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2008

China

Web Trends

Summary

China had a big year in 2008. Not only was it the host of the long awaited Beijing Summer Olympics; it also was the year China surpassed the United States on key web fronts. By a large margin the country now has the world's largest number of users online and highest number of broadband connections.

The Chinese telecom market is the largest in the world, and several new 3G networks were licensed and switched on this year, giving a large swath of that market higher data transmission speeds. The mobile sector is still expanding at 18%+ going into 2008.

Much is at stake in China, which has grown rapidly from a developing country to an economic powerhouse. According to a U.S.-China Business Council survey, 83 of the 100 U.S. firms responding were profitable last year in China. The country is not currently the biggest Asian market for online business, but it clearly has the most promise. A new middle class is emerging, and the country has experienced double digit growth in disposable income in urban areas. With only 19% of China's population online, the country's high web growth is likely to continue.

iResearch, a Chinese market research firm, estimated that China's e-commerce market will be worth \$6.5 billion by 2007, nearly a six-fold increase over 2004. China currently ranks number one worldwide in e-commerce for clothing and accessories. According to Access Markets International (AMI), small Chinese businesses are largely responsible for the projected 46% rise in e-commerce this year. Spending has mainly focused on services like Internet connections, online shopping and online games, but continues to expand incrementally towards higher cost products.

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China's online businesses previously heavily copied ideas from more developed markets, however, entrepreneurs are increasingly introducing non-derivative innovations. Although controversial actions by the Chinese government in respect to Internet companies such as Google, Yahoo! and Microsoft are problematic, overall, red tape hampering business has dissolved in most industries except banking and insurance. Jimmy Hexter, head of McKinsey's Beijing office, says finding and retaining talent topped concerns over government barriers for the first time this year.

As increasing numbers of Chinese go online, the real boom is likely to come in online advertising as China presently accounts for a slim 1.8% of total Internet market spending. This presents a window of opportunity to enter the market while cost and competition are both low. Total ad spending in China leapt to \$31 billion this year, in part due to the Olympics. Projections are that this wave of marketing is not a one-off event, but firms will continue to capitalize on their initial campaigns.

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Statistics

Population	<u>1.3 billion (2008)</u>
Urban Population	<u>530.7 million (2005)</u>
	<u>607.2 million (2010)</u>
Chinese Speakers in the U.S.	<u>1.7 million</u>
Chinese-Americans	<u>2.9 million (2000)</u>
Mandarin Speakers (primary/native speakers)	<u>882 million</u>
Mandarin Speakers (secondary/non-native speakers)	<u>178 million</u>
Cantonese Speakers Outside China	<u>66 million</u>
Number of Internet Users	<u>253 million (2008) 19% pop.</u>
Internet User Growth	<u>1,024.4% (2000-2008)</u>
Home Internet Connections	<u>84.7 million (2008)</u>
Mobile Phone Subscribers	<u>500 million (2008)</u>
Number of 3G Users	<u>22.7 million (2006)</u>
	<u>106.1 million (2008)</u>
Users Accessing Internet with Mobile Devices	<u>44 million (2007)</u>
Number of Domains	<u>157.2 million (2008)</u>
Number of Blogs	<u>47 million (2007)</u>

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Top 10 Highest Traffic Sites (2007)

- 1) Baidu
- 2) QQ
- 3) Sina
- 4) Sohu
- 5) 163
- 6) Taobao
- 7) Yahoo China
- 8) Google China
- 9) Google US
- 10) Tom

Top 3 Search Engines (2007)

- 1) Baidu
- 2) Google China
- 3) Yahoo China

Gross Domestic Product (GDP)	<u>\$3.251 trillion (2007)</u>
Total Ad Spending	<u>\$61.36 billion (2007)</u>
Online Ad Spending	<u>\$5.9 billion (2007)</u>
Mobile Ad Spending	<u>\$14.6 billion (2007)</u>
Income Per Capita	<u>\$31,610 (2007)</u>
Disposable Income Per Capita	<u>\$1,182 (2008)</u>
Growth in Disposable Income	<u>14.4% (2008)</u>
Average Annual Amount Spent Online Per User	<u>\$35.5 billion (2006)</u>
Retail E-commerce	<u>\$85.5 billion (2008)</u>

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Summary



A long-standing pioneer in mobile technology, the Asian region has matured into a dominant force in the growing online economy. This voracious rise has been fueled by the dropping cost of web access and extensive new infrastructure investments. An increased focus on web strategies by Asian businesses has also sparked a wave of native startups capable of taking on and beating giants such as Google.

