A Study on the Regulation of Imports of Retail Goods in Cross-border E-commerce: Evidence from China

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Abstract: With the rapid development of globalization and Internet technology, cross-border e-commerce has become a new driving force for international trade. However, this emerging mode also brings regulatory challenges, especially in ensuring transaction authenticity, protecting consumer rights and interests, and maintaining tax fairness. Therefore, this paper will take the import of cross-border e-commerce retail goods as an entry point to analyze the challenges faced in the regulation of cross-border e-commerce imports and put forward corresponding countermeasure proposals. This paper elaborates on the main challenges in regulation, including the huge amount of data, the imperfect credit rating system, and the insufficient collaborative regulatory mechanism. In response to these problems, suggestions are made to strengthen consumer identity verification, improve the credit rating system, and promote collaborative supervision.

***Keywords*:** cross-border e-commerce; retail imports; regulation

1. Development of Cross-border E-commerce

In recent years, China's cross-border e-commerce development has been growing rapidly, with the variety of commodities increasing and the volume of import and export transactions continuing to rise[1]. In the economic environment of the global economic slowdown, the total value of foreign trade exports has also stagnated to some extent, but the proportion of cross-border e-commerce exports continues to rise, showing a trend of rapid development[2]. Hangzhou was set up as the first cross-border e-commerce comprehensive pilot zone in March 2015, and there are now 165 cross-border e-commerce comprehensive pilot zones covering 31 provinces. It has helped China carry out cross-border e-commerce and has laid a a solid foundation for conducting cross-border e-commerce in China. From 2019 to 2023, China's cross-border e-commerce transaction scale shows a significant growth trend. The transaction scale in 2023 reached 2.38 trillion yuan, compared with 1.92 trillion RMB in 2019, with a compound annual growth rate of 16.6%. In cross-border e-commerce transactions, exports occupy a larger proportion. In 2023, the export volume was 1.83 trillion RMB, representing 77% of the total transaction scale, while the import volume was 548.3 billion RMB, representing 23%. The rapid growth in market size and the strong performance of exports signal that cross-border e-commerce will continue to be a key factor in driving China's foreign trade growth.

With the development of cross-border e-commerce in China, the customs import and export supervision policies are also being updated to better serve the import and export enterprises. After 2016, to accommodate economic development, the government introduced retail import tax policies and positive list management. Additionally, it established provisions that exempted taxes on products imported through cross-border e-commerce, with the exemption amount adjusted to not exceed 5,000 RMB per transaction and 26,000 RMB per year for the annual transaction limit[3]. It was gradually recognized in practice that cross-border e-commerce trade is a variation of general trade and is essentially an important segment of foreign trade.

The increasing number of cross-border e-commerce import business and the unique characteristics of imported goods have led to difficulties encountered by the Customs in the actual supervision process. Therefore, this paper will analyze the problems of importing retail goods on cross-border e-commerce platforms based on the actual situation in supervision, specifically analyze the challenges and put forward relevant suggestions to provide reference for further strengthening the management.

2. Development of Cross-border E-commerce retail merchandise imports

2.1 Status of development of cross-border e-commerce retail merchandise imports

Cross-border e-commerce imports are mainly imported by direct mail (9610) and bonded (1210)[4]. 2016, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation jointly issued the "Notice on Taxation Policies for Cross-border E-commerce Retail Imports", which formally included products imported and exported through cross-border e-commerce into the general trade, and increased the import tariffs, value-added taxes, and consumption taxes. From the perspective of customs supervision, personal products and cross-border e-commerce products are transformed from "articles" to "goods"[5]. In 2019, the Notice on Improving Tax Policy on Cross-border E-commerce Retail Imports was again jointly issued. Individuals are exempted from customs duties and enjoy 70% of the consumption tax and VAT on imported goods up to the limit, and are taxed at the general trade rate of increase if the limit is exceeded[3]. Although these policies are convenient, they have been exploited by unscrupulous businessmen who take advantage of the loopholes to illegally import general trade products.

Most of the goods imported through cross-border e-commerce platforms are perfumes, daily necessities, color cosmetics, watches, and bags, all of which are characterized by small size, high value, and varying pricing. Customs faces processing and regulatory challenges.

2.2 Typical violations in the import of cross-border e-commerce retail products

In the area of cross-border e-commerce retail product imports, there are three types of typical violations. One typical violation is smuggling via fictitious orders. This involves buyers using false identities to import goods at low tax rates. For instance, Chen's group created a smuggling network on an e-commerce platform, forged orders and payment proofs, and repackaged goods in Hong Kong with false details. When caught in 2019, they had used real identities to make the forgeries seem credible. This type of smuggling is complex and requires multi-disciplinary regulation.

Another common tactic is to avoid tax by declaring goods at a price lower than the purchase price. Traders may falsely advertise goods, such as describing high-quality goods as inferior or new products as old, in order to understate the transaction price. While the transaction itself is genuine, such price manipulation constitutes fraud. For example, from January to September 2017, Company H understated prices and illegally imported large quantities of milk powder through cross-border e-commerce, circumventing tariffs and regulations through false declarations.

The final category involves misrepresenting general trade products as cross-border e-commerce goods. Traders disguise commercial items as personal use items to evade stricter regulations and taxes. Although the transactions may be real, the declared import purpose is false. In 2020, smuggling gangs used forged documents and others' identities to falsely label goods as cross-border e-commerce imports to bypass regulations and taxes.

Although these three types of violations provide real orders and comply with the principle of "three single consistent", they are essentially tax evasion and tax evasion, violating the guideline that cross-border e-commerce goods are limited to personal use only. They are highly covert, difficult to detect by customs supervision, and are usually a mixture of multiple violations to avoid paying taxes[6].

