

## Development Status and Countermeasures of Cross-Border E-Commerce Financial Services in China

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**Abstract**—With the rapid development of Cross-Border e-Commerce (CBEC) in the past decade, the governments all over the world actively develop various supporting policies. It is necessary for commercial banks and financial institutions to innovate their ideas and business models so as to better adapt to development of CBEC, due to their role of providing financing and settlement services. This article analyzes the different modes of financing and settlement methods and some existing problems of CBEC in China, and then proposed some countermeasures, e.g., ensuring the financial security, establishing an international regulatory cooperation and dispute settlement mechanisms and optimizing the process of online financing services for CBEC, etc.

**Keywords**—cross-border e-commerce (CBEC); financial services; financing and settlement; development status; countermeasures

### I. INTRODUCTION

Internet has greatly promoted the development of CBEC transactions. The “E-Commerce” newspaper predicts that the number of Chinese overseas online shopping users will reach 211 million in 2020. In addition, according to a research report, the amount of CBEC transactions in China increased by 20.6% in 2017, and the scale of CBEC transactions will reach 12 trillion RMB yuan in 2020 [1]. Therefore, the strong attraction of this market makes banks and financial institutions join in it, but how to improve the financial services system becomes particularly important.

### II. LITERATURE REVIEW

In terms of the overall development status quo of electronic commerce, Zhang and Jiao [2], starting from the small and medium enterprises in Zhejiang province, puts forward the concept of “Internet plus foreign trade model”, and discussed about how to make good use of the advantage of electronic commerce to improve their competitiveness. Scholars from different countries have conducted different researches on the financial services involved in the field of CBEC. Weng [3] described several methods which are commonly used in CBEC payment in China and summarized their advantages and disadvantages. Scholars such as Rong[4], Liline and Caroline[5], analyzed the current role of commercial banks in CBEC and their future development

trends. Jeong and Min [6], Blum and Goldfarb [7] described some financial models of Internet applied to CBEC transactions, such as the third-party payment platforms and P2P lending platforms. Abdallah et al [8] analyzed the transaction process of the type of CBEC mode from B2B perspective and the common financing and settlement methods and the problems faced by these type of modes.

In summary, most of the studies in CBEC field at home and abroad are concentrated in its globalization and logistics, with only few of them discussed financial services issues. However, it is undoubted that the role of financial services will become increasing important. Therefore, it is worthy to study CBEC financial services

### III. DEVELOPMENT STATUS OF CBEC FINANCIAL SERVICES IN CHINA

At present, the financial service system of China's CBEC consists of two parts---financing and payment system. As financial institutions, banks are an important part of these two systems, customers mainly remit and raise funds by opening bank accounts. As an emerging way, Internet finance institutions can also provide payment and settlement support to customers. The CBEC transactions are mainly composed of three modes, i.e., B2B, C2C and B2C. Under these three modes, people are used to choosing different payment methods. Some people like to pay by bank, while others like to pay by third-party platform.

#### A. The Main Ways of Financing

There are three main financing methods of CBEC in China: bank financing, micro loan company financing and Internet finance financing. They are suitable for different types of enterprises and have their own advantages and disadvantages.

1) *Bank financing*: In the financial service system of CBEC, the bank participation can be essentially divided into two parts. The first one is to provide various payment services, such as providing account opening, account management and so on. The other one is to provide credit support, such as loans, online trade financing. At present, there are several possible financing entities involved in CBEC transactions, they are CBEC trading platforms,

CBEC enterprises and comprehensive foreign trade service enterprises.

a) *CBEC trading platform*: The CBEC platform is a network platform for businesses and customers who need to trade, and most of this type of customers use the funds which are obtained from the bank to build and maintain their platforms. For such financing customers, it is difficult for the bank to evaluate and control the fund destination of the platform, so it is less authorized to raise funds to these platforms, and the bank's financing services for this type of customers are still in the initial stage. The characteristics of this type of customers also make their degrees of financing difficulty be different. CBEC trading platform can be divided into two types: self-built platform and the third-party platform. For enterprises, in terms of earning long-term benefits, the volume of customer flow from the self-built platform is relatively stable. Therefore, there are so many large enterprises choose establishing their own trading platforms to sell their products, such as Huawei mall. For the third-party platform, the source of its capital is to earn the fee by providing services to the buyer and the seller. By comparison, the condition of self-built platforms is relatively stable then third-party platforms, and their capital flows are also clearer and easier to control. Therefore, most of banks authorize financing to the third-party platforms.

