



TRADE MARKET INTELLIGENCE
SPECIAL REPORT:
China's Digital and Social Media Landscape

October 2018

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Nova Scotia Business Inc.



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Report Overview

A digital revolution in China is giving foreign brands new access to the world's largest e-commerce market. While this means great opportunity for Canadian exporters, there are important market drivers and barriers that need to be considered in an entry strategy.

The following report provides information and insights on China's digital and social media landscape, with a particular focus on barriers to entry.



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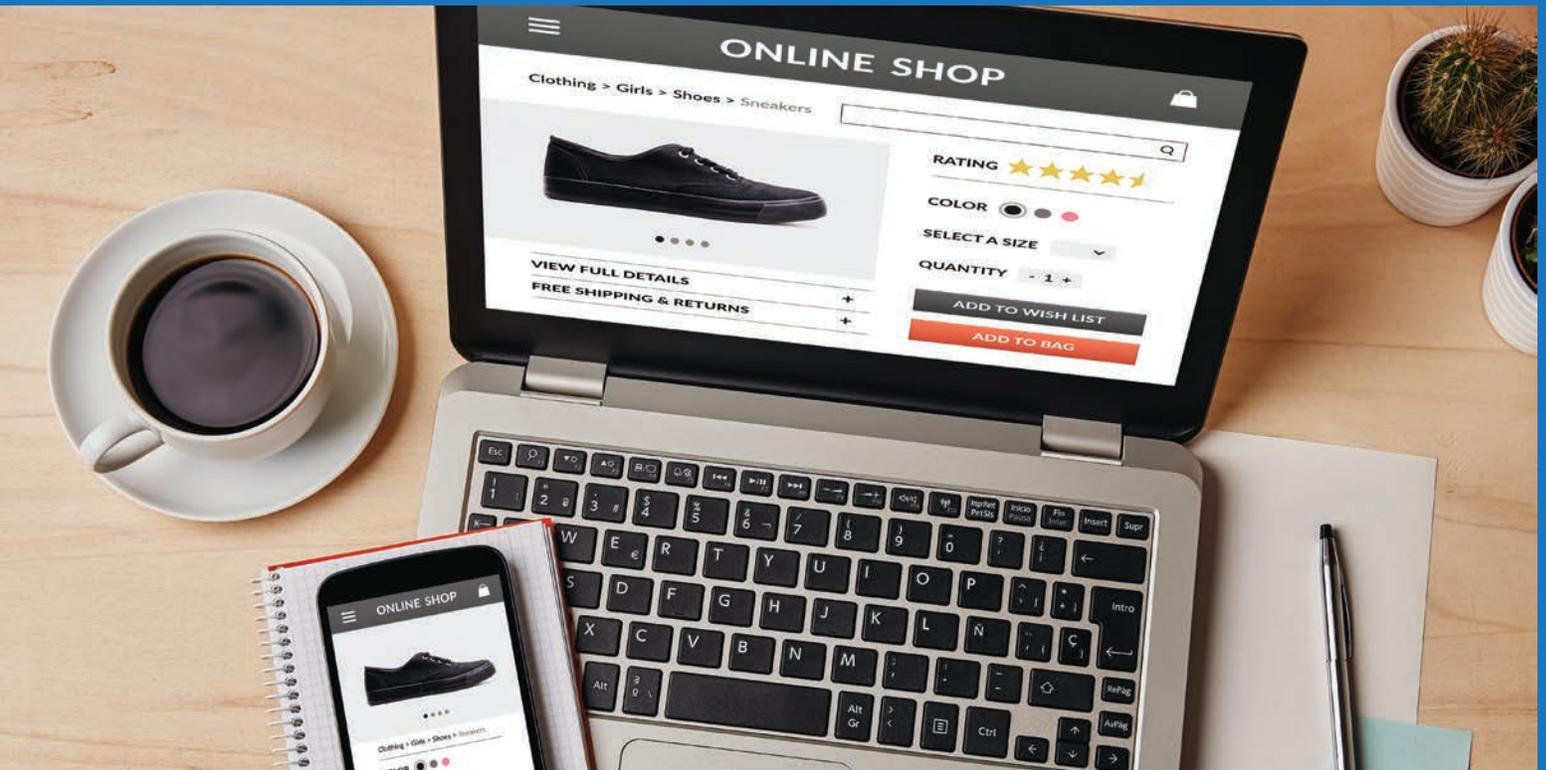
China's Digital Landscape: A Mobile Market

