

# Burgeoning E-commerce in Urban Villages:

## A case study of online shops in Tongcun

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For Video Intro  
<https://youtu.be/QzOmg2r4wx4>

### Abstract

In the past decade, E-commerce has thrived with the popularization of the Internet. From personal computers to smart phones, people in China gradually get used to the presence of online commodities and service that are a click away. Not only has E-commerce changed people's daily life, it also has generated a new urban form. Driven by the low entrance standard and flexible work location of 'Taobao' (a C2C E-commerce company like eBay), e-commerce brings to life a range of burgeoning startup SMEs in urban villages where business cost is low and transportation is convenient. This article does an in-depth case study of the Tongcun village in Guangzhou to explain this special business ecosystem. By giving comprehensive illustrations and conducting a SWOT analysis of the online shops, the article points out the flexibility and resilience of community network. However, the threats faced by e-commerce sound a warning note that city planners should seek to preserve the connection within the e-commerce communities, and e-commerce practitioners should rediscover their positioning in the midst of urban development.

## ● Background Intro

### *The Rising E-commerce in China*

Since the turning of the 21<sup>st</sup> century, China's e-commerce industry has entered a period of fast development as a result of the prevalence of the Internet and China's robust economy.<sup>1</sup> Between 2000 and 2005, major B2B e-commerce companies, such as Taobao and eBay, have grown in leaps and bounds. The trend that China's consumption is breaking out of the limits of investment cycle and embracing a steady growth cycle indicates that consumption rate will be driven up drastically and that consumption will act as a more significant driving force for the economy. Therefore, China's e-commerce is going to become a vital pillar of China's consumer market.

### *The Booming Taobao*

Taobao, which is sponsored by a major B2B company Alibaba, was founded in 2003. Unlike Amazon's B2C (business to customer) model, Taobao adopts a C2C (customer to customer) model.<sup>2</sup> In other words, while Amazon resembles a shopping mall for designer brands, Taobao can be compared to a flea market filled with low-price goods. One of the reasons for Taobao's choice of model is that the small-and-medium-sized industrial cluster is the part and parcel of China's real economy. Another reason is that e-commerce caters to perfectly the consumption demand of the SME industrial cluster in Jiangsu and Zhejiang Area where is exactly Taobao's headquarter is based. The third reason is that SME's ongoing industrial upgrading and restructuring since 2005 is a great opportunity for Taobao to capitalize on the widening industry needs. For

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<sup>1</sup> Liu, Jun. "The Rapid Increase in Consumption Driving Force." *Logistics Technology*, no. 134 (2009).

<sup>2</sup> Liu, Xuan, and Xiangqian Zhang. "Analysis of the Profit Model of Taobao." *Inquiry into Economic Issues*, no. 2012-01 (2012).

those reasons, Taobao set the entry standard very low (shop owner's identification document and security deposit of 5000 RMB) to make it easier for SMEs to sell products on Taobao's platform. This clear and ingenious positioning enables Taobao to harvest from a rising new market where there is hardly any competition. Within a year, Taobao became the leading company in online shopping sector. The SME industrial cluster and Taobao together are the forces behind the burgeoning of a unique village, Tongcun.

### ***Guangzhou's Urbanization and Urban Villages***

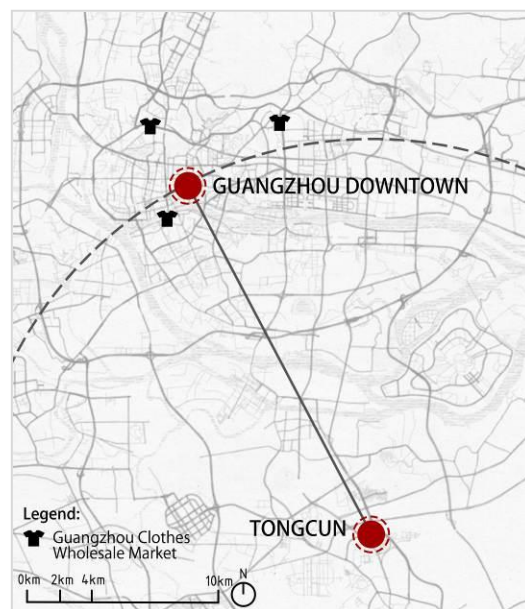
Urban villages are peculiar to China, especially Guangzhou which is at the frontier of the Reform and Opening up.<sup>3</sup> One of the reasons for their formation is that rapid urban development causes cities to encroach on rural farmlands, resulting in a phenomenon of "villages surrounded by cities". The other reason is that villagers' house sites survive this encroachment because Chinese land system protects farmers from losing their houses to capital invasion. Nonetheless, deprived of their farmlands, residents of Guangzhou's 138 urban villages resort to building more houses on their house sites for rent money. Inevitably, houses are too close to one another to get adequate daylight, driving down housing quality. However, the abundance of cheap rental houses not only accommodates hundreds of thousands of workers, but also provides entrepreneurs with office and factory space, laying a good foundation for emerge of Tongcun.

