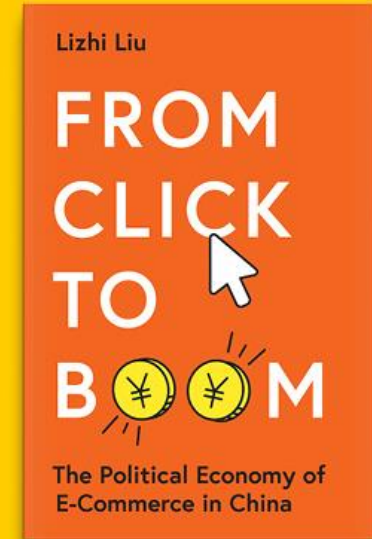




HOW THE WORLD'S LARGEST E-COMMERCE MARKET HIGHLIGHTS A DIGITAL PATH TO DEVELOPMENT



Lizhi Liu

Georgetown University McDonough School of Business

Agenda

The Book (Nov. 2024)

- Use e-commerce as the context to answer big questions in institutional economics and PE
- State of research and future directions

Research Journey:

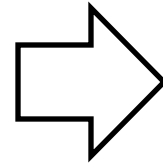
- Identifying the right question (esp. for phenomenon-driven research)
- Why mixed methods
- Tips:
 - Conducting research in non-western contexts
 - Working with corporations

Phenomenon: From “Village of Beggars” to “E-commerce Village”



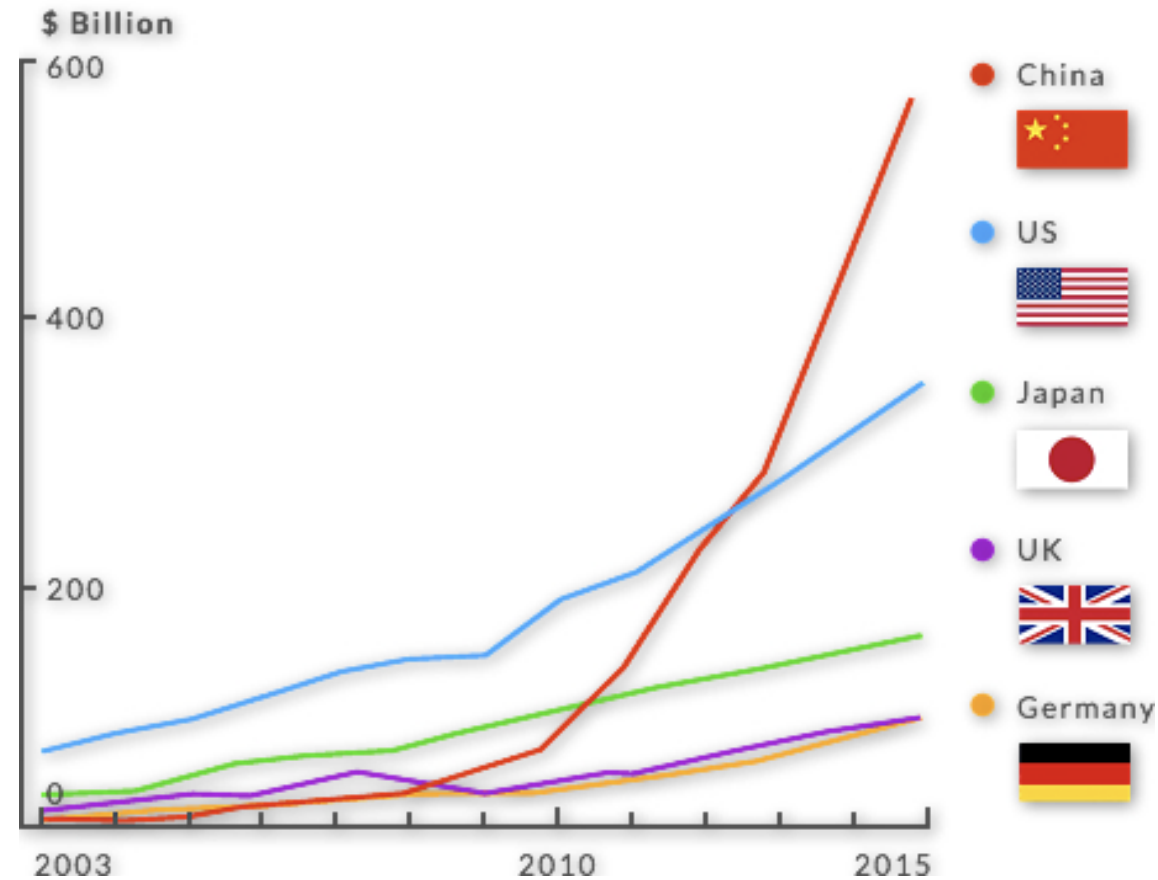
¥265.00

目暖草编 简约休闲易搭榻榻米茶几 飘



Early 2010s: “Running around for a living away from home doesn’t beat selling on Taobao.com at home”

From Click to Boom (Online Retail)



Source: China Integrated Co.

800 million users; >300 million parcels per day;
~ 50% of global online retail sales; 70 million jobs created

Phenomenon -> Research Questions

Different research approaches

- Research driven by literature gap, data availability, identification or other methods
- Phenomenon-driven research: like assembling jigsaw puzzles

Initial question: Viewing e-commerce as a technology shock that democratizes market access for small merchants and marginal areas—how does this shock influence outcomes?

Why should we care?



Beyond E-commerce: A Vantage Point to Observe China's Grand Changes



- Shift in growth model
- Rise of powerful tech sector & platforms
- Social changes, e.g, cashless society



Beyond China: The Growth Trap

How can developing countries foster growth in the absence of strong formal institutions?

E-commerce require VERY strong institutions

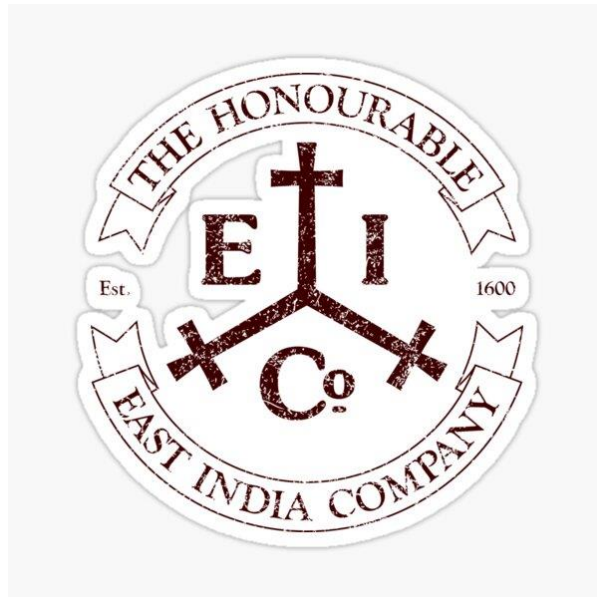
- No face-to-face interactions
- Order before inspecting & receiving the product
- Mostly small & anonymous sellers; little-known brands
- *Impersonal exchange*; not always trade repeatedly

China's **paradoxical** e-commerce boom

Argument: A Digital Path to Institutional Development

- Institutional Foundations of E-commerce: **Institutional outsourcing**
 - National govt. unable/unwilling to provide strong formal institutions -> outsource part of the institutional functions to digital platforms
 - **Private-public collaboration in institutional building**

Inspirations...



