

Promoting Trade Development Between China and South Korea with eWTP

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Abstract. After signing the FTA, China and South Korea are widely regarded as the driving force for the sustained and rapid development of Sino-Korea economic and trade relations. However, statistics show that in the past three years, the growth rate of trade between the two countries has slowed down. Apart from the political factors of the THAAD incident, the traditional trade structure and trade methods have restricted the development space of trade between the two countries. It is difficult for SME products and small batch products to trade between the two countries. As a new international cooperation platform of openness, transparency, sharing, innovation and development, eWTP can activate more trade entities to complement the needs of the two countries with cross-border e-commerce, and expand product types and frequency to tap the potential of consumer demand as well as improve circulation efficiency to realize the best shopping experience for consumers.

1. Introduction

Since 2013, China has become Korea's largest trading partner and South Korea has become China's third largest trading partner. In 2015, China and South Korea signed the FTA, which added opportunities for the development of Sino-Korea trade. However, since FTA was signed, the growth rate of trade between the two countries has not been increased greatly. As an inseparable part of Sino-Korea trade, cross-border e-commerce has added new opportunities to the development of Sino-Korea trade. Take China's Double Eleven in 2018 as an example. In the overseas purchase of consumers, Korean products accounted for the third place, only after Japan and the United States. How to seize the opportunity in the digital age, further increase the trade volume between the two countries and improve the trade structure to achieve a win-win cooperation has become a common concern of the theoretical and business circles of the two countries. The eWTP launched by Alibaba in 2016 provides a good platform for the development of SMEs. Starting from the current situation of trade development between China and South Korea, this paper intends to analyze the reasons for the slowdown of Sino-Korea trade growth, and to make some suggestions for the development of Sino-Korea trade with eWTP.

2. Development status of bilateral trade between China and South Korea

2.1 After the China-South Korea FTA, the growth rate is slow

According to statistics from the Korea International Trade Association, from 2004 to 2014 (the year before the signing of FTA), except for the impact of the financial crisis in 2009, the trade volume between China and South Korea decreased slightly, it is steadily rising. Since 2013, China has become Korea's largest exporter with an export value of US\$142.12 billion. By 2018, South Korea's exports to China reached US\$162.13 billion. China and South Korea signed the FTA in 2015, however, the trade volume between the two countries has not increased significantly. Mainly affected by the THAAD incident, until 2017, the effect of the FTA gradually appeared. Especially in 2018, bilateral trade increased substantially, and the trade volume between the two countries reached 268.62 billion US dollars, as shown in Fig.1.



Fig.1 Sino-Korea trade amount from 2004 to 2018

Source: K-Statistics (KITA, http://global.kita.net/kStat/byCount_AllCom.do).

2.2 The trade structure of the two sides is single and has the same convergence

From the perspective of trade structure, after 10 years of development from 2004 to 2014, the top five products of South Korea's exports to China remain unchanged, which are (1)Electrical machinery & equipment, (2)Optical, medical instruments & apparatus, (3)Nuclear reactors, machinery,& mechanical appliances,(4)Organic chemicals and (5) Plastics & articles respectively. Its share on export to China increased from 71% to 75.22%; Export from China to Korea, the top three remained consistent, they are (1) Electrical machinery & equipment, (2) Nuclear reactors, machinery & mechanical appliances, and (3) Iron & steel respectively. The fourth resource-intensive products of Mineral fuels, mineral oils are replaced by Optical, medical instruments & apparatus. And the fifth labor-intensive articles of apparel & clothing, are replaced by Articles of iron & steel. The share of the top five products also increased from 54.55% to 61.22%. From 2014 to 2017, South Korea exported to China, the top five products remained unchanged, except that the third and fourth positions were reversed. Its share increased from 75.22% to 80.77%. The concentration of export products has further increased. China's exports to South Korea, the top four products remained unchanged, and the fifth became Organic chemicals. The export share of China's top five products fell slightly to 58.63%. This shows that China and South Korea have a single trade structure.

3. Reasons for the Slowdown in Sino-Korea trade growth

3.1 Political reasons make the trade growth between the two countries slow after the signing of the FTA

Li et al. (2015) pointed out in the study of the impact of China-South Korea Free Trade Agreement (FTA) on the economic and trade between China and South Korea that China-South Korea FTA will bring tremendous promotion effect to the economic and trade development and cooperation between the two countries^[1]. The FTA between China and South Korea is widely regarded as the driving force for the sustained and rapid development of bilateral economic and trade relations. However, six months after the FTA came into effect, South Korea, in spite of China's strategic interests and resolute opposition to the deployment of the THAAD anti-missile system, seriously damaged China's interests, and also made the trade volume between China and South Korea not rise but fall. Shen and Hu (2017) made a comparative analysis of the monthly growth rate of trade between China and South Korea and the monthly growth rate of China's overall trade with a simple double-difference idea, where it shows that the THAAD incident did have a serious adverse impact on China-South Korea trade^[2].

