Cross-border E-commerce Financing Problems and Countermeasures under the Background of "Belt and Road"

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Keywords: "Belt and Road"; cross-border e-commerce; financing

Abstract: The launch of "Belt and Road" accords with the development trend of common progress of mankind. As a result of mutual economic integration, it conforms to the common aspirations of all countries to pursue openness and mutual benefit, which facilitates commercial and trade exchanges among countries. In particular, it offers important opportunities for our cross-border e-commerce enterprises to enter the international market and participate in international competition and cooperation. However, while cross-border e-commerce enterprises participate in “Belt and Road” initiative, increasingly prominent financing problems show up, which in turn restricts the capital export of such enterprises in foreign trade. The paper first points out capital shortage of cross-border e-commerce enterprises in the "Belt and Road" initiative, and then proposes corresponding countermeasures and suggestions to help cross-border enterprises access more convenient and safer funds in the "Belt and Road" development process, which will secure a benign capital flow for enterprise development and guarantee stable corporate development.

1. Overview of cross-border e-commerce enterprises under the background of "Belt and Road"

1.1 "Belt and Road" development background

The “Belt and Road” initiative enjoys a long history of development. After long historical evolution from the “Silk Road” pioneered by the Chinese in the Han Dynasty to the modern “Belt and Road”, this cultural road has become a bridge for close ties and communication between countries. In November 2014, President Xi Jinping provided 40 billion U.S. dollars to set up a fund for the Silk Road as a modest contribution to the implementation of related projects; on December 25, 2015, a new multilateral financial organization initiated by China and actively supported by 57 countries was formally established; in May 2017, the first "Belt and Road" International Cooperation Summit Forum proposed and chaired by China was held in Beijing. Countries exchanged opinions and reached broad consensus on issues such as future development strategies and humanities. As of August 2019, China has signed a total of 195 memoranda of understanding or cooperation agreements with 166 partner countries and national organizations. The coverage of signatories has extended from Eurasia to Africa, Central and South Asia, West Asia and the South Pacific. The purpose of "Belt and Road" is to extend the cultural connotation of the ancient Silk Road, strengthen exchanges, deepen cooperation and establish mutual aid institutions in economic and trade with the regions along the Road. As countries are committed to establishing a new type of cooperative partnership that incorporates interests, destiny, and responsibilities, a new model of international trade cooperation is formed. This represents a new reality in which countries are in a state of mutual political trust and cultural tolerance, which aims to promote further enhancement in each country’s economic strength [1-3].

1.2 Overview of cross-border e-commerce enterprises

Recently, as cross-border e-commerce continues to grow in practice, people have gained more accurate theoretical summaries and understanding towards its laws. It is generally believed that cross-border e-commerce is defined from the three perspectives of "cross-border", "electronic" and "commerce". That is, it is a business activity in which transaction subjects belonging to different
borders undergo substantive cross-border logistics process, and complete transaction through electronic platform, the information network carrier. At present, driven by Internet technology, international trade has entered a stage with new business formats parallel to traditional ones. Cross-border e-commerce has profoundly changed the trade structure and the supply-demand relationship, providing continuous development momentum. In particular, faced with frequent trade frictions and the spread of COVID-19 epidemic, cross-border e-commerce, with its "small, fast and flexible" characteristics that are different from traditional formats, can effectively deal with cross-border supply chain obstacles, thus becoming a new highlight and growth point in foreign trade. As of April 2018, China has approved the establishment of 35 cross-border e-commerce comprehensive pilot zones, which basically cover major first- and second-tier cities. Under the "Belt and Road" cooperation framework, the Ministry of Commerce has established bilateral e-commerce cooperation mechanisms with 18 countries including Vietnam, New Zealand, Brazil, and Italy, etc. It is estimated that by 2021, global e-commerce retail sales will grow to 4.5 trillion U.S. dollars, accounting for 16% of total retail sales.