## ● Case study: Online shops development in Tongcun village

### ***Introduction of Tongcun village***

Located in Nancun Town, Panyu District, Guangzhou, Lirentongcun village (referred to as Tongcun in the following passage) has been called Taobao village since it became the home base for a large amount of Taobao online shops. In December 2013, Tongcun was listed as one of the "20 Emerging Taobao villages in China" in the article of the same name, published by Ali Research Center (Alibaba.com). Tongcun, encircled by modern buildings, has truly become an urban village since 1990, as a result of the mass development of residential areas on the south side of the Pearl River in Guangzhou.<sup>4</sup>

Used to be an ordinary housing community where former villagers and low-income people reside, Tongcun now functions as a small industry park of e-economy. When local government reallocated land-use rights in the 1990s, Tongcun started developing a new housing area on top of the former production land which is adjacent to the old village area in similar density.<sup>5</sup> Unlike the irregular and historical pattern of the old area, the new area was planned and constructed in an orthogonal pattern characteristic of high accessibility, where roads are wide enough for middle-size automobiles to drive in. (When refer to Tongcun in the following passage, it mainly refers to the new area if there are no specific explanations saying otherwise.) Adjacent to the Panyu Avenue N., Tongcun has convenient access to the city expressways which facilitate logistics transportation. There is also a bus station



<sup>3</sup> Yao, Yimin, and Jinzhao Tan. "Transformation of Urban Village in Guangzhou." *Planners*, no. 05 (2004).

<sup>4</sup> Yuan, Qifeng, and Cheng Wei. "From "Large Community" to "New Town": Reorganization of "South China Residential Block"" *Journal of Urban and Regional Planning*, no. 02 (2011).

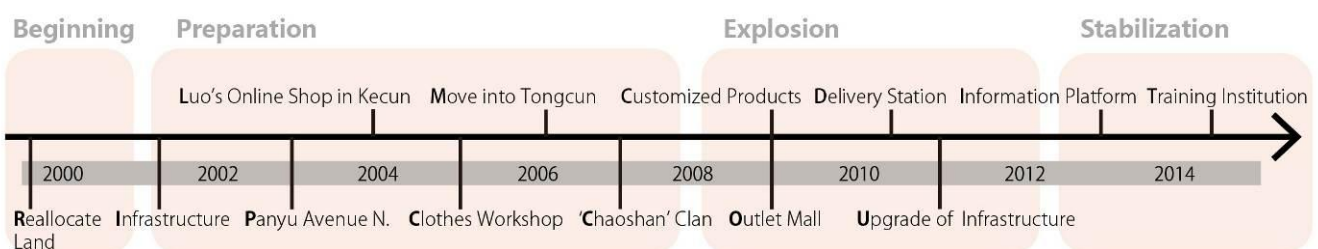
<sup>5</sup> Liu, Xiaopeng. "E-Commerce Talent: Bring Dream of "Internet" Home." *Xinhua News*, November 5, 2015.

near the entrance of Tongcun. Tongcun provides the infrastructure foundation for the development of e-commerce. Due to the lower start-up costs of online shops industry, which basically only requires a low-rent house and convenient transport to start, Tongcun is a suitable place for online shops business to bloom. Covering most of the online shops bases, the new area takes up about 186,180 square meters of ground. The main product that online shops in Tongcun sell is clothing. At the peak, nearly 40 percent of the buildings were occupied with online shops and the likes. Now, due to the sluggish economy, the number of the online shops decreased from 1000 to 500.<sup>6</sup>

### Formation process

The first owner of online shops in Tongcun, Wenbin Luo, used to do traditional clothing wholesaling. After the explosive development of E-economy, Luo took his old business online in 2007. During the first two years, Luo based his online shops in Kecun village which is located in the peripheral downtown area. Once he got his fingers on the regularity of the online shops industry, Luo wanted to expand his business by building a supply chain of his own so that he can create his own brand and earn more money. In order to have enough space of manufacture, Luo moved his old base to Tongcun, which had already had plenty clothing manufactories (more like workshops). After his settled down, Luo kept introducing his relatives and acquaintances to this business model. Like Luo, most of the owners of online shops are originally from Chaoshan, a closely-knit city in east Guangdong. Social networks help spreading the success stories of the village, attracting more people to participate.

