

# Is Industrial Policy the Secret to Become the Next China?

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As the largest e-commerce market in the world, China has become the model that every country tries to emulate. Since everyone assumes that the success is driven by the China model, industrial policy has become the way to go; however, this could not be further from the truth.

In my view, the remarkable development of the e-commerce market in China can be attributed to the successful resolution of three major challenges faced by the industry. These challenges included the inefficient distribution system, the non-existent payment system, and the outdated logistics system. The e-commerce giants, particularly Alibaba, played a significant role in overcoming these obstacles and fostering the growth of the industry.

Firstly, the inefficient distribution system in China posed a significant hurdle for the e-commerce sector. Traditional brick-and-mortar retail relied on complex supply chains and multiple intermediaries, resulting in a slow and cumbersome distribution process. Alibaba recognized this issue and leveraged the power of technology to streamline and optimize the distribution system. Even so, few people knew that Alibaba was not the first to recognise the problem. It was the Chinese government, who not only identified the problem correctly—they even hired the right guy. Jack Ma’s first proper job was to build an e-commerce website for the China International Electronic Commerce Centre, a subsidiary of China’s Ministry of Commerce in 1998. But Jack Ma being Jack Ma, he realised early on that industrial policy wouldn’t work. Thus, he quit his job to found Alibaba a year later, and the rest is history.

Secondly, the non-existent payment system was a critical challenge hindering the development of e-commerce in China. Prior to the rise of e-commerce, cash transactions dominated the retail landscape, making online transactions and electronic payments unfamiliar to many consumers. The payment system was dominated by China’s state-owned banks, whose main purpose was to service China’s state-owned enterprises, key players in China’s industrial policy. Again, it was Alibaba which came up with a solution that was not part of China’s industrial policy: Alipay, a secure and convenient online payment platform. Alipay provided a trusted and user-friendly interface, enabling consumers to make purchases online with ease. Additionally, Alibaba’s introduction of escrow services, where payments were held until the buyer confirmed satisfaction with the received goods, helped build trust and further boosted consumer confidence in online transactions. I must emphasize here that, again, this was not due to visionary industrial policy. Instead, Alipay only received the official payment license from the Chinese government 8 years after its inception.

Lastly, the outdated logistics system posed a significant challenge for e-commerce companies. China's vast geography and diverse consumer base necessitated a robust and reliable logistics infrastructure to ensure prompt and accurate delivery of goods. However, the former monopoly, China Post, did not have any incentive to improve its services as it received massive subsidies from the government. Alibaba recognized this need and invested heavily in building a comprehensive logistics network. They formed strategic partnerships with logistics companies, established fulfillment centers across the country, and even pioneered innovative solutions such as crowd-sourced delivery. By improving and modernizing the logistics system, Alibaba and other e-commerce giants successfully addressed the challenges of order fulfillment, leading to faster and more reliable deliveries. This played a pivotal role in transforming online shopping into a viable and convenient option for Chinese consumers. Again, the government was slow to recognize the potential in the sector, as China only started to regulate the express delivery companies in 2009—i.e., 16 years after the first express delivery companies were established and 10 years after Alibaba started business.

Another common misconception about China's e-commerce market is that it was boosted by its censorship policy, which reserved the market for domestic firms. But this is also the wrong lesson. With its vast population, coupled with increasing urbanization and rising disposable incomes, China will become a major e-commerce player so long as it doesn't commit major mistakes. But other countries, especially those with a much smaller population, will find it hard to replicate China's success.

In summary, the e-commerce sector in China developed despite, rather than due to its industrial policy. If anyone wants an alternative history version of what industrial policy can achieve, one only need to look at the regulatory crackdowns in the e-commerce sector for the past 3 years.