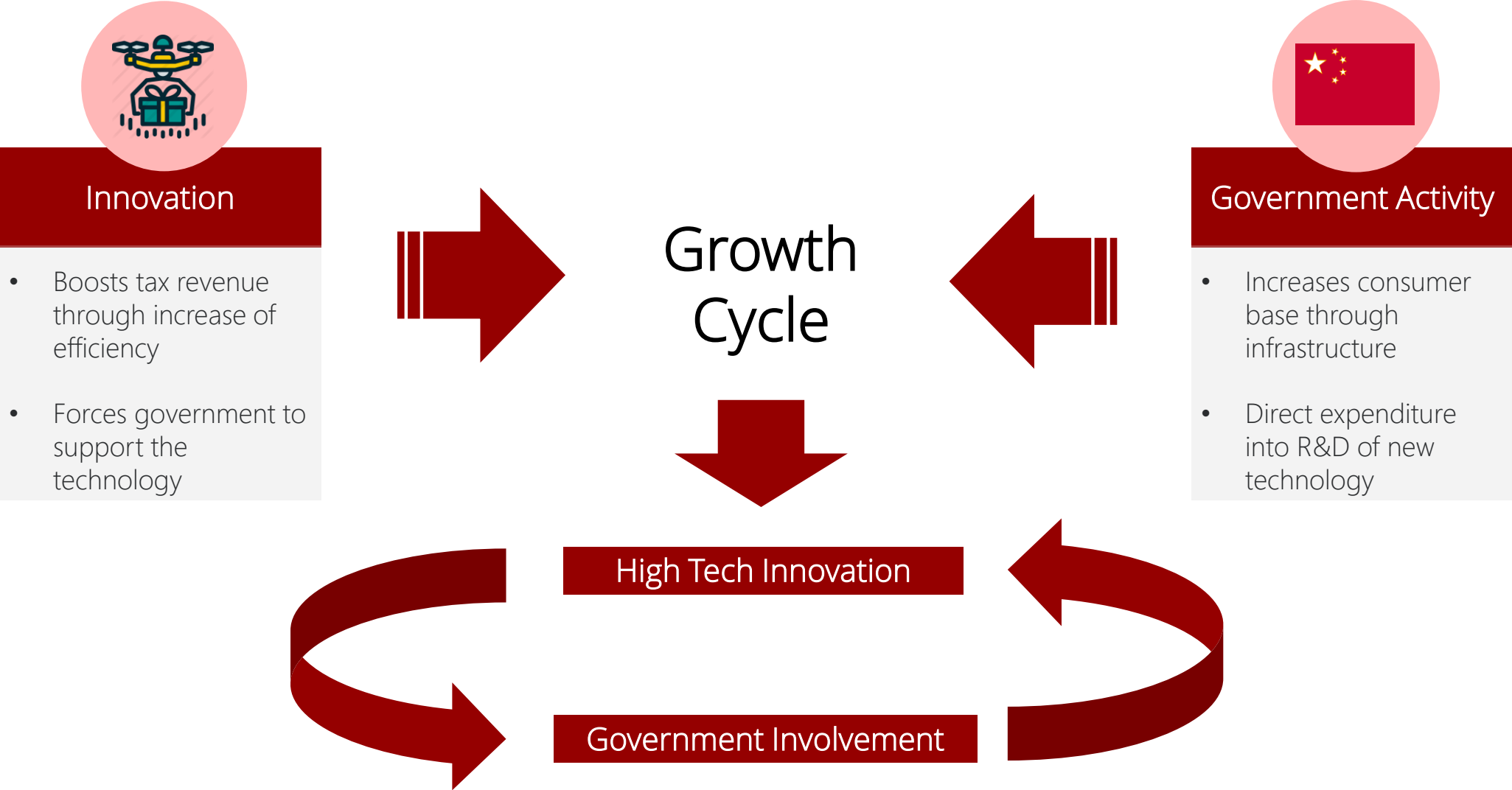
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# The High-Tech Sector

## Cyclical Driver



# Economic Impact

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We project ecommerce to generate between  
\$107 billion – \$233 billion by 2022,  
between 0.9% - 1.94% of Chinese GDP.

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# Economic Impact Projection Process

## 5 Years GDP Projection

	2019	2020	2021	2022	2023
E-Commerce Adoption Rate	40.34%	43.10%	46.66%	49.55%	52.49%
Best Case					
Total Value in USD	\$ 80,679,428,123	\$ 121,358,541,432	\$ 160,470,290,786	\$ 197,168,052,889	\$ 232,654,718,699
% of GDP	0.67%	1.01%	1.34%	1.64%	1.94%
Worst Case					
Total Value in USD	\$ 41,706,904,168	\$ 57,612,039,719	\$ 74,237,554,932	\$ 90,594,733,297	\$ 106,967,884,061
% of GDP	0.35%	0.48%	0.62%	0.75%	0.89%

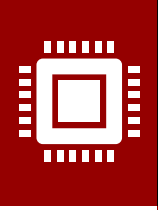
Broken Down into:

- GDP contribution from B2C revenue increase.
- GDP contribution from B2B revenue increase.
- GDP contribution from value added in technology sector.