Due to the booming business, Tongcun has attracted the part of the population who need a place to stay and a place to do business at low price, which promotes life-related business and infrastructure development such as parking lots. After online shops grow to a certain scale, complementary industries like express delivery, advertising, design and packaging emerged, offering reasonably low prices thanks to scale effect. Some life businesses, including dining business, grocery stores and entertainment business, thrive on the side of streets. The whole industry chain is becoming more and more complete and advanced. Due to the prosperity of the whole industry chain, Tongcun has generated lots of job positions for the rising influx of people. Luo even created a website for posting employment information or stock information and offering training courses for shop owners.



<sup>6</sup> He, Daolan, and Xuyang Li. "Reveal the Secret behind Tongcun." Guangzhou Daily, October 11, 2014.

## Comprehensive Value Chain

The set of the activities that relate to online shops in Tongcun can be described using a comprehensive value chain model. The supply part of the commodity (mostly clothing) is illustrated as the supply chain which partly happens in the village. The demand part of the commodity is illustrated as the demand chain which happens on the Internet. The rest is illustrated as the supplementary chain.

### Supply and Demand chain:

The supply chain consists of raw material suppliers, producers, wholesalers, and online retailers.<sup>7</sup> The source of the raw materials of clothes mainly comes from outside of Guangzhou. As a traditional clothing trade center with a long history and of global as well as nationwide importance, Guangzhou provides Tongcun with ample clothing. In the downtown area of Guangzhou locate three major clothing wholesale malls, where wholesalers sell both raw materials and commodities to producers

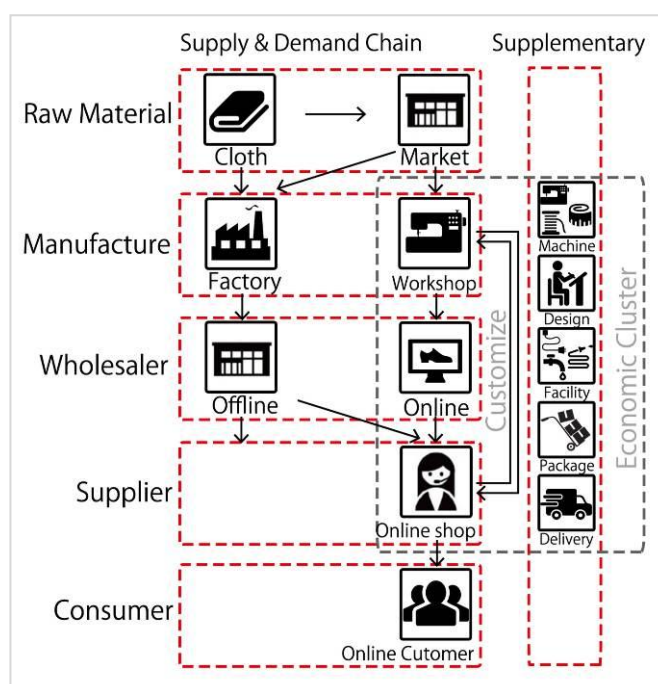
There are two kinds of producers: the big manufactories and the small workshops. They have different profit model. Big manufactories do streamline production of large quantity but usually in rigid style and of low quality. They also have a high productivity and high MOQ. As a contrast, small workshops produce goods of flexible designs in small amount but they have lower MOQ. Tongcun has a number of small workshops. Usually an online shop starts its business by picking some popular designs of manufactory's products and adds its own label on it to sell. After fostering its steady customer source, the online shops begin to roll out its own brand which may present certain clothing style of certain quality to cater to its customers. Concerning the risks, the shops cannot sell too many kinds of commodity, because they

have to be custom-made in workshops. Some shops owners even have their own workshops in Tongcun. However, they are the minority. Most of the shops purchase goods from wholesalers. Some go to real world wholesalers in the mall mentioned before. Others go to online wholesalers who sell goods made from manufactories online. The delivery service, which is undertaken by express stations based in Tongcun, is commissioned by online shops to deliver goods directly to customers' doors.

