

# ***The Development Trend and Policy Support of Cross-border E-commerce in China***

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**Abstract:** Due to the advanced technology of the 21st century, online shopping has been fully integrated into the daily life of human beings. China and the world are setting off a new trendy way of shopping: cross-border e-commerce. Since 2011, China has taken the lead in concluding transactions between trading entities in different country geographies using e-commerce, ordering online, paying, and settling. China's cross-border e-commerce can be divided into business-to-business (B2B) and business-to-consumer (B2C) trade models in terms of transaction modes. This paper is mainly based on the present Chinese cross-border e-commerce policy, using quotes, data analysis, and case studies to predict future developments and make policy recommendations.

**Keywords:** cross-border e-commerce, development trend, policy analysis, policy recommendation

## **1. Introduction**

Cross-border e-commerce (from now on referred to as CBEC) refers to a new way of foreign trade in which merchants from different countries conduct transactions and settlements through online platforms to realize cross-border retail transactions [1]. In recent years, due to the development of the digital economy and the impact of the COVID-19 pandemic, online shopping has accelerated worldwide. China's CBEC is also booming. With a CAGR (Compound Annual Growth Rate) of 16.2% in the past five years [2], it has become an essential mainstay for the development of foreign trade. On the one hand, China's CBEC regulatory policies are constantly improving, and the pilot zones are increasing rapidly. The business demonstrates the industry has entered a stage of standardized development. On the other hand, digital technologies represented by artificial intelligence and blockchain have fully penetrated all links of CBEC, ushering in new opportunities for developing CBEC. Since 2021, investment in CBEC has been increasing, with the number of annual investment cases and the amount of investment raised by 133.3 and 192 percentage points compared with 2020, respectively [2].

However, in the future, the uncertainty of global trade and the homogenization enterprises. Under this circumstance, policies must guide enterprises to compete healthily and enhance their brand influence. Establishing policies and norms, as well as regulations on the degree of openness, is an essential basis for the development of CBEC. For instance, *the Outline of the 14th Five-Year Plan*

*and 2035 Vision for National Economic and Social Development of the People's Republic of China* encourages the construction of overseas warehouses, which provides a solid guarantee for China's CBEC to cope with global trade turbulence [3].

This paper systematically summarizes the current and existing problems of CBEC in China and analyzes its development trend through data analysis and case analysis. We aim to put forward policy suggestions that may promote the development of CBEC in the long term.

## **2. Literature Review**

### **2.1. Development and Policy Status of CBEC**

As a novel trade model, CBEC has been famous since the epidemic and post-epidemic era; it's very prevalent and has a high degree of practical strength. The significant improvement of the status of China's CBEC has benefited significantly from the support of policies. Without the government's promotion and protection, the program will not take off in other countries. In essence, CBEC is an essential manifestation of economic globalization. China initially established a relatively sophisticated policy system covering all CBEC industrial ecological chain links [4]. Xu mentions that the number of comprehensive pilot zones for CBEC has increased from 59 to 105 in the last five years, and pilot projects for business-to-business (B2B) export have been launched. These are the support and understanding for this project [5].

Furthermore, the Chinese government also gives sufficient attention to small and medium-sized companies, namely the micro-economic subjects, who constitute the foundation of the retail industry in CBEC [6]. For instance, the small and medium-sized CBEC companies in Xiamen have received financial and political support from the local government in buying raw materials and recruiting labor [7]. Public policies are indispensable in ensuring the continuous development of CBEC, no matter the scale of CBEC enterprises.

Moreover, there are also many policies regarding B2B export. B2B means business to business and refers to a form of trade in which domestic companies deliver goods to overseas enterprises or warehouses through cross-border logistics and complete transactions through CBEC platforms. Chen, Qiu, et al. [8] suggest that the Customs clearance policy has the most direct impact on the development of B2B export. Customs clearance policy, including the supervision of import and export goods during customs clearance, operation time, and customs declaration form filling.

### **2.2. Specific Cases of CBEC**

In Su's survey of the Hangzhou CBEC Comprehensive Pilot Zone, we notice that the tax exemption policy makes more CBEC enterprises willing to pay taxes through formal channels and methods [9]. This policy also gives enterprises tax incentives, which reduces the cost they need to bear for export. What's more, the procedure stimulates the transformation of traditional retail enterprises. It improves its brand influence by selling products abroad, giving full play to the leading role of the experimental area.