“Innovation is an inexhaustible **engine** for economic development”

-Le Keqiang, Premier, People's Republic of China

QUESTIONS?



# Appendix: The High-Tech Sector

## Case Study

### Case Study

#### Problem

Concern over E-commerce fraud and inability to pay using credit cards due to lack of penetration

#### High-Tech Solution

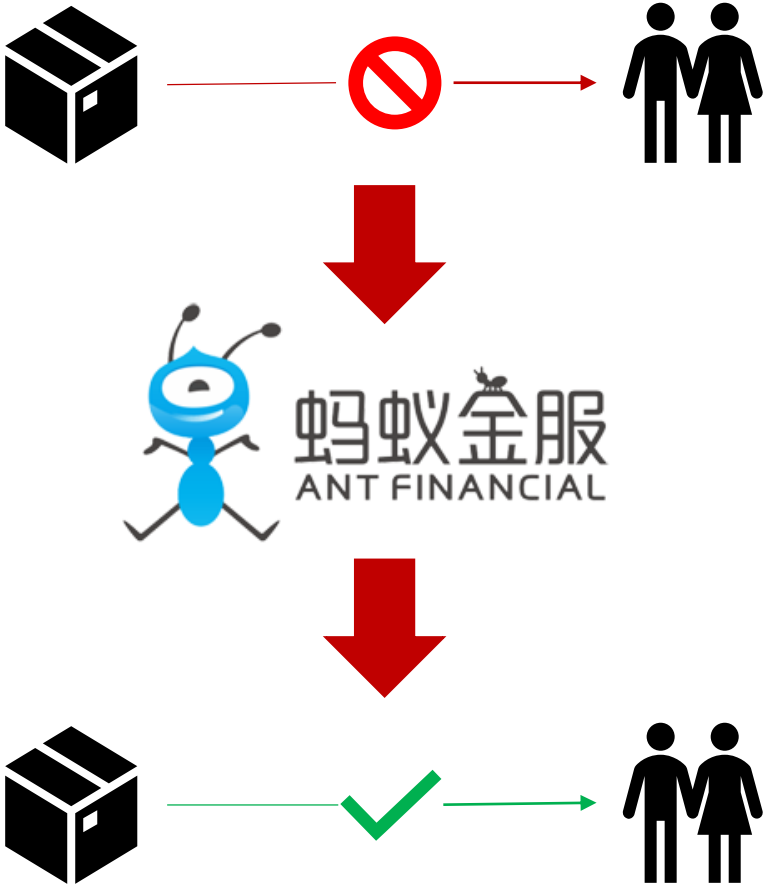
Create secure payment system verified through facial recognition. Payment is not released until the product is verified

#### Potential/Results

- 1. \$40 million claimed in false sales
- 2. 0.8% increase in sales



"Alibaba's shares dropped 8.6% due to mass fraud allegations in 2010."





# Appendix: Economic Impact Projection Process

Best Case					
	2019	2020	2021	2022	2023
25% Consumer Increase	52.087	61.654	66.4375	68.032	69.095
Value Generation (B2C)	\$ 29,389,342,323	\$ 37,278,044,832	\$ 43,599,683,386	\$ 47,507,334,689	\$ 51,203,889,699
Sales Revenue (in millions)	\$ 3,999,995,000,000	\$ 4,300,055,000,000	\$ 4,600,055,000,000	\$ 4,900,055,000,000	\$ 5,000,055,000,000
Sales Revenue Increase	0.50%	0.50%	0.50%	0.50%	0.50%
Value added in B2B	\$ 19,999,975,000	\$ 21,500,275,000	\$ 23,000,275,000	\$ 24,500,275,000	\$ 25,000,275,000
Productivity (GDP/hr)	6.59	6.59	6.59	6.59	6.59
	0.25%	0.50%	0.75%	1.00%	1.25%
Value Added in Tech	\$ 31,290,110,800	\$ 62,580,221,600	\$ 93,870,332,400	\$ 125,160,443,200	\$ 156,450,554,000
Total Value in USD	\$ 80,679,428,123	\$ 121,358,541,432	\$ 160,470,290,786	\$ 197,168,052,889	\$ 232,654,718,699
% of GDP	0.67%	1.01%	1.34%	1.64%	1.94%





