

## Chapter 5

# The Asia–Europe Meeting’s Role in Promoting E-commerce

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# The Asia–Europe Meeting’s Role in Promoting E-commerce

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## Abstract

Asia and Europe have big potential in developing e-commerce, and the Asia–Europe Meeting (AEM) has an important role to play in helping both to harness this potential. Promoting digitalisation and e-commerce is a top priority in the drive to further connectivity and cooperation between Asia and Europe. One of the basic requirements for achieving economic success in the digital era is data connectivity. In particular, the Asia–Europe Meeting must collaborate in facilitating free flow of data with trust.

## The Asia–Europe Meeting in Global E-commerce

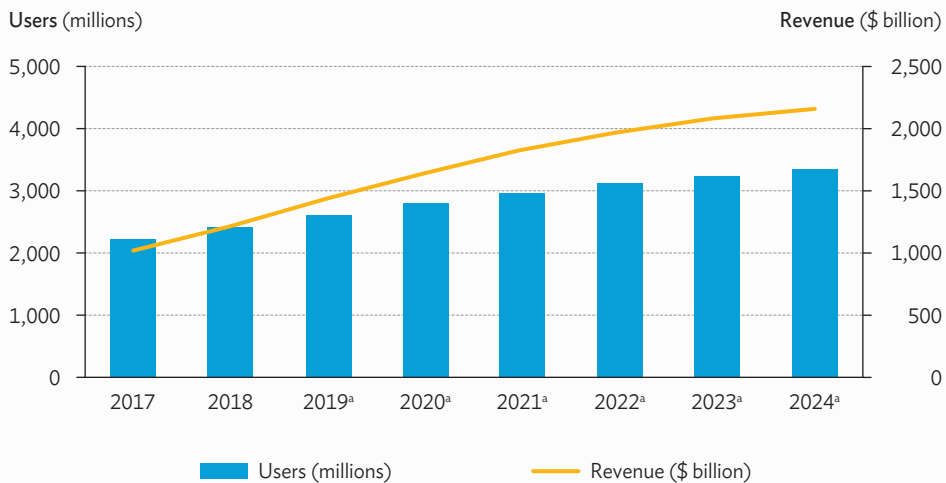
E-commerce is one of the most dynamic sectors in the global economy. Global e-commerce sales have been climbing steadily, and sustained growth is in sight. Worldwide, e-commerce retail sales increased at a two-digit growth rate from \$1.5 trillion in 2015 to \$3.5 trillion in 2019, and were projected to increase further to \$6.5 trillion by 2023, representing nearly one-quarter of total global retail sales.

Several different factors have laid a solid foundation for booming cross-border e-commerce, including the use of smartphones, high-speed Internet, the maturity of online payment systems, changes in consumer behaviour, and services sector liberalisation. By introducing new digital tools such as artificial intelligence, cloud computing, big data, and machine learning to the market, digitalisation is disrupting traditional ways of doing business, in several different ways (Chen and Kimura, 2020). For instance, in the business-to-consumer e-commerce market, smartphone access accounts for more than half of retail website visits worldwide and most e-retail revenue. A variant of e-commerce, the so-called mobile commerce or M-commerce, is supported by the development and integration of smartphone, digital identification, e-payment, and Internet technologies that effectively facilitate online marketing and shopping.

By the end of 2018, there were over 2.4 billion e-commerce users in Asia–Europe Meeting (ASEM) countries, accounting for more than \$1.2 trillion in total revenue. China is the largest e-commerce market in terms of the number of users and annual e-commerce revenue.

Japan, the United Kingdom, Germany, and the Republic of Korea were also at the top of the list in terms of annual e-commerce revenue. It is projected that the total number of e-commerce users worldwide will reach 3.4 billion and total e-commerce revenue will reach \$2.2 trillion by 2024 (Figure 1).