b) *CBEC enterprises*: Most CBEC enterprises play the role of intermediary. Only few of them have their own brands and most of them have the attribute of asset-lite. Therefore, the profits of such enterprises are not stable, and it is difficult for banks to control their capital flow, so that they face more credit restrictions. Unless the enterprise has greater competitiveness in the industry, it is difficult for them to obtain bank financing. Cross-border financial blockchain service platform rise in response to this problem. This platform can help banks monitor the capital flow and credit information of the specific enterprises, which can greatly improve the risk control ability of banks. On the other hand, many banks join in this platform, which will increase the fund supply and solves the problem of financing difficulties of enterprises. For the small and medium-sized enterprises, they can get fund faster then before with the help of the credit of blockchain core enterprises, so as to get the fund be faster.

c) *Foreign trade comprehensive service enterprise*: Such enterprises provide services such as tax reimbursement to the businesses which participate in the process of CBEC transactions. Because of their large scale and good credit record, they are generally easier to obtain bank financing support, so that they can provide better financial assistance for the small and medium-sized foreign trade enterprises.

2) *Small loan company financing*: In China, a small loan company are not allowed to engage in any business other than providing small loans. When small and medium-sized CBEC enterprises cannot get financial support from banks or other financial institutions, they are more willing to turn

to small loan company financing rather than the private lending due to the risk factors.

### 3) *Internet finance financing*

a) *P2P lending*: P2P lending can be helpful to solve the difficulties of traditional financial institutions in lending. At present, there are two main patterns of P2P lending. The first one is that the platform manages the funds directly. The second one is that the platform is responsible for connecting the suppliers and demanders of funds, and then entrusts the funds to a third-party organization such as the bank for management, and it collects a certain service fee as remuneration. After the financial crisis in 2008, many traditional financial institutions suffered heavy losses due to the severe economic situation. At the same time, P2P lending began to develop rapidly, which rose from only 60 million RMB yuan in 2010 to 1224.6 billion RMB yuan in 2017[8]. According to the current data, P2P lending is favored by the small and medium-sized enterprises. But here's the thing that the high cost of financing and the low degree of standardization of relevant management policies, it is easy for these platforms to run away. As a result, the small and medium-sized CBEC enterprises will face such risks as capital rupture when finance on these platforms, which will affect their operation correspondingly. Therefore, in recent years, the number of people who are using P2P lending showed a downward trend.

b) *Crowd funding*: There are two types of crowd funding: product crowd funding and fund crowd funding. In recent years, crowd funding is becoming more and more popular in the field of CBEC. For example, in 2019, Padmate Technology Company raised \$6 million RMB yuan on the crowd funding platform named "indiegogo" [8]. By the means of crowd funding, CBEC enterprises not only obtain pre-sale funds, but also gather all kinds of conditions to create the latest fad. But at the same time, the brand reputation will suffer certain damage if there is something wrong during the operation of the enterprises. The reason is that the public will know the status quickly because of the transparency of information.

### B. *The main payment and settlement methods*

The regulators have continuously standardized the relevant businesses and relaxed some restrictions on the CBEC payment industry, which has created convenient environment for the development of CBEC payment. Meanwhile, the steady growth of the number of outbound tourism and overseas students' consumptions also ensure the sustainable growth of the demand for CBEC payments. In 2017, the total amount of CBEC payment of Chinese third-party payment institutions increased by 70.9% when comparing with the previous year [8]. Judging from the current trend, there is still a good momentum of development of it in the future.

There are three modes of CBEC transactions, i.e., C2C, B2B and B2C, with B2B as the main mode of this industry. Due to the large scale of transaction, B2B usually uses bank

settlement for the transaction, while C2C and B2C usually use the third party payment.

1) *Bank settlement*: Due to the large transaction volume involved, most of B2B companies choose bank settlement for their transactions. Generally speaking, the trading website first signs a B2B agreement with the bank, and then opens the settlement account in the bank. After that, the buyer and the seller carry on the commercial negotiation on the website. Take Alibaba as an example, if the buyer has the items needed on the Alibaba website, the buyer will not pay directly on the website because of the large transaction amount. The payment will be given to the seller by the bank, and the seller will deliver the goods after confirming the payment.