Methods (Qual. + Quant.)

- Over 200 **interviews**; 14 months of fieldwork in China
- 9 years of **online ethnography**



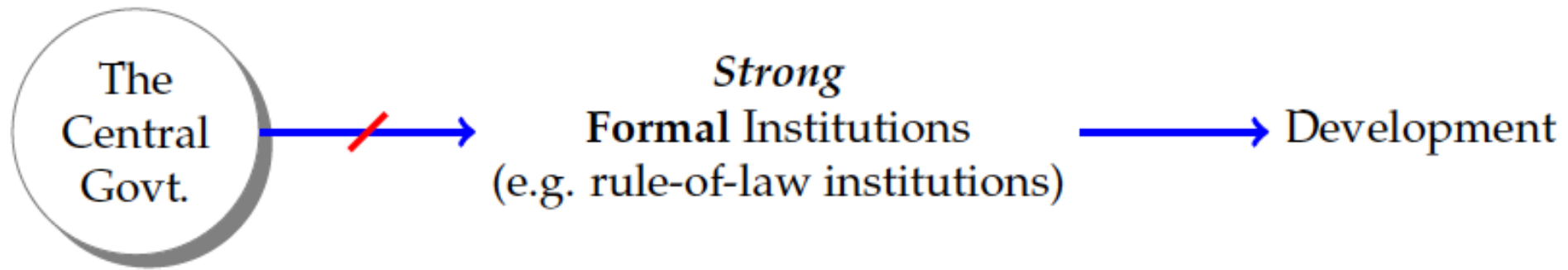
Cultural
diversity

Methods (Qual. + Quant.)

- Over 200 [interviews](#); 14 months of fieldwork in China
- 9 years of [online ethnography](#)
- [Web-scraped](#) data from 1.76 million online stores
- National [online survey](#) on 3,280 business owners
- [RCT](#)
 - Randomized e-commerce access across 100 villages
 - Two rounds of survey
 - 2,800/3,800 households
 - 11,500 price quotes from local physical stores
 - 28 million transaction records from Alibaba
- Why qualitative research also matters for economics research

Developing Countries' Growth Problem

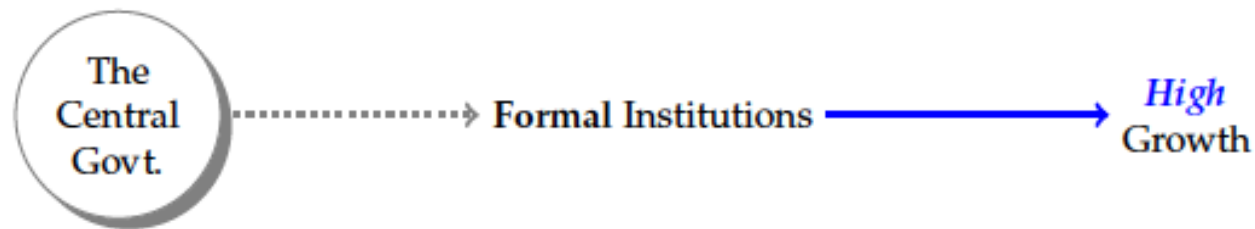
- Institutions matter for market growth
- Non-western countries: **Political or technical barriers** hinder formal institutional development



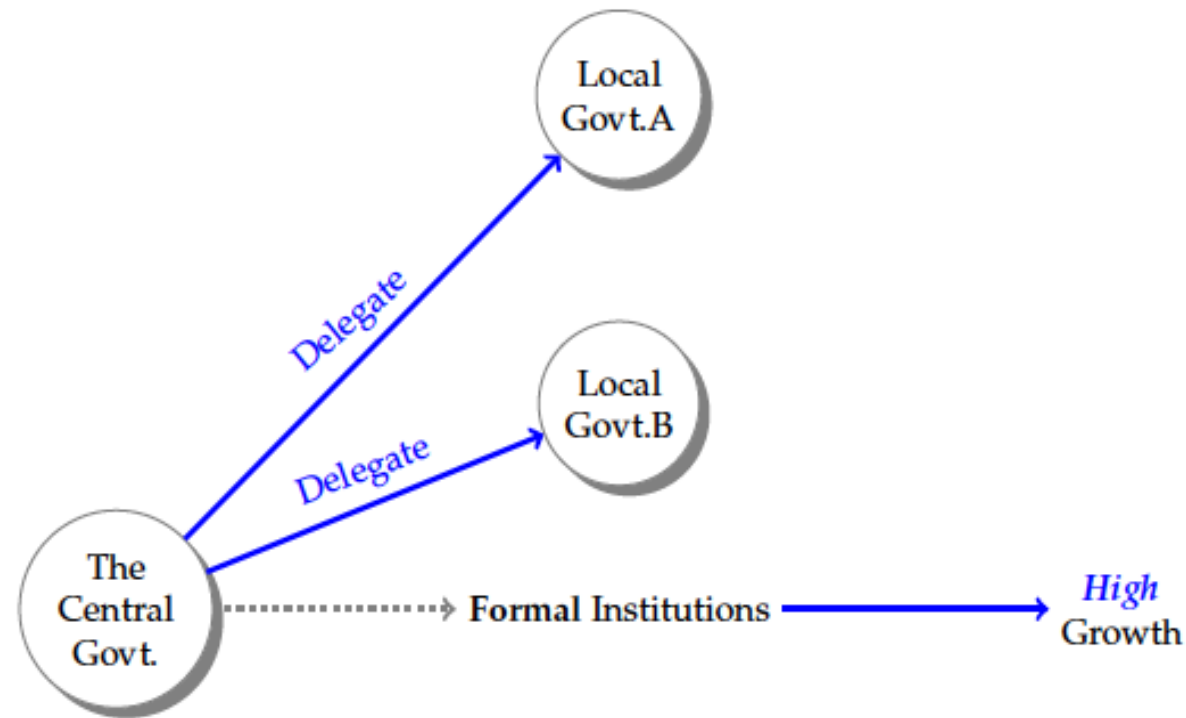
China's Alternative Path to Economic Development

Competitive “Federalism”

