

Taobao Villages

The Emergence of a New Pattern of Rural Ecommerce
in China and its Social Implications

Fan Lulu



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Foreword

Ecommerce has become increasingly important in Asia, particularly in China, where it is making an increasingly important contribution to the service sector, which itself has grown to 56 per cent of the total GDP. **Taobao** (Chinese: 淘宝; approximate English translation: “*digging for treasure*” or “*treasure hunt*”) is a Chinese online shopping website and ecommerce platform, headquartered in Hangzhou, East China. Founded by Alibaba Group in 2003, Taobao and its sister website Tmall facilitate both Consumer-to-Consumer (C2C) and Business-to-Consumer (B2C) retail commerce by providing a platform for businesses large and small as well as individual entrepreneurs to open online stores. It mainly caters to consumers in Chinese-speaking regions (Mainland China, Hong Kong, Macau and Taiwan) and has had over 580 million monthly active users in 2018. The enormous amounts of data thus collected (such as user interests and shopping trends) fuel the algorithms of the platform itself as well as the services and research into artificial intelligence applications of its parent company Alibaba, which is one of China’s three online giants besides Baidu and Tencent.

China’s countryside remains a crucial part of the country’s economic (success) story as over 40 per cent of its population is still rural. But Chinese urban-rural inequality is quite high - like in many other countries. Against this background the growing number of so-called “Taobao villages” has been identified by Alibaba and the Chinese government as a potential solution to reduce the growing urban-rural divide. While Taobao villages contribute to the economic development of rural areas in China, they need to be analysed critically, especially because of the contradictions between the typically low-cost mode of production of most goods sold in Taobao shops and the priorities of local governance. First, Taobao shops pay almost

no taxes and second, they often do not apply basic labour and safety standards. Also, most of them operate informally and the workers therefore rarely have social security. While some observers in China highlight that the Taobao shop workers earn more than they would in factories, others warn against the emergence of “rural sweatshops 4.0”. These contradictions need to be further analysed by collecting and analysing data as well as assessing the situation of Taobao shops on site, which this study aims to do.

But if the negative aspects of Taobao villages can be mitigated, they might not be merely an interesting development programme for rural and remote areas in China, but also in other Asian countries. In Indonesia for example, the government puts a lot of emphasis on reducing the development gap between cities and villages to improve people’s welfare and strives to create employment in rural areas. Fostering the growth of ecommerce in rural economies (“Villages 4.0”) might be an attractive solution to connect unique local products with urban purchasing power as an economic and employment stimulus for countries with a distinct rural character.

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Executive Summary

- The key success factors for Alibaba and its subsidiary online marketplace Taobao are: aggregation of supply and demand information, free user registration and high-quality value-adding services. Furthermore, together with its Alipay payment platform and Cainiao Logistics it has become a quasi-monopoly platform for trading, data and web flow.
 - The growth of Taobao.com has created new clusters of commerce, production and services. Ali Research (a research institute of Alibaba Group) defines a Taobao village as follows: a large number of online merchants co-exist in a village that do business mainly through Taobao.com, depend on the Taobao ecommerce ecosystem, and achieve economy of scale and synergy. In 2018, there were 3,202 “Taobao villages” in 24 provinces, municipalities directly under the central government and autonomous regions in China. Taobao villages were highly concentrated on the east coast of China, where the biggest marketplace of the world – the city of Yiwu – and the Alibaba headquarters is located.
 - In the garment industry, the search function for identical products on Taobao.com and Alibaba.com has exacerbated the price war among producers and sellers. The emergence of online trading platforms has led to more clothing categories and smaller order sizes.
- The lifecycle of clothing products has become shorter and shorter. Businesses/organizations/ individuals along the clothing supply chain are more specialized, therefore claiming unique competitive advantages in certain domains while collaborating with others to achieve all-win synergy.
- Low production and low living cost in urban villages, informal employment and distributed production might be more suitable for the low-price small-batch orders from Taobao.com. But the workplace as well as living conditions in many Taobao villages and urban villages producing for Taobao are poor. Informal employment gives rise to thorny labor issues, such as child labor and wage arrears. Local governance is challenged because governance costs are disproportionately high compared to the rather low contribution of the informal economy to local fiscal revenue.
 - The lessons learnt from the Taobao village experience in China are: It takes the concerted efforts of the government, private companies behind the platforms as well as organized labor to mitigate the drawbacks of informal employment related to Taobao villages and to fully benefit from the inequality-reducing potential of the platform economy in a rural setting.

Introduction

The platform economy is a new economic pattern based on modern information technology including the Internet and cloud computing that aims at meeting diverse demands by integrating industrial supply chains and value chains and by improving the allocation of available market resources. The platform economy is of great importance to Chinese socio-economic development. The retail platform operated by the Alibaba Group is a poster child of the Chinese platform economy, with its Gross Merchandise Volume (GMV)¹ during the Alibaba Group's 2016 fiscal year exceeding RMB 3 trillion (more than USD 430 billion). Representative of the new economy, Alibaba's business ecosystem spans production and distribution while also securing a strong presence in the service sector through its logistics and finance activities. The

GMV of RMB 3 trillion speaks volumes of the rapid growth of such an ecosystem as well as that of the global new digital economy. Underlying the GMV of RMB 3 trillion are greater socio-economic value, entrepreneurship and job creation. According to Alibaba, its ecommerce ecosystem has created over 15 million retail jobs and made possible over 30 million indirect employment opportunities (Ali Research, 2016).