### **2.3. Policy Deficiencies and Prospects**

On the other hand, due to the complexity of cross-border trade, China's e-commerce still faces challenges, such as an unstable external environment, frequent trade wars, inadequate logistics facilities, lack of innovation, and so on [10]. In response to these challenges, the Chinese government should strengthen its support for constructing a cross-border logistics system and actively formulate international trade rules to create a favorable environment for CBEC. Appropriate policies can help

foster competitive advantages of CBEC and promote the high-quality development of a nation's foreign trade.

We review the relevant literature on the evolution of CBEC policies, focusing on policy commonalities and deficiencies. We will comprehensively analyze policy documents issued by national departments at all levels in the past five years regarding taxation, customs clearance, payment, and support services. From the aspects of improving the institutional system and encouraging new business forms, we hope to put forward practical policy suggestions for CBEC.

### **3. Research Method**

In our research paper, we focus on quantitative research. This way, we collect and analyze numerical data, which we can use to find patterns and averages. We also make predictions based on the previous research data and generalize results to broader populations. We want to collect and express data from different perspectives, then classify and statistically process the data. For example, we want to know how many people are engaged in CBEC, their companies' average revenue, and the comparison between the income of CBEC and domestic e-commerce. Furthermore, we need the processed data to demonstrate the future vision of CBEC.

Nevertheless, we can also use our collected data to analyze the government's future public policies. We hope to understand and make suggestions on general guidelines, which may be conducive to the better development of CBEC. According to the data, CBEC has increased the employment rate and given more people the opportunity to work, which drives economic growth. The whole purpose of using quantitative research is because we know that data needs to be accurate. By summarizing and collating the data, we can better analyze the future trend of CBEC.

### **4. Research Contents**

#### **4.1. Concept Definition**

First, the concept of CBEC can be divided into broad and narrow. CBEC refers to cross-border import and export trade activities in which transactions belonging to different customs territories reach through e-commerce. In a little sense, CBEC specifically refers to cross-border online retail, a new form of international trade with the development of the Internet. Furthermore, according to the types of interaction, the main modes of CBEC can be divided into B2B, B2C, C2C, and other styles, among which B2C and C2C are oriented to the final consumers. Regarding business entities, CBEC can be divided into platform, self-run, and hybrid types.

This paper will comprehensively analyze the development and supporting policies of CBEC in China under the generalized concept of CBEC.

#### **4.2. Development of CBEC**

First, we believe that the development of CBEC in China has roughly experienced three stages: In the first stage, CBEC started in China at the end of the 20th century, and the earliest B2B platforms appeared, represented by Alibaba and Made in China. These CBEC platforms provide essential services such as commodity display and intermediary services for Chinese enterprises.

In the second stage, with the improvement of the cross-border payment and logistics system, China's cross-border e-retail export (B2C/C2C) to individual overseas consumers flourished around 2008. The development of cross-border e-retail has led to significant changes in international trade. Many Chinese small and medium-sized enterprises have begun directly and profoundly participating in international trade.

In the third stage, China made regulatory system innovation on CBEC retail import in 2014. Many CBEC retail import platforms and enterprises were born, including Tmall Global, NetEase Kaola, Xiaohongshu, etc. Many of them are favored by capital. The whole industry ushered in explosive growth in 2015. Since 2016, Alibaba Group has proposed to establish the Electronic World Trade Platform (eWTP) to adapt to the current trend of the rapid development of the Internet economy, promote the growth of inclusive trade and data economy, and create new rules for global trade in the Internet age. By January 2022, the total financing amount of China's CBEC industry exceeded 7.36 billion yuan [11].

### 4.3. Supporting Policies of CBEC

As for the relevant policies of CBEC, in our opinion, the international community has two different views on CBEC, which reflects the trade protection policy or trade liberalization adopted by relevant countries. The first is to regard CBEC as an essential form of international trade in the future, conform to the trend of the Internet economy, give active support and carry out policy innovation. The main supervision ideas are to simplify customs inspection and tax procedures and increase the amount of tax exemption. The second is to regard CBEC retail as a new type of "improper" trade, blaming its negative impact on general business, tax evasion, poor product quality, and other problems.

