

Research paper/Оригинальная статья

<https://doi.org/10.51176/1997-9967-2022-3-210-225>

SCSTI 06.71.15

JEL: O38, O57, D47



## Possibilities of Application of Foreign Experience in State Regulation of E-Commerce Market in Kazakhstan

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### Abstract

Currently, the e-commerce market in Kazakhstan is developing rapidly, establishing game rules within market relations and self-regulation. However, the immaturity of the state regulation system of the e-commerce market does not allow it to contribute to its development fully. The work is devoted to studying the foreign experience of state regulation of the e-commerce market in terms of its applicability in Kazakhstan. There were methods of systematization, analysis and synthesis, criterion analysis, and comparative evaluation in research. In the article, the authors justified the need for state regulation of e-commerce in Kazakhstan, which is due to the presence of positive and negative effects of the presence of electronic methods of commerce in the economy. To develop recommendations on state regulation of the e-commerce sphere, the experience of such countries as the United States, China, and Singapore, which have achieved significant success in the promotion of e-commerce, is studied. In particular, the specifics of government policy regarding regulatory impact, tax regulation, and support for e-commerce businesses are examined in detail. The significance of the study results lies in the priority development of the e-commerce market in Kazakhstan, which is called the driver of economic growth of the country, according to the provisions of the “Roadmap for e-commerce development in Kazakhstan until 2025” implemented under the state program “Digital Kazakhstan”. In addition, the study results can be used to prepare training materials in the undergraduate and graduate educational programs in the “E-commerce” discipline.

*Keywords:* Economy, E-commerce, Foreign Experience, Tax Regulation, Government Support, Digital Platforms, Online Stores, Information and Communication Technologies

**For citation:** Panzbekova, A. Zh., Azatbek, T. A., Turgel, I. D., & Zhanbozova, A. B. (2022). Possibilities of application of foreign experience in state regulation of e-commerce market in Kazakhstan. *Economics: the Strategy and Practice*, 17(3), 210-225, <https://doi.org/10.51176/1997-9967-2022-3-210-225>

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**Conflict of interests:** the authors declare that there is no conflict of interest

**Financial support.** The study was conducted within the framework of the Targeted Financing Program of the Science Committee of the Ministry of Education and Science of the Republic of Kazakhstan IRN OR11465433 “Development of the concept and mechanisms for balanced territorial development of the economy and society of Kazakhstan”.

**The article received:** 04.08.2022

**The article approved for publication:** 21.08. 2022

**Date of publication:** 30.09.2022

## Электрондық коммерция нарығын мемлекеттік реттеудің шет елдік тәжірибесін Қазақстанда қолдану мүмкіндіктері

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### Түйін

Қазіргі уақытта Қазақстанда электрондық коммерция нарығы нарықтық қатынастар және өзін-өзі реттеу аясында ойын ережелерін бекіте отырып жедел қарқынмен дамуда. Алайда электрондық коммерция нарығын мемлекеттік реттеу жүйесінің жетілмегендігі оның дамуына толыққанды ықпал етуге мүмкіндік бермейді. Мақала Қазақстан шарттарында қолдану тұрғысынан электрондық коммерция нарығын мемлекеттік реттеудің шетелдік тәжірибесін зерттеуге арналған. Зерттеу әдістері ретінде жүйелеу, талдау және синтездеу, критериялы талдау, салыстырмалы бағалау әдісі қолданылды. Мақалада авторлар Қазақстандағы электрондық коммерция саласын мемлекеттік реттеу қажеттілігін негіздейді, бұл экономикада коммерцияны жүргізудің электрондық әдістерінің болуының оң және теріс әсерлерінің болуымен байланысты. Электрондық коммерция саласын мемлекеттік реттеу бойынша ұсыныстар әзірлеу үшін электрондық коммерцияны ілгерілетуде айтарлықтай табысқа жеткен АҚШ, Қытай және Сингапур сияқты елдердің тиісті тәжірибесі зерттеледі. Атап айтқанда, реттеуші ықпал, салықтық реттеу және электрондық коммерция кәсіпорындарын қолдау бойынша мемлекеттік саясаттың ерекшеліктері жан-жақты қарастырылған. Зерттеу нәтижелерінің маңыздылығы Қазақстан Республикасы 2025 жылға дейін» мемлекеттік «Цифрлық Қазақстан» бағдарламасы аясында жүзеге асырылатын «Қазақстан Республикасында электрондық коммерцияны дамытудың жол картасының» ережелеріне сәйкес елдің экономикалық өсу драйвері деп аталған электрондық коммерция нарығын басым дамыту болып табылады. Сонымен қатар, зерттеу нәтижелерін «Электрондық коммерция» пәні бойынша бакалавриат және магистратурадағы білім беру бағдарламалары шеңберінде оқу материалдарын дайындауда пайдалануға болады.