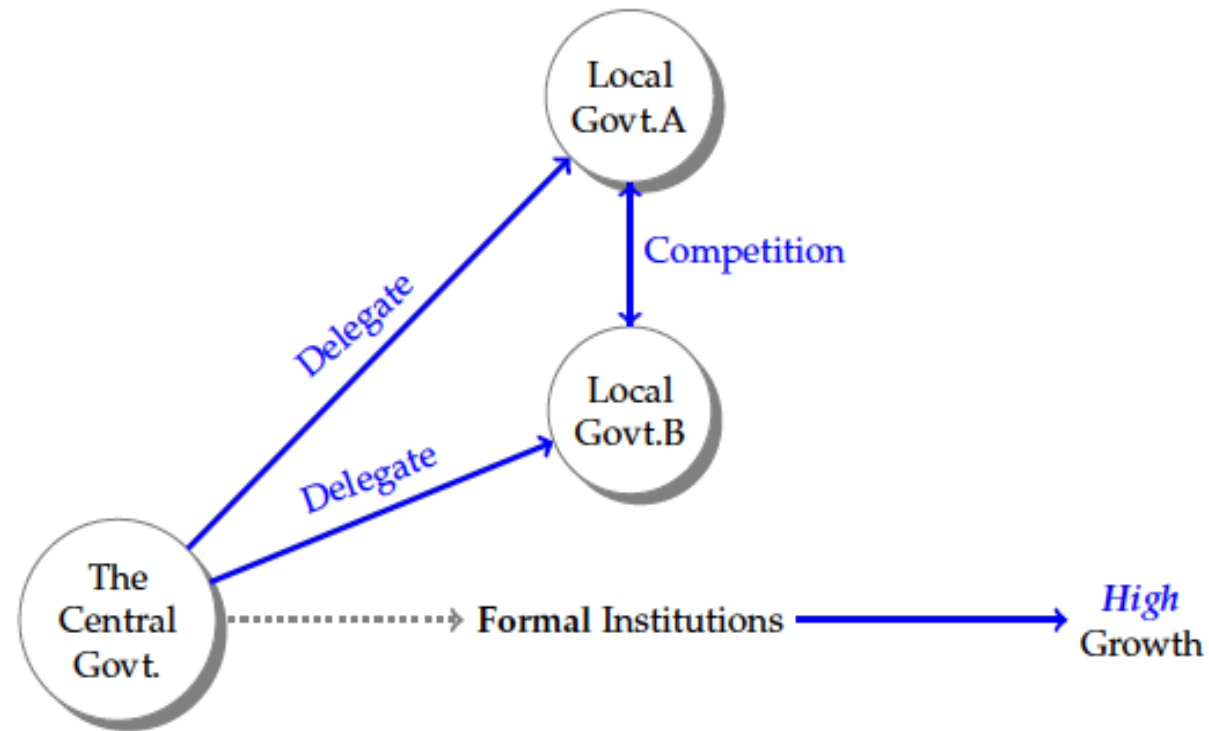
Oi 1992, 1999, Montinola et al. 1995, McKinnon 1997



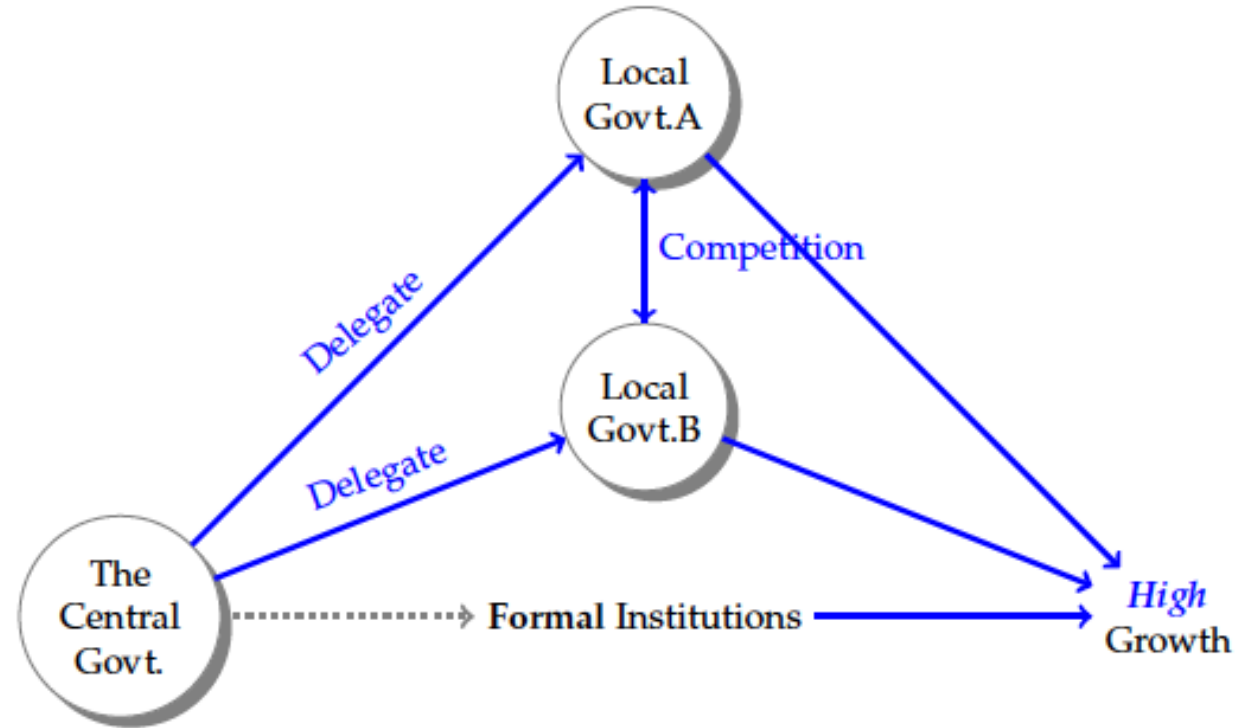
China's Alternative Path to Economic Development



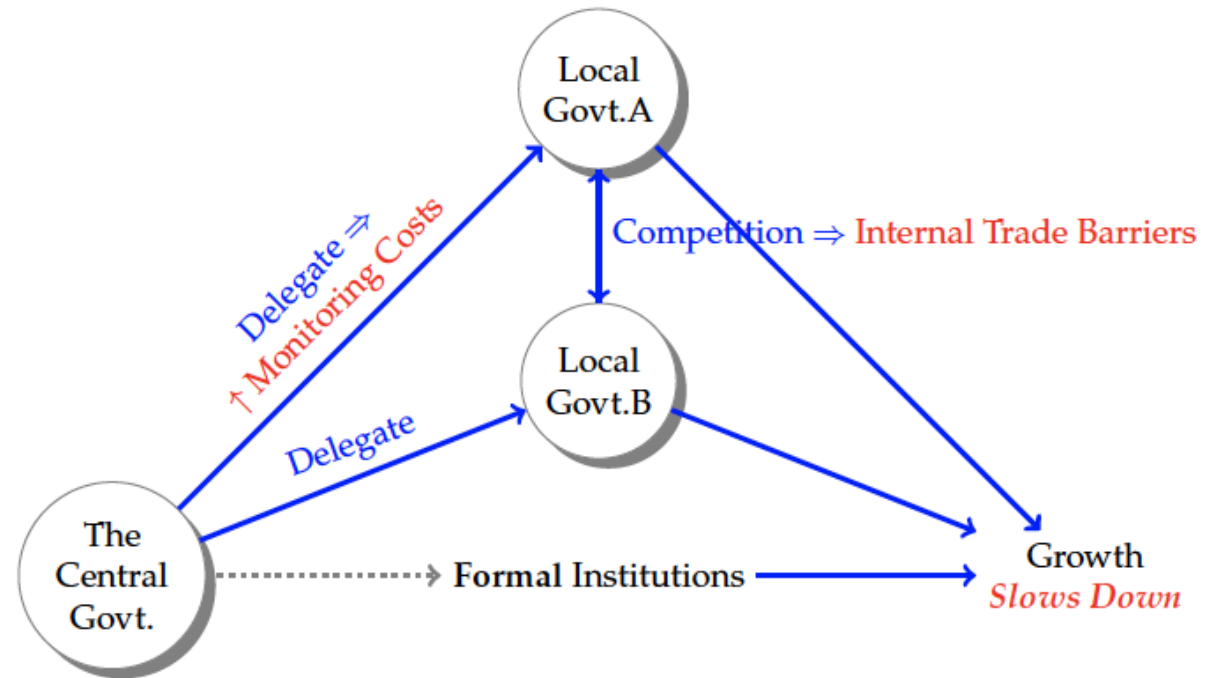
China's Alternative Path to Economic Development



