

In global historic first, ecommerce in China will account for more than 50% of retail sales

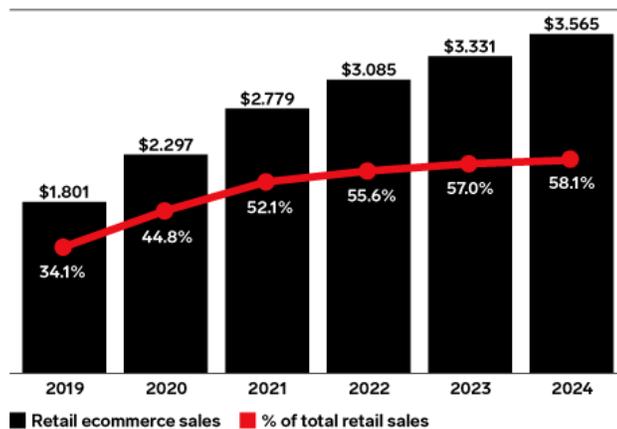
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This year, China will take a step in its digital transformation that once may have seemed almost unthinkable. We forecast that 52.1% of the country's retail sales will come from ecommerce in 2021, up from 44.8% a year prior. That means that for the first time anywhere, a majority of retail sales for an entire country will transact online.

Retail Ecommerce Sales in China, 2019-2024

trillions and % of total retail sales



Note: 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
Source: eMarketer, Dec 2020

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To put this further into perspective, China's ecommerce success is unmatched worldwide. The country with the next-highest rate of ecommerce as a share of total retail sales is South Korea, which we project will transact 28.9% of its sales online this year. In the US, that figure will be just 15.0%, and the average among Western European countries will be 12.8%.

China has long led the world in aggregate ecommerce sales figures and ecommerce's share of total retail. However, as recently as 2018, that share was only 29.2%, which is relatively close to what ecommerce's share will be in South Korea and the UK this year.

Yet, China seemingly reached a behavioral tipping point over the past few years, wherein ecommerce enthusiasm accelerated rather than leveled off. While the pandemic did not create this trend, it certainly buttressed it, and China's most recent ecommerce boom did not decelerate even after the country got a handle on the virus and the economy fully reopened. Last year, brick-and-mortar sales declined by 18.6% in China, and we project brick-and-mortar sales will decline by another 9.8% this year. By comparison, ecommerce grew by 27.5% in 2020 and will grow by another 21.0% in 2021.

Top 10 Countries, Ranked by Retail Ecommerce Sales Share, 2021 & 2022

% of total retail sales

	2020	2021
1. China	52.1%	55.6%
2. South Korea	28.9%	31.6%
3. UK	28.3%	28.5%
4. Denmark	19.1%	19.8%
5. Norway	17.6%	17.7%
6. US	15.0%	16.3%
7. Finland	14.3%	14.4%
8. Sweden	13.2%	13.8%
9. France	11.2%	11.7%
10. Spain	10.9%	11.2%

Note: 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

Source: eMarketer, Dec 2020

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Given how the pandemic boosted ecommerce engagement in much of the rest of the world last year, it is not inconceivable that other countries could soon find themselves making transformational leaps akin to China's. Ecommerce adoption has a momentum of its own, regardless of public health concerns, and there may be an as-yet-undetermined tipping point beyond which ecommerce's share of sales suddenly and inexorably spirals upward.

That said, China's ecommerce success also derives from many idiosyncratic factors, and it's possible that no other region will emulate the country's ecommerce transformation—or at least not to such an extreme degree.

How did China get to this point?

