

Research on Credit Risks and Countermeasures of Cross-border E-commerce in China

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Abstract: Under the influence of the novel coronavirus, China's cross-border e-commerce has rapidly developed. At the same time, entities of cross-border e-commerce transaction have brought a series of credit risks in order to maximize their profits, which has hindered the sound development of China's cross-border e-commerce. On the basis of combing the relevant research literature, this paper analyzes the current development status and credit risk of cross-border e-commerce, and proposes to reduce the credit risk of cross-border e-commerce and promotes the healthy and sustainable development of China's cross-border e-commerce in terms of building a credit evaluation mechanism for sellers in cross-border e-commerce, perfecting the regulatory system of cross-border e-commerce platforms, constructing a third-party payment security system for cross-border e-commerce, improving the logistics service system across the border and giving play to the supervision and management role of the government.

Keywords: Cross-border e-commerce, Credit risk, Development status, Solutions.

1. Introduction

Cross-border e-commerce refers to the transaction of online purchase and products sales and services across the border using the Information and Communication Technology (ICT), with buyers and sellers located in two different countries and jurisdictions [1]. Influenced by COVID-19 prevention and control policies in China, Chinese consumers are more willing to choose online shopping than offline shopping. According to the data from the China E-commerce Research, the market size (growth rate) of China's cross-border e-commerce in 2019-2021 was 10.5 trillion yuan (16.66%), 12.5 trillion yuan (19.04%) and 14.2 trillion yuan (13.6%), respectively. In the first half of 2022, the market scale of China's cross-border e-commerce has reached 7.1 trillion yuan, and is expected to reach 15.7 trillion yuan in 2022. In the post epidemic stage, compared with the traditional model of foreign trade, cross-border e-commerce has shown greater tenacity and more potential. Chinese government has also attached more importance to the development of cross-border e-commerce as a new model. The development of cross-border e-commerce has led to changes in the entire industrial chain, providing a new way for Chinese products to enter and open up the international market.[2].

However, China's cross-border e-commerce has not only met the opportunities brought about by the transformation of consumption and business models, but also faces challenges in terms of risks and competition. Especially, the lag of credit risk prevention is a severe bottleneck for the sustainable development of China's cross-border e-commerce in the future [3]. Credit risk is a crucial factor for the final conclusion of transactions on cross-border e-commerce platform in China, and also an important reason for consumers to choose online shopping across the border e-commerce [4]. Therefore, this paper takes "Credit Risk and Countermeasures of Cross-border E-commerce in China" as the research topic, and studies the credit risks caused by the stakeholders of cross-border e-commerce consumers, which

has certain theoretical and practical significance for promoting the development of cross-border e-commerce in China.

2. Previous Research

The rapid development of cross-border e-commerce and mismatched credit evaluation mechanisms have increased the uncertainty and risk of network transaction, resulting in the occasional occurrence of credit problems such as online counterfeit sales, false information and refund fraud[5]. These problems of cross-border e-commerce have become key factors restricting the development of cross-border e-commerce. At present, some platforms of cross-border e-commerce in China are not highly visited and a large number of consumers are lost, due to few interactions between platforms and consumers and consumers' lack of dependence on the platforms, [6]. In many cases, product information is incomplete or opaque, and consumers can only learn about the that from the merchant. However, in fact, there may be differences between the physical product and the description of the seller[7]. The seller's integrity involves whether the price of the product is lower than the domestic sales price, whether the product function meets the description or commitment, whether the product is a fake or shoddy product, whether the goods can be delivered on time, and whether the after-sales service can be achieved in line with the promise, etc.[8]. Cross-border e-commerce in China has logistics risks such as low delivery efficiency, high transportation costs and complicated procedures for return and replacement. Overseas warehouses are an effective way to solve above problems [9].

Therefore, credit is a valuable intangible asset in cross-border e-commerce transactions. Only when consumers have confidence in cross-border e-commerce platforms can it continue to run smoothly[10]. Based on an online questionnaire survey of 19,100 consumers, it was confirmed that cross-border trade costs, parcel delivery and online payment systems are important factors affecting the cross-border purchasing decisions of EU consumers[11]. Through

empirical research, six major risk factors are identified as affecting consumer risk perception, including cost performance, logistics distribution, customer service, product quality, product authenticity and product shelf life, which provide useful information for cross-border e-commerce to adjust its business strategy and promote the development of cross-border e-commerce. [12]. Research shows that consumers' concerns about credit risks of can be reduced by ensuring product quality, improving taxation system, electronic payment platform and international logistics system, which is of great significance for the risk prevention of cross-border e-commerce [13].

In a word, by sorting out existing literature, scholars have conducted some studies on the problems and influencing factors in the development of cross-border e-commerce. However, generally speaking, there is little relevant research literature, and no scientific and standard management suggestions have been formed. Therefore, the research content and conclusion of this paper can not only fill the gap in the theoretical research, but also have some realistic economic value for enhancing the purchase intention of Chinese consumers in cross-border e-commerce and exploring the international market.