**Figure 1: Asia–Europe Meeting E-commerce Revenue and Number of Users**



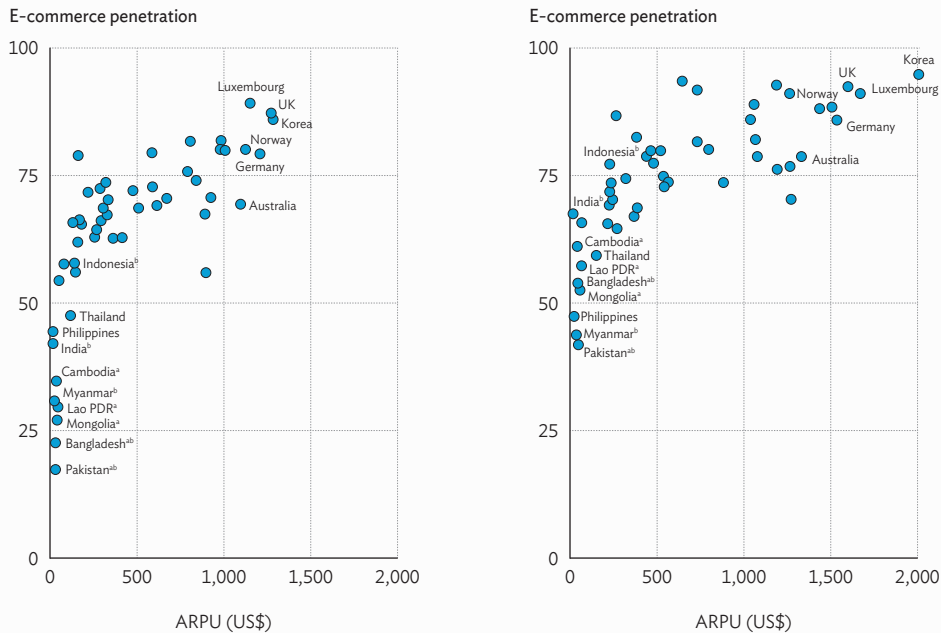
<sup>a</sup> projected data.

Source: Author. Raw data retrieved from Statista Digital Market Outlook 2019. [www.statista.com](http://www.statista.com) (accessed 27 June 2020).

All ASEM e-commerce markets, especially those of Asia's three most populous economies – China, India, and Indonesia – are projected to experience high-speed growth. In terms of average e-commerce revenue per user (ARPU), there are gaps between Asian and European countries. Of the seven countries in which ARPU exceeded \$1,000 in 2018, five were in Europe. In general, penetration and average spending on e-commerce per capita is lower amongst Asian users than European users. Nonetheless, Asia is catching up fast. It is estimated that, in the next 5–10 years, the top five fastest growing e-commerce markets in the world will all be in Asia.<sup>1</sup>

<sup>1</sup> Measured by the compounded annual growth rate of e-commerce penetration, the top five fastest growing markets are Bangladesh, Pakistan, the Lao People's Democratic Republic, Mongolia, and Cambodia. The top five measured by compounded annual growth rate of average revenue per user are Indonesia, Pakistan, Bangladesh, Myanmar, and India.

**Figure 2: Asia–Europe Meeting E-commerce Penetration and Average Revenue per User**



international diffusion of information and increasing transparency, which helps identify new markets and expands global value chains (GVCs) (Chen, 2017; 2019). On the supply side, the development of information and communication technology (ICT) is not only enhancing existing globalisation (characterised primarily by international trade and GVCs), but also is leading to a new pattern of international division of labour that facilitates individuals and MSMEs to participate into GVCs (the ‘third unbundling’) (Baldwin, 2016; Kimura, 2018; Kimura and Chen, 2018). At the micro-level, e-commerce could empower MSMEs to achieve inclusive growth by creating opportunities for them to gain wider market access without incurring overhead costs. For both Asia and Europe, linking MSMEs to GVCs through e-commerce tends to result in significant market expansion and, more importantly, generates a large multiplier effect on the rest of the economy.

Digitalisation is having a deep impact on the global economy, and e-commerce development is one the main dimension of development. To tap into ASEM’s e-commerce potential, the sector cannot be looked at from a single perspective. Instead, leaders from Asia and Europe need to work towards supporting the entire value chain network covering both continents. This means empowering multiple players within the e-commerce ecosystem, facilitating cross-border trade, and building trust for consumers to ‘ride the digital wave’. Aiming to coordinate the Asia–Europe engagement and activity on connectivity, the ASEM established the ASEM Path Finder Group on Connectivity (APGC) which consists of six areas of focus, and ‘Future Connectivity and Digital Economy’ is one of them (‘Area of Focus 4’).

## Policy Concerns and Priority

Promoting digitalisation and e-commerce shall be seen as a drive of further connectivity and cooperation between Asia and Europe. For ASEM Partner states, the goal is to create opportunities to realise the potential for rapid growth by collectively improving digital connectivity, accelerating digital transformation, and facilitating online business, as this is related to the wellbeing of over 55% of the world’s total population. Tasks related to this mainly fall under the economic and financial pillar of ASEM, but must also be supported by synchronised progress under the political and sociocultural pillars.