In recent years, the Chinese government has attached great importance to the development of CBEC, which is regarded as a new engine for China's economic growth in the new era, a new form of industrial transformation, and a new window for opening up to the outside world.

In July 2014, the General Administration of Customs announced decision No.57 to add the Customs supervision code "1210", the full name of "Bonded Cross-border Trade E-commerce", referred to as "Bonded E-commerce" [12]. The introduction of this policy promotes the birth of the CBEC bonded mode, a significant innovation of the CBEC supervision mode in China. Furthermore, 18 customs clearance policies for CBEC were published by the National Development and Reform Commission, the General Administration of Customs, the Ministry of Commerce, and the State Council from January 2020 to June 2021. These new policies aim to expand CBEC import and export goods, shorten the customs clearance time, solve export tax rebates and support the development of CBEC companies. Through these new policies, the transportation time of B2B export is shortened, and the risks are reduced, ultimately benefiting consumers by making their shopping easier and faster.

### 4.4. CBEC Under the COVID-19

In the early days of the COVID-19 outbreak, global trade almost halted. There were no channels to transport goods from country to country, and governments have experienced recessions. The CBEC industry also suffered a setback. To restore economic development and international trade, China has made many changes to support the policy of CBEC.

China has put forward a new economic pattern called "double circulation" that can fully use the advantages of both domestic and international markets and resources. Supporting policies for "double circulation" patterns provide various services for CBEC operations, including online logistics, after-sales service, global logistics credit system, and dispute settlement. Also, the government will further improve the cross-border payment system, strengthen the construction of cross-border payment infrastructure and establish a sophisticated cross-border supervision system [13]. These policies will effectively enhance the stability and sustainable development capacity of the CBEC industry during the COVID-19 period.

The Chinese government continues to improve its policies and institutions. It initially established a "systematic and all-around" CBEC supervision system, which has created a good foundation for

developing CBEC in China. However, as a new form of business, CBEC still needs the Chinese government to constantly improve policy design and promote the industry's sound development.

## 5. Case Analysis

Until now, CBEC companies have been allowed to set up specialized logistics companies. The benefit lies in rapid information management and response to customer needs. It can build an iCloud storage terminal similar to Apple mobile phones, develop better modules, and better meet customers' needs. According to our survey, Marine companies are global in product coverage, supporting merchants to expand their business in multiple countries. These include independent research and development areas: international order collection, worldwide payment, and intelligent risk assessment. Long-term and Alipay, MasterCard, American Express, and other payment methods that support more than 500 payment products, covering more than 200 countries and regions, fully achieving the coverage of the world's cross-border companies.

Another example is the CBEC in Chongqing, China. Chongqing's CBEC, payment, logistics, and warehousing, three main categories of enterprises, has exceeded 300, including Taobao, Jingdong, and other well-known Chinese e-commerce. Chongqing is one of the cities with the most substantial economic development in southwest China, which is worth exploring in terms of consumer structure, age, income, and other features. Yuzhong District, one of the leading CBECs in Chongqing, has seen explosive growth in CBEC platforms [1].

Chongqing's CBEC boom mainly benefits from the following points. First, Chongqing has a logistics advantage. The opening of the "Chong Qing-Xin Jiang- Europe" international railway links Chongqing more closely with the European countries along the route, making Chongqing the forefront of European and Western countries' opening-up. The "Chongqing-Xinjiang-Europe" railway starts from Chongqing and travels to Kazakhstan, Russia, Belarus, and Poland before arriving in Duisburg, Germany. It can effectively shorten logistics and transportation costs and increase commercial communication between countries.

Furthermore, in August 2012, Chongqing was approved as one of the first national e-commerce pilot cities in the CBEC service pilot project [1]. Chongqing has built a government-led service platform of "zero approval and zero charges," which integrates enterprise information, orders, payments, and logistics. This policy reduces enterprise costs and attracts many CBEC companies to settle in Chongqing. With the support of policies, Chongqing CBEC has rapidly increased transaction volume in recent years.

