

# COMMERCE 3.0: ENABLING HONG KONG ENTREPRENEURS

2014



# CONTENTS

**02**

SNAPSHOT OF KEY FINDINGS

**09**

TESTIMONIAL

**04**

OVERVIEW OF EBAY AND PAYPAL TRADE IN HONG KONG AND EXECUTIVE SUMMARY

**10**

BREAKING DOWN BARRIERS TO INTERNET-ENABLED TRADE

**06**

HELPING HONG KONG BUSINESSES REACH GLOBAL MARKETS

**12**

CONCLUSION

**08**

CREATING A LEVEL PLAYING FIELD FOR SMALL AND LARGE ENTREPRENEURS

**13**

REFERENCES



---

Hong Kong is a world leader in Internet-enabled retail exports. It is one of the top three e-retail export hubs in Greater China<sup>1</sup>, ranking second in the list of the nation's top eight e-commerce retail export hubs.

Based on an empirical study conducted by global law firm Sidley Austin LLP, our report demonstrates that eBay sellers based in Hong Kong reach an average of 57 international markets – one of the highest in the world among eBay sellers.

The eBay platform also encourages the entrepreneurial spirit, as evidenced by the share of newcomers. The share of newcomers on eBay is much higher than the equivalent share for traditional sellers, reaching 14% in Hong Kong.

Cross border trade accounted for the significant majority of PayPal's total payment volume in Hong Kong, as local merchants exported goods to buyers around the world.

eBay and PayPal have been playing a significant role in promoting retail exports from Hong Kong.

Through eBay and PayPal we will continue to enable Chinese businesses to further grow and succeed.

**John Lin, Vice President**  
MANAGING DIRECTOR, EBAY GREATER CHINA

**Matthew Lee, Vice President**  
NORTH ASIA, PAYPAL

# SNAPSHOT OF KEY FINDINGS



**Internet-enabled commerce lowers barriers to trade** for small businesses and entrepreneurs



## **eCommerce platforms**

reduce search costs and make products tradable that would otherwise may not be sold. This directly benefits sellers and consumers



## **USA, UK, Australia, Germany, Canada and France**

are the top 6 destinations for eBay commercial sellers in Hong Kong

**57** Commercial sellers that use eBay reach an average of **countries**; traditional sellers reach **7**



Extension of  
**free trade**

Stored  
value  
card  
for payments



Faster  
**customs  
clearance**



**0%** Investment  
for start-ups

Supporting  
**SMEs**



Top 3 highest  
growth markets  
from which PayPal  
payments  
are received  
**Argentina,  
Russia,  
Taiwan**



Top 3 highest  
growth markets for  
eBay commercial  
sellers in Hong Kong  
**Russia,  
Argentina,  
Saudi Arabia**



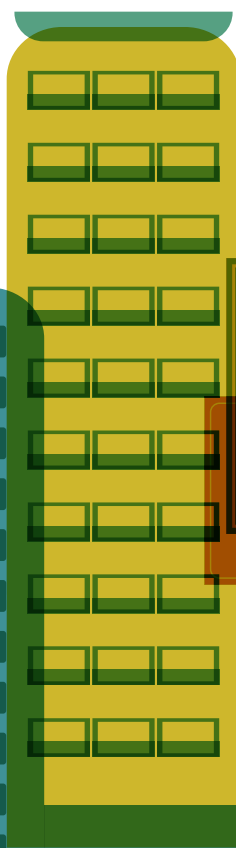
On eBay,

**14%**

of Hong Kong  
commercial sellers  
are newcomers  
compared to

**5%**

in traditional  
offline commerce



eCommerce

中環

電子商務



# OVERVIEW OF EBAY AND PAYPAL IN HONG KONG

## EXECUTIVE SUMMARY

Through the power of the Internet and technology, small businesses are able to reach beyond a local consumer base and access global markets like never before.

Commerce 3.0 is the term we use to describe this coming together of online and offline worlds and the merging of local and global markets. The idea that technology-enabled small businesses can maintain a local presence while providing goods and services on a global scale points to a novel and exciting story, particularly for those engaged in trade policy.

International trade has traditionally been the privilege of the largest players. This is changing. The Internet creates a truly global network. Combining it with technology solutions and services enables merchants and consumers to connect and establish trust across national and cultural borders.