Before referring to the driving economic force, the inequality-reducing potential as well as the challenges of the Taobao villages, a review of the major milestones in the history of Alibaba and Taobao.com is necessary to understand why they have succeeded.

1. The development of Alibaba and Taobao.com²

1.1 Start-up (1999-2003)

Founding of Alibaba

In February 1999, Jack Ma³ and his team of 17 people founded Alibaba in his apartment in Hangzhou, a city in Southeast China in Zhejiang province. Their goal was to set up an online B2B platform to facilitate Chinese small and medium-sized enterprises' (SMEs) participation in global trade. On April 15, 1999, Alibaba.com, the company's first website, dedicated to global wholesaling, was launched.

Founding of Taobao.com and making inroads into C2C

On May 10, 2003, Taobao.com went online. Free access aside, Taobao.com launched multiple services tailor-made to the Chinese market and culture, therefore differentiating itself from eBay in its customer base, product development, pricing, and customer service.

Table 1. A comparison of the Competitive Strategies of Taobao and eBay

Platform strategy	Taobao.com	eBay
Customer base	broad	white collar
Product development	Alitalk	Skype (later than Taobao)
	Alipay	Paypal (later than Taobao)
Pricing	Free access: transaction price is flexible.	Fee-based: transaction price is fixed.
Customer service	Active communication with customers	Less communication

Source: Yang, Fei. (2017). Evolution of Ecommerce Players' Strategy – the Cases of Alibaba and JD.com. Master's Thesis. Jilin University: p. 37.

1.2 Growth (2004–2007)

Launching Alipay and improving service

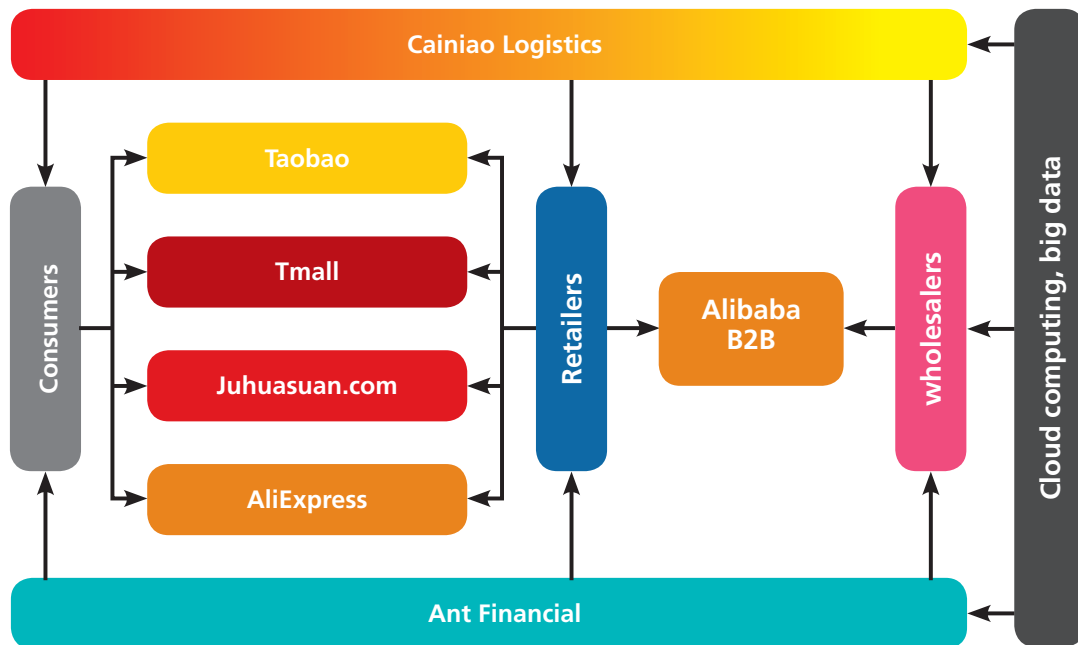
In 2003, Taobao.com launched Alipay, an “escrow account” type of payment service whereby the buyer will agree to release the payment to the seller only when he/she is happy with the purchase. This service reduced transaction risks for the buyer drastically. In August 2008, the number of Alipay users exceeded 100 million, bigger than the number of Taobao users, which stood at 80 million at the time, accounting for 40 per cent of internet users in China. Alipay thus became China's largest third-party payment platform.

1.3 Maturity (since 2008)

From “Greater Taobao” to “Greater Ali”, developing the Chinese ecommerce infrastructure

In November 2007, Alibaba's B2B business was listed on the Hong Kong Stock Exchange, raising USD 1.69 billion to further drive growth. In 2008, Alibaba announced the “Greater Taobao” strategy, claiming that it would invest RMB 5 billion in the next five years to upgrade its ecommerce infrastructure centered around Taobao.com into a better consumer-oriented ecommerce ecosystem, so that all ecommerce activities, including payment, marketing and logistics, could be done on the “Greater Taobao” platform.

Figure 1. Alibaba's ecommerce infrastructure



Source: Yang Fei. (2017). Evolution of Ecommerce Players' Strategy – the Cases of Alibaba and JD.com. Master's Thesis, Jilin University: p. 53.

