MAR 18
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China looks to strengthen its grip on ecommerce powerhouses

Article

China's market regulator is set to launch new rules that will affect the nation's ecommerce market, which is expected to reach a value of $2.779 trillion this year, per eMarketer forecasts from Insider Intelligence.

Here's what you need to know:

- **The new rules take on social commerce.** The laws bring social commerce under the umbrella of China's 2019 ecommerce law, forcing any entity that sells via social platforms to comply with the 2019 mandates. Firms will have to register their businesses and obtain appropriate selling licenses and will also be subject to certain tax liabilities.
- **They emphasize fair competition among ecommerce players.** The rules will ban services that engage in misleading tactics like falsifying sales volume and user base count or promoting favorable reviews over negative ones. These tactics were likely used by some firms to undermine competition.
- **Companies will be required to gain user consent before collecting personal information.** This includes financial information, biometric data, and medical and health information and would limit the amount of information ecommerce firms can obtain and potentially use to market products to consumers.
- **And they may soon need to divulge platform information to the government.** Regulators are set to hasten the construction of a system that will collect online transaction information in real time from ecommerce firms, allowing the government to better monitor activity—and perhaps paving the way for increased scrutiny.

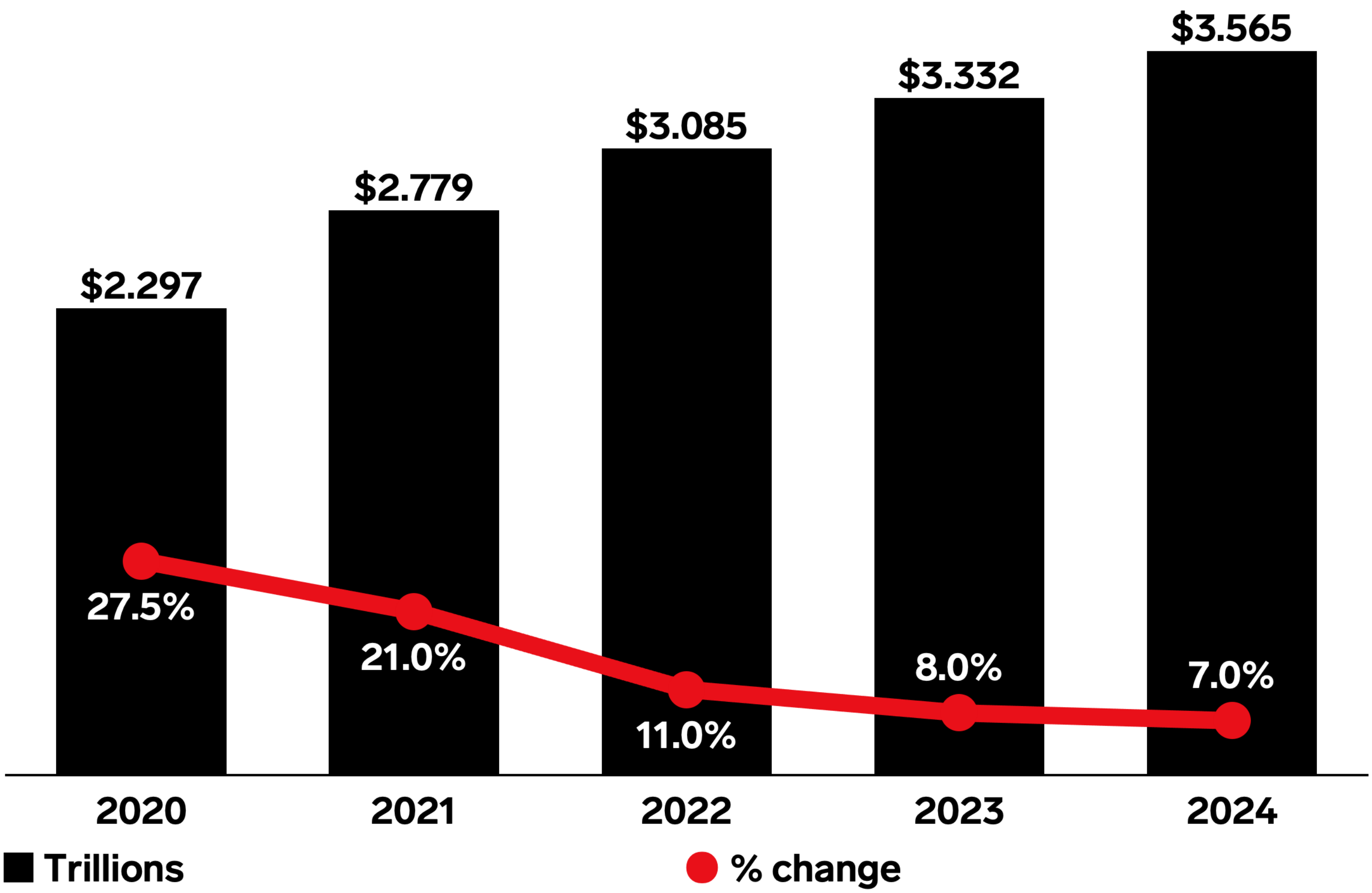
The rules follow months of increased ecommerce regulatory scrutiny and recent probes—with Alibaba and others feeling the heat.

- **Regulations:** The government's first major foray into ecommerce regulation occurred in 2018, when it introduced a wide-ranging law that took effect in 2019 concerning contracts, dispute resolution, and liabilities within the ecommerce space. And last November, right before Alibaba's coveted Singles' Day shopping event, Chinese regulators drafted a new antitrust law to take down monopolistic behavior within the online shopping market.
- **Government probes:** Regulators recently launched probes into some of the country's largest companies, including Alibaba and its affiliate firm Ant Group. But regulators are ratcheting up pressure on large firms: The Chinese government asked Alibaba to dispose of its media assets, which span across print, broadcast, digital, social media, and advertising, and the government recently removed one of Alibaba's apps from app stores. Mounting government pressure may have been what led to the recent resignations of Ant Group's CEO and ecommerce site Pinduoduo's chairman.

These rules aim to prevent ecommerce firms from becoming too powerful, potentially dampening their business. Some ecommerce firms, specifically Alibaba, have amassed a great deal of power in the Chinese market—Alibaba's reach extends into nearly every inch of the retail sector, thanks in part to its various subsidiaries. The government may have introduced these laws to rein in the power of firms like Alibaba. These mandates will require ecommerce giants like JD.com and Pinduoduo to change their operations, including their current selling tactics, or otherwise face penalties that could hurt their businesses. It's worth noting that the forthcoming laws could benefit consumers and independent online sellers: Consumers will gain increased privacy and control over what information they share, and online sellers will have increased legal protections from the country's large ecommerce players, perhaps allowing them to better compete in the online market.

China Retail Ecommerce Sales

2020–2024



Source: eMarketer, December 2020
Methodology: Includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment. Excludes travel and event tickets; payments such as bill pay, taxes, or money transfers; food services and drinking place sales; gambling and other vice good sales. Excludes Hong Kong.

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