*Түйін сөздер:* экономика, электрондық коммерция, шетелдік тәжірибе, салықтық реттеу, мемлекеттік қолдау, цифрлық платформалар, интернет-дүкендер, ақпараттық-коммуникациялық технологиялар.

**Дәйексөз үшін:** Панзабекова А.Ж., Азатбек Т.А., Тургель И.Д., Жанбозова А.Б. (2022). Электрондық коммерция нарығын мемлекеттік реттеудің шет елдік тәжірибесін Қазақстанда қолдану мүмкіндіктері. Экономика: стратегия және практика, 17(3), 210-225, <https://doi.org/10.51176/1997-9967-2022-3-210-225>

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**Қаржыландыру:** Зерттеу Қазақстан Республикасы Білім және ғылым министрлігі Ғылым комитетінің ЖТН OR1 1465433 «Қазақстан экономикасы мен қоғамының теңгерімді аумақтық дамуының тұжырымдамасы мен механизмдерін әзірлеу» нысаналы қаржыландыру бағдарламасы шеңберінде әзірленген.

**Мақала редакцияға түсті:** 04.08.2022

**Жариялау туралы шешім қабылданды:** 21.08.2022

**Жарияланды:** 30.09.2022

## Возможности применения зарубежного опыта по государственному регулированию рынка электронной коммерции в Казахстане

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### Аннотация

В настоящее время рынок электронной коммерции в Казахстане развивается стремительно, устанавливая правила игры в рамках рыночных отношений и саморегулирования. Однако незрелость системы государственного регулирования рынка электронной коммерции не позволяет в полной мере способствовать его развитию. Работа посвящена исследованию зарубежного опыта государственного регулирования рынка электронной коммерции с точки зрения его применимости в условиях Казахстана. В качестве методов исследования использовались методы систематизации, анализа и синтеза, критериального анализа, сравнительной оценки. В статье авторами обоснована необходимость государственного регулирования сферы электронной коммерции в Казахстане, что обусловлено наличием положительного и отрицательного эффекта от присутствия в экономике электронных методов ведения коммерции. Для выработки рекомендаций по государственному регулированию сферы электронной коммерции исследуется соответствующий опыт стран как США, Китай и Сингапур, которые достигли значительных успехов в продвижении электронной коммерции. В частности, подробно рассматриваются особенности государственной политики в части регулятивного воздействия, налогового регулирования и оказания поддержки предприятиям электронной коммерции. Значимость результатов проводимого исследования заключается в приоритетности развития рынка электронной коммерции в Казахстане, где он назван драйвером экономического роста страны, согласно положениям «Дорожной карты развития электронной коммерции в РК до 2025 года» реализуемой в рамках государственной программы «Цифровой Казахстан». Кроме того, результаты исследования могут быть использованы при составлении обучающих материалов в рамках образовательных программ бакалавриата и магистратуры по дисциплине «Электронная коммерция».

*Ключевые слова:* экономика, электронная коммерция, зарубежный опыт, налоговое регулирование, государственная поддержка, цифровые платформы, интернет-магазины, информационно-коммуникативные технологии.

**Для цитирования:** Панзабекова А.Ж., Азатбек Т.А., Тургель И.Д., Жанбозова А.Б. (2022). Возможности применения зарубежного опыта по государственному регулированию рынка электронной коммерции в Казахстане. Экономика: стратегия и практика, 17(3), 210-225, <https://doi.org/10.51176/1997-9967-2022-3-210-225>

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**Конфликт интересов:** авторы заявляют об отсутствии конфликта интересов.

**Финансирование:** Исследование проведено в рамках Программы целевого финансирования Комитета науки Министерства образования и науки Республики Казахстан ИРН OR11465433 «Разработка концепции и механизмов сбалансированного территориального развития экономики и общества Казахстана».