The demand chain consists of customer service, online customers, and feedback & customization. As the link between the supply chain and the demand chain, online shops provide customer service and delivery service. The online customers order goods from online shops and send their feedback to the shops. The shops will look into customer's preferences and customize specific goods to cater to them. Cooperating with the local workshops allows them to quickly respond to new fashion trend and consequently target a specific customer group.

### Supplementary chain:

Related chain consists of three parts. The first part is workshop supplementary business, including design studios, raw material producers (cloth, zipper, and button), and clothes-making machine producers.



<sup>7</sup> Zhang, Tianbing. "Deloitte: Seven Trend of Supply Chain in China." April 9, 2015. <http://www.aliresearch.com/blog/article/detail/id/20363.html>.



The second one is express delivery supplementary business, including package producers and automobile service. The third is online shops supplementary business, including office supplies, website design studios, network service and advertisement studios. There are also two kinds of advanced industries: E-economy training institutions which train skillful workers, teach up-to-date approaches to opening online shops, and act as information exchange platforms for the exchange of inventory information and recruit information.

Life business, including canteens, entertainment facilities (lottery, billiard rooms, card rooms, and bars), grocery stores, kindergartens, pharmacies, salons, hardware producers, and burglar mesh producers, serves not only E-commerce practitioners but also the whole village.

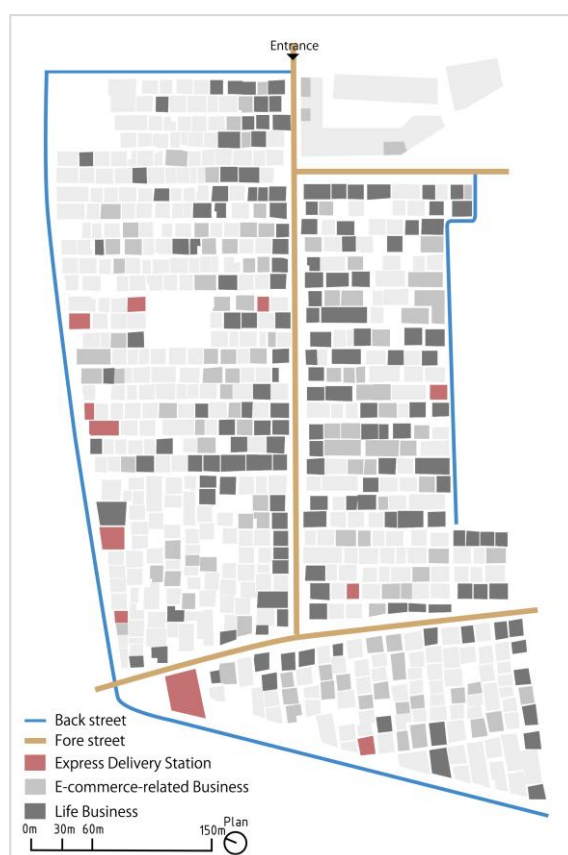
### **Daily Routine**

The existence and development of online shops related industries by and large change the daily functions of Tongcun which used to be of accommodation function. The inhabitants' daily routines gave way to e-commerce work routines. In the morning, few people are at work because almost no customers shop online at this time. Later into the day, as online shopping activities become frequent, online shops' employees and delivery people start working. Most online shops have their daily delivery personnel go to the express delivery station at around 6 p.m. every day, and most delivery stations have their daily ship-outs at around 9 p.m. After a day of hard work, nighttime is when activities like exercise, night snacks, and entertainment happen. Some restaurants and entertainment business even mainly open in nighttime.

### **Spatial analyze**

Space usage is very flexible in urban villages.<sup>8</sup> Function and space exist in a dynamic balance. It is usually the case that one online shop takes up one single building in the village but sometimes shares it with other business. One main characteristic of the space use is unification of vocational space and residential space. The particular routines of online shops require a diverse and flexible use of space. The staff or the family live and work in different sectors of the same building. Different parts takes up different sectors of the building according to their need. For instance, customer service sector takes up the living room on the upper floor because it needs room for office equipment. Warehouse is on the first floor since in that way goods can be easily carried in and out. The living space is on the upper floors where they have access to more sunshine, are away from noises and also of low commercial value.

Another characteristic of the space use is the readjusted land distribution of industrial space in the village. Since the whole value chain cannot be condensed into one single building, the main part of the supply chain



<sup>8</sup> Chen, Yang, Yun Li, and Xun Li. "Close and Open: Spatial Analyse of Urban Village—a Case Study of Chebeicun." *Urban Problems*, no. 07 (2007).

and the supplementary chain are scattered based on the principle of streamline arrangement and land use value. The main streets in the village are divided into two segments. The fore streets that connect directly to the entrance of Tongcun are home to most of the life business because of its location. The back streets host most of the express delivery stations because they offer convenient transportation and have fewer pedestrians. E-commerce-related business are located in the middle segment between the above two. So do the online shops which usually share the buildings with the former and take up the upper floors.

