China's transition to a digital economy

HELEN WONG

ONLINE shopping carts are transforming the face of China's economy, changing supply chains, and putting pricing power in the hands of its 1.37 billion consumers.

China's policy makers have promoted their policy of 'Internet-Plus' to spearhead economic reform and foster the development of a consumption-led economy over the export-led growth of the past.

The country's shoppers, already among the most internet savvy in the world, are using new shopping and payment gateways via Wechat, Alibaba and Taobao.

This is levelling the playing field for suppliers, who now meet buyers online in an e-commerce market that has been growing rapidly.

For decades, mainland China's economic expansion was powered by low-value-added manufacturing – cheap toys, shoes and textiles 'Made in China' and exported to the rest of the world. Those days are fading into the past, and the focus now is on making the country's giant economy more productive, innovative, and market-oriented.

Chinese consumers have adopted the digital world at lightning speed.

Just a decade ago, there were fewer than 100 million internet users in mainland China, and the penetration rate was just 7 percent. Now, the penetration rate has reached nearly 50 percent, with some 667 million internet users as of June 2015.

The country is now the world's largest e-commerce market; online retail sales in mainland China totalled 3.877 trillion yuan ($589.61 billion) in 2015, up 33.3 percent from a year earlier, according to official data.

On November 11 last year, during the annual shopping bonanza on 'Singles Day', Alibaba's online sales soared to a record 91 billion yuan ($14 billion), beating expectations and easily topping the amount shoppers in the US spent during the multi-day sales spike around Thanksgiving.

The shift to a digital economy is also changing customers' use of financial tools like e-wallets, e-payment and touch-pay systems.

REUTERS/FILE

Companies like Alibaba have given rise to thriving social networks and transformed the way the Chinese buy products and compare prices.

Many private-sector companies, too, have embraced the digital age wholeheartedly.

Companies like Alibaba, Tencent, Baidu, e-tailer JD.com, and travel websites Ctrip and Qunar have given rise to thriving social networks and transformed the way the Chinese buy movie tickets and book hotels, exchange shopping tips and compare prices.

They have also enabled Chinese shoppers – be they in Beijing, Shanghai or rural Inner Mongolia – to spend, by putting them within a mouse-click or phone-swipe of goods from all over the world.

Crucially, this eager embrace of the internet has injected more market forces, transparency and competition into the mainland Chinese economy, ensuring that quality, price, efficiency and service are rewarded more highly than ever before.

In other words, it is helping to make China's economy become more 'digital'.

The real impact will come if these market forces take root across all parts of the economy – in particular, the massive state-owned sector.

Mainland China's roughly 150,000 state-owned enterprises (SOEs) employ more than 30 million people, and contribute nearly a third of China's GDP. Their actions have a big impact on the speed and direction of economic rebalancing and upgrading that Beijing aims to bring about.

Not all SOEs have been quick to harness the power of the internet. However, those that do – perhaps by partnering with existing internet companies – can reap substantial benefits.

Digital tools can help improve their sourcing, sales and logistics systems; streamline their often inefficient operations; engage with customers via social media; identify and track market trends; and boost their marketing, research and innovation capabilities.

China e-commerce sales are expected to top $1.5 trillion by 2018, by which time nearly 30 percent of all retail sales in the country will be done online, according to a recent study by eMarketer. Reaching these shoppers, and getting them to click 'buy now', will be increasingly important for private-sector and state-owned enterprises alike.

The Chinese authorities have seen the successes in the private sector, and are now actively encouraging change in the state-owned sector, too.

In March 2015, Premier Li Keqiang announced the 'Internet Plus' initiative. This aims to encourage China's manufacturers to deploy mobile internet, cloud computing and other tools, and to promote the development of internet banking, mass entrepreneurship and innovation. It also aims to support higher-tech manufacturing in agriculture, energy, finance, public services, logistics, e-commerce, traffic, biology and artificial intelligence.

China has spent 430 billion yuan in 2015 to beef up the nationwide internet system. Another 700 billion yuan will be spent on this effort in 2016 and 2017, and an additional 140 billion yuan will be invested in improving rural internet connectivity until 2020. Putting these policies in place could help provide momentum for China in the years ahead. The internet and its related technologies will change the nature of growth, particularly as labour costs increase and the country's population ages.