Smartphones and apps have become an integral part of the consumer experience in China. It has changed how businesses interact with consumers, and how buyers validate and execute decisions. The migration to mobile commerce has triggered a boom in financial tech, as businesses race to integrate e-payment functionality into their digital and in-store offerings.

The shift has brought with it higher consumption and access to western products, which is great news for businesses looking to enter the Chinese market. It has more digital buyers than any other country, accounting for over 40% of global e-spending. The key to entry—and sustainability—is staying on pace with China's advances in mobile infrastructure, so that offerings are as accessible as the local alternative.

Technology Penetration

In 2017, Chinese sales of portable electronics (such as smartphones) outstripped computers and their peripherals by 10 to 1. While computer sales steadily declined, portables grew by 5.1% between 2016 and 2017¹. Recognizing the shift, China is rapidly expanding its 4G mobile infrastructure with plans for 5G networks.



International E-Payments

China is the world leader in financial technology (“fintech”) adoption, with particular growth in e-payment services². Compared to 33% of Americans, 69% of Chinese internet users use fintech with some frequency. Mobile devices are now China’s most popular payment device for digital purchases and are also becoming the dominant in-store method, thanks to technology adaptations such as QR codes which allow a person to scan and instantly pay for goods and services from their device³.

Transactions are primarily facilitated through non-bank payment services, which accounted for roughly \$3.9 trillion USD in online payments in 2017. The largest of these services in China are Alibaba’s AliPay (with a 54% market share) and Tencent’s Tenpay/ WePay (with a 40% market share)⁴. Both services are configured to support cross-border transactions.

¹ Euromonitor International, 2017. Passport: Consumer Electronics in China. Pg 4

² ValueWalk, 2017. The Rise of Digital Payments in China

³ CNBC, 2017. Cash is already pretty much dead in China as the country lives the future with mobile pay

⁴ South China Morning Post, 2017. China sets up clearing house for online payment services like AliPay and Tenpay

Cross-Border Payment Solution Comparison

	AliPay	WePay (Tenpay) ⁵
Requirement	Overseas business license	Overseas business license
Need Chinese Bank?	No	No
Account Creation Fee	\$1,000 USD	Free
Transaction Fee	3% (>1M transaction discount)	3%
Settlement	\$5,000 USD min, OR wkly., mthly., qrtly.	\$5,000 USD OR on demand with srv. chrg.
Canadian Currency Support	Yes	Yes
Accessible in WeChat App?	No	Yes

Other cross-border payment solutions are also available, include credit card processing and bank transfers through the following⁶:

- 2C2P
- Apple Pay
- Asia Pay
- econtext Asia
- ingenico Group
- MOLPay
- NTT Com Asia
- PayEase
- Paysafe
- PaySec
- Red Dot Payment

FinTech Regulation in China

In 2017, the South China Morning Post reported that: “China’s central bank has ordered the establishment of a nationwide clearing house for online payment services, instructing them to route their transactions via the new platform, to shield consumers and the financial system from an internet-enabled model of finance that’s already made up almost 3 per cent of the country’s non-cash payments.”⁷

The Online Settlement Platform for Non-Bank Payment Institutions is an online clearinghouse established by the People’s Bank of China, the Chinese central bank, in 2017.