3.2 The traditional trade structure and trade methods have restricted the development space of trade between the two countries

Korea's traditional industrial and technological advantages are shrinking year by year. With the

implementation of Made-in-China 2025 strategy and the development of science and technology in China, the level of electronic technology has been rapidly improved, and a number of high-end electronic products enterprises have risen one after another. To some extent, their products have replaced the market position of Korean products. Taking semiconductor industry as an example, China already has a complete industrial chain of chip design, OEM and packaging testing, terminal manufacturing, sales and after-sales, which poses a major challenge to Korean Samsung and other superior enterprises. In addition, in recent years, China's capacity and technological capabilities in steel, shipbuilding and other industries have also been greatly improved and become the first three products exported to Korea which directly impact Korea's competitive advantage in these traditional industries.

The traditional superior products of the two countries have strong substitutability. Compared with China, Korea's advantage in global value chain is not entirely monopolistic technology, but more embodied in production technology and scale advantages, which can be completely replaced by other exporting countries^[2]. With the increase of labor cost in China, the export of Chinese traditional light industrial products such as clothing, shoes, hats and bags to Korea, which are resource-intensive and labor-intensive, is increasingly squeezed by Southeast Asian countries such as Vietnam, Indonesia and the Philippines^[3].

3.3 It is difficult for SMEs and small batches of products to enter the markets of both sides through traditional trade

Korea's clothing industry has always been famous for its fashion design and personality, but its scale is limited. Korean cosmetics are often considered suitable for Chinese skin, but the volume of export trade, especially small and medium-sized brand products, is very limited. Chinese small and medium-sized household appliances, electric toys, tablets and other small and medium-sized products, which are favored by Korean consumers, are also difficult to enter the Korean market in large quantities through traditional trade. As China's nearest neighbor, Korea has a high degree of Internet penetration, and hence bilateral cross-border e-commerce is full of business opportunities. Take double eleven as an example. On the day of double eleven in 2018, Alibaba sold 213.5 billion yuan and Jingdong 159.8 billion yuan. Among the overseas purchases, South Korea's trade volume occupies the third place, only after Japan and the United States.

4. Expanding the Development Space of Sino-Korea trade with eWTP

Different from the global free trade regime that privileges big businesses, eWTP is claimed to serve the interests of SMEs through Internet-enabled logistics, payments, and financing services, which was proposed by Ma, founder and executive chairman of Alibaba Group in 2016 (Shen, 2018)^[4]. Weihai, as the nearest Chinese city to Incheon, was approved as a national cross-border e-commerce comprehensive pilot area in 2018, which facilitated the development of cross-border e-commerce between China and South Korea. The frequent and intensive air and sea routes between China and South Korea and the start of the linkage between Incheon and Weihai can realize the arrival of goods between China and South Korea every other day or even the same day, and the logistics cost is low^[5]. Therefore, Korea's docking with eWTP has unique geographical and logistics advantages, which will help to further expand the development space of Sino-Korea trade.

4.1 Activate more trade entities to realize trade complementarity through cross-border E-commerce

Korea's accession to eWTP will help to stimulate more trade entities and make up for the traditional trade bottlenecks. In the traditional trading system, most of them are large multinational corporations, and many trade rules are beneficial to large trading companies^[6]. In Korea, consumers' participation in brands is low, especially for international brands. On the contrary, they regard product price, variety and delivery time as important factors affecting online shopping, while Chinese consumers pay more attention to fashion and cosmetic applicability of Korean clothing. The unique geographical advantages and logistics advantages provide business opportunities for cross-border e-commerce of

clothing, shoes and hats, household appliances and electronic products, daily necessities, stationery and toys, mother and child products of Chinese SMEs, as well as cross-border e-commerce of cosmetics, daily chemicals and clothing products of Korean SMEs. In 2019, Alibaba plans to support 1,000 cosmetic brands landing on the online shopping platform. As an open platform and system, eWTP can enable SMEs to get rid of traditional trade barriers, so that more SMEs in China and South Korea can get the stage of development in cross-border e-commerce. At the same time, in cross-border e-commerce, it can realize the trade complementarity between China and South Korea.