# Appendix: Economic Impact Projection Process

## Worst Case

	2019	2020	2021	2022	2023
25% Consumer Increase	44.646	46.772	48.898	51.024	53.15
Value Generation (B2C)	\$ 25,190,864,848	\$ 28,279,896,079	\$ 32,089,366,972	\$ 35,630,501,017	\$ 39,387,607,461
Sales Revenue (in millions)	\$ 3,999,995,000,000	\$ 4,300,055,000,000	\$ 4,600,055,000,000	\$ 4,900,055,000,000	\$ 5,000,055,000,000
Sales Revenue Increase	0.10%	0.10%	0.10%	0.10%	0.10%
Value added in B2B	\$3,999,995,000	\$4,300,055,000	\$4,600,055,000	\$4,900,055,000	\$5,000,055,000
Productivity (GDP/hr)	6.59	6.59	6.59	6.59	6.59
	0.10%	0.10%	0.10%	0.10%	0.10%
Value Added in Tech	\$ 12,516,044,320	\$ 25,032,088,640	\$ 37,548,132,960	\$ 50,064,177,280	\$ 62,580,221,600
Total Value in USD	\$ 41,706,904,168	\$ 57,612,039,719	\$ 74,237,554,932	\$ 90,594,733,297	\$ 106,967,884,061
% of GDP	0.35%	0.48%	0.62%	0.75%	0.89%

# Appendix: Economic Considerations

## Possible Challenges



### Political Instability

- Investments into military instead of consumer technology
- Focus shifts away from middle class



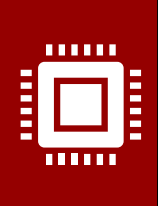
### China-USA Trade War

- Certain goods sold by CBEC are have less demand due to cost
- Decrease in trade with the United States



### Foreign Expansion

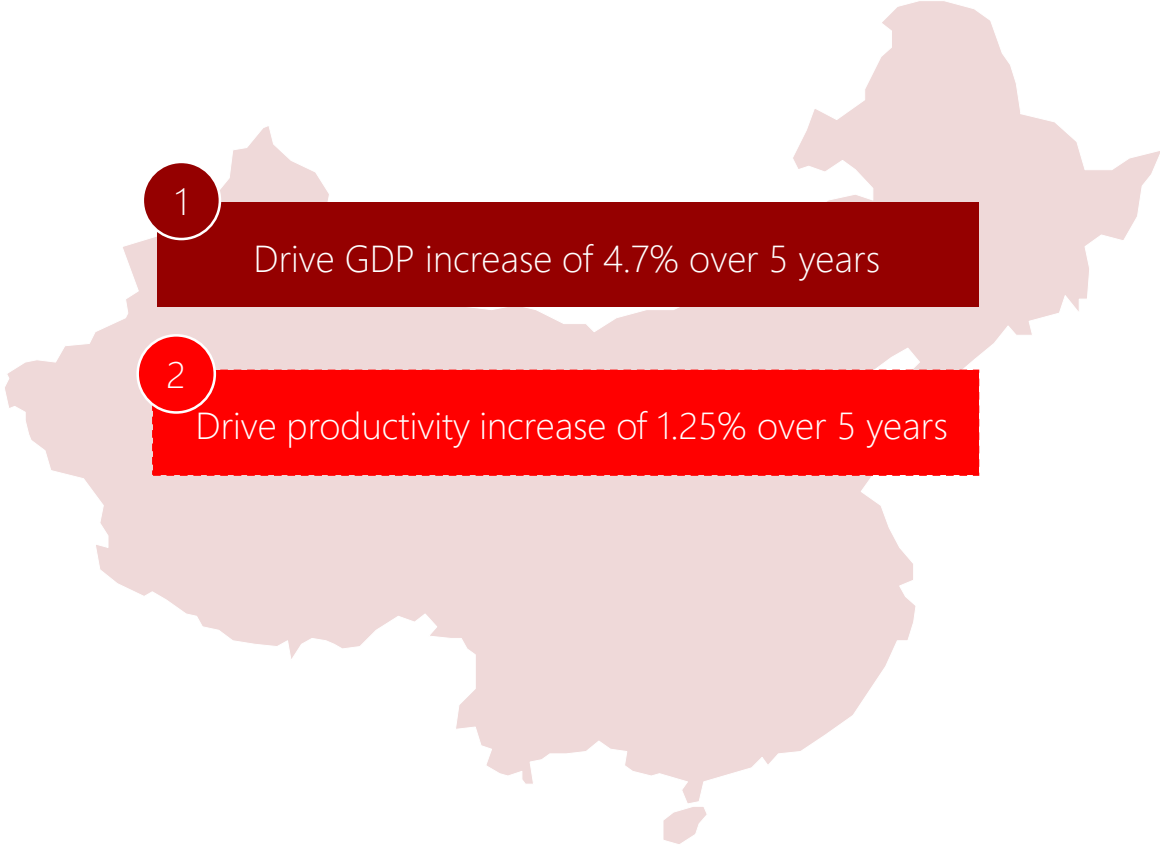
- Amazon plans to expand into China
- Cuts into market share of China's big players, cutting into revenue



# Appendix: The High-Tech Sector

## Nationwide Impact

### Impact



China's Productivity

