

ASEM's Role in Promoting Asia–Europe E-Commerce

Key Messages:

- ASEM e-commerce markets are projected to experience high-speed growth.
- Promoting digitalisation and e-commerce is considered to be a driver for further improvement of connectivity and cooperation between Asia and Europe.
- Promoting Asia–Europe e-commerce, particularly data connectivity, needs ASEM collaboration in (i) promoting digital-related infrastructure; (ii) harmonising rules and regulations; (iii) improving connectivity-derived services; and (iv) strengthening government–government, private–private, and public–private partnerships.
- ASEM could help to develop a policy guideline and mechanism for the e-commerce related regulatory framework, with emphasis on pan-ASEM interoperability, market acceptance, and the flexibility of implementation of the related rules and regulations.

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Asia and Europe have significant potential in the e-commerce market, and the Asia–Europe Meeting (ASEM) has an important role to play in helping both regions harness such 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.

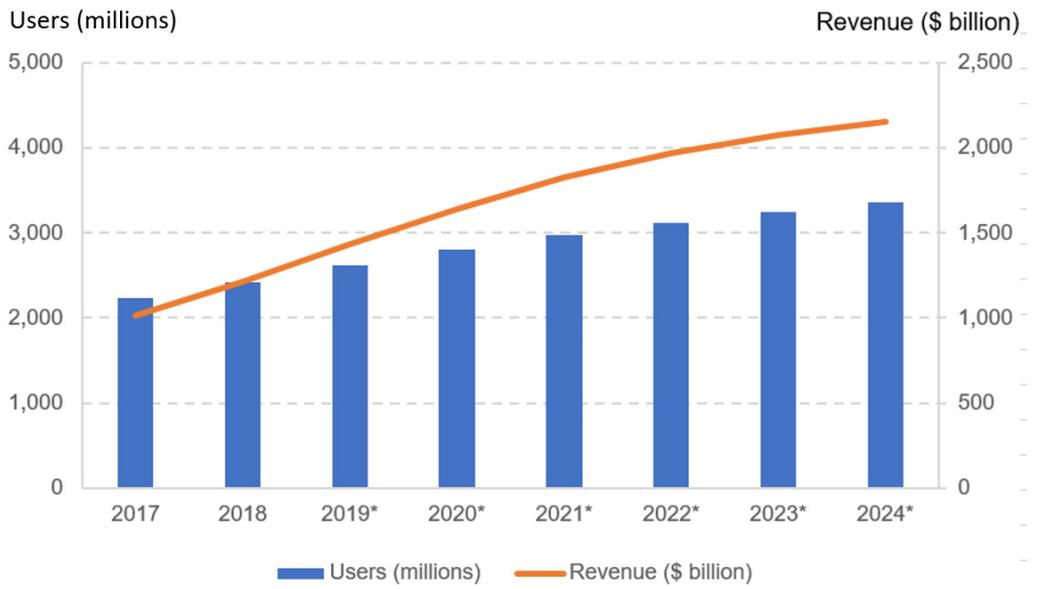
1. The Asia-Europe Focus on E-Commerce

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 are projected to increase further to \$6.5 trillion by 2023, representing nearly one-quarter of total global retail sales.

By the end of 2018, Asia–Europe Meeting (ASEM) countries had more than 2.4 billion e-commerce users, 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).

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



* Projected data.
Source: Author.

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), gaps exist 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.¹ (Statista 2020) By 2024, both e-commerce penetration and ARPU in Asia will have increased significantly. Although the digital divide is unlikely to disappear, the gap between advanced economies and developing economies in Asia is narrowing, especially in terms of e-commerce penetration (Figure 2).