The analysis in this report is based on research by Sidley Austin LLP on two datasets from eBay and PayPal, respectively, and follows research conducted in the Asia Pacific, United States and Europe.

The eBay data covers all eBay sales by Hong Kong sellers from 2007 to 2013. 'eBay Commercial sellers' are defined as those with annual sales of USD10,000 or more.

The PayPal data relates to PayPal Hong Kong commercial sellers' transactions from 2007 to 2013. 'PayPal Commercial sellers' are those with annual receipts of USD50,000 or more.

Internet-empowered small businesses and entrepreneurs are able to overcome some of the traditional barriers associated with international trade. But some barriers remain while new ones arise as large corporations are joined by small firms and entrepreneurs on the global stage.

This report will provide several ideas for consideration to overcome these challenges.



The main products sold by eBay commercial sellers from Hong Kong are **photography, cellphones & accessories, computing, auto parts and clothing, shoes & accessories**

# FOR HONG KONG RETAIL EXPORTERS, EBAY AND PAYPAL ARE POSITIVE ENABLERS, HELPING BUSINESSES TO REACH POTENTIAL CUSTOMERS IN UNPRECEDENTED NUMBERS.

DESTINATIONS FOR EBAY COMMERCIAL SELLERS IN HONG KONG (2013)
United States
United Kingdom
Australia
Germany
Canada
France
Spain
Russia
Italy
Brazil

DESTINATIONS FOR TRADITIONAL EXPORTERS IN HONG KONG <sup>2</sup>
Mainland China
Switzerland
United States
Taiwan
Singapore
Korea
United Kingdom
India
United Arab Emirates
Thailand

THE MAIN COUNTRIES FROM WHICH PAYPAL COMMERCIAL SELLERS IN HONG KONG RECEIVED PAYMENTS (2013)
United States
Australia
United Kingdom
Germany
France
Brazil
Spain
Canada
Russia
Italy











Developed markets like the United States, United Kingdom, Australia and many countries in Europe remain ongoing strongholds for eBay sellers based in Hong Kong, but eBay's vision of opening new markets across the globe is paying dividends.

MARKETS WITH THE HIGHEST GROWTH FOR EBAY COMMERCIAL SELLERS IN HONG KONG (2007-2013)
Russia
Argentina
Saudi Arabia
Israel
Croatia

eBay data reveals that out of all export destinations, the markets with the highest growth for eBay commercial sellers based in Hong Kong (2007-2013) are Russia, Argentina, and Saudi Arabia.

MARKETS WITH THE HIGHEST GROWTH FOR PAYPAL COMMERCIAL SELLERS IN HONG KONG (2007-2013)
Argentina
Russia
Taiwan
Ukraine
Slovenia

The fastest growing established market (based on the top ten destinations) is Russia. PayPal became available for Russian users for domestic transactions in 2013. With local currency support and more than three million PayPal users, it's a growing market.

MAIN PRODUCTS SOLD BY EBAY COMMERCIAL SELLERS FROM HONG KONG (2013)		
1	Photography	
2	Cell phones & accessories	
3	Computing	
4	Auto parts	
5	Clothes, shoes, accessories	
6	Jewelery & watches	
7	Mobile & home phones	
8	Health & beauty	
9	Toys & games	
10	Consumer electronics	

The main products sold by eBay commercial sellers in Hong Kong are photography, computing, cell phones, auto parts and clothes, shoes and accessories. This shows that platforms such as eBay help to promote exports of a very diverse range of products.

<sup>2</sup> United Nations Comtrade database 2012.

# HELPING HONG KONG BUSINESSES REACH GLOBAL MARKETS



**eBay commercial sellers**

ship to more destinations than traditional sellers



Commercial sellers in Hong Kong reach an average of

**57**  
countries



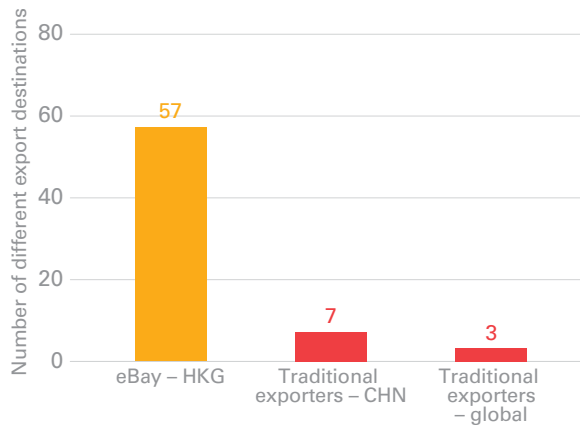
New technologies allow entrepreneurs, including small retailers, to reach global markets directly in a way that is unprecedented in economic history. In traditional commerce, most small, medium and even large firms sell only locally or regionally. Even if they reach international markets, they normally sell to very few of them.