As of July 1st, 2018, all payment transactions through third-party providers, such as Alipay and Tenpay, must be done through the clearinghouse. Prior to this, service providers needed to connect directly to each bank. The clearinghouse has lowered market entry barriers for new and smaller service providers, giving customers a wider variety of service options. The change also allows for stricter capital flow monitoring and regulation by the central bank.^{8,9}

⁵ WalkTheChat, 2017. How to set up WeChat Pay? A Simple Guide

⁶ Trulioo, 2016. Top 10 Cross-Border Payment Services in Asia-Pacific

⁷ South China Morning Post, 2017. China sets up clearing house for online payment services like Alipay and Tenpay

⁸ Global Times, 2018. China’s third-party payment firms face stricter rules. <http://www.globaltimes.cn/content/1109058.shtml>

⁹ China Daily, 2018. Settlement regulations to benefit smaller players. <http://www.chinadaily.com.cn/a/201807/10/WS5b43fe44a3103349141e1be9.html>



TIP: Keeping up with the evolution in mobile technology is key to sustainability in the Chinese e-marketplace. While some Chinese platforms support international vendors, be aware of potential service impacts from regulatory changes.

How can integration add value to your business? NSBI can help choose the right services, and tell you what to look out for along the way.

Accessing China's Digital Market: Beware of the Great Firewall

While Chinese consumers want overseas products, their government is active in limiting digital access to them. The Great Firewall (the "Firewall") is a moniker for interventions by the Chinese government to block or artificially slow foreign websites for Chinese users by imposing Internet "regulations" such as IP-blocking and DNS tampering. It is a protective play for local competition and happens regularly and without rationale⁹.

In 2016, research was conducted on how much lag time Chinese consumers were willing to tolerate before deferring to an alternative. It found that:¹⁰



Chinese consumers expect foreign websites to take longer to load, but actual load time still greatly exceeds general tolerance, creating a distinct disadvantage.

Virtual Private Networks (VPNs) are a popular loophole for circumventing the Firewall and gaining access to blocked sites. However, the Chinese government began limiting access to VPNs in 2016 and in January of 2018 they issued a March 31st, 2018 deadline for companies and individuals to switch to government-approved VPNs.

⁹ China Briefing, 2017. China's Great Firewall: Business Implications.

¹⁰ CDNetworks, 2016. What Chinese Consumers Expect From International Websites.

The state-owned internet service providers China Mobile, China Unicom, and China Telecom were ordered to completely block access to outside VPNs by February 2018. While some unapproved VPNs still report being useable, there is no guarantee they will be able to continue operating in the future.

It is common practice for multinational companies to set up VPNs to connect their global and Chinese locations. Companies with VPN servers outside of China may experience disruptions due to VPN legislation. Now, companies are advised to use corporate VPN servers within China, using authorized providers.^{11 12 13 14}



Too busy working in your
business to work on your
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¹¹ ABS-CBN, 2018. Foreign companies in China brace for VPN crackdown <https://news.abs-cbn.com/overseas/03/30/18/foreign-companies-in-china-brace-for-vpn-crackdown>

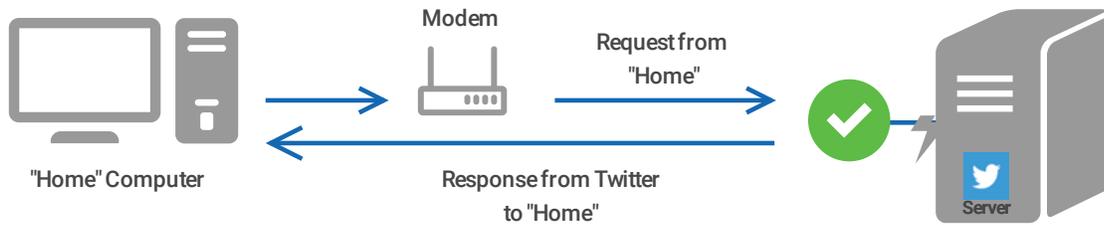
¹² Reuters, 2017. Apple says it is removing VPN services from China App Store <https://www.reuters.com/article/us-china-apple-vpn/apple-says-it-is-removing-vpn-services-from-china-app-store-idUSKBN1AE0BQ>

¹³ NordVPN, 2018. Are VPNs legal in China? <https://nordvpn.com/blog/is-vpn-china-illegal/>