3. Credit Risks of China's Cross-border e-commerce

Based on relevant research literature, this paper considers the following credit risks of consumer transactions in cross-border e-commerce from the perspective of all relevant stakeholders:

3.1. Credit risk from cross-border e-commerce sellers

Because of the internationality, virtuality and untouchability of the shopping process in cross-border e-commerce, the cross-border e-commerce consumers do not know much about sellers. They can only obtain information from the seller's description of goods, online comments of previous buyers, recommendation of relatives and friends, etc..These situations lead to the asymmetric distribution of information between sellers and buyers. In addition, sellers are obviously have an information advantage, which makes consumers face credit risk. The seller's credit mainly involves whether the commodity price is reasonable, whether the commodity quality meets the description or commitment, whether the commodity can be delivered on time, and whether the after-sales service can be fulfilled. Whether the seller has credit risk is the most worrying issue for cross-border e-commerce consumers.

3.2. Credit risks brought by cross-border e-commerce platforms

When cross-border e-commerce consumers are inclined to shop, their first choice is cross-border e-commerce shopping platforms. Some behaviors will pose a serious threat to the reputation of cross-border e-commerce platforms and directly affect consumers' trust perception and purchase decisions. For example, the popularity and reputation of cross-border e-commerce platforms, the security of transactions and the convenience of operation, as well as the control and supervision carried out by cross-border e-commerce platforms on sellers, and whether they provide real advertising and reliable products. For another example, the

preferred cross-border consumption platforms of Chinese consumers include Amazon, JD Global, Tmall International, etc. These platforms have given consumers a sense of trust because of their strict checks and requirements on goods, services and logistics.

3.3. Credit risks brought by cross-border e-commerce third-party payment

Cross-border e-commerce has added third-party payment in the transaction process. Although third-party payment provides convenience for cross-border economic circulation, considering the actual situation, the transaction environment of cross-border e-commerce is not absolutely safe. What's worse, it's more vulnerable to illegal attacks by hackers than traditional transaction methods, which makes it difficult to guarantee the security of cross-border e-commerce consumers. The credit risks of cross-border e-commerce third-party payment include the security of payment, timely refund security, personal privacy information protection, account security, etc. Therefore, it is maintaining the competitiveness of cross-border e-commerce market, creating the value of cross-border third-party payment and meeting the expectations of cross-border consumers that is crucial to improving the transaction rate of cross-border e-commerce.

3.4. Credit risks brought by cross-border e-commerce third-party logistics

Cross-border logistics, as a link between cross-border e-commerce platforms, sellers and consumers, is an important basis to measure the satisfaction of cross-border e-commerce consumers. Credit risks of cross-border e-commerce logistics are mainly manifested in the following aspects: packet loss rate and damage rate of goods, long transportation time, low delivery accuracy, complicated intermediate links, low quality of employees, complex compensation procedures, responsibility shirking, low satisfaction with complaint handling, and lack of relevant legal supervision. These will, to a large extent, affect the judgment of cross-border e-commerce consumers, and even the trust and satisfaction of the whole industry. Therefore, it is more important than ever to improve the service level of third-party logistics of cross-border e-commerce.

4. Suggestions

The credit risk faced by Chinese cross-border e-commerce consumers seriously restricts the development of cross-border e-commerce online shopping industry. This paper believes that the sellers, platforms, third-party service providers and the government of cross-border e-commerce should actively respond to reduce the credit risks in cross-border e-commerce transactions, enhance the trust perception of cross-border consumers, and promote the healthy development of cross-border e-commerce.

4.1. Establish a credit evaluation mechanism for cross-border e-commerce sellers

The untrustworthy entities faced by cross-border e-commerce consumers mainly are independent sellers. The indicators for evaluating sellers' credit mainly include commodity quality, qualification certification, cumulative turnover, after-sales service, and consumer historical evaluation records. Therefore, the credit risks of cross-border e-commerce sellers should be reduced from the following

aspects: Firstly, strengthen the construction of sellers' reputation, be honest and trustworthy, abandon speculation, and exchange the trust of the consumers with integrity. Sellers' reputation is the first and the most wanted information for consumers, especially for new customers, which is not only related to the success of the transaction but also often related to subsequent transactions. Secondly, build an effective mechanism for information exchange, increase the transparency of information between buyers and sellers of cross-border e-commerce, and reduce the risk of uncertainty in transactions. Thirdly, establish a sound mechanism for credit evaluation, such as credit tracking mechanism, public qualification certification information, consumers' historical evaluation records, etc., can increase the mutual trust between two sides, promote the completion of the transactions and repeated purchase by buyers. Fourthly, improve the level of communication and service of customer service. Consumers of cross-border e-commerce can obtain information not only through promotional pictures, texts and videos provided by sellers, but also from the customer service of sellers.