**Статья поступила в редакцию:** 04.08.2022

**Принято решение о публикации:** 21.08.2022

**Опубликовано:** 30.09.2022

### Introduction

Trends in the development of the modern world economy show the ubiquitous penetration of digital technology, which has embraced all aspects of human activity. Every year more and more of the world's population is moving into a virtual environment for shopping, transacting for service consumption, and communicating and enjoying themselves. All this is made possible by the creation and implementation of digital platforms, the principles of the network economy. The development of innovative technologies in the digital economy has its positive and negative effects. Therefore, achieving a balance between the digital economy and its main element of e-commerce is now a vital issue of state regulation of the sphere in question.

Currently, the e-commerce market in Kazakhstan is at the stage of embryonic development. The formed institutional environment in the country extended conditions for Kazakhstan people to buy online from foreign suppliers. In addition, the predominance in the domestic market of large foreign e-commerce entities with obvious competitive advantages is increasingly creating difficulties for new local companies, especially small ones, to enter the market. The risks associated with the loss of domestic consumers in the e-commerce market are increasing. The current circumstances require urgent measures to improve the mechanisms of state regulation of the e-commerce market, involving the creation of favorable conditions for increasing local content in this market. In this regard, the study of best practices in the application of various mechanisms of regulation of the electronic commerce market in foreign countries becomes an urgent task. At the same time, it is not possible to fully follow the experience of countries that have achieved a high level of e-commerce development.

This is due to the fact that Kazakhstan is already involved in cross-border e-commerce, while in developed countries at the dawn of the embryonic development of e-commerce there was no foreign participation. In view of this, it is advisable to choose several countries to analyze the relevant foreign experience, which will allow comparative analysis and identify the most applicable tools and regulatory mechanisms in the conditions of Kazakhstan. In this regard, the presented study is highly relevant and aims to study the experience of state regulation of the e-commerce market in the United States, China, and Singapore to develop recommendations for its application in Kazakhstan.

### Literature review

Currently, many studies are devoted to the research of the phenomenon of digitalization and its penetration into the field of commerce, many of which are empirical in nature and dedicated to certain aspects coverage of the development of the market e-commerce, the characteristics of its essence and content of the functions performed, the role in the economy and the contribution to the development of competitiveness.

As Rozanova noted that the digitalization has brought to the world of supply and demand such a phenomenon as platformization. The market has been enriched by digital intermediaries - numerous platforms providing fast and cheap search for goods for the customer. The cost for consumers to find the right product online has come close to zero (Rozanova, 2022). Wang, Xu, and Liu, in their work "Platform-based Rural Areas: Digital Platforms and Techno-spatial Remediation" reveal the process of digital platform penetration in rural areas of China and assess the impact of this process on the development of these areas (Wang et al., 2022).

Wen analyzes the cross-border logistics of e-commerce and focuses on security (Wen, 2022). Mueller and Farhat investigated the specifics of state regulation of access to e-commerce platforms in the United States and China. The results showed the presence of neo-mercantilism in digital services in both countries, focusing on national security requirements rather than trade policy considerations (Mueller & Farhat, 2022). Other research proposed using blockchain technology to analytically support e-commerce market regulation by developing a specific technology and supporting the research results with relevant experiments (Zhao et al., 2022). Al-Ayed analyzes the impact of e-commerce drivers on customer preference and loyalty. These works consider local issues in local markets (Al-Ayed, 2022).

Systematization of information about individual areas of state regulation of electronic commerce, mainly legal regulation and tax regulation, was performed by Sakovich, Solovyova, and Shcherbak in their work "Legal regulation of electronic commerce in foreign countries» (Sakovich et al., 2019) and A.V. Koren in the work "Taxation of electronic commerce subjects: problems and prospects" (Koren, 2011). New aspects of tax regulation of the e-commerce market, associated with the emergence of new technologies of mutual settlement, were considered in the work of Tofaan M. and Bostan I., which also noted the indirect impact of e-commerce on the development of the regulatory framework,

both in the field of consumer protection and by the difficult balance between the right to information and data protection (Tofan & Bostan, 2022).