2. Reasons behind the success of Alibaba and Taobao.com

According to the 2018 Global Digital Economy Index jointly published by Digital Economy Forum, Ali Research and KPMG, which measures the level, structure and pathway of digital economic development in different countries on the five dimensions of digital infrastructure, digital consumers, digital industry formats, digital public services and digital R&D, the top-10 digital economies in the world are the US, China, UK, Korea, Sweden, Norway, Japan, Denmark, Singapore, and the Netherlands (Digital Economy Forum et. al. 2018). Analyses of data from 150 countries and regions point to a high correlation between digital economic development and per-capita GDP. All top-20 countries with the exception of China are high-income countries. China is placed on top of the ranking for the sub-index of digital consumers. Chinese digital consumers are not only numerous but also extraordinarily active. There were 772 million internet users in China by December 2017. It took 14 years for ecommerce penetration rate to reach 50 per cent in the US, but only nine years in China. Chinese digital consumers paved the way for Alibaba and Taobao.com through large scale societal collaboration on these platforms.

Researchers attempted to identify the operation model and key success factors of Alibaba and Taobao.com. Alibaba has the following distinctive operation features:

- (1) it is an aggregator of supply and demand information;
- (2) it pays attention to localization. The web portal is translated into different languages to suit local needs. Also, it is user friendly. As a result, country markets merge into one big market;
- (3) free membership at the initial stage attracted businesses to become registered users;

- (4) the value-adding services provided by Alibaba facilitate transactions on this online marketplace and diversify Alibaba's sources of profitability (Tang, 2009).

Researchers also attempted to identify the key success factors of Taobao.com by contrasting its strategy with that of eBay. On the pricing front, eBay, started as an auction site and therefore (at least for a long time) did not give fixed prices for many products, whereas Taobao adopted a fixed-price model right from the start. There is basically a one-on-one relationship between the buyer and seller (except for payment) on Taobao.com. They communicate online through Taobao's proprietary Alitalk (an instant messaging tool). They can write reviews and make recommendations on the platform. When it comes to product categories, Chinese online shoppers buy different things than their US-American counterparts. As for sources of revenue, nearly 90 per cent of eBay's revenue comes from commissions. In contrast, 80 per cent of Taobao.com's revenue comes from advertising, something that consumers – at least directly – do not have to pay for, and another 20 per cent comes from commissions on Tmall plus charges for value-adding services (Bechir, 2010).

With the Alibaba portal, Taobao.com, tgc.1688.com, the Alipay payment platform, Cainiao Logistics, among others, Alibaba Group has monopolized the platforms for transactions, data and traffic. Manufacturers as well as merchants on Tmall and Taobao.com must follow the rules set by Alibaba in order to gain traffic and subsequent sales. Interviews with owners of Taobao.com clothing shops reveal that advertising and operation eat away a big chunk of their sales, sometimes as high as 35 per cent.

3. The concept of Taobao villages, their whereabouts and specialties

The growth of Taobao.com has created new clusters of commerce, production and services. The emergence of Taobao villages is a good case in point. Ali Research defines a Taobao village as follows: a large number of online merchants co-exist in a village that do business mainly through Taobao.com, depend on the Taobao ecommerce ecosystem, and achieve economy of scale and synergy. According to Ali Research's *2014 Research Report of Taobao Villages in China*, a village has to meet the following three criteria to qualify as a Taobao village: (1) merchants are registered as residents of the village and conduct business there; (2) the annual ecommerce GMV should be no less than RMB 10 million; (3) the number of online merchants registered at the village should be no fewer than 50, or at least 10 per cent of the village households. In 2009, only three villages in China met the above criteria. In 2017, there were 2,118 Taobao villages in 24 provinces, municipalities directly under the central government and autonomous regions.

According to data in 2015, the number of Taobao villages decreased sharply from coastal regions in the east to the hinterland in the west. Taobao villages in Eastern China, Central China and Western China accounted for 97.8 per cent, 1.5 per cent,

and 0.7 per cent of the total, respectively, with an especially high concentration in the eastern coastal provinces of Zhejiang, Guangdong and Jiangsu which topped the list with over 100 Taobao villages each. Next in line are Fujian Province, Shandong Province and Hebei Province with over 55 Taobao villages each.

In November 2017, KPMG and Ali Research jointly published a report titled *Metamorphosis: Garment Industry Powered by New Retail – Transformation of the Number One Online Category*. According to this report, clothes were far ahead of any other category of products shopped online in China. In 2016, the online penetration rate for the garment industry was 37 per cent, much higher than the 12 per cent online penetration rate of overall retail business. In GMV terms, the top online retail categories were clothes (21 per cent), home improvement (16 per cent), house appliances (11 per cent), computer, communication, and consumer electronics (so-called 3C products, 9 per cent), food and beverage (8 per cent), mother and baby products (7 per cent).