With its advantages of high efficiency and low cost, cross-border e-commerce has won the favor of many enterprises, bringing big capital demand. However, according to relevant data, the overall investment and financing volume of cross-border e-commerce industry exhibits a sharp decline since 2018. The important reasons come from the following two aspects: on the one hand, with the continuous participation of Internet giants, the major markets and platforms of the cross-border e-commerce industry have been relatively stable; on the other hand, with the continuous introduction and innovation of cross-border e-commerce policies, the capital market takes increasingly cautious position on the cross-border e-commerce industry. Restricted by its own scale and management model, cross-border e-commerce regions encounter some problems and difficulties in the development course, among which financing problem is particularly prominent. Cross-border e-commerce enterprises lack liquidity as a support point, and faces even greater difficulty in expanding business sectors in the development process. It is worth noting that amid the rapid domestic development of cross-border e-commerce enterprises, competition in the international market has become more intense. Some enterprises encounter financial difficulties in development and even face the risk of bankruptcy at one time. Therefore, it is of great practical significance to study financing of cross-border e-commerce enterprises in the context of the “Belt and Road” initiative.

2. The financing status of cross-border e-commerce enterprises under the background of "Belt and Road"

2.1 Big capital demand and single financing channel

For general enterprises, cashability of liquidity is an important symbol for quality of corporate capital flow. However, seen from its main business nature, compared with other companies, in addition to impaired general inventory cashability, cross-border e-commerce enterprises also face loan with longer payback cycle, currency exchange losses, longer export rebate cycle, and occupation of platform funds. These unfavorable factors result in greater demand for liquidity support in cross-border e-commerce enterprises. Many e-commerce enterprises in China have always adopted single financing channel for direct equity financing. The reason is that, in terms of indirect financing, cross-border e-commerce enterprises with higher operating risks face greater difficulty in passing bank risk assessment; in terms of direct financing, faced with high-standard financing requirements for the capital market, e-commerce enterprises have greater difficulty in successful financing through IPOs; in terms of private lending, the comprehensive capital cost of Chinese enterprises is mostly 10%-15%, which is 3-5 times higher compared to developed countries such as the United States. The high financing costs also discourage cross-border e-commerce enterprises.
2.2 Imperfect credit guarantee system

To gain financing from banks, etc. cross-border e-commerce enterprises generally face high threshold requiring asset mortgages or third-party credit guarantees. However, most cross-border e-commerce enterprises are asset-light enterprises with few fixed assets and lacking guarantees and collateral. Therefore, third-party credit guarantees have become the first choice. China's credit mechanism system is still imperfect, lacking a credit scoring system and precise technical experts, which makes it impossible to accurately guarantee and evaluate cross-border e-commerce enterprises. Generally with low credit scores, e-commerce enterprises face great difficulty in obtaining loans from banks or other financial institutions.

2.3 Lack of relevant laws, policies and coordinated management institutions

The state's policies and laws on financing of cross-border e-commerce enterprises are imperfect. Corporate development is inseparable from good national policies and institutional guarantees, which is also true for corporate financing. Under macroeconomic conditions, only when the government formulates scientific policies, it is possible to solve the financing dilemma of cross-border e-commerce enterprises from the perspective of macro environment. However, observation of our current policies and legal systems reveals that many policies and laws have not yet been implemented regarding financing of cross-border e-commerce enterprises. Compared with developed countries, the Chinese government has not yet formulated legal provisions applicable to financing of cross-border e-commerce enterprises. Although China currently has legal provisions and policy documents on financing, the main targets are enterprises in traditional industries, and funds are preferentially allocated to mature state-owned and central enterprises. Therefore, it is increasingly difficult for emerging cross-border e-commerce enterprises to raise funds.

3. Relevant suggestions on solving financing problems faced by cross-border e-commerce enterprises in "Belt and Road" initiative