In this section, we demonstrate that the scenario is entirely different for sellers using the eBay platform. Even small eBay sellers tend to export, and they do so to many international markets. Similarly, an analysis of PayPal transactions shows that PayPal also allows users to connect to business partners or customers in a wide range of international markets.

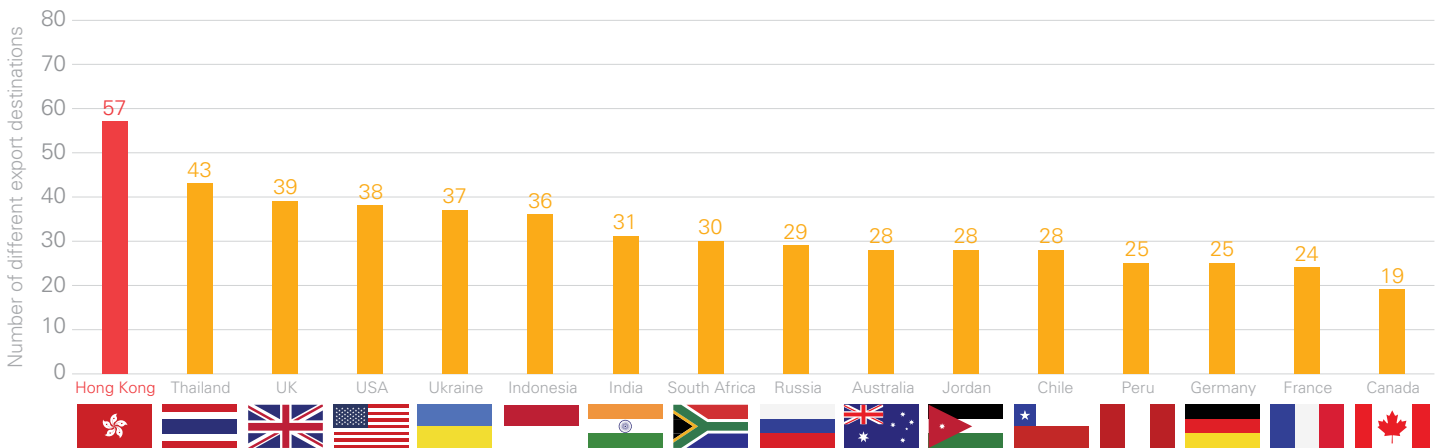
Commercial entrepreneurs that use the eBay platform not only export much more frequently, they sell more abroad than their counterparts engaged in traditional (offline) trade. Using the same World Bank survey, we have compared the average share of sales that is exported.

Hong Kong is a world leader in the diversity of destinations to which it exports. eBay commercial sellers in Hong Kong reach an average 57 export destinations, an extraordinary figure. This compares to only seven for traditional (offline) firms in China. The World Bank database reveals the average number is three destinations.<sup>3</sup>

Even within Asia, eBay sellers in Hong Kong lead other exporting nations such as Thailand, Indonesia, India and Australia in terms of the number of destinations reached.



**Traditional exporters – global**  
(Source: World Bank Exporter Dynamics Database)



**eBay commercial exporters**

3 World Bank, Exporter Dynamics Database, 2012

# CREATING A LEVEL PLAYING FIELD FOR SMALL AND LARGE ENTREPRENEURS

**Traditional commerce, especially exports,** is dominated by a small number of very large firms



**14%**

eBay Hong Kong commercial sellers are newcomers



The evidence therefore clearly shows that Internet-enabled trade helps to provide a level-playing field for **small entrepreneurs**





## A SELLER'S STORY: GLOBAL REACH ENABLED BY EBAY

### A START-UP FROM SCRATCH

Having started his business as an amateur online retailer, Joseph is now on track to achieve annual revenue of over tens of millions of Hong Kong dollars. He owns a Shenzhen-based factory of over 10,000 square feet and has more than 20 employees. His storefront on eBay currently showcases nearly everything from toy models, cosmetics, clothing and shoes to household appliances, auto parts and pet supplies.