Ten years ago, ecommerce's share of total retail in the US and China were nearly identical (4.9% and 5.0%, respectively). China's share shot up soon after that for a range of reasons, some of which will be

familiar to outside observers, and some of which might be surprising. The foundations of China's ecommerce story can be traced to handful of storylines from the 2000s and early 2010s:

1. **The emergence of Alibaba**, the revolutionary, ubiquitous, easy-to-use Chinese ecommerce platform, gave consumers affordable and reliable access to almost everything imaginable, and swift delivery for just about anything. Not long after, **JD.com** emulated Alibaba's successful formula, providing another massive and easy option for new shoppers.
2. **Innovative digital payments systems**, like Alibaba's Alipay and Tencent's WeChat Pay, were years ahead of their Western competitors in terms of accessibility, ease of use, and the speed in which they became embedded into online (and brick-and-mortar) checkout options.
3. **An inconvenient, non-customer-centric, and often confrontational in-person shopping culture** helped motivate shoppers to embrace the straightforward reliability of ecommerce, particularly the ease it offered for making returns and securing refunds.
4. **A nearly limitless supply of low-cost delivery services**, provided by China's millions of migrant laborers, enabled companies like Alibaba and JD.com to provide same-day delivery anywhere in the country for just pennies—a very attractive benefit for uncertain first-time buyers.
5. **A smartphone-driven mcommerce culture** existed right from the start, thanks to China's stage of economic development, and the fact that most shoppers skipped the PC era and joined the internet age directly via mobile devices.

Not all of these factors are still in play. Labor costs in China have skyrocketed, and most buyers and sellers can no longer arrange for consumer products to be delivered within hours for just a few cents. Similarly, the in-person shopping experience has improved dramatically, thanks perhaps to competition from ecommerce. However, both of these elements played a key role in the consumer's initial embrace of ecommerce. In the early years, it was often

cheaper, easier, and more pleasant to use ecommerce than it was to go to the store. That was not the case in the US.

Thanks to this early enthusiasm—and, of course, thanks to its enormous population—China today is far out in front of the world in terms of overall ecommerce sales. Despite the US remaining just ahead of China in overall retail sales (\$5.506 trillion versus \$5.130 trillion in 2020), China will outpace the US by nearly \$2 trillion in ecommerce this year.

Top 10 Countries, Ranked by Retail Ecommerce Sales, 2020 & 2021

billions and % change

	2020	2021	% change
1. China*	\$2,296.95	\$2,779.31	21.0%
2. US	\$794.50	\$843.15	6.1%
3. UK	\$180.39	\$169.02	-6.3%
4. Japan	\$141.26	\$144.08	2.0%
5. South Korea	\$110.60	\$120.56	9.0%
6. Germany	\$96.86	\$101.51	4.8%
7. France	\$73.80	\$80.00	8.4%
8. India	\$55.35	\$67.53	22.0%
9. Canada	\$39.22	\$44.12	12.5%
10. Spain	\$36.40	\$37.12	2.0%

Note: includes products or services ordered using the internet, 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 goods sales; *excludes Hong Kong
Source: eMarketer, Dec 2020

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China's culture of mcommerce is still very relevant today as well (83.1% of ecommerce in China will be mcommerce this year, according to our figures). Thanks to the early availability of affordable smartphones and their rapid proliferation, online retailers in China have had to be mobile-centric since day one. This in turn has driven greater mcommerce innovation, which itself has proven key to unlocking ever-greater consumer spending.

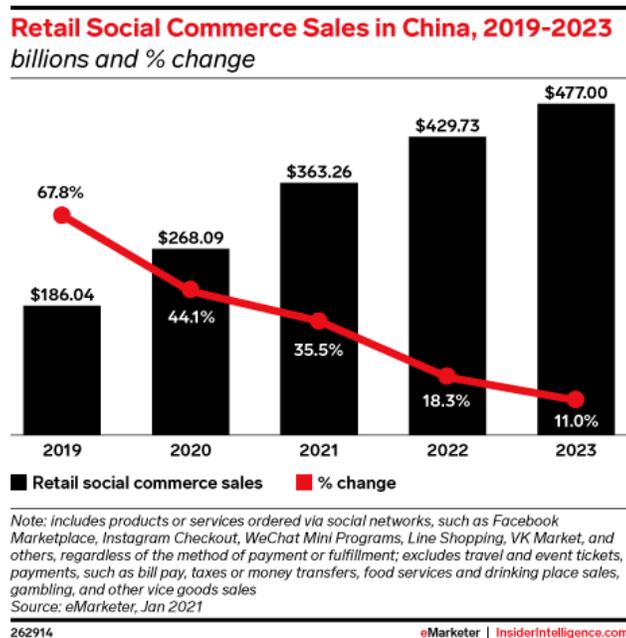
As China's ecommerce figures continue to surge, the still-expanding base of smartphone users is enabling China's new success stories.