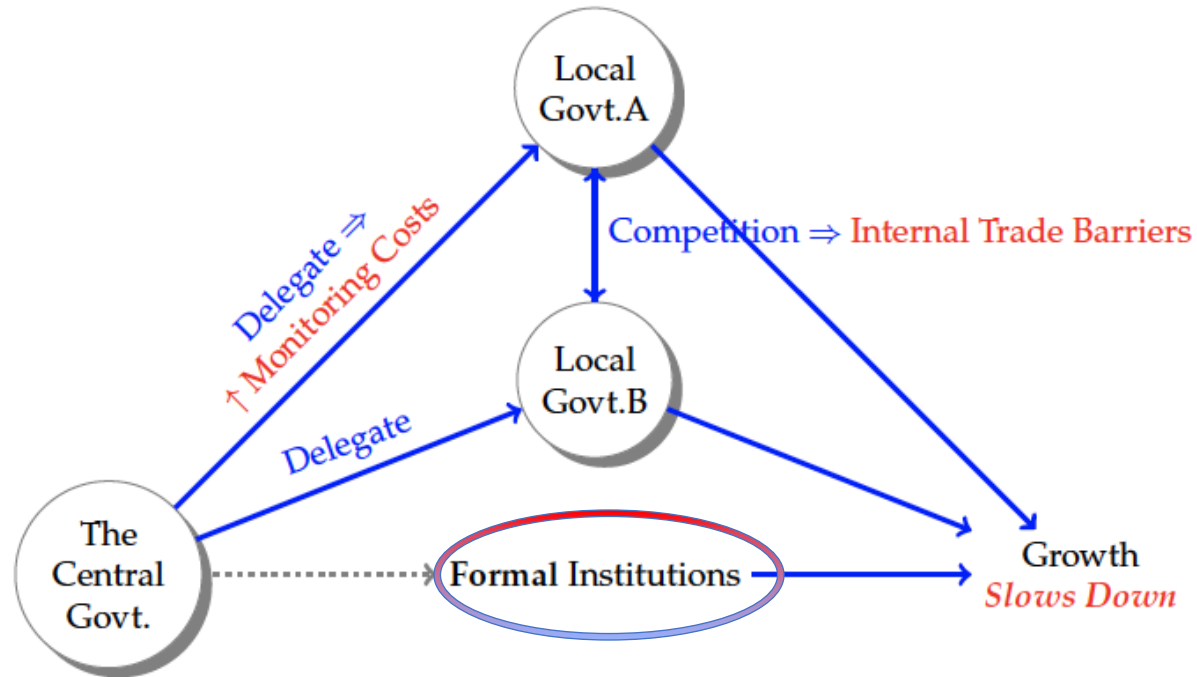
China's Alternative Path to Economic Development



Growing Challenges since mid-2000s



Growing Challenges since mid-2000s



- Efforts to shift economic model: Investment, export -> domestic **consumption**
- Need a national common market & impersonal exchange -> need strong institutions!

Where Did Strong Institutions Come From?



Enter Institutional Outsourcing

- National govt. unable/unwilling to provide strong formal institutions
-> outsource part of the institutional functions to **key private actors**,
e.g., **digital platforms**
 - Encompassing, impersonal, limited
 - Substitute for or complement formal institutions

Next:

- Part I: Platforms' private institutional building
- Part II: The political logic of state outsourcing

China's E-commerce Market is *Platform*-based

	Online Retailing	
	Platforms (e.g. Amazon.com)	Independent Company Websites (e.g. Nike.com)
China	90%	10%
USA	24%	76%

Source: McKinsey & Company (2011)

- E-commerce requires not only connectivity but also trust
- Major platforms as private suppliers of market institutions (e.g. contract enforcement, dispute resolution)
 - Example: Taobao.com

Taobao.com

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“啦啦打”啦啦新年好运气~

搜索 高级搜索

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时尚女包 羽绒服 雷龙靴 毛呢外套 男鞋 时尚保温杯 进口零食 新款棉衣 秋冬四件套 秋冬童装 皮衣 新款毛衣 打底裤 更多

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淘宝商城 全球购 找货
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吉林携同里推农村电商 打假,不说资源上纲!
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Hi 你好

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保暖爆款清单3折起
豪礼不断,今冬美丽动人

Canon SAMSUNG TOPSKY 贝尔莎
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SOFO 网网龙 INTEX