4.2. Improve the supervision system of cross-border e-commerce platforms

The improvement of the credibility of cross-border platforms can attract more buyers and sellers to participate in cross-border e-commerce transactions, so as to improve the visibility of the platforms and increase profits. This paper believes that the construction of cross-border e-commerce platforms can be strengthened from the following aspects. Firstly, establish and improve the system of platform approval and authorization in terms of institution. For example, in respect to strict examination system for entering, sellers must use real-name. with regards strict examination and record about sellers' business qualification, enterprise certification, reputation and other information, sellers must pay a certain amount of deposit for guaranteeing reputation. Secondly, , establish a routine inspection system in terms of daily operations. For example, regular inspections will be combined with random inspections to prevent some sellers from lowering their operating standards after approval of platform entry. Thirdly, , combine seller's behavior with reward and punishment system in terms of management measures. Rewards are given to sellers with high credit ratings in consecutive months, and conversely, penalties are imposed on sellers with low credit ratings and malicious fraud in consecutive months. Fourthly, focus on improving the overall credibility of the platform. For negative events or information on the platform, it can be timely and properly handled to enhance the recognition and confidence of cross-border e-commerce consumers on the platform, and create continuous cooperative relations with sellers on the platform.

4.3. Build a cross-border e-commerce third-party payment security system

In order to ensure the interests of buyers and sellers of cross-border e-commerce, it is necessary to further optimize the third-party payment service system including payment process and reduce the credit risk of cross-border e-commerce payment. Firstly, improve the technical capabilities of third-party payment and provide online payment services to safeguard third-party payment and bank payment systems. Secondly, strengthen the construction of third-party payment professionals and security checking regularly. Besides, deal with hidden dangers in the payment system that may bring

adverse consequences to consumers, and ensure the security of consumers' capital transactions. Thirdly, strictly review the payment registration information, implement the real-name system for user registration, check valid identity documents and other materials, and associate the payment system with the identity verification system of the Public Security Bureau to ensure the authenticity of the payer and the payee. Fourthly, the application of "blockchain" technology in cross-border e-commerce business can not only guarantee security, rapid bookkeeping, cost saving and information verification, but also realize payment without restriction, fast receipt of accounts, convenient withdrawal with no hidden costs, and realize the convenience of payment and liquidation of cross-border e-commerce transactions between buyers and sellers.

4.4. Improve reasonable cross-border logistics service system

At present, cross-border e-commerce can avoid credit risks caused by logistics in the following ways: firstly, strengthen the construction of cross-border overseas warehouses. Overseas warehousing can reduce the frequency of transportation and customs clearance in cross-border logistics. It can also save the cost in the delivery process, make cross-border sellers avoid storage restrictions, and reduce the return time and cost of cross-border buyers. In order to cut down the costs of construction and operation of overseas warehouses, it is advocated that different enterprises jointly build and share overseas warehouses, so as to improve the efficiency of cross-border logistics. Secondly, improve the level of cross-border logistics informatization. For example, the entire cross-border logistics process can be digitized and electronicized to achieve real-time tracking, sort of goods, and reduce manpower and logistics costs, to improve the efficiency of the entire cross-border logistics. Thirdly, improve distribution services of cross-border logistics. For instance, the service mode of cross-border logistics can be innovated in the processing, sorting, distribution, customs clearance and other links of orders so the processing capacity of order delivery and the speed and accuracy of delivery can be improved, and the service information of cross-border logistics can be delivered to customers timely. Fourthly, the selection and training mechanism of cross-border logistics personnel should be improved to cultivate comprehensive talents with professional logistics knowledge and foreign language proficiency.

4.5. Give play to the supervision and management role of the government

At present, the construction of credit system is lagging behind in China. An authoritative credit system has not been formed yet, and many places have not established basic credit construction such as information sharing mechanism. Firstly, improve laws and regulations related to credit. When the country gradually improves the credit legal system of cross-border e-commerce and builds a credit investigation system, credit information sharing will be realized if the credit data of the transaction entities on the platform is effectively connected with the national credit system. that . For example, China has issued some policies and regulations to promote the development of cross-border e-commerce market. In March 2021, the Ministry of Commerce and other six departments jointly issued the Notice on "Expanding the Pilot Project of Cross-border E-commerce Retail Import and Strictly Implementing the Regulatory Requirements". In November

2021, the State Council approved the Ministry of Commerce and other departments to organize the implementation of the “14th Five-Year Plan for High-quality Development of Foreign Trade”. In May 2022, the General Office of the State Council issued “The Opinions on Promoting the Stability and Quality of Foreign Trade”. The establishment of these credit legal systems for cross-border e-commerce can not only restrain the dishonest behavior of transaction entities, but also improve the public’s awareness of honesty and trustworthiness. Secondly, raise the entry threshold of cross-border e-commerce industry. To continuously ensure the quality of goods and services in cross-border e-commerce transactions, the government should normalize industry standards and formulate detailed rules and regulations, including the business scope, registered capital amount and punishment mechanism of platforms, sellers and third-party service providers. Thirdly, strictly supervise the cross-border e-commerce market. For cross-border e-commerce-related enterprises that do not meet the regulations, their entry into the cross-border e-commerce field is strictly restricted, by doing so, to promote the healthy competition of enterprises – related to cross-border e-commerce and maintain the order of cross-border e-commerce industry in China.

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