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**'Fostering Effective Trade Logistics in a Digital World'**

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Good afternoon everyone, I'm delighted to have been invited back to host this session of the UNCTAD ecommerce week. I thought it would be useful for me to set the scene for this afternoon's discussions, laying out what a significant opportunity cross-border e-commerce presents to all of markets, but emerging markets in particular.

The global B2C cross-border e-commerce market is expected to increase in size to US$1 trillion in 2020, from US$230bn in 2014, according to a report from global consulting firm Accenture and AliResearch, Alibaba Group's research arm.

Another report by DHL says that cross-border e-commerce accounts for 15% of global e-commerce sales. By 2020, that share is expected to rise to approximately 22%.

DHL also states that around 20% of cross-border purchases are worth over $200, a higher share than in domestic markets, providing especially high profit potential. In addition, every tenth US dollar of cross-border e-commerce revenue is made through a time-definite premium shipment.

The scope of cross-border e-commerce is expanding. Fashion and electronics have long been cross-border top sellers, but consumers are now branching out further. Presently underserved product categories include beauty and cosmetics, pet care, food and beverage, and sporting goods.

Researchers forecast that cross-border online shopping will see compound annual growth of over 25% over the next five years. This is double the rate of worldwide online retail sales as a whole. By 2020, more than 900m people around the world will be international online shoppers with their purchases accounting for nearly 30% of all global B2C transactions.

**Geographical differences and opportunities**

Of course, cross-border e-commerce dynamics vary country by country. In the US, for example, e-commerce consumers exhibit low levels of cross-border shopping. According to a PayPal study only 22% of digital buyers in the US had made a cross-border purchase in the past 12 months: the lowest level of overseas buying behaviour in the Americas. This contrasts with 67% of internet customers in Canada.

Cross-border online shopping is gaining popularity particularly in emerging markets, where consumers can find it hard to find affordable products in local shops. In many cases the only alternative is shopping on websites in other countries or from marketplaces such as Alibaba Group's Tmall.com, a Chinese B2C website that hosts merchants from around the world.

Let's first take a look at China. According to the Accenture-AliResearch report, China is expected to drive much of the growth in coming years, due to the country's large and growing middle class' hunger for foreign products. China's middle class today is equal in size to the entire US population and is expected to reach 630m by 2022, according to McKinsey. Cross-border e-commerce in China is growing particularly fast, increasing more than 70% year-on-year.

Chinese consumers using more reputable cross-border e-commerce sites also feel a degree of protection from fake or counterfeit goods, in some way protecting their purchases.

In an effort to stem illegal 'grey-market' imports, the Chinese government has created a favourable postal duty on a large list of personal-use items and duties and taxes of less than 50 RMB are typically waived. Eight Chinese cities have established trade zones qualifying for this tax regime, with more likely to do so, and e-commerce players have moved to speed up the clearance of goods through customs. Established logistics operators are building new distribution channels to handle the expanding trade.

South East Asia

Widening out to a look at South East Asia, the e-commerce market is expected to grow with a CAGR of 32% over the next five years. The region is home to some 600m consumers, 260m of which are already online. This makes the South East Asia region the largest market of internet users globally. It is for this reason that both Amazon and Alibaba have increased their interest in this wider region.

However, a number of South East Asian countries, including Singapore, Thailand and Malaysia, are now considering the implementation of an e-commerce tax to 'level the playing field' as these online purchases are not always subject to the GSTs incurred by national retailers. For example, in Thailand the revenues department is proposing repealing the VAT exemption on imported goods worth less than 1,500 baht (US$47). This could dampen demand.

Mexico

The Mexican e-commerce market is estimated to be growing at an annual rate of 17%. Online purchases currently only represent 2% of the country US$203bn in annual retail sales, representing a huge opportunity as Mexicans have only recently been introduced to the benefits of online shopping. There are currently 37.9m online shoppers in the country, expected to rise to 55.3m by 2020.

However, the growth of this sector is being hampered by security concerns over payments. To combat this, Amazon has partnered with a local retailer allowing its customers to pay for their purchases with cash. The market has low competition and with the rate of growth, Mexico could become the most important market in Latin America. There is a high demand for foreign goods, with the US accounting for 48% of all Mexico's imports. China, Japan, South Korea and Germany are also important sales targets for Mexican consumers.

India

The Indian e-commerce market is predicted to grow spectacularly by 1,200% to US$200bn by 2026, up from $15bn in 2016, according to the bank, Morgan Stanley. At this time, it has been estimated that the online retail market will account for 12% of the country's overall retail sales. Morgan Stanley believes that this growth is being driven by increasing internet penetration, a drop in data access costs, a shift to smartphones, and a flow of credit to consumers.

