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International Trade and E-commerce

The McKinsey Global Institute estimates that e-commerce accounts for 12% of global trade of physical goods, both business-to-business (B2B) and business-to-consumer (B2C or retail) sales. The U.S. International Trade Commission reports global e-commerce totaled over $27 trillion in 2016, with B2B comprising over 85% of that total. Other studies show 1.8 billion people globally purchased goods online in 2018, and 57% of online buyers purchase from foreign sellers. Nevertheless, certain foreign trade policies, infrastructure inconsistencies, and the lack of globally-enforceable rules potentially hinder further e-commerce growth both globally and within U.S. borders.

E-commerce allows customers to research and purchase goods without leaving their home or office, increasing access and convenience. Through online sales, businesses are able to scale efficiently and reach customers in new markets both domestically and abroad, especially small and mid-sized enterprises (SMEs). Some online purchases replace what may have been traditional (e.g., in-store) purchases, while other purchases are new sales. McKinsey estimates that global e-commerce could add $1.3-$2.1 trillion in international trade by 2030, boosting trade in manufactured goods by 6-10%.

SMEs and e-commerce platforms

- Amazon reports over 1 million U.S. SME sellers.
- Paypal shows 79% of U.S. SMEs on PayPal export.
- Facebook says 6.75% U.S. SMEs on the platform export; above the national average of 4.33%.
- Etsy asserts over one-third of sales on its SME e-commerce platform are international.
- eBay reports 97% of eBay-enabled SMEs export.

E-commerce platforms provide a way for SMEs to grow by reaching customers across the country and the world. Platforms offer online services to match shoppers to suppliers, facilitate ordering, accept payments, and coordinate the physical logistics and delivery of goods. Many of these platforms and online marketplaces are household names in the United States such as Amazon, Facebook, eBay or Etsy; others are specialized for niche markets, such as a specific industry. Competition from foreign platforms is growing.

The German research firm Statista expects Asia to be the largest e-commerce market in 2019, making it attractive to U.S. firms; by 2023, retail e-commerce in Asia is predicted to exceed that of the rest of the world. Chinese retail e-commerce alone is expected to grow 70% from 2018 to 2023, compared to 45% U.S. growth over the same time period (see **Figure 1**). While Amazon hosts over two million third-party sellers, China's Alibaba platform hosts over ten million. Similarly, PayPal is the most widely accepted digital payment method for North American sellers, but is dwarfed by Alibaba's Alipay, which has more than three times the number of users.

Potential barriers to growth

The U.S. Trade Representative's annual report on trade barriers highlights various policy restrictions on e-commerce. Trade barriers, poor infrastructure, and discriminatory trade practices to international e-commerce may occur at different points in the process, limiting businesses' ability to sell or customers' ability to purchase online or receive goods. Because e-commerce of goods involves the online and offline worlds, trade barriers span both spheres. Examples include:

Market Access: Investment restrictions in e-commerce website ownership, or limits on the ability for platforms to operate, impede market access. Similarly, limits or constraints on what goods a firm may sell or technical regulations on how it must label specific products (e.g., medicines) may vary by jurisdiction.

Example: India prohibits foreign investment in B2C e-commerce marketplaces and limits what items foreign-owned B2B platforms can offer. Indonesia limits foreign investment in e-commerce sites and a draft regulation would require prioritizing Indonesian products online.

Localization: Impediments include requiring firms to have a physical presence, local internet domain name, or local representative in a country, and add costs to online selling to customers abroad.

Example: Indonesia's draft regulation would require online merchants, platforms, and intermediaries to register with the government. Vietnam's proposed regulation would require online platforms using a ".vn" domain to register and be certified locally.

Data Localization: Restricting the flow of data beyond a country's borders may limit what websites and platforms are available, how they can operate, and also what goods and services, such as online payments or shipment tracking, can be offered online. Consumer privacy rules may restrict how e-commerce firms can process customer data, often limiting companies from sending the data across borders.

Example: Algeria requires e-commerce operators to register and use local data centers. China broadly restricts cross-border data transfer. The EU imposes extensive data protection requirements for all entities that process or offer goods or services online to individuals in the EU.

E-payments: Limiting access to electronic payment services, such as credit cards, restricts how buyers are able to purchase and finance goods.

Example: Turkey requires electronic payment services to store data in Turkey and India also imposes a domestic storage mandate. Israel allows consumers to decline to pay for merchandise for which the individual did not physically sign. U.S firms selling in the South Korean online market cannot accept payment through local Korean-branded credit cards.