In addition to the market actions that determine the pace of technological progress and market adoption, the country’s national development strategy and economic policies also play a vital role in e-commerce. Especially in areas where the market mechanism loses its effectiveness or efficiency, policy intervention can help eliminate or mitigate the consequences of market failure by providing public goods. To promote e-commerce development, the establishment of the regulatory framework is as important as that of network infrastructure.

First, policy efforts to help the market save ‘reaction’ time in response to new technology waves and seize possible opportunities of leapfrog development. Government support can help e-commerce find a more development-friendly market environment (i.e. an open market with a well-functioning legal system) and grow more rapidly as a result. Second, public sector participation in logistics and infrastructure building will help fill the development gaps and improve overall connectivity. Third, policies in favour of service sector development will have a positive spillover effect on e-commerce. For instance, service efficiency will decrease trade costs, increase reliability, and therefore promote e-commerce activities. Fourth, the online marketplace needs rules and regulations to ensure its openness, fair competition, security, and efficiency. Finally, policy support to improve human capital and labour skills will contribute to the long-term success of e-commerce (Chen, 2017; 2019).

Above all, ASEM Partner states seeking to cooperate in promoting e-commerce development should improve digital connectivity between and amongst countries in Asia and Europe. They should do this via collaborative institutional efforts that (i) promote digital-related infrastructure in both the physical world and cyberspace; (ii) harmonise rules and regulations to ensure fair competition of online marketplaces; (iii) improve connectivity-derived services to generate more value added; and (iv) strengthen government–government, private–private, and public–private partnership (Chen, 2020a).

To improve data connectivity, it is necessary to build hardware (i.e. ICT infrastructure and logistics) and software, including services and regulation to enable and support e-commerce by facilitating the flow of data, capital, goods and services, and/or people, for which data-related infrastructure is a basic requirement. Obstacles to Asia–Europe data connectivity are due to the existence of development gaps, both across different countries and within the same country between metropolitan and remote, rural areas. In many countries, the development of data-related infrastructure has been significantly impeded by a lack of capital, human capital, and technological know-how. For instance, fibre network building is a crucial part of the infrastructure needed by the digital economy. Despite increased satellite use, terrestrial and/or subsea fibre-optic cables are the main media for ‘carrying’ data. Building fibre networks requires high levels of fixed capital and technology investment, and maintaining and upgrading the network requires substantial follow-up inputs since fibre technology is progressing rapidly compared to traditional fields of infrastructure. Moreover, operation and monitoring of the network requires human capital with high technical and managerial skills, as well as the ability to learn quickly about new technologies and business models.

An even greater challenge is how to reach international consensus to realise free flow of data with trust. The data issue is essential to all aspects of digital transformation, and can directly affect the sustainability of e-commerce development. Ensuring free flow of data with trust will promote e-commerce in many respects. First, data free flow increases the timeliness,

transparency, and therefore the accuracy of data. Second, free flow of data across borders allows both domestic and foreign users to access information on a non-discriminatory basis, increasing market fairness and competitiveness. Third, this will help unleash the market potential to generate value added of data by setting clear legal boundaries regarding data use and storage.

Simply put, free flow of data with trust has two meanings. On the one hand, ‘free’ means that data is allowed to flow as freely as desired in terms of speed, form, destination, and so on. In relative terms, technological barriers to data flow have been effectively reduced, especially by the wide use of smartphones, 4G networks, and the upcoming 5G network, supported by technological advancements in data collection, processing, storage, and distribution. Most data and information today are already digital-born – they were born to be borderless, and their lifecycle exists in the cyberspace.

On the other hand, ‘trust’ highlights the increasing concern about data accuracy and safety and privacy protection. ICT technology is a two-edged sword: while it facilitates the flow of data, it also increases the vulnerability of data to be leaked, stolen, or misused. How to balance the free flow of data and privacy protection is still being debated. From the perspective of e-commerce development, governments must be particularly cautious about measures such as localisation requirements, data flow restrictions, filtering and blocking, and net neutrality, which normally imply barriers to free flow of data in the name of addressing privacy or security concerns.

Internationally, data protectionism tends to harm cross-border e-commerce, similar to the way that trade protectionism harms international trade. Thus, there is a need to build a consensus that provides for the free flow of data across borders within ASEM, while addressing reasonable privacy and security concerns. This will be welcomed by market leaders in Asia and Europe, in both the public and private sector, who are working together to accelerate this process by using ASEM as a platform to improve communication and understanding amongst Partner countries.

