

E-Commerce and Hong Kong

Background Briefing for TIF, 16 March 1999

The lack of a common definition or understanding of what the term 'electronic commerce' means has not held back a whole industry of soothsayers forecasting its growth. Nor does it belie that something very real is developing that is different from traditional commerce. Definitions of e-commerce which stress the impact upon the way companies and citizens organise and conduct business focus less upon the volume of transactions and more upon the changing commercial relations within and between companies and customers. For example, supply-chain management studies the restructuring of the relationships between suppliers, customers and companies procuring raw materials, equipment and other inputs and selling their output of goods and services to intermediaries or end-users. It is standard business school material to examine case studies of companies who have won new markets or lost market share because they did or did not understand that the use of electronic communications for contracts, for supply chain management and for transactions was changing radically and forever the way in which business was conducted, and changing also the points in the value chain where profits were to be made.

Companies which have successfully built up their business are suddenly faced with unfamiliar challenges. For example, the music CD-ROM business is now faced with distribution over the Internet. This challenges the copyright of artists and music recording companies because it opens the gates to a new era of piracy, and it challenges the future of records stores because they can be by-passed. On the other hand, it opens up enormous market opportunities for sales and for new types of retailing. How can companies learn quickly and effectively about these new threats and opportunities? How can traditionally managed firms get up to speed on the electronic technologies which will enable them to compete and to re-engineer their own supply-chain and work processes? What are the bottlenecks in terms of trained people, bandwidth capacity, network engineers, programmers, content packagers and designers? If electronic commerce can by-pass traditional intermediaries (dis-intermediation) what new opportunities do the bottlenecks open up for specialist new-media enterprises, outsourcing firms, online distributors (re-intermediation)?

Of particular interest to Hong Kong are the possibilities for small and medium-sized enterprises. In Australia, for example, it has been found that it is small- and medium-sized enterprises (SMEs) rather than the large corporations who have exploited the opportunities to market themselves to a global audience. How many Hong Kong SMEs are in a position to take advantage of the Internet? How many of these companies have really begun to do so? What resources do they most require? Is the infrastructure there at the right price to help them, to encourage them? What is, and what should be, the role of Government and Government-related agencies in promoting e-commerce among SMEs? How can Hong Kong business create a culture of using electronic means to promote commerce?

The Internet has been the catalyst for e-commerce, increasingly replacing proprietary networking systems. Most Internet traffic still heads towards the USA, but how important is it to the development of e-commerce in Hong Kong that Hong Kong develops as an Internet hub within Asia, as it is a telecommunications hub? The other networking problem is security. Is it an overblown issue? Are current standards, such as SET, adequate or are they already part of history? How far are Certification Authorities necessary before e-commerce can really take off? If e-commerce is eventually global, are national CAs relevant? Behind these issues also lies the issue of credit-card issuing banks. Current practice in Hong Kong is to offer very little customer protection (liability is usually set at the credit limit - in the USA federal law sets it at US\$50). Is this a barrier to e-commerce as some merchants argue?

For telecoms companies the key question is how can they make money from the growth of e-commerce? How far are they having to become content providers in addition to transporters of information? As new entrants provide alternative networks and bandwidth, is the traditional role of telcos changing away from carriage and into retail? And into new media infotainment?

The area is a huge one, but one of vital importance to Hong Kong. The Telecoms InfoTechnology Forum wishes to focus the debate on identifying the key hurdles to the development of e-commerce, and make a contribution towards recognising what the essential policy issues that have to be addressed are.