In 2017, only around 14% of India's internet users shopped online, compared with almost 64% in China, however, this is likely to change as consumers become more relaxed regarding purchasing goods online.

After years of waiting for legislation allowing overseas e-commerce companies to trade in India, Amazon now has a presence, whilst Alibaba has bought significant stakes in digital wallet Paytm and e-commerce portal Snapdeal.

**Barriers to cross-border e-commerce**

So, these are the opportunities, let's turn our attention to the challenges… Whilst gaining access to millions, if not billions, of new customers is an attractive proposition for e-commerce companies, targeting purchasers in foreign markets is not necessarily the easiest of strategies.

A survey from Ecommerce Europe, called "Barriers to growth", shows that 44% of companies selling abroad view cross-border logistics and distribution as a difficult barrier to overcome. Also, 15% of companies that do not sell internationally refrain from doing so because of excessive transportation costs.

Apart from the obvious language and currency barriers, there are a raft of additional factors that can impact a retailer's ability to successfully operate on a cross-border basis. A recent UPS study of European cross-border purchases found that the top considerations when purchasing from retailers in another country included:

- Payment security
- Clearly stating the total cost of the order including duties and fees
- A clear returns policy
- Stating all prices in the shopper's native currency; and
- The speed of delivery

In Europe – an economic grouping governed by a set of compatible customs, taxation and trading regulations, with the vast majority of markets adopting a single currency – cross-border e-commerce is a far simpler proposition than in many parts of the world.

Trading conditions become far more complicated in regions such as Asia, where developed markets trade with emerging economies, all countries have independent regulatory environments, different languages and currencies and most are separated by large bodies of water. This results in a completely different, or at least exacerbated, set of issues the e-commerce companies must navigate.

Let's start with **payments**. Fraud is a major challenge faced by e-retailers operating on a cross-border basis. E-commerce sites need to use a reputable and robust payment system that is cognisant of local customer behaviour to reduce possible fraudulent purchases.

Many emerging economies will comprise cash societies, e.g. not being heavy users of bank credit or debit cards. Consumers in these markets often rely heavily on 'cash on delivery' (COD) payments which comes with its own set of unique issues. COD purchases, where the goods are paid for on receipt of delivery – handing cash over to the delivery driver – incurs a very high return rate, especially on cross-border transactions where the transit time is far longer. Often, during the time that it takes to deliver the goods, the consumer has found a similar product locally. As there is no penalty, or need to request a refund, the purchaser simply refuses to accept the delivery. This places additional cost onto the e-commerce seller, especially as the return element often also comprises an international shipment.

For those purchases that are completed, the last-mile operator will need to collect the cash payment and then transport this to a secure facility. To reduce the risk, some companies use the services of local retail outlets that offer cash collection services. The funds are then sent electronically back to the merchant.

Also, cross-border payments should be fully transparent to ensure that all transport costs, local taxes, duties and fees are included so that customers are not surprised by additional government levies when their online purchases arrive at their final destination. Understanding local taxation and ensuring that the customer pays accordingly is crucial; otherwise the purchase may be returned, incurring additional, expensive, costs.

Secondly, **returns**. The returns element is just as important as the last-mile delivery and can negatively impact the perception of a business by local customers. However, unlike domestic e-commerce, cross-border returns are far more expensive, and some retailers have adopted different strategies to try to reduce this expense. When UK e-retailer ASOS, for example, started servicing US customers it did so from its UK stockholding. To reduce returns cost, which can be as high as 50% to 60% in the fashion sector, ASOS directed all US returns to a US distribution centre, the intention being not just to reduce costs but to also build up some inventory in the country.

Thirdly I want to briefly mention **regulations**. Regulations surrounding local and overseas e-commerce sales will differ country by country and cross-border e-commerce sellers must be aware of these in order to adapt their approach in each target market.

As mentioned earlier, a number of countries in South East Asia, and also Australia, are implementing additional taxes on online goods purchased from non-domestic sellers, and these costs will have to be either passed on to the consumer or borne by the retailer. Also, changes in tax free import tariffs can impact growth opportunities, turning what was previously a profitable cross-border market into an unattractive proposition for overseas sellers within a very short time-frame.

And finally, **trust**. Trust is one of the biggest issues facing companies wanting to sell their products online internationally. As e-commerce sites need robust payments systems to reduce fraudulent purchases customers must be convinced that the websites they buy from are reputable and honest – a task that is far harder to check and police internationally.

There are many other issues which we will need to discuss this afternoon such as urban last mile delivery challenges and the impact of so-called 'diesel-bans'. I'm sure we will also go on to talk about the impact of e-commerce logistics on workers and the new ‘gig economy’. But hopefully this has provided an introduction to the challenges as well as the opportunities involved in Fostering Effective Trade Logistics in Digital World.

**Thank you.**