"It all began in 2006 when I planned to start my own business as many other young people do," explains Joseph. "Due to a lack of money, I started my eBay commerce by selling postage stamps and toys, as they didn't need high investment. At first I took my online business as a part-time job, and handled all the transactions after work every day. A year later, however, it occurred to me that the income from my eBay business well surpassed my monthly salary. I quit my job as a result and have become fully committed to online business since."

### SEIZING THE RIGHT TIME TO GROW PRODUCT LISTINGS

Since then Joseph has gradually increased the variety of goods on his site. A key to wooing more buyers, he believes, is to launch the right products at the right time. "In summer time,

for example, the best-sellers include swimsuits and beach items. And for Halloween, fancy costumes top the sales."

In a bid to increase his trade volume, Joseph has initiated a free shipping service for every second order so as to 'hook' customers to buy more each visit. He also plans to expand delivery stands in the US and Germany in addition to the current Shenzhen-based factory in a quest to expedite deliveries.

### EBAY MADE IT ALL POSSIBLE

Joseph says eBay has provided him with enormous help in dealing with thousands of orders every day. The order processing software expedites delivery and transactions. Every complaint is taken care of by a third-party organization and the well-established PayPal system safeguards every deal.

But for Joseph what's most appealing is eBay's vast global reach, a key factor that supports his success. "eBay has got a real customer base spanning around the globe," he says. "We have received surprising orders from South America and even small countries in Africa."

In 2014, Joseph's business had sold products to 176 countries.

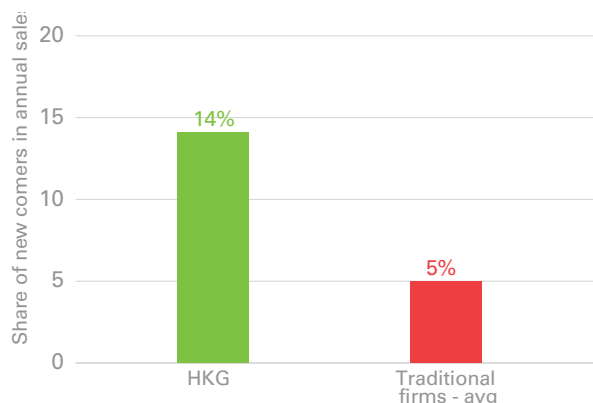
Traditional commerce, especially exports, is dominated by a small number of very large firms. For example, in most countries up to 90% of exports are conducted by the 5% of the largest exporters. Similarly, most exports are from firms that are long-established, with newcomers typically accounting for 5% of sales only.<sup>4</sup>

On eBay, the degree of concentration is much lower. While small and large sellers use eBay technology, the largest do not dominate the market as much as they do in traditional trade.

Traditional commerce is heavily dominated by established firms, whereas Internet-enabled commerce through eBay or similar platforms is driven by new entrepreneurs to a much greater degree.

The evidence therefore clearly shows that Internet-enabled trade helps to provide a level-playing field for small entrepreneurs. National and export sales are less dominated by the largest firms, and new firms have fairly high shares in overall sales. Because entry barriers for Internet-enabled trade are lower, it is easier for newcomers to enter the market. Thus commerce platforms such as eBay have a pro-competitive effect.

As shown in our previous research for other country markets, the share of newcomers on eBay is much higher than the equivalent share for traditional sellers. For eBay, 14% of Hong Kong commercial sellers are newcomers compared to 5% in traditional (offline) commerce.



Share of newcomers – eBay versus traditional exporters

4 World Bank, Exporter Dynamics Database, 2012.

# BREAKING DOWN BARRIERS TO INTERNET-ENABLED TRADE

Extension of **free trade**



Stored **value card**  
for payments



Faster  
**customs clearance**



**Investment**  
for start ups



Supporting **SMEs**



---

This report has shown that Internet-enabled trade can provide a wide range of benefits to entrepreneurs and consumers alike. However, its full potential has certainly not yet been reached. Technological advances, especially in relation to improved access to the Internet and mobile networks, will play a key role in the future exploitation of this potential.