清仓抢购
小米手机赠丰包邮

WARM 暖暖 保温杯
暖胃又暖心

The “Everything” Market



Crab



Dragon Boat

【第一次】浙江恒生钢结构有限公司债权资产

肆佰肆拾伍万元

成交价 **4,450,000** 元

成交时间 2017/07/13 10:00:00



🚩 本场竞价已结束

起始价：¥4,150,000

加价幅度：¥50,000

竞价周期：1天

🏠 优先购买权人：无

延时周期：5分钟

保留价：有

Bad Debt for Sale

Two Boeing 747 jumbo jets sold in China Taobao auction

21 November 2017

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59 天 18 时 21 分 34.7 秒

出价

135,038,600

提交竞价保证金

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标的物信息

标的物名称：B-2423飞机机身与4台发动机

标的物编号：135,038,600

标的物类型：其他资产

标的物所在地：中国

标的物数量：1件

标的物规格：见描述

标的物品牌：中航集团

标的物型号：B-2423

标的物用途：航空运输

标的物状态：完好

标的物来源：司法拍卖

标的物权属：清晰

标的物评估：合理

标的物处置：公开

标的物备注：无

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标的物评估：合理

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标的物评估：合理

标的物处置：公开

标的物备注：无

【第五次拍卖】（破）B-2423飞机机身与4台发动机

今日拍卖

1516078 次

机动车

更多 35



车牌号为浙CW8K76朗逸牌小型轿车

当前价 **¥4.35万** (29次出价)
评估价 ¥3.5万
距结束 **03时09分56秒** **正在进行**

38798 次围观

25 人报名



闽C9063T 别克牌轿车一辆

当前价 **¥13.84万** (28次出价)
评估价 ¥9.34万
距结束 **03时09分56秒** **正在进行**

22815 次围观

21 人报名



浙DQ1S30奥迪汽车

当前价 **¥24.6万** (19次出价)
评估价 ¥26.4522万
距结束 **03时09分56秒** **正在**

51437 次围观

19 人报名



苏F16U28思域牌小型轿车

当前价 **¥5.04万** (14次出价)
评估价 ¥4.24万
距结束 **03时09分55秒** **正在进行**

19574 次围观

18 人报名



苏FF2779丰田牌银色轿车

当前价 **¥4.52万** (8次出价)
评估价 ¥3.15万
距结束 **03时09分55秒** **正在进行**

39672 次围观

18 人报名



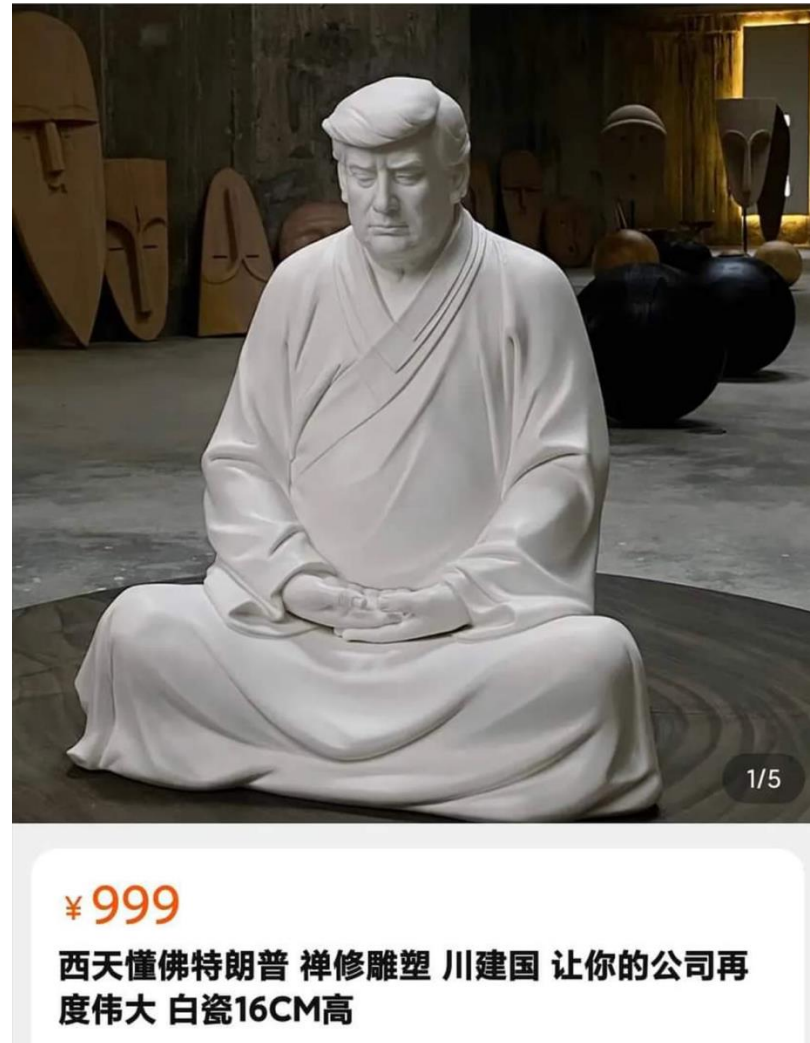
型号为GTS6M7161MTC别克牌小型汽...

当前价 **¥3.027万** (8次出价)
评估价 ¥2.327万
距结束 **03时09分55秒** **正在**

52344 次围观

10 人报名

Court-Seized Assets: e.g. Cars



Trump Buddha to “Make Your Company Great Again”

Basic Facts about Taobao

- Alibaba-owned
- Does not sell its own products
 - > 800 million active buyers
 - > 10 million active merchants (individuals, SMEs, big brands)
- 2016 GMV
 - > Amazon and eBay combined; > Walmart Global



Jack the Founder



Jack the Rocker

Taobao: A Private Provider of Market Institutions

- Contract enforcement -> Complex reputation mechanisms + Alipay
- Fraud prevention -> Big data detection + Risk framework
- Dispute resolution -> Juries OR a Taobao employee
 - 1.5 million “Jurors” resolved 2.5 million cases
 - Online disputes -> Randomly select 13 jurors from 2 million -> Review evidence -> Vote -> Win with 7 votes



买家表示商品有“卖家反馈未收到货”的问题，请您根据凭证判..



Taobao's “Online Jury” System

Taobao: A Private Provider of Market Institutions

- Institutional enforceability
 - Escrow system of Alipay
 - Big data analytics and detection
- Institutional adaptability
 - “House of Representatives for Rules”



Limitations: fake reviews (“catch me if you can!”), limited coercive power, etc

- Part I: How do digital platforms supply private institutions that can substitute for or complement formal institutions?
- Part II: Why does the authoritarian government outsource institutional functions?

Forms of Outsourcing

- **De facto** outsourcing:
 - Acquiescence to the private institutional development
- **De jure** outsourcing:
 - Explicit endorsement & written contracts

De facto Outsourcing

- Acquiescence to the private institutional development;
 - **Strategic non-regulation** – *not because the govt lacked info or regulatory power!*



Lao Tzu — “Practice not-doing, and everything will fall into place.”

De facto Outsourcing

- Acquiescence to the private institutional development;
 - **Strategic non-regulation** – *not because the govt lacked info or regulatory power!*
- Interview: “No regulation is the best support”
- Alipay: Nonbank third-party payment systems had no legal authorization
 - Jack Ma: “If someone needs to go to jail for Alipay, let it be me.”
 - The state legalized it after 8 years
 - The state didn’t ban Yu’e bao despite strong calls from the state-owned banks

De Jure Outsourcing

- Explicit endorsement & written contracts
 - Major platforms signed strategic agreements of collaboration with various levels of govt and central ministries – many collaboration beyond e-commerce
 - E.g., combat bribery and scam; enforce debt repayment; recover missing children...

The Political Logic of Outsourcing

- Overcoming technical barriers
- Political feasibility
- Parallel with China's earlier reforms (1980s -)
 - Experimenting with the nature and contents of rules
 - The center can disassociate itself from failed experiments
 - Protests against Taobao

Possible Future Directions of Research

- Institutional outsourcing in other country contexts?
- What to outsource, what not?
- Given the same function, comparing the pros and cons of public/private institutions



Empirical Tests and Tips: Effects of E-commerce (Ch 4 & 5)

Effect I: Rural Development (Household Welfare)

(AER: Insights, 2021)

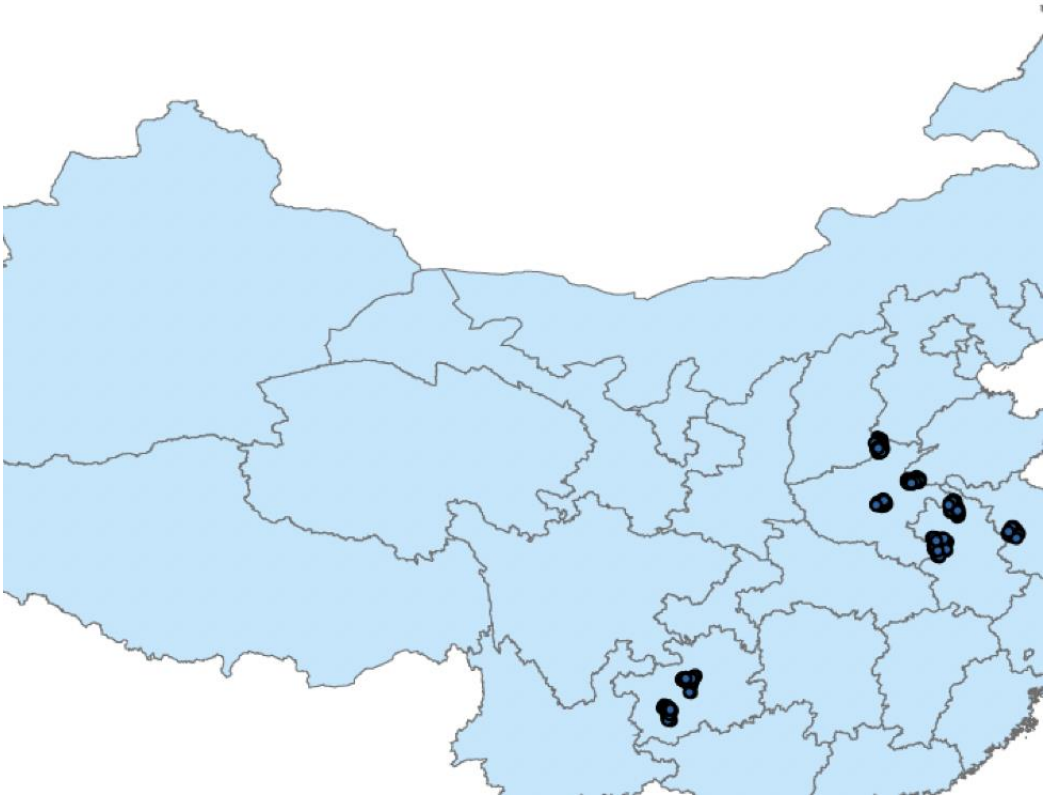
- RCT; first experimental evidence on e-commerce's causal effects on household welfare
- Taobao's 100,000 Village Project
- Randomized the location of e-commerce terminals across 100 villages in 8 counties of 3 provinces



