

# **FINAL REPORT**

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## **Joint Study “Trilateral Cooperation on E-Commerce”**

**2019**



Trilateral Cooperation Secretariat

The Joint Study “Trilateral Cooperation on E-Commerce” was launched upon a request of the 6<sup>th</sup> Trilateral Summit (2015, Seoul) and the 11<sup>th</sup> Trilateral Economic and Trade Ministers Meeting (2016, Tokyo). The research was conducted by the China Academy of Information and Communications Technology (CAICT), Japan External Trade Organization (JETRO), and Korea Institute for International Economic Policy (KIEP) under the management and coordination of the Trilateral Cooperation Secretariat (TCS). The Outcome Report of the Joint Study was reviewed by the Ministry of Commerce of the People’s Republic of China (MOFCOM), the Ministry of Economy, Trade, and Industry of Japan (METI), and the Ministry of Trade, Industry, and Energy of the Republic of Korea (MOTIE).

This Final Report is the executive summary of the Outcome Report.

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# Trilateral Cooperation “Joint Study on E-Commerce”

## Executive Summary

December, 2019

### 1. Introduction

The importance of electronic commerce (hereafter “e-commerce”) in the global economy is rapidly growing, with its market size expanding at a considerable pace. The People’s Republic of China (China), Japan, and the Republic of Korea (Korea) have also experienced a remarkable increase in e-commerce transactions. China is the world’s largest e-commerce market in terms of B2C sales, and Japan and Korea are ranked four and six, respectively (UNCTAD 2017). Cross-border e-commerce trade is increasing in the three countries as well. According to the Ministry of Economy, Trade, and Industry of Japan (METI), online trade between China and Japan is expected to reach about 2,544.2 billion Japanese Yen (JPY) in 2022, increased 1.6 times more than the 2018 level. The Korea Customs Service stated that China and Japan is Korea’s largest and the second largest e-commerce export markets in 2018, respectively, accounting for 32.8% and 31.5% of total B2C e-commerce exports (3.25 billion USD).

Despite the huge potential of this new economic sector, differences in standards and regulations for e-commerce between the countries and barriers that hinder smooth transactions have been major constraints to a freer movement of goods and services through e-commerce. In this regard, the Ministry of Commerce of China (MOFCOM), METI, and the Ministry of Trade, Industry, and Energy of Korea (MOTIE) agreed to launch a joint study on e-commerce at the 11<sup>th</sup> Trilateral Economic and Trade Ministers’ Meeting in October 2016 in Tokyo, Japan.

The Joint Study “Trilateral Cooperation on E-Commerce” (hereafter, “Joint Study”) among the three countries was managed and coordinated by the Trilateral Cooperation Secretariat (TCS) in collaboration with the three governments (MOFCOM, METI, MOTIE) and the three research institutes designated by each country: the China Academy of Information and Communications

Technology (CAICT), the Japan External Trade Organization (JETRO), and the Korea Institute for International Economic Policy (KIEP).

The goal of this Joint Study is to conduct basic research designed to grasp the current status and characteristics of domestic and cross-border e-commerce activities in China, Japan, and Korea in order to identify priorities for future trilateral cooperation. In the long term, trilateral cooperation on e-commerce will be aimed at creating a virtuous cycle in the three economies. The Joint Study will make an initial cooperative step for seeking further trilateral cooperation. It will contribute to promoting the development of e-commerce and benefiting all peoples of the three countries.

This Outcome Report of the Joint Study examines each country's current domestic and cross-border e-commerce status, analyzes the economic impacts of e-commerce on each CJK economy and of trilateral cooperation on e-commerce, selects some elements of e-commerce including consumer protection and security, e-payment and delivery and data flow, and provides recommendations for trilateral cooperation on e-commerce.

## **2. China's Research**

Now the global e-commerce industry is displaying new trends, such as a gradually smaller regional gap between different countries and regions; more frequent mergers and acquisitions and more industry concentration; enhanced e-commerce guidance and regulatory framework; the active promotion of legislative convergence and rule unification by international organizations; and the increasingly mobile-based, scene-oriented, and intelligent nature of e-commerce.