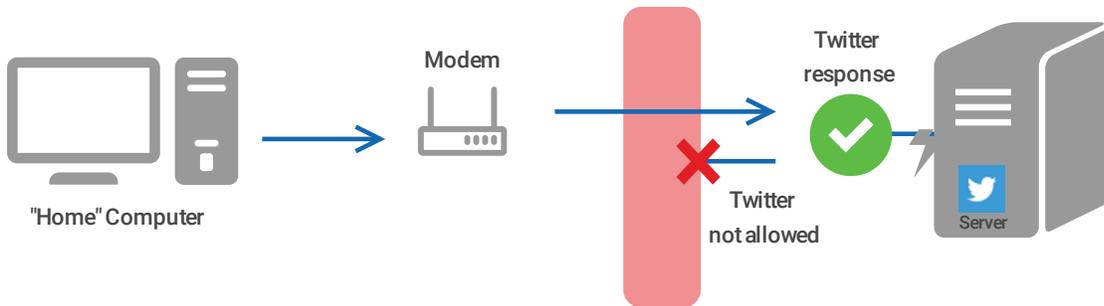
¹⁴ Tech World, 2018. How to use VPNs in China without breaking the law <https://www.techworld.com.au/article/632635/how-use-vpns-china-without-breaking-law/>

Figure 1 - How the Great Firewall of China Works

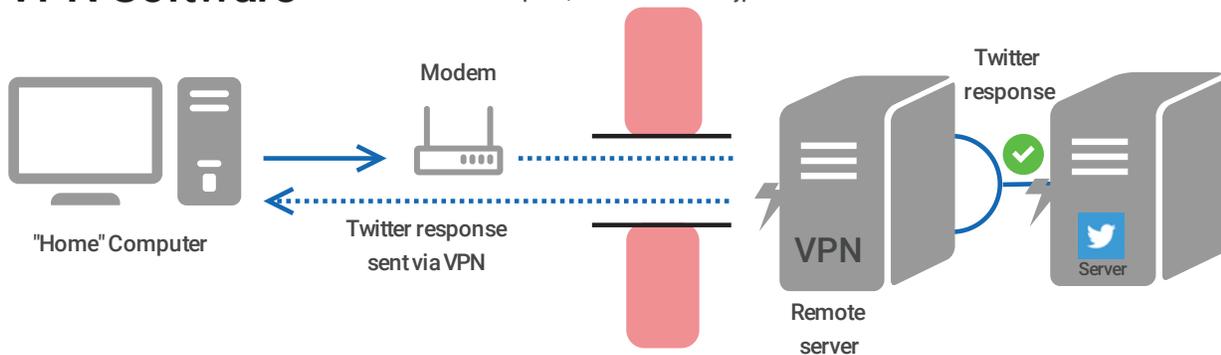
Regular Internet



China Internet "Great Firewall" blocks blacklisted content and data.



VPN Software When installed on a computer, it creates an encrypted tunnel.



Social Media is a Powerful Marketing Channel in China, But You Can Forget Twitter

China's Social Media Landscape

Chinese consumers look primarily to social media for product research and validation and are heavily influenced by peer-to-peer references. However, the landscape differs greatly from what we know in North America. Because of the Firewall, most western sites (such as Facebook, Twitter, Tumblr, and Pinterest) are either banned or unpopular, so companies need to adapt to local platforms to gain marketing traction¹⁵. Any foreign platforms that are still accessible in China are subject to ban at any time and without rationale (as was the case with Pinterest in 2017¹⁶); therefore, the safest route is to invest in a China-based social media strategy.

There are resources available to help navigate China's site environment and form a focused platform strategy. To start, industry specialists Kantar Media CIC published an analysis of the Chinese social media landscape each year¹⁷. Figure 4 lists China's current most popular social media sites.

¹⁵ Sapore di China, 2017. The list of blocked websites in China

¹⁶ CNNMoney, 2017. China adds Pinterest to list of banned sites

¹⁷ 2017 China Social Media Landscape <http://www.cicdata.com/landscape/>

High-level Insights from Kantar Media CIC's 2017 Analysis

While growth has slowed, WeChat continues to dominate the Chinese social media landscape. Weibo is making a comeback, particularly with younger generations.

