Background Briefing Paper

Asia Pacific Payments and e-Commerce: Cross-Border Trade and Data Flows

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Introduction

“B2C e-commerce sales in Asia-Pacific grew more than 33% to USD332.46 billion in 2012. This year, the region will see sales increase by more than 30% to over USD433 billion—or more than one-third of all global B2C e-commerce sales.” (eMarketer, February, 2013)¹

Global cross-border B2C e-commerce sales have exceeded USD1 trillion for the first time according to estimates from eMarteter,² and Asia Pacific was due to surpass North America by end-2013 to become the world’s No. 1 market for B2C e-commerce sales.

East Asia, namely Greater-China, Japan and South Korea, dominates Asia’s e-commerce markets. In South-East Asia, nearly 50% of e-commerce is generated by Singapore and Malaysia, despite accounting for 8% of the region’s population. 55% of Singapore’s e-commerce and 40% of Malaysia’s e-commerce is cross-border.³ The following graphic illustrates the focus and the growth of cross-border payments from Singapore to Asia using PayPal.⁴

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² Ibid
³ Cross-border e Commerce Community website http://www.crossborder-ecommerce.com
The various payment systems available make this growth in cross-border e-commerce possible. Credit payments remain the most popular, but alternative payments systems are developing, including bit coins and other virtual currency options, although for the moment these remain fringe methods of payments and are forbidden in some jurisdictions. Social networks such as Facebook are also entering the payments ecosystem, sometimes linking up with banks or mobile network operators. OCBC Bank in Singapore has recently launched a payment service “Pay Anyone,” that allows individuals that transfer money (up to SGD100) via mobile, email or Facebook.

Across Asia, affordable smart mobile devices have greatly increased access and usage of the Internet. M-commerce and payments using mobile devices and mobile networks are becoming the method of buying on the Internet for many citizens. According to Frost & Sullivan, Asia-Pacific’s m-commerce market reached USD76.17 billion in 2013, or 18% of total Asia-Pacific e-commerce, and will double to reach USD153.26 billion by 2017.5 This implies a huge growth potential for countries such as Cambodia, Indonesia, the Philippines, Thailand and Vietnam. It is expected that local m-commerce will lead the way. In contrast, Chinese, Japanese and Korean companies are already spanning both regional and global markets.

The Big Question

The big question, and the biggest challenge, for developing Asian economies is not so much how to stimulate the market, but how to build local capacity to enter and explore these markets: local, regional and global. The components are not hard to identify; they involve the promotion and facilitation of (i) local enterprise and entrepreneurship, (ii) incubation programmes and access to start-up capital and technologies, (iii) opportunities to

5 http://www.telecomasia.net/content/apac-m-commerce-market-double-2017
collaborate with overseas partners to facilitate two-way flows of technological know-how, goods, services and payments.

There are obstacles. For example, e-commerce (including m-commerce) requires a lot of data to be transferred between consumer, web merchant, online payment system operator, card company, acquiring banks, MNOs, etc. Data related to the shipping or airfreight of goods bought online also needs to cross borders. Finally, the transfer of payments has to be completed, covering authentication, non-repudiation and other security measures. The reality, unfortunately, is that there exist many barriers and impediments to the secure and fast transit of cross-border data, and the costs of compliance for the companies involved, be they merchants, system providers, carriers or banks, are high. Indeed, the proliferation of FTAs and BTAs is adding to the complexity. (For a recent summary of these with regard to cloud computing, see Report on Cloud Data Regulations: A contribution to how to reduce the compliancy costs of Cross-Border Data Transfers, a report for the Asia Cloud Computing Association/Asia Pacific Carriers Coalition.6)

Where tradable goods – that is goods for import or export – are involved, lower tariffs and NTBTs are essential if e-commerce enterprises in developing Asian economies are to achieve a foothold in markets.

Understandably, national governments in developing countries feel the need to protect their balance of payments, their tax base and indeed create a breathing space for local companies. But in fact the opportunities for local companies to engage in regional or global e-commerce are much greater if they have access to international companies, such as e-merchants, e-payment systems, and to partnerships than if they are ring-fenced and isolated from these markets under the false notion they are ‘protected’. Where there are local restrictions on foreign companies, such as requirements to keep local data in local data centres, there needs to be provision for partnerships, including the lifting of FDI caps which inhibit sustainable cooperation, to enable local companies to access international markets.