China has been the largest online retail market in the world since 2013. In 2018, e-commerce transactions in China increased by 8.5% and reached 31.63 trillion Chinese yuan (CNY), while online retail sales increased by 23.9% and reached 9 trillion CNY. E-commerce also encouraged entrepreneurship and created new jobs. In 2018, over 47 million people were directly or indirectly employed by the e-commerce sector in China. The cross-border e-commerce industry also increased significantly in market size and transaction volume, also promotes the development of e-commerce in countries along the Belt and Road.

E-commerce has impacted the Chinese economy through some dimensions: the law and policy, the macro economy, and the consumption, investment, and employment perspective. In January 2019, the E-Commerce Law came into force, providing legal standards and policy support for the healthy and orderly development of e-commerce industry. E-commerce is accelerating the innovation and development of digital products and technologies, which promotes economic structural optimization. Many Chinese and foreign institutes, experts, and scholars have also analyzed the impact of e-commerce on China's economy.

China also highlighted the following three key elements with potential implications for trilateral cooperation on e-commerce: consumer protection and security, e-payment and delivery, and data flow. In China, the E-Commerce Law and the Consumer Protection Law have strengthened consumer protection in e-commerce. E-payment provides access to a wide range of digital financial services, have expanded financial inclusion, and have increased economic opportunities in China and other countries. The express delivery industry in China has expanded significantly in the past few years. China also introduced a regulatory and legal framework for e-payment and express delivery. As for data flow, an increasing number of countries are restricting cross-border data flow according to their laws, and that data flow cannot be completely unrestricted due to legitimate public policy concerns has become a consensus. In China, the Cyber Security Law and other laws and regulations improve personal information protection and network security.

Based on the above analysis, the three key recommendations are as follows: 1) **to promote public-private dialogue among the CJK**, issues of common interest could be identified through dialogue channeled into the relevant policy discussions. 2) **To strengthen capacity-building among the CJK**, exchanges among research institutions, universities, and enterprises, and professional talent cultivation in CJK countries should be encouraged and supported. 3) **To enhance exchange with International Organizations**, such as UNIDO, WTO, UNCTAD and ITC.

### **3. Japan's Research**

The market size of business-to-consumer (B2C) e-commerce in Japan has nearly doubled in the past six years, with the total size of the sales, services, and digital sectors reaching 17,984.5

billion Japanese yen (JPY) in 2018. The B2B e-commerce market size and penetration rate have also shown a steady increase since 2012, reaching 34,423 billion JPY and 30.2%, respectively, in 2018. While the share of Japanese consumers who have used cross-border e-commerce remains significantly lower than in China and the US, the expectations of business operators for this sales channel are on the rise.

Among overseas buyers of Japanese e-commerce firms, China is the top buyer in almost all industries. Some survey respondents noted challenges regarding custom procedures and import restrictions on food that limit export opportunities for Japanese companies.

The existence of well-established leading e-commerce platforms has also restricted market entry for new business operators, particularly small and medium-sized enterprises due to high admission fees and sales commissions. The current circumstances imply the necessity of developing global supply chains and establishing a global data flow in order to further develop cross-border e-commerce among CJK nations.

As the most common settlement method for B2C e-commerce is credit card payment, ensuring information security has also become a key element in a reliable settlement system. The Council on Security Measures for Credit Card Transactions has announced action plans that include initiatives targeting credit card companies and industry organizations.

The quality of logistics services is also a critical determinant of the reputation of e-commerce business operators. As the volume of B2C e-commerce is expected to expand, more discussion involving both public and private sectors is necessary in order to implement the measures required to deal with the growing social concerns about the heavy burden on delivery service operators.

The basis for rules on future digital trading advocated by Japan have been adopted in several outcome documents of the G7 Summit and G20 Digital Ministers Summit: these include the 1) promotion of free flow of information; 2) opposition to data localization requirements; and 3) prohibition of requests for access to and transfers of source code. Japan also proposed that TPP's key principles including free data flow should be the basis of future's digital trade rule at the WTO meeting held in 2016.

Based on the above outcomes, the study proposes the following policy recommendations:

- **Establishment of a public–private dialogue including research institutions and universities:** Continuous dialogue and information sharing on new e-commerce business models, technologies and regulatory changes can reduce costs incurred due to unexpected changes in law and thus enhance the e-commerce business environment.
- **Enhancement of high-speed and free Internet:** Fundamental infrastructure can maximize the potential of e-commerce, thus providing better utilities and better serving both consumers and business operators.