China, Japan and Korea have all experienced rapid increases in broadband connectivity and the number of Internet users. Key trend indicators only point upwards as Asia's Internet penetration rates still average only 15% compared to 30% in the rest of the world. These three countries also collectively represent the largest mobile phone subscriber base in the world, mirroring their break-neck growth in desktop-based Internet usage.



Economists have highlighted that more people online does not automatically translate to Asian users following the online habits of their Western counterparts. As businesses' reliance on online revenue climbs, user experience, localization and cross-cultural branding become increasingly critical for growth and success.

Engaging non-English speaking audiences not only reaches target country audiences, but also taps the large pools of immigrants and expatriates abroad. The business opportunities stemming from that are most apparent in the United

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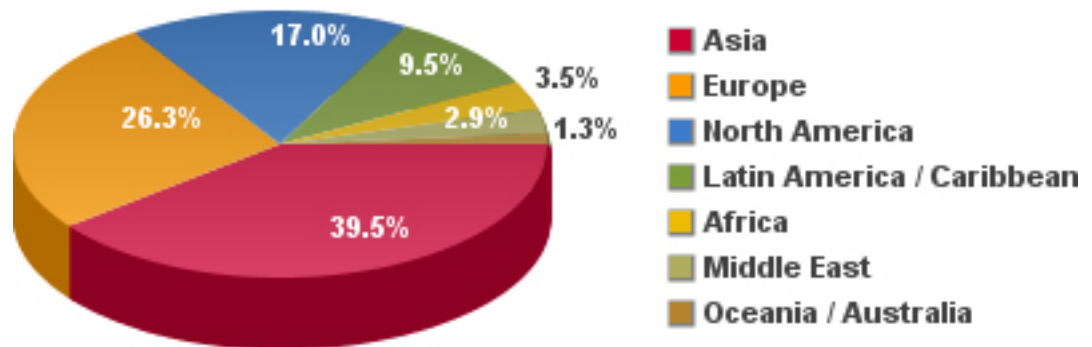
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ASIA OVERVIEW

States. According to the most recent census, Asian-Americans have a lower median age and higher median income compared against the total U.S. population.

Asia has a healthy online business environment that still has underdeveloped niche audience markets. Grabbing even small slices of this massive pie translates into lucrative sources for both traffic and revenue. Japan is the biggest market in the region with annual online sales averaging \$38.4 billion, making it more than 1/3 the size of the US market. Second is South Korea with sales of \$6.3 billion, followed by China and Taiwan tied for third, each with about \$1.1 billion.

World Internet Users by World Regions



Source: Internet World Stats - www.internetworldstats.com/stats.htm
1,463,632,361 Internet users for June 30, 2008
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ASIA OVERVIEW

Statistics

Estimated Population	<u>3.8 billion (2008)</u>
Number of Internet Users	<u>529.7 million (2008)</u>
Internet Penetration	<u>15.3% (2008)</u>
Broadband Internet Connections	<u>105.8 million (2007)</u>

Top Countries by Internet Users

<i>Country</i>	<i>Number of Users</i>	<i>% Growth (2000-2008)</i>
1) China	253 million	1,024.4%
2) USA	220.1 million	130.9%
3) Japan	94 million	99.7%
4) India	60 million	1,100%
5) Germany	52.5 million	118.9%
6) Brazil	50 million	900%
7) UK	41.8 million	171.5%
8) France	36.2 million	325.3%
9) South Korea	34.8 million	82.9%
10) Italy	34.7 million	162.9%

Number of Broadband Subscribers (2007)