## 6. Deficiencies of the Policy

Although CBEC has been widely popular, many businesses are still complaining or responding to the situation that CBEC is challenging to survive, a large part of which is still caused by the imperfect logistics system. Another reason is that the commission fee of the CBEC platform is too high. This reason is that although there are many air routes or sea transportation lines, there are still cases where goods are lost or need to be declared. As a result, CBEC platform merchants have low profits and consume time. An ordinary piece of clothing may not be able to make ends meet due to high commission fees.

## 7. Policy Recommendations

To attract more countries to use CBEC platforms to buy goods, we need to make efforts in all aspects, increasing GDP per capita, increasing the employment population, and reducing the unemployment rate. Suggestions for the progress of CBEC are as follows:



1. Enrich the content and system of CBEC. Improve the variety of CBEC products, and enrich the products sold through the trade opportunities between countries.

2. Further improve the logistics system of CBEC at the national level. Express deliveries from China to other countries still must go through transfer stations. We mean that the expression must be sent from all parts of China to a centralized place before being uniformly sent abroad. Not only consumes a lot of time and increases the insecurity of express delivery and the possibility of losing items. We should cultivate more national express logistics, improve property management systems' distribution, and increase overseas warehouses' storage.

3. Improve platform subsidies for CBEC at the national and provincial levels. The publicity of CBEC is significant. The major platforms should launch advertising models, which not only require businesses to have sensitive advertising ability but also need to spend a lot of money. The state should increase the platform advertising fee, which can effectively mobilize the participation of enterprises, and the enthusiasm for CBEC and reduce business pressure. Finally, more enterprises will join CBEC and start their businesses.

4. Finally, the government can tax incentives to CBEC enterprises within the appropriate scope. The business can reduce the corporate income tax and value-added tax for small and micro enterprises. Additional tax relief can be given to e-commerce businesses in poor areas to promote poverty alleviation through e-commerce. In 2019, the Chinese government's official website announced the new tax reform policy [14]. It launched a batch of designated and universal tax exemption policies for small and micro enterprises. The tax reduction amounted to 200 billion yuan annually, lasting for three years. The proactive fiscal approach of cutting taxes and fees is the most direct, fair, and effective way to resist the downward pressure on the economy, as well as an excellent way to ease the survival pressure on enterprises.

## 8. Conclusion

In this paper, we first discuss the definition of CBEC and put forward three stages of CBEC development. China is in the third stage, with the prosperity of CBEC and the improvement of relevant laws and regulations. In general, China has chosen policies based on trade liberalization and the principle of helping CBEC companies develop healthily. It attaches significant importance to CBEC in driving economic development, actively carries out policy innovation, and provides preferential treatment and support in taxation, logistics, pilot zones, and other aspects. However, the COVID-19 pandemic has hindered cross-border trade in recent years. China has put forward a new pattern of a "double circular" economy in the face of a downturn in the real economy, encouraging domestic businesses to export in the form of e-commerce, explore overseas markets and build Chinese brands. In addition, through the analysis of specific cases, we explain what policies are needed to develop CBEC. However, CBEC cannot thrive without continued policy support. We put forward several policy recommendations on effectively addressing the challenges faced by CBEC enterprises, such as volatile overseas environments, trade barriers, and high logistics costs. First of all, CBEC should be encouraged to enrich the variety of goods, enhance the competitiveness of enterprises, and occupy more market shares to ensure relatively stable development. Secondly, the government should improve the logistics system, establish more efficient distribution lines nationwide with logistics enterprises, and provide financial support for businesses to develop storage warehouses overseas. Finally, the government can offer modest tax incentives or subsidies to CBEC enterprises. Tax and fee cuts will reduce enterprises' production and operation costs and allow them to invest more capital in technological upgrading, capacity upgrading, and reproduction. At the same time, it can improve their innovation ability and enhance their core competitiveness.

In conclusion, we hope that by analyzing the current situation and summarizing the supporting policies of CBEC through this paper, we can put forward practical policy recommendations for the government and promote the development of this rising industry.

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Ren and Zhang contributed equally to this work and should be considered co-first authors.

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