With respect to user preferences, female users are more likely than males to have their purchasing decisions influenced by social media, but all users are most likely to pay attention to ads that are humorous and visually pleasing. The British Council used live streaming to introduce UK universities to overseas students. The nearly 8,000 comments showed that Chinese consumers care about the visual quality of the stream, including the hosts' appearance.

Figure 2 - China-Compatible Video Streaming Service Providers ¹⁸

WeChat	The all-in-one social media platform in China	Douban	A lifestyle discussion platform that includes music, ticket booking, and eBook downloads
Weibo	Similar to Twitter, but with longer posts and file sharing	Zhihu	Similar to Quora, with highly-educated and engaged urban users
QQ	A popular white-collar instant messaging app, features include blogs and online payments	Momo	Similar to Tinder, but expanding into mobile gaming and live streaming
Baidu Tieba	A keyword-based search engine forum	Meipai	Similar to Instagram, but specialized in video
Renren	Similar to Facebook, mostly used by university students (but losing popularity)	Kaixin	Social networking, blogging, and gaming primarily for white-collar city workers
Youku	Similar to YouTube, but with more professional content	Diandian	A light blogging community
DianPing	A business review app similar to Yelp, which allows direct ordering		

¹⁸ TutorMing, 2016. 6 Chinese Social Media Sites You Should Know About, Dragon Social, 2017. 10 Most Popular Social Media Sites in China (2017 Updated), Linkfluence, 2016. Made In China: The World's Largest Social Media Landscape

User Migration

While a local social strategy is the strongest route, it needs to remain agile to changing user trends and site diversification.

Chinese sites face persistent user migration issues due to political interference and censorship.

Weibo Corp Case Study

Several years ago, Weibo Corp was an extremely popular Twitter-like company. After they began requiring users to reveal their identities and several people were arrested for comments made on the platform, the site lost a large chunk of its users to its smaller competitor, WeChat. Now as one of China's most popular services, WeChat has fallen under government scrutiny and censorship as well. In September 2017, regulations made WeChat group creators responsible for managing information and behaviour within their forums.

Before the regulations even came into effect, authorities used it to discipline 40 people for spreading petition letters and to arrest a man who spoke out about police raids. As a result, many groups have been disbanded for fear of punishment over others' actions.¹ The platform has also introduced subtle censorship to self-police users, blocking certain language and photo uploads and forcing users to verify their identity.²

¹ Bloomberg Technology, 2017. China's Latest Crackdown on Message Groups Chills WeChat Users.

² TechCrunch, 2017. WeChat begins censoring users ahead of China's National Party Congress.

While WeChat still holds a formidable market share with 963 million users, it is likely to see some decline in popularity due to the increased censorship. Luckily for WeChat, its heavy commerce integration will most likely protect its market hold.

Search Engine Optimization (SEO)

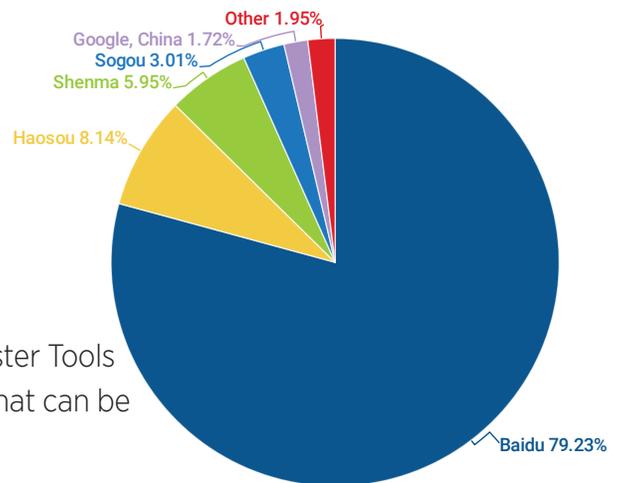
As with social media, many of the search engines commonly used in North America are not easily accessible in China. As such, domestic sites bear the majority of web traffic. Businesses need to familiarize with SEO for Chinese search engines to establish a local footprint.

Baidu is by far the most prominent search engine in China, and should be the primary focus.

