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#### Summary

- The COVID-19 outbreak in China accelerated the existing trend of increasing reliance by Chinese consumers on e-commerce platforms, and also expanded the user base to an older demographic. Analysts expect these changes to persist in the long term.
- Despite an overall decline in domestic Chinese consumption in the first half of the year, the volume of online retail in China increased, driven by greater demand for groceries, medical supplies, and other consumer essentials.
- China's online grocery market is forecast to grow, by some estimates, by more than 60% in 2020 – twice the rate of the previous year.
- The Chinese government has supported the growth of the e-commerce market during the outbreak as a way to maintain domestic consumption and boost cross-border trade, introducing a number of new policy initiatives in the first half of 2020 – including a near-doubling of the number of e-commerce pilot zones.
- Cross-border e-commerce is responsible for a growing share of China's foreign trade. This trend is also expected to accelerate as a result of the COVID-19 outbreak, and with increased government impetus.
- The increasing importance of the Chinese e-commerce sector will create more opportunities for New Zealand businesses, in particular SMEs looking for low-cost options to enter the Chinese market.
- Posts in China have been undertaking a range of activities this year to help New Zealand businesses better understand and take advantage of these changing trends.

#### Report

1. E-commerce is an increasingly significant component of China's economy, with around one third of all goods sales currently done online across a range of large and small platforms, or directly through social media such as WeChat. Cross-border e-commerce is an increasingly important part of this expanding sector, valued at US\$26 billion. It comprises a growing share of China's total foreign trade, contributing 5% of 2019's overall foreign trade growth.

2. Just as the 2003 SARS outbreak was a significant contributor to the rise of Chinese e-commerce giants Alibaba and JD.com, COVID-19 has already had a profound impact on the Chinese e-commerce sector. China's COVID-19 outbreak coincided with Chinese New Year, a time when most retail stores were closed, meaning "panic buying" of essential goods occurred largely online. The main lockdown period (February-May) further entrenched consumer reliance on online retailing, and also drew in a larger portion of the older demographic. A recent [survey](#) showed 60% of people aged 55 years or older purchased more goods online this year, and only 1% said they never shopped online.

### *COVID-19 has driven consumers towards online purchasing...*

3. China's e-commerce platforms all significantly grew their user base in the first half of this year. Alibaba users grew to 695 million in May (up 20%) and Pinduoduo, the second-most popular e-commerce platform, grew its users by 40% to a total of 471 million. There was particular growth in the number of older users, as above.

4. China's online sales increased by almost 9% over the peak COVID-19 period (February-May), to a total value of US\$365 billion. This was despite a 16% decrease in overall retail sales (offline and online). Growth was largely driven by increased demand for groceries, medical supplies, and other consumer essentials.

5. During the same period, online restaurant orders and purchases of luxury items declined, but this was more than offset by the volume of demand for 'stay at home' products. This included a shift towards products normally consumed in restaurants – premium, easy-to-prepare meals with fresh or live seafood, chilled meats and wines. As one example, at the peak of the virus control measures, online food delivery market leader Meituan [experienced](#) a 400% increase in grocery delivery orders.

6. However, the slump in sales of high-value discretionary items meant that although the overall *volume* of online sales in China increased, the *growth in value* of online sales was somewhat slower when compared with recent years (though still positive). Domestic and international analysts are now increasingly optimistic that sales of discretionary products will soon return to pre-COVID numbers as consumer confidence recovers.

7. Sales statistics provided by e-commerce companies show that consumer confidence appears to be slowly rebounding, with Chinese consumers still preferring e-commerce channels to ease their pent-up demand for products, a phenomenon dubbed "revenge consumption" on Chinese social media. For example, JD.com's mid-year "618 Grand Promotion" shopping festival showed an increased transaction volume of 74% compared to the previous year, with grocery sales in particular rising 140%, indicating many consumers have continued this habit post-lockdown.

### *... aided by e-commerce companies...*

8. E-commerce companies sought to capitalise on the opportunity presented by the COVID-19 outbreak to secure additional customers and merchants for the longer term, with Alibaba, Pinduoduo and JD.com all subsidising deliveries and waiving commission rates. Alibaba also began supporting export-focused SMEs to expand into new foreign markets by providing fee reductions and fast-track processing.