The nature of e-commerce is highly competitive, although much of the competition is taking place between global giants from numerous countries. It’s an industry made for start-ups, where the successful ones often get absorbed by the giants along the way. But that injects capital into the system and serves to foster yet more start-ups, with plenty of innovation involved. Smaller e-commerce companies in developing economies need to join this ecosystem if they are to thrive. One of the areas in which they can learn is how to combat fraud online. Fraud can destroy an e-commerce company even before it has got off the ground. For example, while credit card fraud has recently declined due to the use of chip and pin, Card Not Present (CNP) losses through fraud, skimming and criminal takeover of merchant websites has mushroomed. Local companies, in partnership with an experienced

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global company can quickly learn how to minimize these losses. Another area in which they can get assistance is with compliancy issues.

The timeliness and quality of delivery of goods are a critical part of the demand for e-commerce. If border procedures can be improved and barriers removed, the GDP and employment gains will be so much greater.

“The total value world commercial services exports today exceed USD4.3 trillion. The lower the costs and the greater the quality of services provided by logistics companies, the better off customers and consumers. If all countries were to improve their logistics performance and reduce supply chain barriers, global GDP could increase by 2.6% to even 4.7%. Such large increases in GDP would be associated with positive effects on unemployment, potentially adding millions of jobs to the global workforce.”

-cebe Logistics

By air or by ship, goods bought over the Internet have to be delivered in a timely fashion without loss of quality

A Way For Developing Countries?
Governments naturally have a range of issues on their agenda, including anti-money laundering/countering financing of terrorism (AML/CFT), protecting personal data privacy, revenue collection, protection of local industry, etc., and each of these concerns can throw up barriers to trade and investment, increase costs of compliance, trade discrimination, and more. An underlying problem with all of this, is that government’s rarely approach these issues in a holistic way to calibrate the costs and benefits. The consequence is typically overreach, over-regulation and especially introduction of procedures that quickly become counter-productive from an economic and trade perspective.

Yet there is no shortage of “best practice” examples, ranging from electronic customs procedures that speed up and make documentation more transparent and thereby reduce the opportunity for corruption, to de minimis tariff regulations that exempt trades of less than a certain amount, for example, less than $1,000 in Australia. (See De minimis thresholds in APEC published by CAPEC).  

But progress all too often seems to be de minimis as well!

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7 http://www.crossborder-ecommerce.com/logistics/
8 De minimis thresholds in APEC by Stephen Holloway and Jeffrey Rae for the Conference of Asia Pacific Express Carriers (CAPEC) http://worldcustomsjournal.org/media/wci/2012/1/Holloway_Rae.pdf
Currently, e-commerce is dominated by American, European, Chinese, Korean and Japanese companies because they have economies of scale and depth of expertise. They have global reach and access to capital funding. Domestic e-commerce companies in smaller economies (smaller in terms of GDP, not necessarily in terms of population) are in less favoured circumstances, but nevertheless developing countries have an opportunity to grow into these markets, for three reasons: (i) the growth of the middle class in these economies who create a demand, (ii) the lowering of barriers to entry through the global reach of the Internet, (iii) the exponential growth in access to, and usage of, ever more affordable smart wireless devices, increasingly with broadband access.

What will cramp their development, are barriers to trade that they cannot afford to overcome. The global giants of e-commerce, while they find cross-border restrictions irritating and unnecessarily adding to costs, can cope. They have deep pockets and at the end of the day can afford to postpone their entry into smaller markets if compliance costs are too daunting. By contrast, small local start-ups are gasping for oxygen when it comes to compliance costs and transaction costs that add nothing to the efficiency of the market.

It is important therefore that governments and regulators grasp the significance of growing their digital economies, upon which e-commerce depends, as open-markets with costs of compliance and restrictions on trade and investment at a minimum. This applies with more force to digital economies than to any others.
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