Baidu provides SEO advice through their Webmaster Tools platform, as well as several third party resources that can be found on their website:

- Optimize Your Website in China with Baidu Webmaster Tools
- Ultimate Guide to Baidu SEO
- Search Engine Land—What SEOs need to know about Baidu in 2017
- 21 Ways to Optimize Your Site for Baidu
- Guide to Baidu SEO & Content Marketing: Increase Your Brand Visibility in China
- Baidu SEO Guide

While building a local strategy will take time and effort, it is well worth it. With extended features and business functionality, like e-commerce integration, China's social platforms are a key sales conversion tool. The channels enable direct interaction with consumers and on-the-spot purchase influence. It also enables instant feedback from consumers that can inform the target marketing strategy.



TIP: *It has become a successful strategy for businesses to invest in Key Opinion Leaders (KOL), which are essentially China's social media influencers. KOLs promote company brands and products to their follower base, and influence product purchases through social media sites.*

Can You Stream Video in China?

As part of China's protectionism, the Firewall makes quality live video streaming through foreign channels essentially impossible. While still difficult, pre-recorded and non-streaming content can be shared, but live streaming must be conducted using a China-compatible third-party system. It is strongly recommended that companies find a trusted partner or service inside the Firewall to facilitate streaming activities.

It is worth noting that many programs that purport to have working services in China still face technical difficulties, particularly with the Chinese government's unpredictable regulatory practices.

Below are a list of services that reportedly work between Canada and China. How well any particular service works tends to vary between users. Companies can (and should) take advantage of free trials to test various providers before committing to one.

Figure 3 - China-Compatible Video Streaming Service Providers

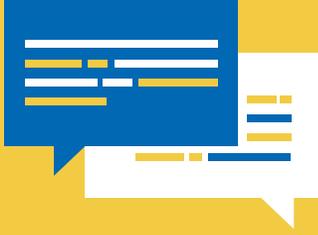
	Type of Program	Pricing	Trial Options
BigMarker	Web	\$38-385/mth.	14 day
Blackboard	Web, iOS, Android	Quote	30 day
BlueJeans	Web, iOS, Android	\$16/mth. - quote	30 day
Cisco WebEx	Web, iOS, Android	\$19-\$89/mth.	Free basic plan
GoToMeeting	Desktop (web version unreliable in China)	\$26-\$79/mth.	14 day
IBB China	Web, Android	Quote	Free basic plan
WiziQ	Web, iOS, Android	\$35 - quote	30 day
Zoho Meeting	Web, iOS	\$5,000 USD OR on demand with svc. chrg.	30 day
Zoho Showtime	Web, iOS, Android	Free - \$64/trainer/mth.	15 day
Zoom	No	Free - \$20/mth.	Demo available



TIP: Take advantage of free trials to find a trusted partner who knows their way around the Firewall and can help evade barriers. Ongoing IT support is essential in China, as the technology and network access environments are constantly shifting. NSBI can help research and vet the right partner for your needs.

Key Takeaways

1. China's vast online market is beginning to open to more international businesses, but there are still significant digital barriers to be aware of. Access takes time and resources.
2. The most pervasive barrier to entry is "The Great Firewall", which is unpredictable and designed to drastically limit the discoverability and competitiveness of foreign companies. VPN bans in 2018 made Chinese user access to international sites even harder.
3. Chinese platforms and websites offer the best marketing channel, as many western sites are unavailable or unpopular. Companies should make themselves aware of China's unique social media preferences, as well as SEO for Chinese search engines. Once a platform strategy has been decided, be aware of government policies that may impact how those platforms are used.
4. Integrating mobile e-commerce technology into product offerings and social marketing for China is essential, since Chinese buyers overwhelmingly use their mobile devices to shop. Companies can leverage China's tech giants, AliPay or Tenpay, but must stay informed of their ongoing regulatory status. Major policy changes took place in 2018.
5. The reliability of broadcasting and video streaming services that work through the Firewall is variable, depending on usage type, user location, and government policy. Companies looking to stream video are advised to take advantage of free trial programs to test multiple services, and form a close relationship with the partner they ultimately choose. Ongoing IT support will be necessary in navigating China's fluctuating technology and access environment.



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