According to the 2017 Research Report of Taobao Villages in China, the top-10 clusters of Taobao villages specialize in the following products:

Table 2. Bestsellers for top-10 clusters of Taobao villages 2017

Ranking	Country (City)	Province	Number of Taobao villages	Bestsellers
1	Yiwu	Zhejiang	104	petty commodities
2	Wenling	Zhejiang	75	shoes
3	Caoxian County	Shandong	74	costumes
4	Ru'ian	Zhejiang	54	shoes
5	Puning	Guangdong	52	leisure wear
6	Suining	Jiangsu	51	furniture
7	Jinjiang	Fujian	48	shoes
8	Cixi	Zhejiang	44	house appliances
9	Yongkang	Zhejiang	44	fitness equipment, hardware
10	Shuyang	Jiangsu	41	flowers and trees
11	Yueqing	Zhejiang	40	electrical & electronic products

Source: 2017 Research Report of Taobao Villages in China

4. The emergence of Taobao villages and driving factors

The *2017 Research Report of Taobao Villages in China* attributed the emergence of Taobao villages to grassroots entrepreneurship, enabling platforms and favorable government policies. Grassroots entrepreneurs are considered the strongest force behind the emergence of Taobao villages. By 2017, they had set up over 490,000 active online shops. Enabling platforms offer comprehensive assistance to grassroots entrepreneurs in transaction, logistics, finance and data, with over 100,000 express delivery routes, more than RMB 58 billion's (USD8.4 billion) worth of bank loans. Favorable government policies give support in infrastructure, public services and create a business-friendly atmosphere. Zhejiang Province spends tens of millions of RMB on supporting Taobao villages. Shuyang and Suining in Jiangsu Province, Yucheng in Shandong Province, and Xifeng in Guizhou Province established training bases for ecommerce professionals. Researchers summarized four reasons why Taobao villages emerged: (1) the boom in online shopping presents huge business opportunities, attracting the inflow of capital and labor; (2) the symbiotic growth of express delivery services, Internet financing and telecommunication infrastructure facilitates transactions while making the process more convenient; (3) the government and ecommerce platform providers guide, nurture and invest in the development of Taobao villages; (4) Social factors such as neighborhood effects and the traditional business culture contribute to the flourishing of Taobao villages. The above four factors interact with each other and jointly fuel the rapid growth of Taobao villages (Xu et al. , 2017).

Ali Research categorizes county-level ecommerce cases into seven types on the basis of the dominant driving force (Taobao University & Ali Research, 2016): (1) government-driven; (2) service provider-driven; (3) online business owner-driven; (4) industry-driven; (5) comprehensive development; (6) business line-driven; (7) public service system-driven.

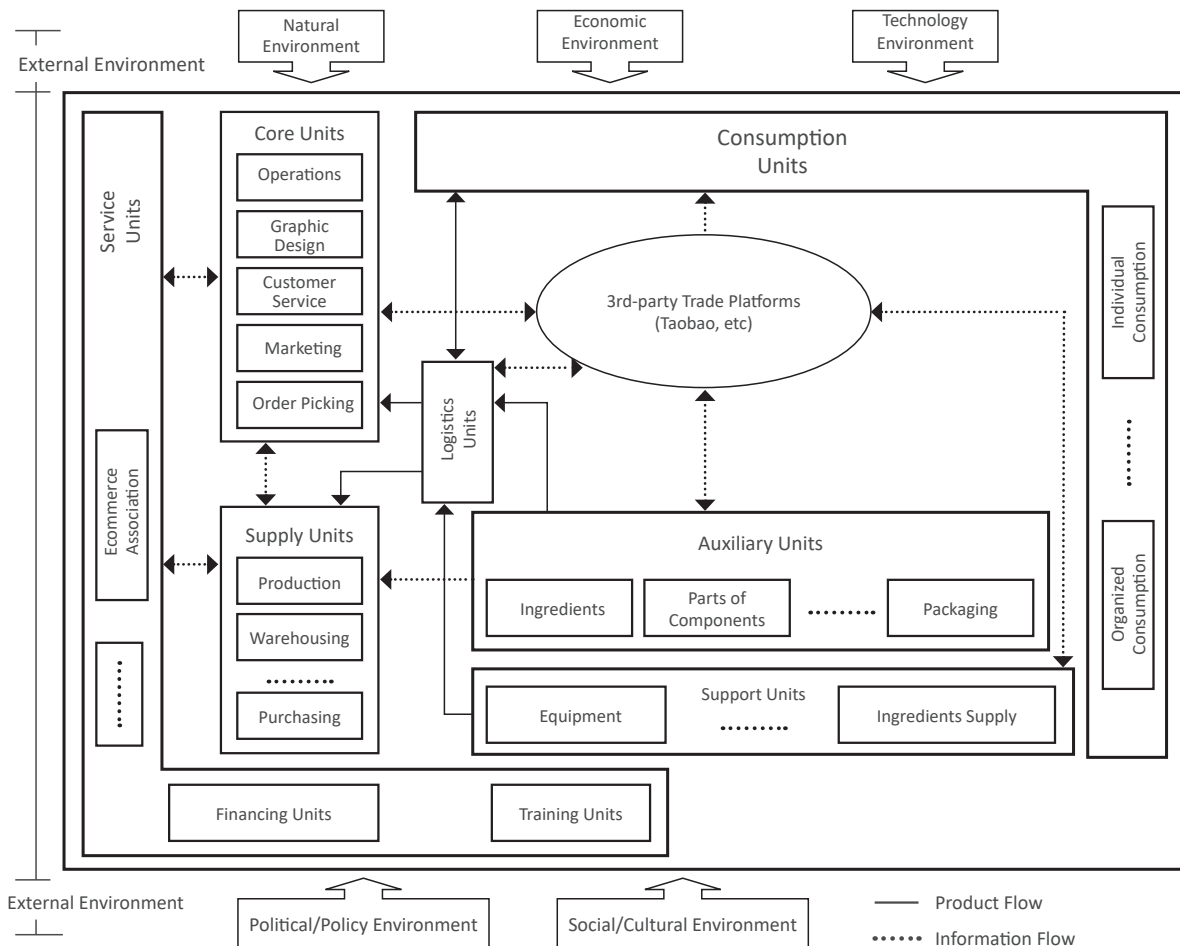
Zeng et al. (2015) summarized the evolution of Taobao villages as "two phases–five steps". The five steps are: starting of the first online business in the village, initial take-up by villagers, accelerated take-up, village businesses working together, and the formation of an entire value chain. The two phases are: villagers rely on their own resources to develop the Taobao village; once the Taobao village has developed to a considerable size, the second phase then sees interventions by the government, the formation of industry associations and the entrance of service providers into the village. Zeng et al. (2015) believed that government support is necessary to speed up the growth of Taobao villages. It could offer guidance, regulation and provide better services. It could act as an incubator for Taobao villages by improving infrastructure, strengthening the cost advantages of starting businesses in rural areas, tapping into the potential of traditionally strong local industries and encouraging younger migrant workers and college graduates to return to villages.