### *.. and by Government...*

9. The Chinese Government has been a strong supporter of growing the e-commerce market as a way to maintain domestic consumption during the global pandemic. In May, Premier Li Keqiang led calls to enhance internet infrastructure (including 5G networks, cloud computing, artificial intelligence, and blockchain technology) to stimulate digital consumption. As a result, the Brookings Institute [estimates](#) that more than US\$100 billion of public and private funding will be invested in this type of infrastructure in 2020. The Government has also provided additional support to boost domestic consumption, including funding for e-commerce innovations in the areas of autonomous delivery, telemedicine, online education, and livestreaming.

10. In response, various agencies rolled out measures to further support the growth of e-commerce. China's Ministry of Industry and Information Technology (MIIT) announced plans to accelerate digital infrastructure development, including speeding up the rollout of 5G networks and increased funding to innovation. In addition, the State Administration of Foreign Exchange (SAFE) issued a 'Notice on Supporting the Development of New

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Trade Models', which, among other adjustments, relaxed foreign exchange restrictions for cross-border e-commerce.

*...with significant support for cross-border e-commerce*

11. In addition to stimulating domestic consumption, the Chinese leadership increasingly views cross-border e-commerce as a partial buffer for international trade shocks. To this end, China's State Council recently announced plans to almost double the number of cross-border e-commerce integrated pilot zones in several different regions (bringing the total number of zones to 105), with President Xi Jinping calling this "part of China's plans to accelerate the growth of globally-oriented e-commerce". E-commerce in such zones is subject to a set of preferential policies, including the exemption of retail export goods from VAT and consumption taxes. Analysts expect that additional policies related to cross-border e-commerce will be unveiled later this year.

*Future trends and implications for New Zealand*

12. China's expanding e-commerce market and drive to increase cross-border transactions has created opportunities for foreign businesses (often with the support of their governments) to work with e-commerce companies to promote their products to a Chinese audience. In particular, live-streaming sales events on e-commerce platforms and social media are increasingly popular. This year Pinduoduo's "global purchase" campaign during the mid-year shopping festival included live broadcasts with representatives of nine European countries. According to Pinduoduo's statistics, purchases of global products in this period increased by more than 470% compared with the previous year.

13. China posts, led by NZTE, are working to ensure New Zealand is taking advantage of these changing trends, for example:

- A dedicated New Zealand wine pavilion was launched on JD.com earlier this year.
- A "New Zealand National Products Festival" was held in May on JD.com – a one-week shopping promotion for Chinese consumers to purchase New Zealand products. 50 brands joined the promotion, offering nearly 300 products sourced directly from New Zealand including meat, wine, wellness products and fruits, among many others.
- In June, Ambassador participated in JD's biggest annual sales promotion of the year, presenting messages about New Zealand, its cultural image, and food sectors.

14. The Chinese e-commerce sector is diverse, with many large and small platforms and as such diversifying New Zealand businesses' current approach beyond large e-commerce platforms is an important future goal.

## Assessment

15. In the longer term, market analysts expect that many of the changes in consumer behaviour observed since the outbreak of COVID-19 will have lasting impacts on China's e-commerce market. In particular, the shift to purchasing essential products online will likely continue, with estimates showing China's online grocery market will grow by more than 60% to \$US38 billion in 2020 (a doubling of last year's 29% growth rate). As consumer confidence returns and spending on discretionary goods increases, the importance of e-commerce in China will further accelerate.

16. There remains significant room for business-to-consumer online retail to expand as many rural areas of China remain unconnected (China's overall internet penetration [rate](#) is only 64.5 percent, albeit growing quickly). As such, the success of the Chinese government's ongoing drive to improve new infrastructure will be crucial for continued growth in the e-commerce market.

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17. The growing importance of cross-border e-commerce to China's economy (and government) has potential benefit for New Zealand exporters, particularly SMEs. E-commerce channels are increasingly an attractive way for New Zealand businesses to enter the Chinese market, and in some circumstances can be a lower-cost option and a way to avoid certain regulatory hurdles. Conversely, e-commerce channels come with risks that traditional trade does not face, which exporters need to take into account. For example, sales volumes can change much more rapidly in response to consumer preferences and fears, a phenomenon seen in China when imported seafood was linked to the June COVID-19 cluster in Beijing. As always, New Zealand businesses need to be agile, realistic, and do their own due diligence when considering paths to the Chinese market.

18. In addition to NZTE's ongoing work to expand capacity in this area, the bilateral e-commerce arrangement signed in 2017, and the e-commerce Chapter in the China-New Zealand FTA upgrade are both frameworks for cooperation with China to further support bilateral trade through e-commerce channels.

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