4.2 Expanding product categories and frequency to tap the potential of consumer demand by cross-border E-commerce

With the fast updating speed of cosmetics and clothing, the cognitive time of Korea's fashion products by Chinese consumers is greatly shortened. China's small household appliances, such as air purifiers, floor sweepers, vacuum cleaners are also favored by Korean consumers. In recent years, the number of transactions has increased rapidly. With the gradual upgrading and development of consumer demand from imitation, homogeneity, simplification to differentiation, individualization and diversification, eWTP, with the help of cloud computing and big data and other Internet technologies, can quickly understand consumption trends, and play a great role in leading consumption demonstration, expanding consumption areas and disseminating consumption hotspots, as well as improving consumption quality. It can also dig out the potential consumption demand restricted by traditional trade channels, and expand the development space of Sino-Korea trade by small batches and multi-frequency cross-border e-commerce.

4.3 E-commerce

Improve circulation efficiency, promote trade facilitation and realize consumers' best shopping experience

Circulation efficiency mainly includes customs clearance efficiency and circulation efficiency of logistics and capital flow. In cross-border e-commerce, the completion of a transaction requires the synchronous and opposite flow of commodity, logistics and capital data, especially in cross-border customs clearance links, the three kinds of data need to be fully matched to complete, as shown in Fig. 2.

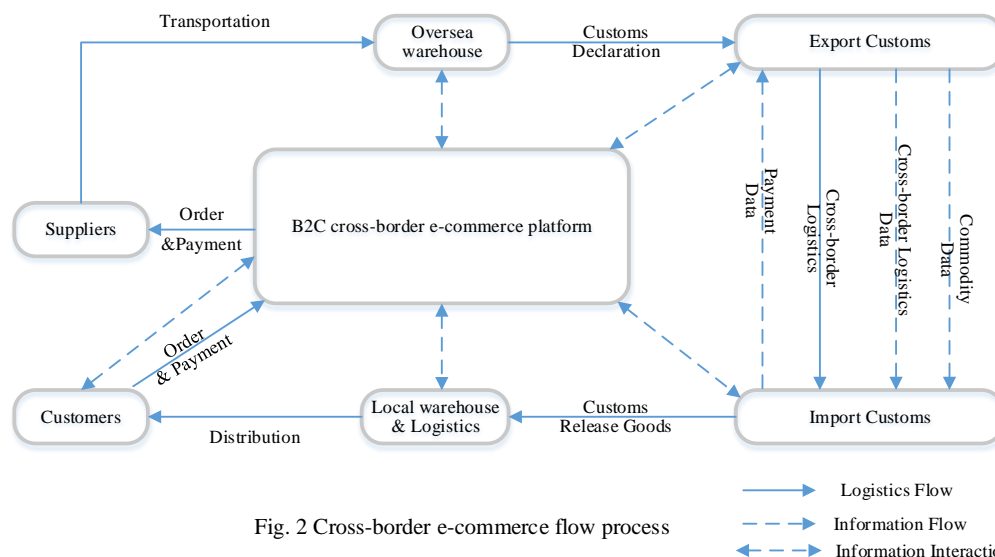


Fig. 2 Cross-border e-commerce flow process

Based on eWTP, small and medium-sized enterprises of China and Korea can simplify customs clearance process and reduce customs clearance time by means of digital customs clearance with big data, digital authentication and negative list. Through the convenient cross-border payment system, it can not only increase the trust of businesses in online transactions, but also protect the rights and interests of consumers. In fact, Alipay's contribution goes far beyond trading stability. For example, Korean e-commerce platforms have to pay for payment system companies (mainly credit card companies). The charge rate is about 1.5% - 3%. By contrast, because Alibaba has a payment system, it charges lower fees on Taobao than Korean credit card companies, which is conducive to both reducing the price of the seller's products and improving consumer welfare. Establishing an

intelligent logistics system, rationally utilizing cross-border e-commerce logistics modes such as direct mail, express delivery, overseas warehouse, bonded warehouse and special line transportation to reduce logistics time, can not only promote trade facilitation, but also realize consumers' best shopping experience.

5. Summary

In recent years, Sino-Korea trade is facing a series of problems, such as convergence of trade structure and slow growth of traditional trade. Apart from the slow growth of trade between the two countries after the signing of FTA due to political reasons, the traditional industrial and technological advantages of Korea are shrinking year by year, and the strong substitutability of the traditional products of the two countries limits the development space of trade between the two countries. EWTP provides business opportunities for small and medium-sized enterprises between China and South Korea to expand trade between the two countries. Cross-border e-commerce between SMEs can expand product types and frequency, and tap the potential of consumer demand, as well as achieve the best shopping experience for consumers. All these will inject vitality into the trade between China and South Korea and promote the development of international trade. Of course, it is not easy to establish eWTP as many challenges existed, such as customs requirements and operational differences for cross-border e-commerce clearance, inconsistent international payment and settlement systems, difficulties in providing cross-cloud services among cloud providers, in addition to political and non-discrimination issues.

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