5. Employment in Taobao villages

One study divides the symbiotic rural ecommerce system into a number of functionally different units. Core units are sellers on the ecommerce platform; closely adjacent units supply products to core units; auxiliary units supply ingredients, parts and components to closely adjacent units; support units serve auxiliary units. Logistics units and service units are on the periphery (Guo, 2015).

There are sub-units within units. They hire workers of different skill level, gender and age to produce or provide service. The employment contract terms vary as does workers' negotiation power.

Figure 2. The symbiotic rural ecommerce system



Source: Guo, 2015. An Analysis of Rural Ecommerce Business Model – Based on Investigations of Taobao Villages. Reform of Economic System (5): p.113.

Different units combine to form different rural ecommerce business models. The same study sums up four major business models.

In the **first** model, a business buys ingredients, engages in production and sells final products online. This model emerges spontaneously. For example, businesses in Shaji Town of Jiangsu Province process lumber into furniture to sell online. In the **second** model, an online seller that does not have enough production capacity and outsources production orders out. For example, online sellers located in Xi'ao Village with annual sales of over RMB 10 million find further capacity expansion limited by space. Therefore, they acquire equity in other producers and sell the latter's products online. In the **third** model, an online seller is present on multiple online platforms, adopting a different brand name for each platform. In the **fourth** model, different units develop a symbiotic relationship. Although a Taobao village may have many similar businesses, it may at the same time see businesses forming a relatively complete value chain. In other words, there are upstream suppliers to the principal businesses in the village and downstream buyers. They form an optimal team to compete against other value chains. For example, product photographers, graphic designers, logistics providers and packaging specialists design or manufacture for a particular principal business; industry associations coordinate relationships among ecommerce businesses and with the government (Guo, 2015).

The development of the platform economy has reshaped industrial relations. Its impact and challenges are deeply felt by the social security system and governance. Western literature built a matrix of platform jobs out of two axes, one being wage level and the other being worker autonomy, thereby creating four quadrants. Those who have a high wage and high autonomy at work are mainly

highly-skilled online freelancers. Those who have a high wage and low autonomy are mainly drivers working for online ride-hailing services or domestic workers hired through online platforms. Those who have a low wage and low autonomy get work mainly from crowdsourcing platforms. Those who have a low wage and high autonomy are absent from such platforms (Kalleberg and Dunn, 2016).

Liang (2017) also identified four types of jobs by looking at the importance of employer-employee contracts and employer control over employees. Jobs in traditional industries are strong on both contract and employer control. Domestic workers take strong-control weak-contract jobs. Knowledge workers have weak-control strong-contract jobs. Freelancers and people in the traditional service sector have jobs that are weak in both employer control and contract.

Previous research on ride-hailing services and Taobao merchants showed that the platform economy had greatly reduced the headcount of employees, given birth to huge numbers of organizations in the informal economy, enhanced the adoption of flexible employment, challenged the traditional definition of industrial relations, reduced the stability of industrial relations, and posed new challenges to collective bargaining and traditional labor dispute resolution mechanisms (Wang and Li, 2017). Other researchers found out that since the platform economy stresses the participation of specialists who work with businesses in product/service design, production and sales, a win-win outcome for labor and capital is possible. Both could increase income while workers get to enjoy flexible working hours and better work-life balance (Ji and Lai, 2016). Platform jobs affect employment stability – with huge numbers of informal economic organizations, more varied forms of flexible employment, bankruptcy of and mergers between platforms leading to a fast track

of establishing, changing and terminating industrial relations. Employment in Taobao villages is affected in various degrees as well.

With the development of the platform economy, Internet-based platform companies are getting bigger and bigger while business entities operating on such platforms are shrinking in size. Take Alibaba’s retail division as an example. By 2015 its number of merchants had exceeded 11 million, but the average number of jobs created per Taobao.com merchant stood at only 1.6, and that of a Tmall merchant at 6.9. Owing to their size, low headcount, high turnover, short life spans, poor human resources management expertise, small and micro businesses have long been high-risk in terms of labor protection and industrial relations. As the platform economy grows, more of these businesses will crop up. It is high time to find targeted solutions to industrial relationship issues in such businesses. The number of informal employers also grows with the platform economy. Unincorporated entities such as individuals, households and partnerships can now participate in the economy on an unprecedented scale and scope, which presents unprecedented challenges to the traditional administrative authorities of industry and commerce. Under current rules and regulation, natural persons need not register with the industry and commerce administration to conduct online trade transactions. They only need to submit authentic identity information to the platform on which the business operates. The fast expansion of the informal economy, which was historically exempt from supervision and administration, creates daunting difficulties to labor security supervision as well as the enforcement of employment contracts (Wang and Li, 2017).