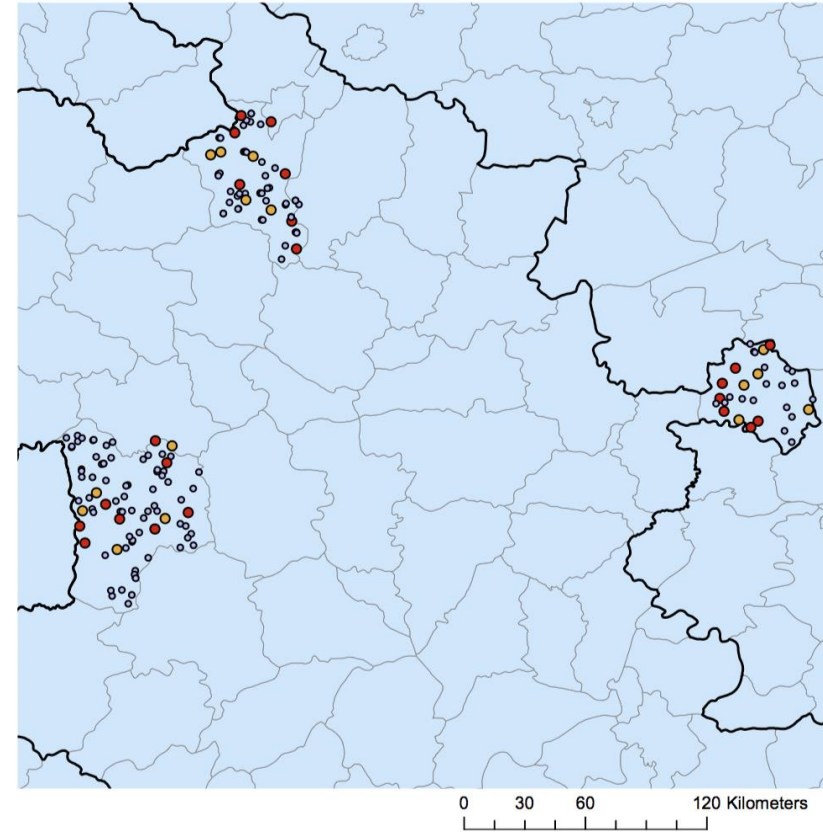
Fieldwork, Donghan Village, Henan Province (2015/08)

Maps of Experiment Locations

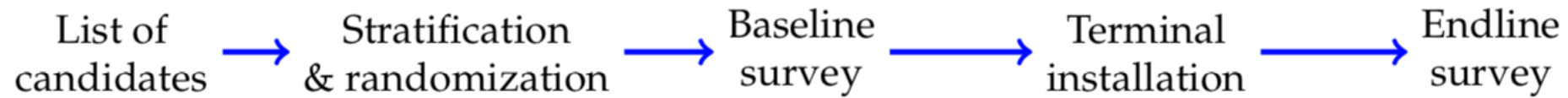
Provinces: Anhui, Henan, Guizhou



Anhui Province



Timeline and Data Collection



Measuring Household Welfare

- Cost of living effect (direct price effect); income effect
 - Household Survey (100 sample villages)
 - 2,800/3,800 households (baseline/endline surveys)
 - Data on every online/offline purchase, income
- Cost of living effect (pro-competitive effects)
 - Local store price surveys (100 sample villages)
 - 11,500 price quotes per survey round
 - Count of stores and new products

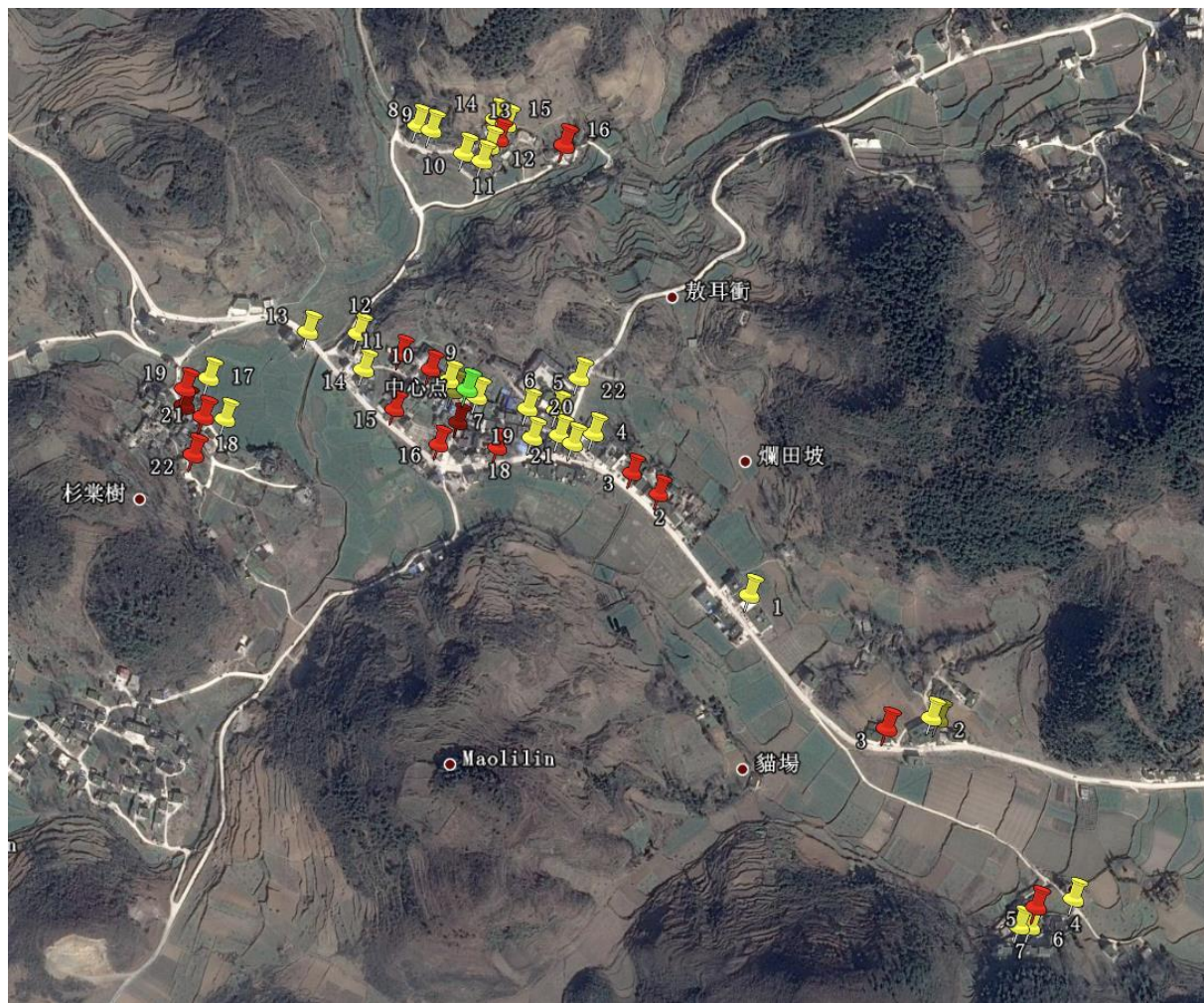
Are the sample villages representative?