3.1 Diversify financing channels and strengthen financing capabilities of cross-border e-commerce enterprises

With the diversification of financing channels and the introduction of a series of supportive funding policies under the “Belt and Road” initiative, financing capabilities of cross-border e-commerce enterprises will also grow. As the e-commerce industry matures slowly, e-commerce enterprises will have more financing options for comparison, which will further expand their influence and advance their development. To support the development of foreign trade including cross-border e-commerce, relevant state departments have introduced corresponding guidance measures. Banks and other financial institutions have innovatively introduced various new financing methods such as export bill purchase mode financing, packaged loan financing, export rebate account custody financing, and supply chain mode financing. Some third-party cross-border e-commerce platforms can also provide short-term financing services for cross-border e-commerce enterprises. For example, Alibaba’s OneTouch platform has launched financing services oriented to cross-border e-commerce, including stock financing, tax refund financing, letter of credit financing, credit sales financing, which can effectively overcome the dilemma of insufficient collateral assets and weak financing guarantees in cross-border e-commerce financing. Some cross-border e-commerce enterprises with good development prospects through technology or market innovation can also actively seek for venture capital to raise funds. Now, many emerging cross-border e-commerce enterprises acquire funds needed for development through venture capital such as angel financing, A, B, C, and X rounds of financing. For some cross-border e-commerce enterprises that stick to traditional financing channels, they need change their financing concepts, pay close attention to and actively use these emerging financing modes to effectively broaden financing channels.
3.2 Improve the credit guarantee mechanism of the cross-border e-commerce industry

The first is to build mutual trust among cross-border e-commerce enterprises. The second is to improve the internal governance structure of cross-border e-commerce enterprises and establish a guarantee fund. This depends on the government’s assistance in establishing a complete corporate credit information system in the bank credit registration system, which will provide external constraints, and improve the company's honesty and trustworthiness. The third is to establish a third-party platform to accurately evaluate true credit status of cross-border e-commerce enterprises. On the one hand, use of network joint guarantees can effectively increase the default cost of cross-border e-commerce enterprises, and on the other hand, it can greatly reduce default risk of e-commerce enterprises. However, in actual financing activities, there are still many factors that can lead to corporate defaults, such as investment decision-making errors, poor management, incorrect development direction, etc. all of which cannot be controlled by third-party platforms via credit ratings. In view of this, in the future development, third-party platforms must further improve evaluation system against e-commerce enterprises, the main content of which should be corporate tangible and intangible assets. Where, intangible assets are difficult to evaluate, because the concerned factors such as social influence, customer stickiness, etc. cannot be quantified. In this way, it can only be analyzed by professionals using fuzzy analytic hierarchy process. After the third-party platform’s corporate evaluation system is formally established, all links can be evaluated and scored by professional institutions, and then evaluation report can be produced based on the weight of different indexes to provide valuable reference ideas to financing institutions and banking departments. Finally, we need train more talents, appoint more executives, and establish a reasonable promotion system, so that financial concept runs through the entire enterprise operation process.

3.3 Improve relevant laws and regulations to comprehensively support cross-border e-commerce enterprises

Under the call of "Belt and Road", domestic cross-border trade atmosphere is strong, and more and more enterprises have begun to establish cross-border e-commerce business. The state has also formulated and issued a number of policies and laws to support the development of cross-border e-commerce enterprises. For instance, the "Notice on the Taxation Policy for Retail Export Goods in Cross-border E-commerce Comprehensive Pilot Zones" promulgated and implemented in 2018 revises and optimizes contents such as taxation and trade facilitation of cross-border e-commerce to promote its development. In addition, many documents that benefit cross-border e-commerce enterprises have been promulgated. Corporate development is inseparable from financial support, especially for cross-border e-commerce enterprises. Therefore, in terms of financing and credit, governments at all levels and relevant departments must accelerate financing system construction, establish a complete and sound legal system as soon as possible to see that cross-border e-commerce enterprises receive fair and just treatment in the market. Efforts should also be made to constantly standardize and promote the development and growth of cross-border e-commerce enterprises, so that cross-border e-commerce enterprises always maintain vitality and creativity.

4. Conclusion

In the context of the "Belt and Road" initiative, China ushers in vigorous development in cross-border e-commerce industry. However, financing difficulties have always plagued the rapid development of cross-border e-commerce. The financing dilemma of cross-border e-commerce is owing to both the enterprise itself and the social environment. Therefore, enterprises and governments should adopt corresponding strategies to solve the financing dilemma as soon as possible, so that cross-border e-commerce enjoys healthy and rapid development with the aid of the "Belt and Road" initiative.
Acknowledgments

This work is supported by Project of Basic Scientific Research operating Expenses under Heilongjiang provinc of Harbin Finance University (2018-KYYWF-018).

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