In the long term, China's digital economy will help its international ambitions. Some of its technology companies are now among the largest in the world. They can leverage their experiences from the dynamic home market and export their technological successes to the rest of the world.

The heavy capital investment and labour force expansion that fuelled China's rise over the past three decades cannot be sustained indefinitely.

The economy's embrace of the internet can ultimately support China's goal of creating a more sustainable digital economy. China's policymakers, and the country's mouse-clicking and phone-swiping shoppers, are helping to bring that change about.

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European travel agents defy internet threat

AFP, Berlin

The doomsayers were 100 percent certain that the internet would be the death of travel agents.

But in Europe's three biggest economies, the industry is still very much alive and kicking as consumers prefer expert advice and a friendly face when it comes to booking their holidays.

In France, the number of travel agents has held steady for the past five years.

In Britain, business is also "buoyant", said Sean Tipton, spokesman for the ABTA travel association.

While he could not strictly say the number of high street travel agents had increased, "it would be true to say that the amount of business agents are doing is at record levels," Tipton said.

Tour operators, "in particular Virgin Holidays and Kuoni", have opened shops, Tipton added.

Over in Germany, the number of travel agents actually increased for the second year in a row last year. And total revenues in the sector rose three percent to 23.7 billion euros ($26.3 billion).

"There are two reasons: one is that there are more tourists than before and two is that platforms are not substitutes to human interaction," said Taleb Rifai, secretary general of the World Tourism Organisation (UNWTO), at this month's ITB travel trade fair in Berlin. This March, DER Touristik, a subsidiary of retail giant REWE, is preparing to open a new travel centre in central Berlin.

"We're opening up new travel agents because we remain convinced that personalised advice will continue to be very important," said Andreas Heimann, who is in charge of travel agencies at DER Touristik.

Last year 42 percent of Germans booked their holidays via travel agents, compared with 36 percent who booked via the Internet.

Nevertheless, the gap has narrowed significantly since 2005, according to an annual study compiled by the research group FUR and presented at the ITB fair last week. When it comes to booking cruises, tours or family vacations, people prefer to do so via a travel agent, where they can be sure of a high degree of expertise and advice.

"The more exotic the destination, the higher the price, the less customers want to take risks when booking a holiday," said Heimann.

Nevertheless, customers are already very well-informed when they go to a travel agent and come into the store with very detailed questions, the expert said. Consulting a travel agent also saves time.

"On average, holidaymakers spend 11 hours researching online before booking a trip. A travel agent does it much quicker," Heimann continued.

China renews vow to avoid 'hard landing' as congress ends

AFP, Beijing

CHINA'S economy will not suffer a "hard landing", Premier Li Keqiang said Wednesday, stepping up Beijing's charm offensive to reassure investors that the government can manage slowing growth.

"We have long-term confidence in the Chinese economy and this confidence isn't without a foundation," Li told his once-a-year press conference at the end of the National People's Congress (NPC), the Communist-controlled legislature.

Beijing has been looking to send positive messages in recent weeks after expansion in the world's second-largest economy fell to a 25-year low of 6.9 percent in 2015, raising concerns on global markets and sending commodity prices plunging.

Li has reduced the target for this year to a range of 6.5-7 percent, while ratings agency Moody's has lowered its outlook on Chinese bonds.

Authorities have spent hundreds of billions of dollars to defend share prices and the yuan currency in recent months, raising questions over their commitment to market reforms.