## ● SWOT Analysis of the Case

### ***Strength Analysis***

#### ***Strength of Community network***

Mainly consisting of Chaoshan people<sup>9</sup>, the community of online shops owners builds up a close-knit network of cooperation, which is based on the compatriot connection and working relationship.<sup>10</sup> There are three embodiments of this community network. Firstly, the community shares information of online business and the village's status quo. Being the vital motivation of the industry's formation, the exchange of information in the community keeps bringing new workers and investors into the village. In addition, some online shops are willing to share inventory information, which can increase the diversity of goods and reduce the risk of inventory surplus. Secondly, the compatriot emotions make them have more faith in one another and consequently be more likely to work together. For they usually start with small-scale businesses, online shops do not require many staff. A number of online shops start as family businesses. When these online shops expand, they prefer to recruit relatives or fellow-townsmen from home. Thirdly, because of the tradition of sharing, the process of adaptation is highly compressed. People from the same origin, which is usually the case, are more likely to fit in. The main language used among shop owners is Chaoshan dialect, instead of Cantonese which is spoken by native villagers. To cater to the large amount of Chaoshan people, 40% of the canteens mainly serve Chaoshan cuisine. In return, Chaoshan canteens are more likely to survive because of the large customer base.

#### ***Strength of Agglomerate economy***

Agglomerate economy enlarges benefits that firms obtain by locating near one another, which is related to economies of scale and network effects.<sup>11</sup> As more firms in related fields of business cluster together, their costs of production may decline significantly. Gathering online shops and related industry, Tongcun, which can be referred to as localization economies, has three benefits brought about by the Agglomeration economy.

The first benefit is labor market pooling. Large groups of laborers enter the area and are trained to become skilled staff or shops owners. The laborers and shop owners exchange knowledge, skills, and information. The labor market pooling also matches labors to labors, labors to shops, shops to shops, which help them find suitable positions. According to our survey, the flows among industries are very common. The canteen owners and workshop owners can take their businesses online together, which ends up being mutually accessible. Due to the economy of scale, job-hunting and job-hopping become easy and common in Tongcun.

The second benefit is the accessibility to specialized goods and services which are just for the clustering business. Agglomerate economy enables the market to react quickly to the new demands of customers. Not

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<sup>9</sup> Chen, Youyi. "Effect of Geographical Factors on Chaoshan Traditional Culture." *Journal of Shantou University*, no. 04 (2002).

<sup>10</sup> Song, Yueping, and Teng Ma. "Influence of Fellow Association to the Income of Rural Migrant Workers." *Journal of Renmin University of China*, no. 02 (2015).

<sup>11</sup> O'Flaherty, Brendan. *City Economics*. Cambridge, Massachusetts. London, England. Harvard University Press (2005).

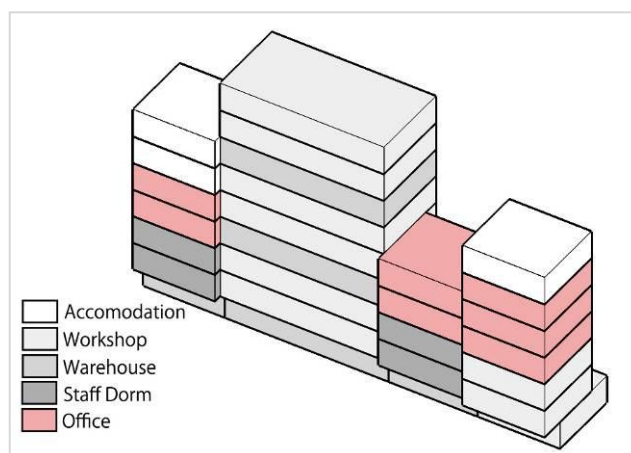
until the online shops in Tongcun reach a certain scale did the supplementary industries appear due to the proximity to available sources needed for production, facilitating the supply chain. It is especially the case in the express delivery companies whose service stations total 14 in this small village. The delivery service of delivery companies is expected to attract more customers by providing convenient service while reducing the cost of transportation. The competition among the delivery companies leads to lower delivery price which further benefits online shops. Shared infrastructure construction, like roads, electricity, and the Internet cables, can be efficiently built. Downstream services like skill training institutions and job information platforms are possible to establish because of the sufficient labor force provided by the scale of agglomeration.