## Free Flow of Data with Trust and Backup Policies

Rules and regulations are necessary to ensure that the Internet is an open network where data can flow freely and safely. However, rule-making is a delicate affair. Over-regulation (i.e. overweighting security) may discourage data flows and hinder the growth of the digital economy, while under-regulation (not paying enough attention to security and privacy) may hurt long-term market dynamics or even lead to online grey zones (Chen, 2017).

Free flow of data with trust is not a standalone issue, but is closely linked to other policy concerns related to the digital economy, such as privacy, customer protection, competition, taxation, and cybersecurity. It is at the core of a broader policy regime for the digital economy and calls for a systematic approach to rule-setting on data flows and data-related businesses. However, how countries treat data and data governance vary. Regarding the Asia–Europe collaboration in new rule-making on data governance, instead of trying to establish a uniform model all at once, it is more realistic to first aim for a pan-Asia–Europe framework or data governance consensus that is widely accepted by ASEM Partner states and can be used as a shared reference by each digital policy regime. Importantly, this policy framework will have to be built on the logic of economic justification for the market to accept and adopt the new game rules in business.

Due to the wide externality of data on the economy and society, policymakers need to carefully consider sound backup policies that will make achieving free flow of data feasible. Kimura et al. (2019) proposed a framework for free flow of data for the digital economy that could be a useful reference for ASEM Partner States looking for consensus to support interoperability across different policy regimes and facilitate data flow and data sharing.

There are at least five categories of such backup policies based on the microeconomic model. The first category includes policies that promote economic liberalisation and trade facilitation, which also benefit free flow of data because e-commerce value chains contain flow of goods as well as flow of data. Thus, policies that affect free flow of goods could affect that of data, and vice versa. For instance, it is recommended to maintain the practice of duty-free electronic transmissions and apply non-discrimination principles, such as most favoured nations and national treatment by the World Trade Organization, to international trade of products with digital content. Actions such as accepting e-signatures and e-authentication facilitate trade and generate feedback effects on promoting free flow of data with trust.

The second category includes policies to correct or mitigate market failure resulting from features of the data-driven economy like network externalities, economies of scale, information asymmetry, or any combination of these conditions. Policies under this category are typically linked to competition, consumer protection, and intellectual property rights protection. In practice, it will be more efficient to design a package of distortion-cancelling policies that are globally coherent and effective, rather than letting individual governments react to specific instances with policy remedies.

Third, it will be necessary to reconcile policies with social values and economic efficiency, particularly for issues like privacy protection, for which countries and regions (i.e. the United States, European Union, and China) have set up three very different types of regulatory regimes. From a global perspective, such differences risk creating a segmented digital world,



unless a substantive, coordinated institutional effort is made to establish international norms and harmonise individual approaches. Similarly, cybersecurity policies should aim for international collaboration to prepare and implement countermeasures against cross-border cyberattacks.

The fourth category includes policies that aim to accommodate data flows and data-related businesses in the national policy regime. The primary concern of such policies is how to incorporate new digital technologies, business models, and services into the regulatory system. This requires actions to deal with controversial issues such as taxation that ensure fair treatment of online and offline businesses, as well as domestic and international market players.

The fifth category includes protective measures for data flows measures similar to those for the protection of infant industries. Countries want to benefit from the competitive advantages and social benefits generated by new data-related businesses, and some may wish to nurture their own industries with national strategic policies. In this regard, the global regulatory system must include some flexibilities, as long as the related strategic policies are economically justified. In a digital economy, policies and arguments on infant industry protection should also be backed up by those that facilitate data flows.

## Policy Implication

Broadly, the digital economy refers to not only e-commerce, but also businesses using digital technology, communications, and related services in the areas of manufacturing, retail, education, healthcare, transportation, finance, tourism, media, and entertainment. Economic success stories in Asia and Europe seem to have some shared factors, including integration into the global economy by participating in GVCs. Thus, the development of e-commerce and an economy's GVC participation may mutually reinforce each other.

In addition to efforts to deepen market integration and interregional cooperation, there is still space to develop an ASEM-wide policy guideline and mechanism to improve Asia–Europe regulation harmonisation and cross-border service liberalisation. These joint policy efforts will effectively facilitate online business, especially cross-border e-commerce activities amongst ASEM Partner states.