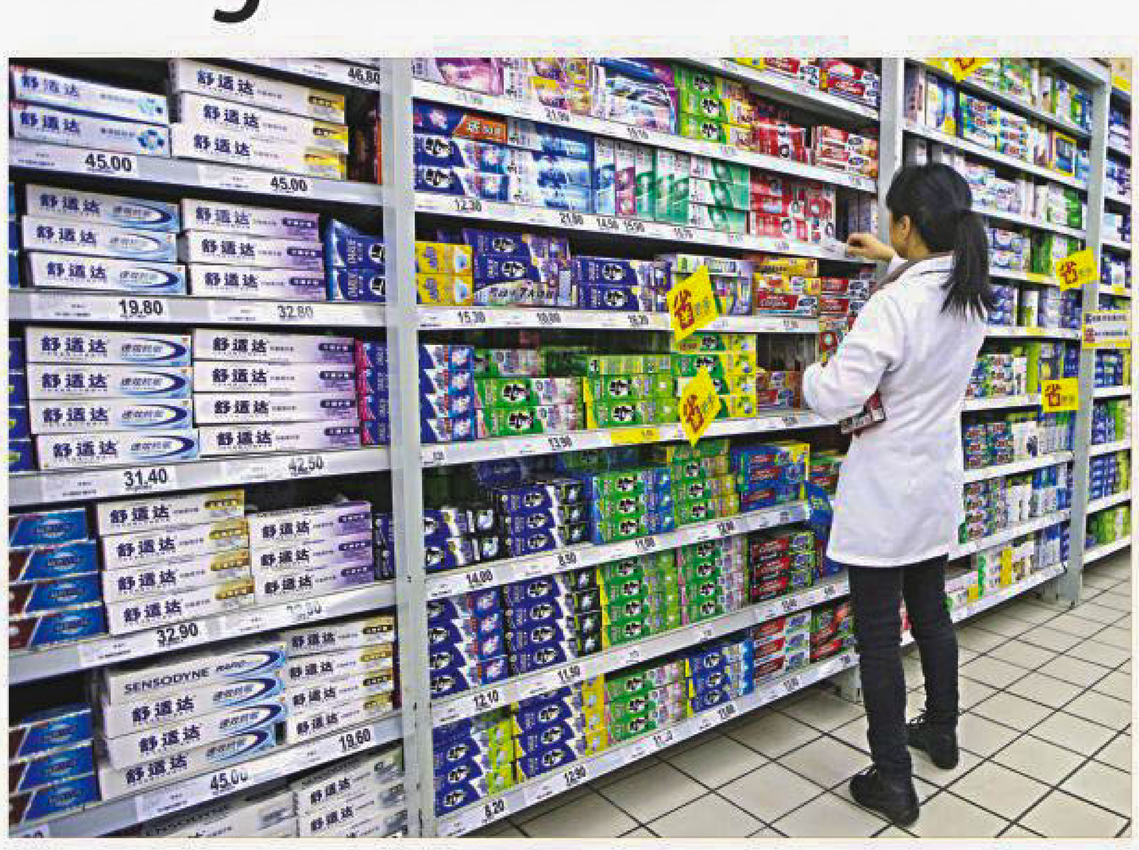
Li acknowledged that the government had "controlled some things that should not be controlled, hindering productivity", and said leaders had failed to ensure a fair playing field in the economy.

But he added: "As long as we persist with reform and opening up, China's economy won't have a hard landing."

Questions have to be submitted in advance for the set-piece event. Li spoke for two hours in a cold room under glittering chandeliers in the Great Hall of the People -- which monitoring devices showed did not escape the pollution blanketing Beijing.

"China's economy has both hopes and difficulties," Li said, adding: "If we look at it in light of the fundamentals and the overall trend, the hopes are greater than the difficulties."

Li spoke after the rubber-stamp parliament approved an economic roadmap for the next five years and a charity law. Votes at the NPC are normally overwhelming approvals of measures decided long in advance by the ruling Communist party.



REUTERS/FILE

A salesperson arranges products on a shelf at a supermarket in Shanghai.

As the balloting started, a voice boomed over a loudspeaker asking delegates to press the voting buttons. Thousands of arms in suit jackets reached across the desks simultaneously.

There were 2,778 'yes' votes for the 13th Five Year Plan, or 97.27 percent of the total, the official Xinhua news agency reported, and 2,636 in favour of the charity law -- 92.49 percent.

The five-year plan for economic and social development pledged average growth of at least 6.5 percent a year over the 2016-2020 period -- implying that at times it could be lower.

Such plans are a legacy of China's command economy era but still guide policymakers at all levels.

Cracks in the economy are already showing as growth slows. Thousands of miners went on strike in northeastern China to protest at unpaid wages, amid fears of mass layoffs as the government seeks to restructure lumbering state-owned industries.

A human resources and social security ministry official said last month the government plans to lay off about 1.8 million workers in the steel and coal industries.