This research is based on key findings, which includes over 20 interviews with Taobao clothing shop owners, suppliers to Taobao merchants and

workers producing products for sale on Taobao.com in the (South) Eastern Chinese cities of Guangzhou, Hangzhou and Changshu:

- (1) The search function for identical products on Taobao.com and Alibaba.com has exacerbated the price war among producers and sellers. Photo 1 and 2 show search outcomes of such a function on Taobao.com (B2C) and Alibaba.com (B2B), respectively. A Taobao clothing store owner in Hangzhou said: ‘Taobao now has a function to search for the same products, and because Taobao platform does not allow pirates of the photos, so the same clothes wore by the same model come from the same source. If someone does not purchase the products from the supplier that provides this photo, he will be reported and his photo cannot be used anymore. Therefore, the function of search for the same products is to make profits more transparent.’ (Interview by the author, 20180520)

Photo 1. Search outcome for identical products on Taobao.com



Source: screenshot by Fan Lulu

- (2) The emergence of online trading platforms has led to more clothing categories and smaller order sizes. The lifecycle of clothing products has become shorter and shorter.
- (3) The ownership structure in the clothing supply chain has changed. Businesses/organizations/individuals along the chain are more specialized, therefore claiming unique competitive advantages in certain domains while collaborating with others to make optimal use of synergies.
- (4) Urban villages with low living costs, informal employment and distributed production are more suitable for the low-price small-batch orders from Taobao.com. The Photo 2 and 3 below were taken in urban villages where production for Taobao clothing shops took place. In such places, workers are hired on the sidewalk and can quit any time. The bed the worker rents to sleep in is paid for daily, in keeping with the flexible employment arrangements.

Photo 2. Search outcome for identical products on Alibaba.com

相似货源(300) 同款货源(119) 进货参谋 ⓘ 同款找货神器

	春季条纹衬衫女装中长款长袖大码学生百搭宽松韩范男友风外套村衣 ¥ 38.90 总成交197笔	深圳市宝安区西乡衣之型服饰商行 1年 认证 诚信 保障 经营模式: 生产加工 认证信息: 已通过资信认证 满意度: 5.0 加工方式: OEM加工
	春季条纹衬衫女装中长款长袖大码学生百搭宽松韩范男友风外套村衣 ¥ 39.90 总成交114笔	深圳市宝安区西乡衣之型服饰商行 1年 认证 诚信 保障 经营模式: 生产加工 认证信息: 已通过资信认证 满意度: 5.0 加工方式: OEM加工
	2018春季条纹衬衫女装中长款长袖大码学生百搭宽松韩范男友风外套 ¥ 21.00 总成交112笔	深圳市南山区馨衣家服饰商行 2年 认证 诚信 保障 经营模式: 生产加工 认证信息: 已通过中诚信认证 满意度: 5.0 注册时间: 2016年
	2018春季条纹衬衫女装中长款长袖大码学生百搭宽松韩范男友风外套 ¥ 20.00 总成交102笔	深圳市宝安区福永蓝波湾服饰厂 3年 认证 诚信 保障 经营模式: 生产加工 认证信息: 已通过中诚信认证 满意度: 5.0 注册时间: 2016年

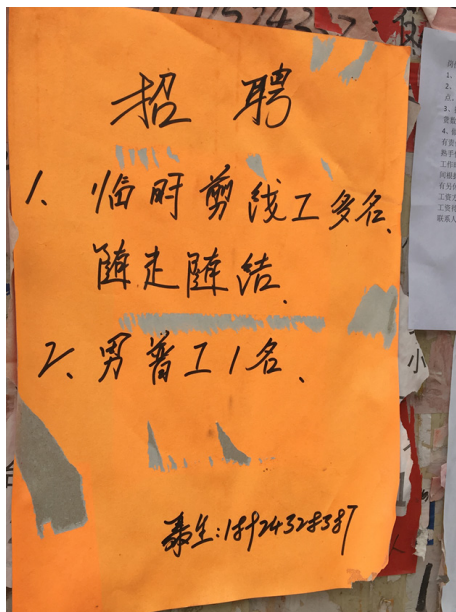
Source: screenshot by Fan Lulu

Photo 3. Hiring in an urban village by Taobao garment factories



Source: Fan Lulu, Guangzhou.

Photo 4. A Taobao garment factory's advertisement for temporary workers



The advertisement shows that this factory/ workshop recruits temporary thread-cutting workers and the workers can receive wages whenever they leave. Source: Fan Lulu, Guangzhou.

Photo 5. Bed-a-day advertisements in an urban village specializing in clothes making for Taobao



The advertisement shows that the rental price of a bed in the dormitories of this urban village is 12 to 13 RMB per day. The single room's rent is 30-60 RMB per day. The air-conditioned suite's price is between 60 to 100 RMB per day. Source: Fan Lulu, Guangzhou

(5) The workplace as well as living environment in many Taobao villages and urban villages producing for Taobao are poor. The workshop, the warehouse, and workers' dormitory are sometimes all co-located in one building, exacerbating fire risks. Informal employment gives rise to thorny labor issues, such as child labor and wage arrears. Social governance is challenged because governance costs are disproportionately high compared with the informal economy's contribution to local fiscal revenue. As a result, Guangzhou, Hangzhou and Changshu have begun initiatives to shut down and rectify garment factories producing for Taobao.

