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Updated July 23, 2020

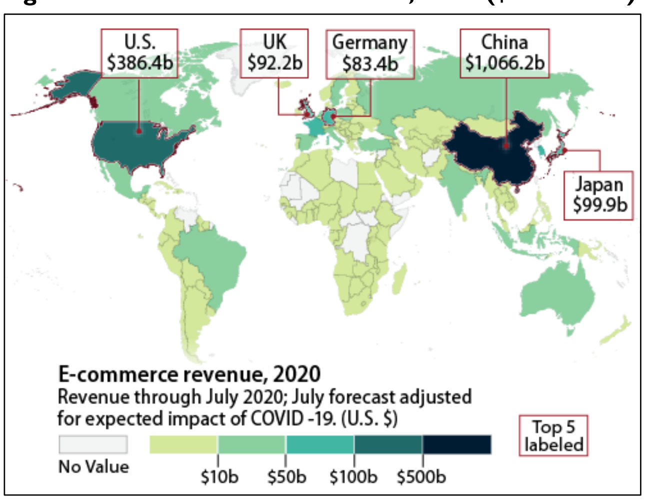
International Trade and E-commerce

Overview

U.S. retail e-commerce sales are forecasted to grow to $599 billion in 2024, up 64% from $365 billion in 2019, according to the research firm Statista. The U.S. share of global retail e-sales is projected to decline from 10% to 9% over the same time period. In 2018, 1.8 billion people globally purchased goods online. 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. Nevertheless, certain foreign trade policies, infrastructure inconsistencies, and the lack of globally enforceable rules potentially hinder further e-commerce growth.

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. One study shows the U.S. B2B e-commerce market is one of the largest and most mature, representing 12% of B2B global sales in 2018. 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%.

Figure 1. Global Revenue Forecast, 2020 ($ in billions)



Source: Statista.com, July 13, 2020.

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 specialize in niche markets. Competition from foreign platforms is growing.

China has the largest market (see **Figure 1**), with gross merchandise value of e-commerce sales expected to grow by 11.2% from 2019 to 2024, faster than the expected 6.6% U.S. growth over the same time period. Different platforms dominate each market. In 2019, Alibaba's Taobao dwarfed Amazon, with the former having gross merchandise revenue of $538 billion, compared to Amazon's $339 billion. PayPal is the most widely accepted digital payment method for North American sellers, with cross-border transactions accounting for 18% of its 2019 payments. In China, Alibaba's Alipay is the preferred payment method. Although a higher portion of Chinese internet users purchase online, 34% of U.S. online shoppers made cross-border purchases, while only 7% of Chinese did.

Potential Barriers to Growth

The U.S. Trade Representative's annual *National Trade Estimate Report on Foreign Trade Barriers* highlights various policy restrictions on e-commerce in other countries. 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 in 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 business-to-consumer (or "inventory-based") e-commerce.

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. Algeria requires e-commerce operators to register and use local data centers.

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: 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. Draft e-commerce legislation in India would require certain data be stored domestically and other data processed only in India.

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. U.S. firms selling in the South Korean online market cannot accept payment through local Korean-branded credit cards. Tunisians generally cannot open foreign currency bank accounts, limiting access to online purchases of U.S. products.

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, such as Brazil, set a low *de minimis*, effectively broadening the scope of traded products subject to duties. France and several other countries have a proposed digital tax on intermediation and advertising services, including online marketplaces.

COVID-19 and E-commerce

B2B and B2C e-commerce sales surged during the COVID-19 pandemic. Thirty-seven percent of U.S. consumers stated they planned to increase online spending due to the virus. Over 90% surveyed said they were likely to buy grocery items online during lockdown. In contrast, in 2019, 3% of total grocery sales were online.

Overall, Amazon was the most popular U.S. online retail website in March 2020 at the start of most lockdowns.

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 2017 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. Argentina does not allow the use of electronically produced documents, hindering the customs processing of e-commerce delivery.

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 since 1998. 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 80 WTO members are negotiating a plurilateral agreement on digital trade, aiming to set new international trade rules. The United States seeks a broad digital trade agreement to make the WTO moratorium permanent and address barriers and discriminatory practices, such as data localization. Some parties propose addressing digital trade facilitation barriers (e.g., use of technology for customs documentation and inspection) to further promote e-commerce, building on the TFA. Though developed and developing countries, including China, are participating, some members, such as India, have opted out. The parties aim to have a final draft in 2020 but would need to overcome contentious issues.

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 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. The 2019 U.S.-Japan Digital Trade Agreement aligns with the standards set in the USMCA and U.S. WTO proposal.

Congressional Interest

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

- What are 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?
- What are the implications of USMCA provisions on digital trade and e-commerce for the future of U.S. trade policy?
- 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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