- Taobao's internal database (12,000 program villages)
- 28 million transactions
- Universe of buying and selling (Nov.2015-Jan.2017)

Sample Villages



Sample Households



Gaozhai Village, Guizhou Province

Survey Data Collection + Administrative Data



Findings: Sizable but Unequal Gains

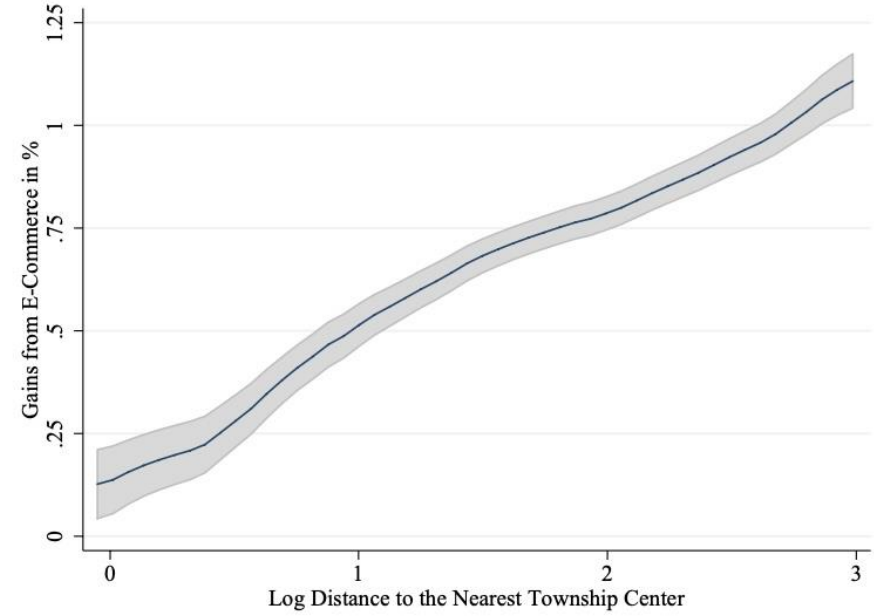
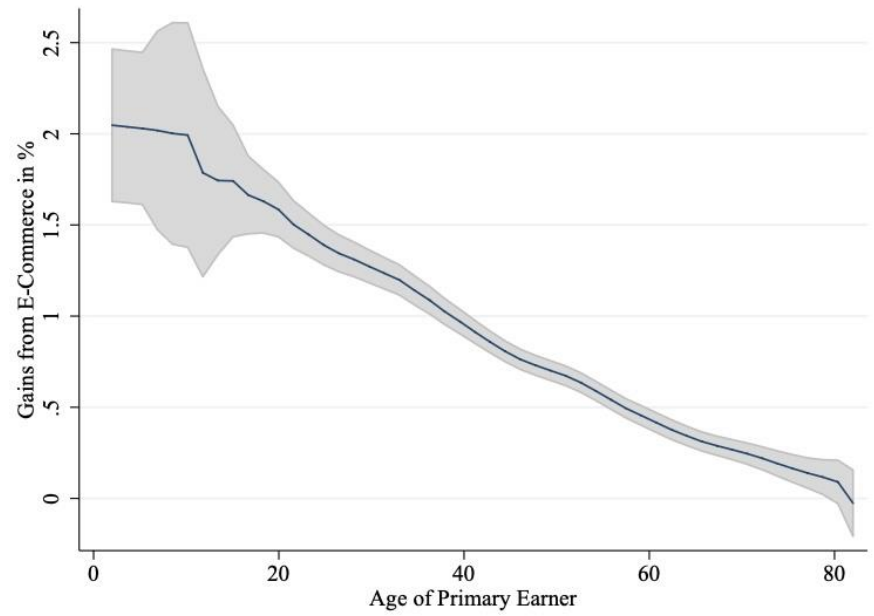
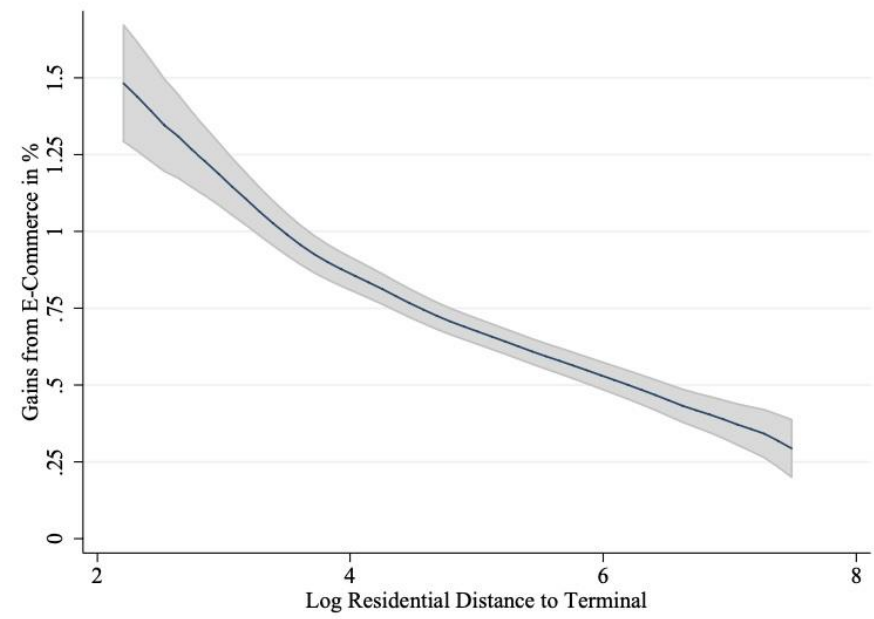
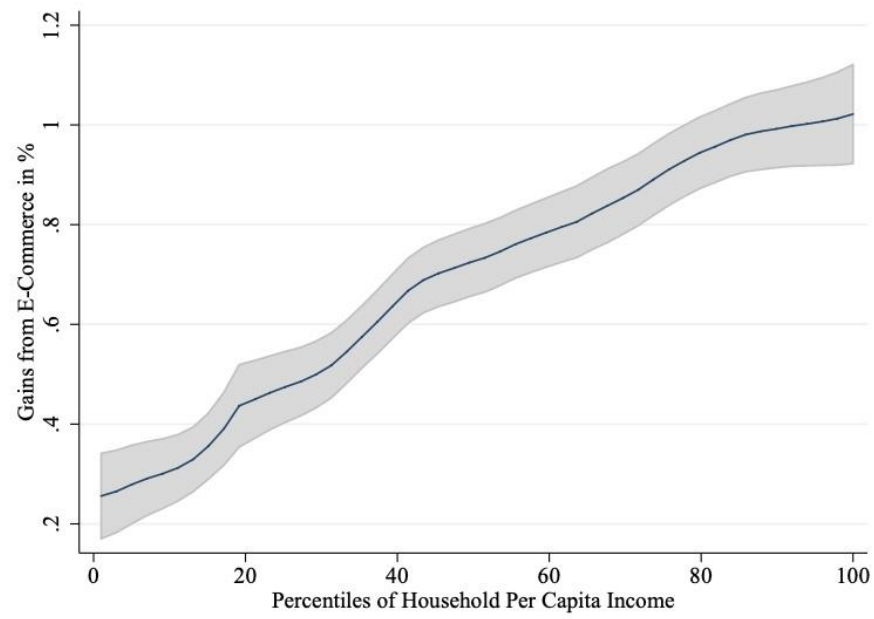
- Sizable economic gains for the 14 % of households that use terminal, 178k RMB per village/year
- Average effects (weighted) on retail cost of living