(6) The boom of Taobao-related businesses has created employment opportunities for women who would otherwise have stayed at home. Interviews with Taobao shop owners done for this research show that these women had previously often been excluded from fulltime employment because of pregnancy, childbirth, and breastfeeding, but running a Taobao shop or working as a Taobao customer service representative allowed them to work wherever and whenever convenient, thereby increasing employment rate and income.

6. The impact of Taobao villages on rural economy and society

On October 13, 2014, Alibaba Group announced at the First Zhejiang County-level Ecommerce Summit that it would invest RMB 10 billion in the next three to five years in developing 1,000 county-level operation centers and 100,000 village-level service stations. For this purpose, according to Daniel Zhang, COO of Alibaba Group, the Group had identified several priorities for its rural endeavor: (1) investing in infrastructure. To be more specific, it would set up operations on the county and village level and strengthen logistical capabilities; (2) growing the ecosystem. It would nurture more buyers, sellers, service providers, and focus on talent development. (3) innovation in rural purchasing agents, rural financing, and rural ecommerce Online-to-Offline (O2O). (4) value creation, helping farmers gain higher income, creating jobs, and facilitating urbanization. According to the author's investigations in Taobao Villages in Guangdong and Zhejiang Province, the first two items is the bases for the development of the latter two items.

The 2017 Research Report of Taobao Villages in China states that in 2017, there were 2,118 Taobao villages and 242 Taobao towns in China. Among the Taobao villages, 33 were in national-level poverty-stricken counties⁴, close to 400 were located in provincial-level poverty-stricken counties. In 2017, 95.8 per cent of Taobao villages pledged to donate a certain percentage of profits to charities, and over 600 million donations were made. Some online merchants also give a certain amount back by mending roads, assisting the elderly and helping the underprivileged. Yet, this is of course always dependent on the good will of the respective merchant. There are, nevertheless, a number of Chinese regions which have benefited from being a Taobao village, at least regarding average numbers. Take Suining County for instance. In 2016, the average annual income in 40 Taobao villages there

reached RMB 16,200, 17 per cent higher than the county average. In the same year, Dinglou Village in Caoxian County, population 1100, boasted more than 240 automobiles, averaging 21.8 automobiles per 100 people, 1.23 times of the provincial average. In 2009, there was no Taobao village in Daji Town of Caoxian County. Most adults migrated to cities for work, leaving children and elderly people behind. In 2013, the first online sellers in Dinglou Village and Zhangzhuang Village started selling costumes on Taobao.com. In 2014, there were already six Taobao villages in Daji Town. In 2015, the town had 16 Taobao villages, with ecommerce pioneer Ren Qingsheng elected Party Secretary in Dinglou Village. In 2016, there were more than 24,000 online merchants in the town, with total sales exceeding RMB 2 billion. There were also close to 20 logistics providers. Thanks to Taobao villages in the town, about 20,000 townsfolk were engaged in online selling and offline production, more than 5,000 villagers came back to start businesses.

The *2017 Research Report of Taobao Villages in China* claims that the average income of Taobao villagers is higher than that of other villagers and that Taobao villages have better living environments. In Taobao villages, there are barely any left-behind children or elderly empty-nesters, relationships between mother-in-laws and daughter-in-laws are better, and crime rates are lower. For example, there are 50 per cent fewer criminal cases in Taobao villages in Heze than the city average. Taobao villagers live and work in peace and contentment. Many issues have been solved because of the economic growth and development of new business formats.

Huang (2016) sums up three approaches to poverty elimination through rural ecommerce. They are either government-driven, platform-driven, or

villager-driven. The government-driven approach is embodied in the prosperity of Tongyu County, Baicheng City, Jilin Province. Tongyu used to be a typical farming county. A national-level poverty-stricken county in a remote area with poor access to transportation, its products had been sold through the traditional distribution channels. At the end of 2013, with the support of the county government and the Chinese Communist Party (CCP) committee, a private ecommerce entity named Clouds and Cranes was founded to sell produce (millet, mung beans, oat, and other products) on Taobao platforms on behalf of local producers (farmers, production bases, cooperatives, agriculture product processors) under the brand name “San Qian He”. To facilitate the development of ecommerce, the county government and party committee set up the Tongyu County Ecommerce Promotion Center staffed by officials from various government agencies. Ten free ecommerce training sessions enrolling 3,000 low-income people and handicapped persons were held to help the latter open online shops and increase income.

Suichang County, Lishui City, Zhejiang Province is a good case in point for the platform-driven approach. The core to the “Suichang Model” is a localized service provider: The Ecommerce Service Center under the Suichang Chamber of E-business. It is engaged in three key activities: integrating available supply, organizing online selling across merchants and centralizing warehousing and delivery. As a result, it is very easy for farmers in Suichang to open an online shop. Both producers and sellers can focus on their strengths without worrying about excellence in other steps of the value chain. Local ecommerce operators gain efficiency and competitiveness (Huang, 2016).