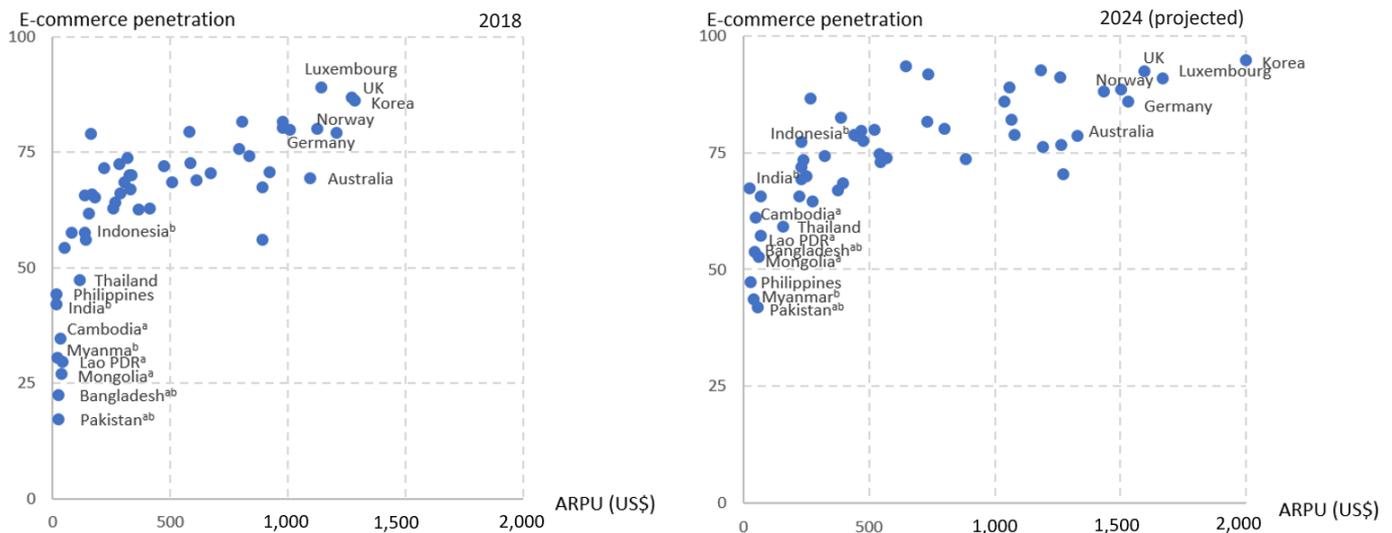
Thanks to easier access to the internet and e-commerce enabling services, e-commerce effectively lowers market entry barriers and enables more individuals and micro, small, and medium-sized enterprises (MSMEs) to tap into markets. Internationally, it facilitates trade and investment by reducing cross-border transaction and delivery

costs and, more importantly, promoting international diffusion of information and increasing transparency, which helps identify new markets and expands global value chains (GVCs), especially in the era of the third unbundling of globalisation (Baldwin, 2016; Kimura, 2018; Chen, 2017; 2019). 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. Consumers will ultimately benefit from goods and services with lower prices, higher quality, and greater variety.

To tap into e-commerce potential, leaders from Asia and Europe need to work towards supporting the entire value chain network covering both continents. To coordinate the Asia–Europe engagement and activity on connectivity, ASEM established the ASEM Pathfinder Group on Connectivity, which consists of six areas of focus including ‘Future Connectivity and Digital Economy’ (area of focus 4).

¹ Measured by the compound 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 the compound annual growth rate of ARPU are Indonesia, Pakistan, Bangladesh, Myanmar, and India.

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



Korea = Republic of Korea, Lao PDR = Lao People’s Democratic Republic, UK = United Kingdom.

^a Top five countries with the highest growth of e-commerce penetration.

^b Top five countries with the highest growth of average revenue per user.

Source: Author.

2. Policy Concerns and Priorities for ASEM

Promoting digitalisation and e-commerce is considered as a driver of further connectivity and cooperation between Asia and Europe. For ASEM member 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 well-being of more than 55% of the world’s 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, a country’s national development strategy and economic policies 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. As highlighted in the ASEM Pathfinder Group on Connectivity, the regulatory framework is equally important as network infrastructure and the involvement of MSMEs in e-commerce.

First, policy efforts can 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 member 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 in online marketplaces; (iii) improve connectivity-derived services to generate more value added; and (iv) strengthen government–government, private–private, and public–private partnerships.

To improve data connectivity, it is necessary to build hardware (i.e. information and communication technology infrastructure and logistics) and software,

including services and regulations 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 against 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 skills, and technological know-how.

An even greater challenge is how to reach an 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 more 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 are 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 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 life cycle exists in cyberspace.

On the other hand, ‘trust’ highlights the increasing concern about data accuracy and safety and privacy protection. Information and communication 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. 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 member states.

3. The Way Forward

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. With observations on the global expansion of Chinese digital platforms, Okano (2020) proposed a three-layer strategy that consists of individual application of services (the top layer), state infrastructure (the bottom layer), and infrastructure supplementary services (the middle layer). The lower the layer, the more difficult to increase the penetration, and the deeper the impacts on digital transformation. E-commerce is part of individual services, located on the top layer where penetration is relatively easy to achieve with light institutional preparedness. Some components of the e-commerce ecosystem, such as data connectivity, will have a broader effect on the digital economy.

This sheds light on policy designs to enhance Asia–Europe relations in the digital era – starting with harvesting the low-hanging fruits of e-commerce and proceeding to deeper cooperation in digital transformation. Considering the importance of GVC participation in economic success in Asia and Europe, developing Asia–Europe e-commerce and promoting GVC participation will 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 member 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. The solution to these problems must combine consideration of new digital-induced elements with insights as to the potential policy consequences revealed by the economics, law, and sociology literature.

Achieving pan-ASEM interoperability of the related rules and regulations could be a policymaking challenge. Given that ASEM covers more than 50 countries in two continents, enhancing ASEM cooperation will be critical to avoid the ‘spaghetti bowl’ problem that

² See Kimura et al. (2019) for details.

could result from bilateral approaches. In particular, the interoperability of the regional and national data regimes will be critical to facilitate Asia–Europe e-commerce.

Market acceptance will be very important as well. 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.

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.

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