In the long run, e-commerce development calls for a broader regulatory framework comprising a wide range of related issues, from consumer protection to competition. Although most of these issues are not new and have been regulated previously, digitalisation has introduced new content and challenges. For instance, data monopolies can easily translate into market monopolistic power, and taxation of the digital economy must also

consider how to deal with digital trade, data movement, and information sharing. Therefore, the solution to these problems must combine consideration of new digital-induced elements with insights as to the potential policy consequences as revealed by the economics, law, and sociology literature.

For example, effective consumer protection in e-commerce will help safeguard consumers’ interests and welfare by ensuring redress availability in the event of a dispute and enforcing awards due to consumers. Digitalisation makes it possible to provide accurate information about products and services being traded, and to increase transparency on protections afforded by the seller’s jurisdiction. Consumer protection for cross-border e-commerce will also require the establishment of an international online dispute resolution system, as well as national conformity assessment bodies to verify the required standards and technical regulations of traded products and services.

In Asia, the Association of Southeast Asian Nations (ASEAN) is planning to establish an online dispute resolution framework by 2021 as part of the implementation of the ASEAN Economic Community Blueprint 2025. ASEAN Member States are also adopting ‘national treatment’ in conformity assessments to facilitate the consistency and mutual recognition of testing and certification by qualified conformity assessment bodies in different countries. The ASEAN Member States adopted the ASEAN Digital Data Governance Framework in 2018, and an ASEAN cross-border data flows mechanism is currently being prepared.

In Europe, fundamental rights to privacy and data protection are enshrined in EU law.<sup>2</sup> In 2012, the European Commission implemented a data protection reform package to strengthen citizens’ right to privacy in the digital age. The General Data Protection Regulation (GDPR) was launched in 2018 as part of the new EU data protection regime, which focuses on protecting the processing of personal data and the free movement of such data. The GDPR is widely applicable to the processing of personal data, whether within or outside the EU, and affects almost all e-commerce activities involving EU businesses, institutions, or any other EU entities.

ASEAN cross-border data flow requirements with respect to data protection will not be the same as those of the EU GDPR, as there are significant differences between the two in some areas. To promote ASEAN–EU e-commerce, both sides must achieve interoperability of the two data regimes. Besides ASEAN and the EU, other ASEM Partner states also have local data protection laws that are either already in effect or in the process of being implemented, and many multinational companies have undertaken global privacy and security obligations as well. Therefore, achieving interoperability could be a policymaking challenge for ASEM.

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<sup>2</sup> The Charter of Fundamental Rights of the EU includes the right to privacy (Article 7) and the right to data protection (Article 8).

For ASEM leaders, seeking a solution to achieve pan-ASEM interoperability is more efficient and therefore preferable to the alternative, that is, leaving it up to the more than 50 countries to solve the problem bilaterally. In this regard, ASEM's role as the platform for Asia–Europe dialogue will be critical to avoid the 'spaghetti bowl' problem that may result from bilateral approaches.

Similarly, it is worth noting the importance of market acceptance. Any proposed regulatory system must be accepted by the market and widely adopted by the private sector in daily business, otherwise it may fail to achieve its original goal of promoting the digital economy and e-commerce. Preserving the voice of the private sector in the cycle of policy design and rule-making will be useful, and it is necessary to balance the opinions of digital giants with those of MSMEs. (Chen 2021)

Finally, it is worth noting that the flexibility of implementation will facilitate the conclusion of the related agreement(s). ASEM comprises some of the most advanced economies in the world, some of the fastest growing developing countries, and some of the least developed countries. International rule-setting on e-commerce must take this into account to improve inclusiveness. It is unnecessary to lower requirements for latecomers, but they could be allowed a longer period to implement agreements and adopt new rules.

## Conclusion

The digital economy provides countries with new opportunities for growth, and ASEM countries are no exception. The related policy regime must support the market in realising the potential for rapid economic growth. There is a need for a digital-friendly ecosystem consisting of supportive policies, especially those that improve connectivity in both the physical world and cyberspace, to pave the way for digital transformation and promote online business.

Data connectivity is a basic requirement to achieve economic success in the digital era. ASEM must work together to facilitate free flow of data with trust, backed up by supportive policies that (i) promote economic liberalisation and facilitate trade, (ii) correct or mitigate market failures, (iii) reconcile social values and economic efficiency, (iv) accommodate data flows and data-related businesses in the national policy regime, and (v) support strategic trade and investment.

Beyond policy efforts with respect to data connectivity, the government should also consider how to establish a development-friendly market environment to support e-commerce, accelerate the process of digital adoption, invest in logistics and infrastructure, promote service sector development, and provide public goods to help improve human capital and labour skills.

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