The third benefit is the knowledge spillovers.<sup>12</sup> Clusters in specific fields lead to quicker spread and adoption of ideas as well as the wide spreading of knowledge and skills. In addition, experience exchanging among shops disperses explicit knowledge, including sources of commodities and approaches to entering the supplementary industries and so on. But most knowledge in running online shops is tacit knowledge that cannot be easily told, like marketing knowledge and service skills. For example, in order to sell more clothes and make more money out of it, shops need feasible access to capital market. One solution is to try to gain a group of loyal customers by targeting a specific group of customers. To create a positive feedback loop, shop owners read comments about their commodities and then customize specific products to cater to the consumers. The skills of concluding consumer's preference from online comments and feedbacks cannot be easily taught because they require comprehensive assessment and judgment ability. It is also the case when it comes to online customer service and market stimulation skills. Through the exchange of knowledge within and between shops, it is more easily for them to keep themselves updated in the village.

It is usually the case that when companies in the same cluster compete with each other, vicious competition often causes damages.<sup>13</sup> However, the case of online shops in Tongcun is superior to other cases in that when it comes to online shopping, information of commodity is more transparent, leading to less need for competition. Shops do not need to compete with shops in the same region because all the commercial activities are operated online.<sup>14</sup> Traffic congestion is also not likely to happen in Tongcun, because due to streamline division the express companies have very regular pattern of shipping by automobile, which basically makes Tongcun a walkable village.

### ***Strength of Mixed-use space***

The mixed-use space reflects the dynamic demand of the industry chain, which is applicable to the small scale of production in Tongcun. Though the living quality is less than satisfactory, the conjunction of the multiple functions largely saves time and space. According to a survey from Yangcheng Evening News, the average length of commute route of Guangzhou residents is 15.16 kilometers, and the average time consumed is 46 minutes. Because online shops' staffs live in a SOHO mode (small office & home office), they promote the efficiency of the business by saving commute time and cost. Moreover, supplementary industries in spatial proximity also provide efficiency and convenience by saving time and reducing



<sup>12</sup> Brueckner, Jan. "Lectures in Urban Economics." The MIT Press (2011).

<sup>13</sup> Liu, Yong. "Study on Corporation's Circular Economy Behavior of Manufacturing Agglomerate Region." China Population Resources & Environment, 2009.

<sup>14</sup> Zhang, Zuowei. "Competitiveness of Industrial Cluster of E-commerce." Journal of Ningbo University, no. 03 (2015).

transportation cost.

Meanwhile, the characteristic of mixed-use space also enhances the flexibility of resource distribution, which may very likely lead to better market arrangement. Mainly controlled by rent prices, every floor of the buildings in Tongcun is susceptible to the influence of the capital market. Due to the industrial mode of online shops, commercial functions can be easily spread to the housing sector, allowing more freedom in the leasing market. Under this mode, the distribution of space is more easily to approach the ideal rent curve where all sectors are controlled by people's ability to pay rent based on market principles.

## **Weakness Analysis**

### ***Passive cooperation from the local community***

Not expecting the appearance of e-commerce in Tongcun, the local community set aside the new area to build a residential area. As a result, they were mainly concerned about security, sanitation, and transportation. During the period of rapid rise of e-commerce, the local community tried to evade the responsibility of upgrading the infrastructure, which has already met the residential need. The original villagers, as the owners of the buildings, do not care who the renters are as long as they pay their rent on time. Since the rent alone can cover the living expenses of a common villager's entire family, those villagers do not show much interest in joining the e-commerce business. Furthermore, due to difference in daily routines between businesspeople and residents, some of the native villagers' interest conflict with that of online shops.

### ***Limits of further development***

For some outsiders who are unfamiliar with the traditional business of clothing and lacking in social network, to survive in the capital market is hard. Usually, the beginning stage of an online shop is fragile. Except for the starting fund and facilities, some of the shop owners also have to hedge against the risks of market investment failure. Because of lacking of credits, most of these shops went out of business after investment stop flowing in. There are almost no credits or related policies when it comes to online business. However, I came across a lot of advertisements for underground banks in Tongcun, providing illegal aids to shop owners and in turn proving that there is need for such banks.