2) *The third party payment mode*: This mode means that the buyer and the seller pay and settle the goods through a third party with certain credit guarantee. Because B2C and C2C involve personal consumption and the amount is small, most of them are willing to use third-party payment for settlement. All kinds of data show that the mobile payment method has become a preferred mode for settlement due to its convenience. Compared with bank settlement, the third-party payment method reduces the exchange cost, and the simplicity of payment procedures also improves its efficiency.

#### IV. MAJOR PROBLEMS IN CHINA'S CBEC FINANCIAL SERVICES

Currently, there are the following main problems in the financial service field of CBEC in China:

##### A. *Security risks in the transaction process*

As the online and offline transaction process involved in cross-border payment is not yet well developed compared with traditional business, there are still various problems in the payment and settlement process. Regulatory policies are still very limited. The e-commerce companies and their customers would suffer billions of dollars' losses because of fraud every year. Many security risks still exist in the transaction process of CBEC.

##### B. *Difficulties of supervising foreign e-commerce enterprises involved in the transaction*

Because the financial business of CBEC involves two places, both within and outside China, and the laws and regulations between countries or regions are different, so that it is difficult for regulatory agencies to supervise the foreign merchants. In the transaction process of CBEC, the division of obligations is very important. However, China is still lack of relevant transnational trade traceability mechanism and dispute settlement mechanism. Therefore, it is difficult to trace the liability of foreign sellers when problems arise.

##### C. *Low participation of financial institutions*

Although with the development of CBEC, there are more and more financial institutions carry out related businesses, while the overall participation is still limited. This is mainly due to the difficulty of designing and applying effective financial services.

##### D. *Relatively complex audit process of banks*

As important financial institutions, banks are the preferred way for many CBEC enterprises to conduct financial transactions. Banks have ready-made credit projects at present, but in general these projects have quite mature operational procedures, such as accessing the credit to post-loan management process, which is generally complicated to operate. Therefore, it is not only time-consuming but also expensive to use for the small and medium-sized enterprises.

#### V. COUNTERMEASURES AND SUGGESTIONS TO PROMOTE THE DEVELOPMENT OF CBEC FINANCIAL SERVICES

With the integration of the global economy and the rapid development of the Internet, CBEC will play an increasingly important role in people's lives. The following countermeasures and suggestions are proposed here to solve the main problems mentioned above.

##### A. *Actively guarantee the financial security of CBEC transactions*

Since most CBEC transactions are conducted on the Internet, finding effective ways to guarantee the safety of online payments and financing is the top priority for financial service institutions. Financial service institutions should constantly improve payment methods by using technologies such as block chain. In addition, in terms of financing, we should also improve the credit investigation system of CBEC enterprises. Meanwhile, banks should also issue more financial products suitable for the small and medium-sized e-commerce enterprises to raise funds, and strengthen supervision and risk monitoring. Government should also take an active part and strictly examine the qualifications of CBEC enterprises by formulating appropriate barriers to entry.

##### B. *Establish the cooperative supervision and dispute settlement mechanism for CBEC*

Because of the strong foreign-related characteristics of CBEC, it is necessary to strengthen international regulatory cooperation. China should actively negotiate with foreign countries for mutual recognition of electronic identity and electronic signature. On the other hand, we should also actively explore the establishment of dispute settlement mechanism, or a special financial consumer protection agency. At the same time, we need to take part in the formulation of international rules, strengthen the supervision of transnational banks, and strive to provide more enough guarantee for consumers in the transaction process of CBEC, such as the receipt and payment.

##### C. *Introduce policies to attract banks to develop relevant financial businesses*

The government should set up a special support fund for CBEC development, provide financial incentives to the financial institutions which carry out projects for CBEC financial service, thus improve the participation of financial institutions.

#### *D. Simplify the online financing service process*

According to the characteristics of CBEC transactions, banks can cooperate with CBEC platforms and relevant enterprises to complete online data collection through big data technology, such as accessing credit approval, which can also help simplify the operation process. At the early stage of preparation process, the banks need more professional talents to expand their markets, and the management department should sort out various weak nodes in the transaction process of financing, and then make specific improvement of them.

#### VI. CONCLUSION

With the globalization, the role of CBEC is becoming more and more important, and how to facilitate the development of CBEC financial services should be taken seriously. The paper analyzed the status of the financial service in the field of CBEC in China especially the problems exist, and tried to propose some countermeasures correspondingly. In a nutshell, financial service system can be improved by strengthening supervision and actively signing bilateral agreements with foreign countries, so as to better push Chinese CBEC a further step.

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