Premier Li worked to dispel fears on the issue. "We have chosen the two sectors of coal and steel to make breakthroughs, and at the same time avoid a massive wave of layoffs," he said.

According to the plan, gross domestic product (GDP) is set to rise from 67.7 trillion yuan ($10.4 trillion) last year to more than 92.7 trillion yuan in 2020.

It also seeks to significantly reduce poverty by 2020. Officials have declared charitable organisations essential to achieving the goal and hope to encourage more giving with the charity law.

As the economy has grown to the world's second-largest, charitable giving has lagged, with China ranking 144th out of 145 countries for giving, according to a study last year by the Charities Aid Foundation.

Chinese citizens donated just $16 billion in 2014, according to the most recent data from the China Charity Information Centre -- less than 0.2 percent of annual GDP.

Xinhua said the new law was intended to "recruit help from good Samaritans in realising the 2020 poverty alleviation target".

German women earn one fifth less than men

AFP, Frankfurt

Women in Germany earn around one fifth less than men, a wider gap than the European average, but the shortfall is narrower in the east of the country, official data showed on Wednesday.

In raw or unadjusted terms, the gender pay gap stood at 21 percent in Germany last year, an improvement of one percentage point from 2014, but still above the European average of 16.5 percent, the federal statistics office Destatis calculated.

On average, German women earned 16.20 euros per hour before tax, while men earned 20.59 euros.

That means that since 2006, when the gender pay gap stood at 23 percent, the difference between men's and women's pay has remained more or less unchanged. In the former communist east of the country, the pay gap was much narrower, standing at eight percent last year, but in the west it stood at 23 percent, Destatis calculated.

Women in Germany tend more often to work in low-paid jobs or sectors and frequently only part time, the statisticians said.

Nevertheless, the working rate of women in Germany is changing. For a long time, it lagged behind men's working rate because of the traditional family structures where women tended to stay at home to look after the children.

But the working rate has risen in recent years, even if many working mothers still tend to have part-time jobs.

According to EU-wide figures compiled by Eurostat, the gender pay gap in Europe is narrowest in Slovenia, and widest in Estonia.

Frankfurt and London seal $30b trading tie-up to counter US threat

REUTERS/FILE

A man shelters from rain as he passes London Stock Exchange in the City of London.

REUTERS, Frankfurt/London

DEUTSCHE Boerse AG and London Stock Exchange Group Plc (LSE) agreed to combine in a $30 billion deal to create a European trading powerhouse better able to compete with US rivals encroaching on their turf.

But the deal, which marks a third attempt to link the Frankfurt and London exchanges, may prompt a bidding war after New York Stock Exchange owner Intercontinental Exchange said it may make an offer for the British group.

Nearly 16 years after Deutsche Boerse first tried to take over LSE, the London and Frankfurt exchanges said last month they were discussing an all-share merger, which they confirmed on Wednesday would give Deutsche Boerse shareholders 54.4 percent and LSE shareholders 45.6 percent of a new company.

In a combined statement the exchanges sought to sell the deal, which they described as "a premium free merger of equals", to their investors with the lure of potential annual cost savings of 450 million euros ($500 million).

They also promised their users - the banks and fund managers who pay fees to trade and companies who pay to be listed - "substantial benefits", although they gave no figures.

And in a clear effort to win over Europe's politicians to the benefits of a dominant pan-European exchange, Deutsche Boerse Chief Executive Carsten Kengeter said it would enable Europe to enhance its capital markets.

This chimes with European Union plans to establish a "Capital Markets Union" to bolster the region's financial markets to compete better with the United States and Asia.

Despite these incentives, the deal faces questions about what happens if Britain votes to leave the European Union in a referendum in June and whether regulators will give the nod to the creation of a huge presence in derivatives clearing.

Kengeter said the time was right for a merger which will combine the LSE's share-trading operation with the derivatives trading of Deutsche Boerse's Eurex.

"We strongly believe this is the right transaction at the right time for our two companies," Kengeter told reporters, adding that he expects the deal to close by the end of 2016 or in early 2017 after a very broad regulatory review.

BALANCE OF POWER

Kengeter shrugged off concerns over the impact of Britain, Europe's biggest financial center, voting to leave the EU.