In Tongcun, online shops that sell clothes usually start by replicating styles of other shops' clothing. After purchasing identical clothes of certain popular brands produced by manufactories or workshops, the shops tag them with their own brand and then sale. Such plagiarism of intellectual property greatly reduces the risks of choosing the wrong styles or the cost of designs. Though helpful at the beginning, this practice will not help business move to a more advanced stage where shops are required to develop their own brand if they want to promote sales by expanding brand impact.<sup>15</sup> Besides the brand promotion, upgraded clothing shops cannot always depend their production on small workshops in the village. They should go to professional manufactories instead. In order to develop their brand design team and continually produce large amount of clothing, large-scale and production-qualified space is imperative, but that is something that Tongcun cannot provide. Most of the online shops leave the village once they grow into professional clothing companies.

## **Opportunity Analysis**

### ***Brand upgrade***

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<sup>15</sup> AliResearch. "20years Expasion of E-commerce: Revolution and Transformation." AliResearch. February 26, 2015. <http://www.aliresearch.com/blog/article/detail/id/20217.html>.



As consumers become more and more rational with online shopping, they call for better shopping experience as well as information symmetry in commodities' quality, price of commodities and customer service. Pursuing high price-quality ratio, customers' demand is the top concern in a good market environment where information is transparent. Under this circumstance, shop owners have to promote its brand reputation to ensure their foothold in the market. In 2013, in order to encourage brand upgrading, Taobao opened a sector for original 'Tao' brands, which set entering limit for qualified small business to come in. This move mended, to a great degree, the small shops' image of being counterfeiters and changed the common attitude towards small brands for the better. Consumers of low purchasing power are very willing to purchase commodities from 'Tao' brand sector. In Tongcun, online shops were given direct access to workshops and design studios to promote brand-building. However, the resources village-wide cannot meet the demand of building 'Tao' brands. It is a great opportunity for bigger shops to cooperate with companies outside in order to build their brand image.

### ***Industrial transformation***

Due to knowledge spillover effect, some shop owners like Luo discovered the new field of e-commerce's downstream industries, like skill training institutions and information platforms for jobs and inventory. According to Smiling Curve theory<sup>16</sup>, the upstream and the downstream of the value chain have more potentials to create extra value. Owing to the large number of online shops that are still expanding, it is of potential prospect to invest in the service business of online shops. Listed among the top Taobao villages, Tongcun has the most mature industrial foundation, which means it can offer downstream service in larger context. Recently, Luo also put efforts in expanding his service from region-wide to citywide, from one type of commodity to various categories.

## ***Threat Analysis***

### ***Market condition threat***

In order to avoid the situation where shops disrupt market fairness, including practices of copying images from other shops, selling counterfeit, fabricating customers' comments, and tarnishing other shops' reputation, Alibaba has been perfecting its regulations for a while. Startups that do not meet the requirements will be washed out. For example, one of the vital rules is the sequence of the search results, which can, by and large, influence the sales volume of the shops. Choosing different priority, customers can get different results searching the same keyword.<sup>17</sup> In 2011, the most chosen search priority was sales volume. So, the common strategy of less popular shops is to create several best-selling commodities which will raise the total sales volume to a large extent. In 2009, there was an option for customers to see the results of prioritizing reputation. Due to this rule, lots of the relatively small shops fabricated good comments by buying their own commodities and giving good comments. This shift in market rules benefits the customers, but inflicts a fatal blow to startup shops opened by ordinary people.

Online shops of Taobao, represent the trend of common civilians' entrepreneurship. However, being amateurs, most of them cannot compete with big shops, especially for newcomers to the world of business. Forbidden from exploiting online regulations for their benefit, most small shops can hardly stay open. In 2012, Alibaba opened a new branch firm called Tmall, which promised customers high quality commodities and superb service. The entrance threshold for opening shops in Tmall is relatively high for small online shops. Since lots of consumers want to buy qualified goods, Tmall has gained big market share from Taobao,

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<sup>16</sup> Lv, Naiji, and Xia Lan. "Interpretation of Smiling Curve Theory." *Journal of Southeast University (Philosophy and Social Science)*, no. 03 (2010).

<sup>17</sup> Liu, Xiaoning, and Zhijie Gai. "B2C E-commerce Standardized Development: From the Sight of 2012 Taobao New Rule." *Journal of Chifeng University (Natural Science Edition)*, no. 04 (2012).

damaging the profit of Taobao's shops.

