Study sheds light on why the US and China don't see eye-to-eye on e-commerce

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The U.S. and China take contrasting approaches to digital trade, according to new research published in the *Journal of International Economic Law*. By acknowledging and understanding the different stance each country takes, policy makers may find ways to bring down trade barriers, says Associate Professor Henry Gao of the Singapore Management University School of Law, who led the first-ever comparative study of the two countries' differing approaches to digital trade issues.

With the advent of the internet, the sale of goods and services is no longer limited to physical storefronts or geographical borders. Electronic commerce, or e-commerce, is now worth trillions of dollars globally, raising the stakes for companies engaged in digital trade. Yet, in many cases, the precise definitions of digital products and whether they should be subject to tariffs, customs duties or other fees have yet to be ironed out at the international level.

In this study, Professor Gao tracked the regulation of digital trade by the World Trade Organisation (WTO), highlighting that its members have thus far been unable to arrive at a consensus on the rules governing e-commerce. The study also noted that the world's ten largest internet companies—Amazon, Alphabet (Google), Facebook, Priceline, eBay, Netflix, JD.com, Tencent, Alibaba and Baidu—are all based in the U.S. or China, suggesting that the two countries are poised to play significant roles in crafting international e-commerce rules.

By examining proposals made by the U.S. and China at various economic fora and to the WTO, as well as e-commerce clauses in their respective free trade agreements, the study documented a stark contrast in the two countries' positions on digital trade. "The U.S. tends to focus more on the 'digital' side [of e-commerce], which includes internet search and social networking. China, however, focuses more on the traditional 'trade' side, that is, trade in goods," explains Professor Gao. "In other words, the U.S. trades bits while China still trades atoms."

This being the case, the U.S. cares more about digital barriers like internet censorship and restrictions on cross-border data flow, whereas China is more concerned about traditional trade barriers like tariffs, argues Professor Gao in the study.

Further, the two countries' distinct domestic regulatory frameworks affect their stances on the regulation of digital trade, the study found. With its historical preference for letting market forces determine acceptable boundaries for the internet and e-commerce domestically, the U.S. has also voiced its preference for deregulation when it comes to digital trade at the international level. On the other hand, China has traditionally opted for stronger government control over the internet, a standpoint that is embedded in its e-commerce proposals to the WTO, the study noted.

"These deeply entrenched differences will require time to reconcile. To move forward, perhaps both countries could start with issues where they share some common interests, such as a permanent moratorium on customs duties on e-commerce," suggests Professor Gao.

Provided by Singapore Managment University

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