<i>Country</i>	<i>Broadband Subscribers</i>	<i>% of Country's Internet Users</i>
1) United States	66,213,257	21.9 %
2) China	48,500,000	3.7 %
3) Japan	27,152,349	21.1 %
4) Germany	17,472,000	21.2 %
5) South Korea	14,042,728	27.4 %

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Number of Domains (2008)

1) 1,428,582,349	United States
2) 238,248,010	United Kingdom
3) 157,202,978	China
4) 147,679,910	Japan
5) 103,896,733	Germany
6) 80,689,620	France
7) 73,727,193	Canada
8) 64,361,101	South Korea
9) 40,817,650	Netherlands
10) 39,699,241	Italy

Top 10 Internet Languages

- 1) English
- 2) Chinese**
- 3) Spanish
- 4) Japanese**
- 5) French
- 6) German
- 7) Arabic
- 8) Portuguese
- 9) Korean**
- 10) Italian

Countries by Percentage of Users Shopping Online

- 1) South Korea (99%)**
- 2) UK (97%)
- 3) Germany (97%)
- 4) Japan (97%)**
- 5) US (94%)

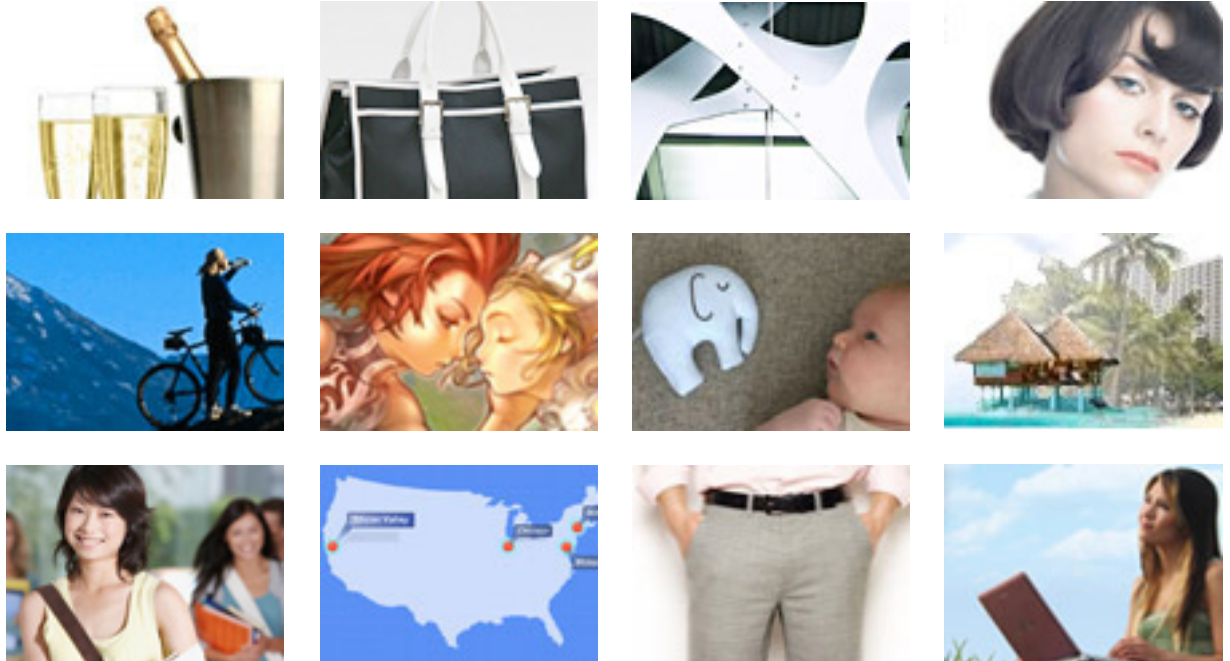
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btrax White Papers About Us

btrax is a global web strategy and creative agency based in San Francisco. Our team members have backgrounds working for Google, Sony Entertainment, Fujitsu, Oracle, MIT and the United Nations. All of btrax's staff are bi-lingual or tri-lingual to ensure culturally relevant and practical business advice. Our native Japanese, Chinese and Korean professionals can provide comprehensive Asian consultation.

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