### ***Rising rental cost***

As owners of the buildings, native villagers are mainly concerned about how to maximize their profits by charging higher rent, no matter who the renters are. At the beginning, online shops chose Tongcun to settle in mainly for the reason that its rent is comparatively low and that the traffic is convenient due to its proximity to urban area. However, development of surrounding areas recently increased the land value. Large outlet malls and massive residential areas also increased the demand for additional housing to accommodate the incoming laborers employed in the service industry. Also, the improved living environment makes people more willing to live in Tongcun where they can have access to urban convenience but don't have to pay for an urban apartment that they usually cannot afford. As a result, the online shop owners are struggling with the area's rising housing demand. The rent increases with the rising housing demand to the price that some of the newly opened shops cannot afford. After weighing the profits against the cost, they quit.

## ● Further Study

### ***Comparison with Taobao village in rural areas***

Other than Taobao villages in urban villages like Tongcun, e-commerce has spread to rural areas nationwide.<sup>18</sup> Through the circulation of products and productivity, e-commerce has bridged the gap between cities and villages. With smart phones and computers becoming more and more common in rural areas, villages can produce products and jobs offline by meeting the online market's demand. At the same time, the popularization of urban technical goods also alleviates the disparity of informational asymmetry between cities and villages. E-commerce simplifies the process of human movement in geographic space and redistributes the capital and resource. Specialized express delivery service has drastically expanded the service range of cities.

Although rural areas provide extremely low rent and cheap work force, it is irrational for urban e-commerce like Tongcun to move to rural areas. The main difference between industries in urban areas and in rural area lies in their commodities. The main products in urban areas are manufactured with relatively high technical content, while in rural areas they are agricultural products or handicrafts. Besides, Taobao villages in urban areas also benefit from having access to technology and intellectual laborers. Only with the help of urban resources can E-commerce thrive in selling goods of high added values, especially in a time when both urban and rural Taobao villages are searching for downstream industrial upgrade, like cultural tourism, to stimulate consumption from diverse aspects.

### ***Thoughts on E-commerce park***

China is seeing a trend of entrepreneurship, in which E-commerce enables large number of the people of various starting points to start their own businesses. Since traditional commerce is greatly disrupted by E-commerce, capital and resources of traditional investment are expected to flow into E-commerce industry. In NPC and CPPCC sessions of 2015, Premier Li Keqiang announced the guiding policy of "Internet Plus", encouraging the combination of E-commerce with every possible industry. E-commerce Parks are created according to government's wishes. They are planned to provide industrial space which is a vital factor of production for E-commerce industry.

However, I think we should be aware of the market principles before hastily carry out large scale

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<sup>18</sup> Tan, Leyi, and Liwei Tan. "Taobao Village Enlighten the Rural Development in China." China State Finance, no. 20 (2014).

construction. We should avoid aimless construction and infeasible positioning which happened in the case of the cultural and creative industry where top-down policies facilitate the establishment of industrial parks all over the country<sup>19</sup>, but overdevelopment leads to the prevalence of copying, the dispersion of resources, ultimately causing the industry to wither.<sup>20</sup> The construction of E-commerce parks should be under the control of market, with as less government interference as possible. I suggest that we put more efforts into the institutional improvement of giving favorable policies and entrepreneur resources so that it is easier for entrepreneurs to develop and make decisions as they see fit. In this way, we can facilitate the development of the industry and at the same time avoid overdeveloping. Meanwhile, we should support the diversity of consumption behavior, and strike a balance between E-commerce and traditional commerce. We shouldn't let traditional retailers suffer too heavy a blow.

### ***Proper guidance for development***

From the viewpoint of urban planning, I think it is relatively easy for one to carry out a construction project in China where government has enough money to foot the bill for a building or infrastructure project of low price. However, it is more important to consider the big picture of sustainable development. Fewer errors are allowed when it comes to urban construction. To build an economically-sound and spontaneously-formed system within the E-commerce industry requires policymakers to hear the voices of entrepreneurs and make comprehensive plans. The most valuable lesson from Tongcun's case is the importance of having a community that is a mature social network of online economic system. Fostering a community takes years and it is the most challenging task of governmental projects. However, changing market situation and urban conditions necessitate the change of the model of E-commerce in urban villages. As its surroundings grow more urbanized, places like Tongcun cannot capitalize on its initial advantages for long. In the future, business might have to be moved to rural areas or more suburban areas. These changes are hard to predict due to the difference in shop owner's goals, nonetheless. Therefore, to ensure the sustainability of the Taobao economy in Tongcun, our top priority should be protecting the social and economic network of Tongcun through better institutional designs during the transformation period.

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<sup>20</sup> Liu, Shaoyin, ed. "Enlightenment of the Creative Industries." *Town Development* 310, no. 310.

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