3. Challenges in the Regulation of Cross-border E-commerce Retail Goods Imports

3.1 Vast Transaction Data Volume, Difficult to Verify Individually

The popularity of cross-border e-commerce has generated a huge flow of trade data, posing a challenge to customs supervision. 2022 China's cross-border e-commerce imports list contains more than 1,476 items, with platforms processing tens of thousands of orders per day, generating a large amount of data for each transaction, requiring real-time processing by Customs to safeguard the smoothness and transparency of the process[7]. However, with limited human resources, Customs is under pressure to review and analyze large amounts of data to ensure transaction legitimacy and tax accuracy. Consumers' increased expectations for fast customs clearance require Customs to improve efficiency. In addition, the hidden nature of cross-border e-commerce makes violations such as smuggling and tax evasion difficult to track, and audits are inefficient due to cross-border cooperation, making it difficult to respond to market changes in a timely manner.

3.2 Imperfect Credit Rating System

The credit rating system is an important tool for effective regulation by customs and regulatory agencies. It enables differentiated management of merchants, reducing intervention in the customs clearance process for high-credit merchants and strengthening supervision for low-credit merchants. However, the current credit rating system for cross-border e-commerce platforms and domestic service providers is not yet perfect. As a hub of transaction and logistics information, cross-border e-commerce platforms have the responsibility to audit the authenticity of trade and consumer identities, monitor unusual transactions, and prevent market injustice. Large platforms are usually reputable, while smaller platforms may have loopholes and insufficient risk control, and some are even specialized in tax evasion. Domestic service providers play a key role in trade and need to make accurate declarations to customs and take responsibility for them. The establishment of a credit rating system can reduce the pressure on Customs, improve the efficiency of customs clearance, and enable risk assessment and differentiated policy implementation.

3.3 Imperfect Coordinated Supervision Mechanism

In the cross-border e-commerce process, the efficiency of multi-departmental regulatory synergy is crucial to business development. It involves departments such as commerce, taxation, market supervision, customs and transportation. However, information sharing between departments is currently poor, especially in terms of cross-regional data sharing. Such information barriers impede effective synergy and leave regulatory gaps that are exploited by unscrupulous elements. For example, the lack of interoperability of supervisory data among the directly under Customs and the lack of a national pre-clearance management system within Customs have made it difficult for supervisors to grasp data on the entire supply chain. Some groups have taken advantage of this information discrepancy to clear customs in batches in order to cover up false trade practices.

4. Proposed Regulation of Imports of Cross-border E-commerce Retail Goods

4.1 Enhancing consumer identity verification mechanisms to reduce the risk of identity theft

In cross-border e-commerce, effective trade and regulation depends on cooperation between payment platforms, e-commerce platforms and customs. However, there are problems of enterprises being reluctant to share data because of commercial confidentiality, as well as difficulties in aggregation due to different data storage formats across platforms. As a result, Customs should implement a policy of format standardization to better aggregate data and analyze suspicious activity.

To address the issue of fraudulent transactions, Customs could force e-commerce platforms to adopt authentication methods, such as SMS verification codes or biometrics, to ensure that transactions are initiated by legitimate account holders. This could protect consumer data and reduce fraud. In addition, e-commerce platforms and payment institutions should strengthen technical measures to ensure cross-border payment security and safeguard consumer payments.

4.2 Improving the Evaluation Mechanism to Enhance Customs Clearance Efficiency

To promote the healthy development of cross-border e-commerce, credit evaluation of platforms and service providers must be improved. Local governments should learn from the Shenzhen model and use third-party credit agencies to centralize and share credit data to rate and classify platforms. By updating credit records and scores in real time and sharing them with customs, the evaluation results can help with customs clearance.

Learning from Shanghai, which has developed the "Shanghai Cross-border E-commerce Public Service Platform" to verify orders before customs clearance, ensure the authenticity of foreign exchange settlements and validate the authenticity of trade. The platform improves the standardization, legality and efficiency of customs supervision, while shortening customs clearance time.

4.3 Promoting collaborative regulation and breaking down barriers to information flow

Departments such as commerce, taxation, market supervision, customs and transportation need to cooperate and establish a collaborative mechanism to share information, resources and linkage regulation. This will create a comprehensive regulatory network, improve regulatory efficiency, reduce loopholes caused by information silos and ensure compliance of imported goods. Increased data liquidity contributes to goods traceability and reduces uncertainty and risk. Big data technology applications can accurately trace the origin and flow of goods, ensuring legality and revealing potentially illegal trading patterns.

5. Summary

This paper provides an in-depth discussion on the current development situation of cross-border e-commerce retail imports in China and the challenges it faces, and puts forward corresponding countermeasure proposals accordingly. Compared to exports, the import business, though accounting for a small percentage, is characterized by frequent violations, such as false transactions and under-reporting of prices, which not only infringe on national tax interests but also disrupt the market order.

This paper further analyzes the main challenges in the field of cross-border e-commerce retail imports, including the massive growth of transaction data, the inadequacy of the credit rating system, and the lack of collaborative regulatory mechanisms. It also puts forward the following recommendations: first, strengthen the consumer identity verification mechanism to reduce the risk of identity theft; second, improve the credit rating system to enhance the efficiency of customs clearance, increase market trust, and promote fair competition; and third, push for the establishment of a multi-sectoral collaborative regulatory platform to realize information sharing and improve regulatory effectiveness.

Overall, the healthy and sustainable development of cross-border e-commerce retail imports requires the joint efforts of the government, enterprises and industry associations to promote the standardized development of the industry and achieve the dual protection of national tax interests and consumer rights and interests.

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