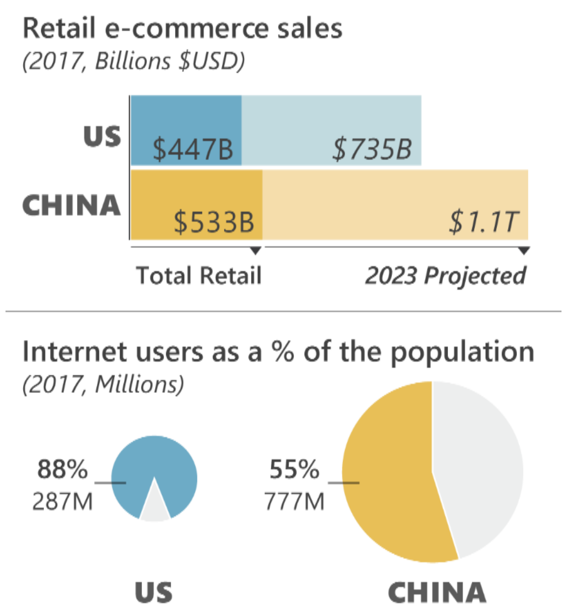
Tariffs, Duties, and Digital Taxes: Tariffs or customs duties on international shipments, raise prices for customers as do taxes on online purchases, though the latter may apply to both domestic and foreign purchases. Some countries establish a *de minimis* level below which duties do not apply; Congress set the U.S. *de minimis* at $800.

Example: Some countries set a low *de minimis*, effectively broadening the scope of traded products subject to duties (e.g., Canada's *de minimis* is $15). Argentina imposes an extra tax on online purchases of foreign products that are delivered through the official postal system. France has a proposed digital tax on intermediation and advertising services, including online marketplaces.

Trade Facilitation: Inefficient customs procedures or delayed clearance of goods, especially for express or perishable deliveries, may deter buyers and sellers. Shipments valued below a *de minimis* level may be eligible for less stringent customs procedures. The newest multilateral trade agreement, the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), aims to improve trade facilitation globally (see below).

Example: According to U.S. express delivery firms, China applies overly burdensome rules, such as inspections, for domestic package delivery.

Figure 1. The U.S. and China Digital Trade Markets



Source: U.N. Population Statistics, Statista.com, Internetworldstats.com.

Trade Rules

Existing multilateral trade rules cover some issues related to e-commerce but are not comprehensive and are generally viewed as outdated. Some more recent free trade agreements (FTAs) include more robust e-commerce commitments, but are limited to a select number of countries. There is no single set of global rules or disciplines that govern many key e-commerce issues. For example:

WTO. WTO rules include obligations on nondiscrimination and transparency that apply to e-commerce transactions. WTO members have agreed to a temporary moratorium on customs duties on e-commerce. The WTO Information Technology Agreement, with 54 WTO members including the United States, eliminates tariffs on many information technology products that underlie e-commerce.

*TFA***.** The TFA aims to reduce trade costs by streamlining, modernizing, and speeding up customs processes for cross border trade. By increasing transparency and eliminating or reducing inefficiencies at the border, the TFA facilitates and lowers the cost of cross border e-commerce.

*E-commerce Plurilateral***.** A group of more than 70 WTO members, including the United States, are negotiating a plurilateral agreement on e-commerce. The parties are discussing the scope of the potential agreement; some seek a limited agreement focused on customs duties and further trade facilitation, but others, including the United States, seek a broader digital trade agreement to address barriers and discriminatory practices such as data localization. Though developed and developing countries, including China, are participating, some WTO members, such as India, have opted out.

U.S. FTAs: Since the Singapore FTA in 2003, U.S. FTAs have included an e-commerce chapter, containing provisions such as nondiscrimination, prohibition of customs duties, transparency, and consumer protection, and have evolved to prohibit limits on cross-border data flows. The proposed United States-Mexico-Canada Agreement (USMCA) contains a digital trade chapter that sets new rules and advances U.S. objectives such as requiring privacy and consumer protection legal frameworks. USMCA chapters on customs administration and trade facilitation and on cross border trade in services also address e-commerce.

Congressional Interest

As Congress considers addressing e-commerce, it may consider a number of issues, including the following:

- What are the U.S. priorities for the WTO plurilateral negotiations that will address digital trade barriers? How can the United States ensure the agreement sets high standards when countries such as China seek a more limited agreement?
- Does the proposed USMCA sufficiently facilitate e-commerce trade in North America? Should its provisions be used as a template for future U.S. FTAs?
- Are countries complying with the obligations of the WTO TFA? Is the United States fulfilling its commitments to trade assistance and capacity building for developing countries, as required in the agreement?
- How can the U.S. government best support SMEs seeking to grow through e-commerce exports?

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