	Durables Consumption	Non-Durables Consumption	Total Retail Consumption
All households (incl. non-users)	-2.908% (0.031)	-0.419% (0.003)	-0.714% (0.005)
Users	-16.599% (0.215)	-3.267% (0.024)	-4.764% (0.032)
Users last month	-45.802% (2.411)	-7.797% (0.064)	-11.259% (0.124)

- Consumption effect, not production effect; strongest for durables
 - Equalizing consumer rights but insufficient to narrow the urban-rural divide
- E-commerce did not affect the prices offered by local physical stores; but local stores seem to source from the e-commerce terminal.

Findings: Sizable but Unequal Gains

- Heterogeneity and digital inequality
 - Larger gains for more remote villages
 - Reducing cross-village inequality
 - Larger gains for younger, richer households, living closer to terminals
 - Increasing within-village inequality



Tips for Working with Big Corporations

- Connections matter
 - Building connections take time; people value face time rather than emails
 - But don't just rely on one person; building multiple connections
- Frame the collaboration as a win-win
- Find a local collaborator; be aware of dialects
- How to ensure independence
 - Funding

Effect II: State-business Relations

- Starting point: Localized state-business relations
- Does the rise of e-commerce attenuate such ties? Autonomous merchant group?
- Yes, but merchant groups are still not autonomous
- National online survey on online vs offline merchants
 - Methods: matching
 - E-Commerce participation among private merchants is associated with greater autonomy from the local governments
 - Online merchants have less interaction with local governments; less incentivized to forge political ties with local officials

E-commerce does not eradicate state-biz relations, but **centralizes** it

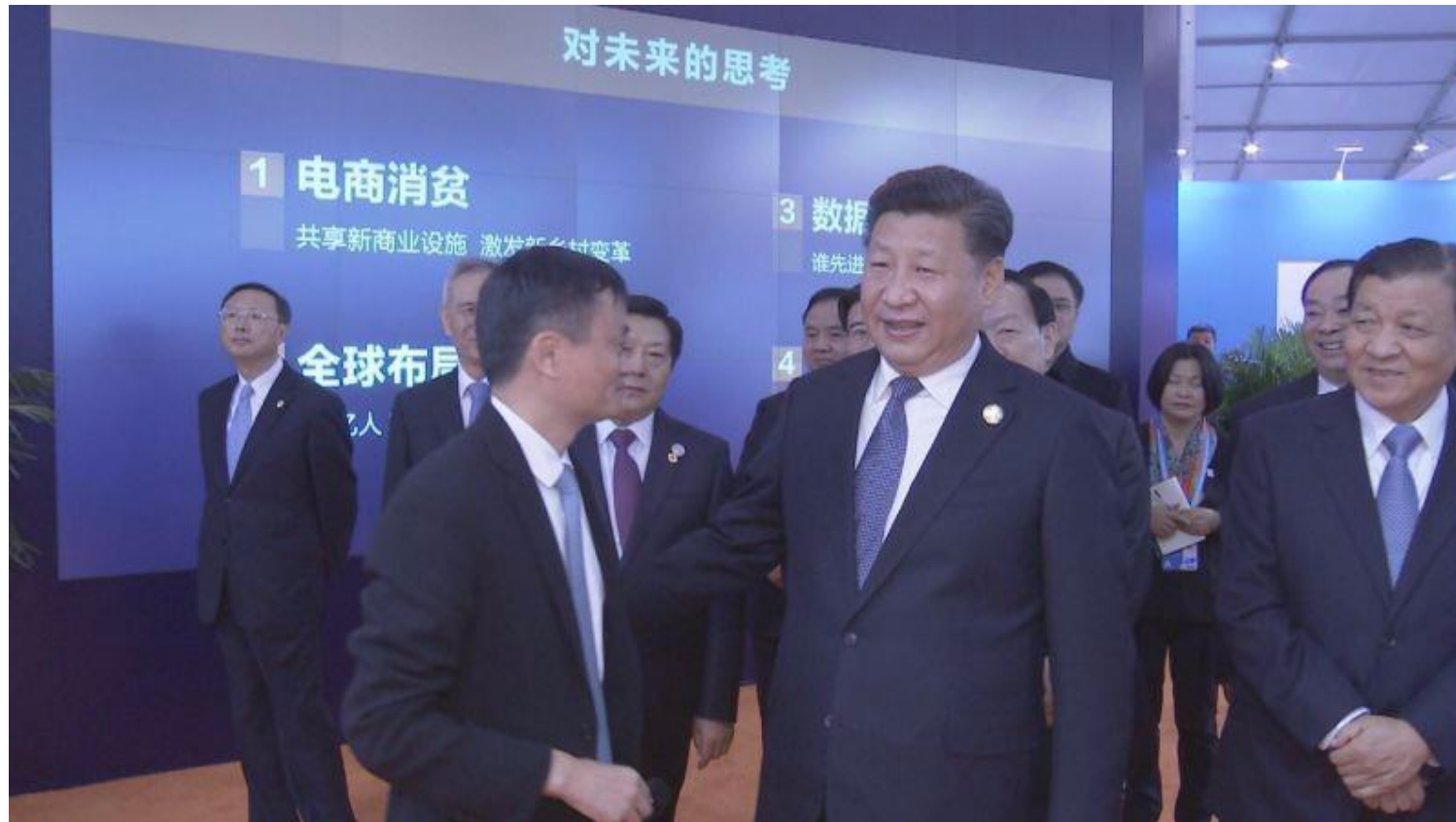
Online merchants' autonomy from the local government is in fact **shifted dependency** on the platforms



Merchants Pray to Jack Ma for a Prosperous Chinese Cyber Monday

The Rise of National Platform-Central Govt Collaborations

- Platform-central government ties can turn platforms into “points of centralized control”



Conclusion

E-commerce market in China reveals a digital path to development:
institutional outsourcing

- Not just in e-commerce, but many other areas

China's development is not just about industrial policy

- But strategic non-regulation

Government institutions matter -> Firm-provided digital institutions matter

- The tricky balance between private and public regulatory powers