The best example of the villager-driven approach is Shaji Town, Suining County, Jiangsu Province. This town used to be the most backward town in northern Jiangsu Province. The working-age population found jobs in the cities and only children and the elderly stayed. This has changed now, and a lot of young people have returned to their home to start businesses which, so they hope, will make them rich. For example, Dongfeng Village, with fewer than 3,000 people and an area of less than eight square kilometers, achieved an annual ecommerce GMV of RMB 2.6 billion in 2014. Underlying the success of the “Shaji Model” were villagers finding the right products to sell online. These online pioneers, after trials and errors, had their eyes on easily assembled furniture. The demand for such products was huge, entry barriers low, storage and long-distance transportation convenient, and product range extension highly possible. The first three pioneering villagers who believed in “making money together” volunteered to help others start similar businesses. Consequently, ecommerce had taken off in Dongfeng Village since 2009 (Huang, 2016).

However, poverty reduction through ecommerce must not be regarded as a panacea. There are wrong perceptions and pitfalls in practice. The common misperceptions held by local governments are: “selling agricultural products online equals ecommerce equals poverty reduction; maintaining a presence on major ecommerce platform equals rural ecommerce development and ecommerce poverty reduction”. Often, platform service providers and industrial parks are set up blindly and lack verification of the qualification and potential of ecommerce operators. There are also common misperceptions among ecommerce operators:

ecommerce is a way to sell products at dumping prices; ignoring the development of ecommerce talents; growing ecommerce at the cost of society. There are intricate challenges to poverty reduction through ecommerce. Many poverty-stricken areas are located in remote mountains or on plateaus, afflicted with endemic diseases, lacking resources and access to transportation. Consequently, development becomes a daunting task. The poverty-stricken population usually has poor education, low skills, low income and may not be

aware of the means of poverty reduction. Besides, sending children to school, a natural disaster, some misfortune or an illness in the family could easily reduce them to poverty. Consequently, there are often bottlenecks in developing ecommerce in poor rural areas, including logistics bottlenecks, lack of industrial-size production, challenges in commercialization and lack of talent. Not all poverty-stricken rural areas are suitable for engaging in poverty reduction through ecommerce (Huang, 2016).

7. Policy recommendations on reducing the negative impact of Taobao villages on labor

It takes the concerted efforts of the government, platforms and labor organizations to mitigate the drawbacks of informal employment related to Taobao villages.

The current legal framework and social security system in China can hardly apply to people in informal employment. At present, adjustments to informal employment relations are made mainly through policy documents issued by the State Council and its ministries. Since many people in informal employment work outside of the geographic area specified by their household registration, they cannot participate in or benefit from social insurance systems provided for local residents in flexible employment. To address these problems, it is worthwhile to learn from practices in countries of the European Union and some Asian countries. EU countries advocate social partnership in balancing flexible employment with job security, and equal rights for people in informal

employment. To strengthen social protection for people in informal employment, South Korea has promulgated the Law on Informal Workers and developed a five-year comprehensive plan for them. India protects the rights and interests of informal workers through the Factories Act, Employee State Insurance Act, and Equal Remuneration Act (Shi, 2007).

While there are chambers of eBusiness, logistics industry associations and employer associations, informal workers such as those who work for Taobao shops, factories producing for Taobao shops and logistics companies serving Taobao lack formal organizations to address common challenges. The government and platform companies should therefore support the orderly development of such organizations, to work with them to address issues that arise from informal employment, to reduce labor disputes and social risks.

8. Suggestions to other countries interested in developing Taobao villages

Jack Ma, Chairman of Alibaba Group, is an advisor to national governments in Indonesia, Malaysia and Thailand on digital economy development. He has also acquired a controlling interest in Lazada, an ecommerce platform in South East Asia. Jack Ma is developing logistics bases in Malaysia and Thailand and has indicated on multiple occasions his willingness to help young people, SMEs and farmers in South East Asia to gain a better income and prospects through the platform economy. He stressed that the success of Alibaba was the success of an entire ecological chain, and that to nurture such a chain, infrastructure, platforms, product R&D and promotion, financing, and logistics were all indispensable as well as the increase of online shop owners and digital consumers.

Countries like Indonesia enjoy advantages in the number of digital consumers. According to the *2018 Global Digital Economy Index*, middle-to-low-income countries lag behind in all sub-indices of digital economic development, but they take up five places among the top-25 ranking in the sub-

index for digital consumers. These five countries are: China, Brazil, Mexico, Peru, and Indonesia. Middle-to-low-income countries could draw on the positive and negative experiences in China, convert the labor dividend into a digital consumer dividend, and unleash the inequality reducing potential of the digital economy.

But if the negative aspects of Taobao villages can be mitigated, it might not only be an interesting development programme for rural and remote areas in China, but most probably also for other Asian countries. In Indonesia, the government puts a lot of emphasis on reducing the development gap between cities and villages to improve people's welfare and strives to create employment in rural areas. Fostering the growth of ecommerce in rural economies (Villages 4.0 or eVillages) might be one solution to boost job creation and to connect unique local products with urban purchasing power as an economic and employment stimulus package for countries with a distinct rural character and a rural-urban divide.

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Notes

1. Gross Merchandise Volume indicates the total sales value for merchandise sold through a particular marketplace over a certain time frame. [Source: https://en.wikipedia.org/wiki/Gross_merchandise_volume; last checked 2018-10-29]
2. This part is based on Yang, Fei. (2017). Evolution of Ecommerce Players' Strategy – the Cases of Alibaba and JD.com. Master's Thesis, Jilin University.
3. Jack Ma is “马云” in Chinese.
4. Also referred to as key counties for national poverty alleviation work. These counties have a large number of people in poverty and are normally located in remote areas.



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