What's driving ecommerce growth now?

If the aforementioned set of historical factors drove China to the global lead for ecommerce sales and ecommerce's share of total

retail, a new set of factors can be credited for the recent boom that pushed ecommerce over the 50% share threshold. The story now centers on China's phenoms of the 2020s:

- **Social commerce.** The catchphrase lighting the US marketing world on fire has long since claimed its place in China. We estimate that social commerce grew by 44.1% in China last year and will grow by another 35.5% this year to reach \$363.26 billion. By comparison, social commerce in the US will reach \$36.09 billion this year.



- **WeChat Mini Programs.** As ubiquitous as Tencent's super app has been in China for nearly a decade, it was only recently that WeChat's interface began to skillfully facilitate third-party ecommerce. Mini Programs allow all manner of businesses to better leverage WeChat's user base and have proven to be extremely popular among both merchants and consumers. As soon as WeChat implemented its Mini Programs option, China's social commerce boom truly began. According to various media reports, well over \$200 billion in ecommerce transacted via these programs last year, all of which counts as social commerce.
- **Pinduoduo.** The group-buying-meets-social-networking phenomenon has shot up from a 0.5% share of China's ecommerce

market in 2016 to claim a projected 13.2% this year. (Alibaba will claim 50.8% and JD.com will have 15.9%.) Pinduoduo unlocked China's rural ecommerce participation more effectively than any other platform—in terms of both buying and selling—and became the world's fourth-largest ecommerce company almost overnight. Pinduoduo's value proposition remains almost entirely unique, even on a global scale. Americans, for instance, have no platform for generating bulk-buying discounts at scale for their communities, and it is unclear when or if they ever will.

- **Livestreaming “live commerce.”** Uniting each of the previous entries, as well as legacy giants like Alibaba's Taobao, JD.com, and newer up-and-coming competitors from the entertainment side like Douyin (the China version of TikTok) and Kuaishou, is the hot new trend of promoting ecommerce live via digital video. Live commerce is almost by definition a social media activity, but in first instance the traditionally nonsocial Alibaba properties led the way on livestreaming commerce. Eventually, however, everyone else jumped on the bandwagon, and the organically video-centric platforms like Douyin have an obvious edge going forward.
- **The coronavirus.** The pandemic cannot be ignored as a factor in 2020's numbers. Although China suppressed the coronavirus threat far more quickly than did any other country—and has been operating with a mostly normalized economy for almost three consecutive quarters—it's nonetheless true that consumer behavior was altered last year. Online grocery shopping surged thanks to lockdowns, and this preference may prove to be sticky over the long term. Additionally, households remained skittish for many months after the virus ceased to be a widespread danger, and this hesitancy toward social activities helped sustain the ecommerce boost.

Going forward, we anticipate more of the same from China. In 2022, we project that ecommerce will grow by 11.0%, and that its share of total retail will reach 55.6%. Ecommerce sales will breach the \$3 trillion threshold (we forecast \$3.085 trillion for next year). Only two things will prevent nearly endless standout ecommerce expansion: China's overall retail sales growth is expected to be far more constrained in the coming years than it has been over the past

decade, as China's economic engine is not what it once was. What's more, several hundred million people in China are not yet online at all, and thus growth from these consumers will have to wait until a little later down the line.