Internet-enabled trade needs an enabling policy environment. It is currently subject to a wide range of restrictions and faces trade barriers, especially for cross-border transactions. This applies, for example, to trade barriers that affect small transactions in particular.

We briefly summarize policy ideas that could remove barriers for consumers, businesses and retailers using technology platforms.

## 1. EXTENSION OF FREE TRADE

Hong Kong maintains no barriers on trade. It does not charge tariffs on importation or exportation of goods, and import and export licensing is kept to a minimum. Extension of this policy to the broader region would further promote cross border trade.

## 2. STORED VALUE CARD FOR PAYMENTS

Improving the regulatory framework for stored valued cards will further enhance opportunities for eCommerce, and provide greater clarity for businesses operating in Hong Kong.

The current stored value card regime under the Banking Ordinance applies to device-based multipurpose stored value products, such as Octopus cards, while the Clearing and Settlement Systems Ordinance provides a legal framework for the Hong Kong Monetary Authority (HKMA) to designate and oversee large-value clearing and settlement systems, such as the Real Time Gross Settlement systems. Nonetheless, some emerging stored value products and services, which store value

on network-based accounts, mobile network accounts or computer server products and services, as well as payment systems related to retail activities, are currently not subject to specific regulation in Hong Kong.

## 3. FASTER CUSTOMS CLEARANCE

An initiative between Singapore Customs and Hong Kong will allow companies to be able to expect quicker customs clearance in Hong Kong, after a mutual recognition arrangement between the two parties was signed in June 2014.<sup>5</sup>

The agreement aims to enhance supply chain security and facilitate trade between Singapore and Hong Kong. Under the agreement, certified Singapore companies will have their exports recognized by the Customs and Excise Department of the Hong Kong Special Administrative Region of the People's Republic of China (HK C&ED) as being of lower risk, and lead to quicker clearance when the goods arrive at Hong Kong's ports.

Extending this agreement to other nations with which Hong Kong trades frequently, including high growth markets, will be of benefit.

## 4. INVESTMENT FOR START-UPS

As shown in our previous research for other country markets, the share of newcomers on eBay is much higher than the equivalent share for traditional sellers. For eBay, 14% of Hong Kong commercial sellers are newcomers compared to 5% in traditional (offline) commerce.

But compared to other eBay markets such as Mainland China (24%), India (32%) and Chile (34%), it is lower.

Most technology start-ups still need help to strike agreements with 'angel' investors for seed financing and venture capital firms for larger investments to expand their businesses.

Hong Kong's strong finance sector could fill that gap.

---

## 5. SUPPORTING SMEs

According to Hong Kong Trade and Industry Department there are about 320 000 small and medium enterprises (SMEs) in Hong Kong. They constitute over 98% of business establishments and employ about 50% of the Hong Kong workforce in the private sector. Extending awareness and education of the Department's SME funding schemes and Export Marketing Fund (EMF) to eCommerce businesses and entrepreneurs would be of significant benefit, as some of these businesses are newcomers, and may not enjoy the same visibility as traditional export industries.

Furthermore, the EMF should expand the scope of marketing as it applies to eCommerce businesses, for example advertising goes beyond online advertisements but may include social media promotion, search and related fees associated with online marketplaces to be able to reach a global audience, some of these marketing activities have been broadened with Internet enabled trade.

## CONCLUSION

This paper has outlined how the Internet is helping to enable Hong Kong businesses and entrepreneurs on the global stage.

Opportunities for growth are significant and can be further supported by Internet-enabled trade.

eBay and PayPal are committed to contributing to the evolution of commerce and payments in Hong Kong, and improving the lives of millions through Internet-enabled trade.

# REFERENCES

---

- eBay, 2013 Greater China Retail Export Industry Landscape
- Singapore Customs, Media Release 27 June 2014, <http://www.customs.gov.sg/NR/rdonlyres/PDF/MediaRelease27Jun2014.pdf>
- United Nations Comtrade database 2012
- World Bank Enterprise Surveys, [www.enterprisesurveys.org](http://www.enterprisesurveys.org)
- World Bank, Exporter Dynamics Database, 2012