#### 4. Korea's Research

Korea has the third-largest e-commerce market in Asia. Korea's B2B e-commerce accounts for 91% of the total, and its B2C e-commerce is growing even faster. The B2C e-commerce market expanded from 10 trillion to 100 trillion Korean won (KRW) between early 2000 and 2018. Korea served 205 markets with 2,511 products in 2017 and in 2018 and has experienced a trade surplus in cross-border B2C e-commerce since the fourth quarter of 2015. The volume of exports through e-commerce exploded from 2014 to 2018, while the median price of exported products decreased from 75.0 USD in 2015 to 42.0 USD in 2018.

Korea examined the potential economic effects of trilateral cooperation on e-commerce. The model used to provide a quantitative assessment of the effects of the trilateral cooperation on e-commerce was a Global Trade Analysis Project modeling framework of the Computable General Equilibrium model. The result shows that China's GDP and welfare are expected to grow by 0.01 to 0.02% and 714.9 to 1,434.5 million USD, respectively. Japan's GDP and welfare are expected to increase by 0.02 to 0.03% and 759.5 to 1524.3 million USD, respectively. Korea's GDP should increase by 0.05 to 0.1% and its welfare by 536.6 to 1,076.2 million USD through trilateral cooperation on e-commerce.

Despite the rise of the digital economy, various factors impede cross-border e-commerce activities among the three countries. The study identified three key issues that need to be discussed in order to smooth cross-border e-commerce activity: consumer protection and security, e-payment and delivery, and freer data flow. The three countries have established laws related to domestic consumer protection and e-commerce activity. However, there are differences in their histories and laws related to consumer dispute resolution and e-commerce.

China and Japan have developed different payment systems, as their consumption patterns and financial conditions differ from Korea's. The three countries also are currently revising their legislation on personal information protection and information transfer between borders. However, differences remain between the three countries.

Based on the above outcomes, the study suggests **forming official public-private dialogue** after the Trilateral Project and developing specific guidelines; actively **participating in regional and multilateral fora** to stimulate the growth of e-commerce in a cooperative manner and share information; and encouraging **cooperation in research and training activities** and encouraging **business exchanges**, especially among SMEs.

## **5. Conclusion**

The Joint Study suggests that this first cooperative attempt among China, Japan, and Korea in the area of e-commerce illustrates the important role of e-commerce as a new engine for economic growth in East Asia. It gives a holistic picture of recent e-commerce market developments in the three countries, analyzes the economic effects of trilateral cooperation on e-commerce, selects some elements including consumer protection and security, e-payment and delivery, and data flow required for understanding the issues and finding solutions for future common efforts, and provides recommendations for trilateral cooperation on e-commerce. The development of e-commerce will provide new economic value to all three countries, such as more jobs; a bigger market for suppliers; an accelerated development of related business such as online platforms, e-payment and delivery; a free movement of goods and services; more start-ups; and a better trade infrastructure.

China suggests that issues of common interest could be identified through dialogue channeled into the relevant policy discussions to promote public-private dialogue among the three countries; exchanges among research institutions, universities, and enterprises and professional talent cultivation in the three countries should be encouraged and supported to strengthen capacity-building among the CJK; and exchanges with International Organizations such as UNIDO, WTO, UNCTAD and ITC should be enhanced.

Japan suggests the establishment of a public-private dialogue including research institutions and universities. Continuous dialogue and information sharing on new e-commerce business

models, technologies and regulatory changes can reduce costs incurred due to unexpected changes in law and thus enhance the e-commerce business environment. Japan also proposes the enhancement of high-speed and free internet. Fundamental infrastructure can maximize the potential of e-commerce, thus providing better utilities and better serving both consumers and business operators.

Korea suggests forming official public-private dialogue after the Trilateral Project and developing specific guidelines; actively participating in regional and multilateral fora to stimulate the growth of e-commerce in a cooperative manner and share information; and encouraging cooperation in research and training activities and encouraging business exchanges, especially among SMEs.

From the suggestions from each research institute, the Joint Study recommends to establish a Public-Private Dialogue for the Trilateral Cooperation on E-Commerce among CJK public and private sectors. It also proposes for the three Economic and Trade Ministries to be reported of the results of the Public-Private Dialogue.