Analysis of Kazakhstan's policy and legislation in the field of e-commerce market regulation was carried out by Ismailova, Kurmanova, Alimpiyeva, Balabiyev, Altynbekkyzy and Altynbekuly. The article concludes that there is no formulated concept of legal regulation of electronic commerce at the national level (Ismailova et al., 2020).

In the reviewed works, the aspects of state regulatory impact on the sphere of electronic commerce in various areas have been studied. Still, a comprehensive work on its in-depth study has not been carried out. In addition, the issues of applicability of international experience of state regulation of the electronic commerce market in Kazakhstan's conditions remain unexplored.

### Methodology

The research methodology is based on the application of methods of systematization, analysis and synthesis, criterion analysis, and comparative evaluation. The information base of the study consisted of monographs, scientific articles on the research topic, published in refereed journals, and data from the official Internet resources of the countries under investigation.

The objects of the study were the United States, China, and Singapore, which are of significant interest to Kazakhstan in improving the state regulation of e-commerce. The U.S. has extensive experience in e-commerce, as its development originates in this country, and the need for regulation was first recognized and implemented here. Despite being part of the group of emerging economies, China has an outstripping growth rate of e-commerce. In 2021, e-commerce accounted for more than 11% of China's economic growth, one of the highest in the world. In addition, the Chinese government has made significant progress in regulating the e-commerce market. Singapore is the most prosperous country in the digitalization of the economy, with the highest rate of digital transformation of industries and the highest rate of Internet penetration. At the same time, the level of government regulation in this country is also relatively high, which is one of the factors that makes innovation so fast and successful.

The study consisted of the following successive stages:

1. Analysis of the state regulation system of the e-commerce market in Kazakhstan to identify its weaknesses.

2. Determine the areas of regulation of the e-commerce market based on the research results indicated in the first stage to study relevant foreign experience: tax and tariff regulation, regulation of electronic, contractual relations, consumer protection, and state support of SMEs in the field of e-commerce.

3. State regulation analysis of the e-commerce market in the United States., China, and Singapore. Identification of its features in the reviewed countries and Kazakhstan.

4. Determining the possibility of applying the studied foreign experience in Kazakhstan and developing specific recommendations for its adaptation to the conditions of Kazakhstan to improve the state regulation of e-commerce.

### Results

Measures for the development of e-commerce were included in the Law of RK dated April 2, 2019 on Regulation of Trade Activities. Paragraph 56 of Article 1 of the said Law provides the following definition of e-commerce - it is an entrepreneurial activity in electronic commerce, as well as the sale of services, carried out through information and communication technologies. It should be noted that in par. 57 of Article 1 of the same Law, electronic commerce is defined as entrepreneurial activity on the sale of goods carried out through information and communication technologies<sup>1</sup>. The definitions of the National Statistics Bureau of the Agency on Strategic Planning and Reform of the RK are given in the brief methodological explanations. Thus, the legislation of Kazakhstan considers e-commerce more narrowly than e-commerce, which contradicts the formed theory of e-commerce.

Nevertheless, the adoption of the Law provided an opportunity to protect the interests of the online buyer at the level of the traditional buyer. The Ministry of National Economy of the Republic of Kazakhstan developed a Roadmap for e-commerce development until 2025, the implementation of which began in 2019. Its measures are structured into three areas: increasing exports in e-commerce, involvement of domestic entrepreneurs in e-commerce and infrastructure development, protection of consumer rights, and e-commerce promotion<sup>2</sup>.

In Kazakhstan, in order to bring Internet companies out of the shadows, the Tax Code,

<sup>1</sup> Law of the Republic of Kazakhstan «On the regulation of trading activities» dated April 12, 2004 No. 544. [https://adilet.zan.kz/rus/docs/Z040000544\\_/z040544.htm](https://adilet.zan.kz/rus/docs/Z040000544_/z040544.htm)

<sup>2</sup> URL: <https://primeminister.kz/ru/news/v-2019-godu-obem-pokupok-v-kazahstanskih-internet-magazinah-sostavil-422-mlrd-tenge> (дата обращения: 07.09.2020)



as of January 1, 2018, a 100% reduction in calculated income tax is provided for new subjects of e-commerce. They must meet the following terms: income from e-commerce must be at least 90% of total annual income; the payment for goods must be made in non-cash mode; the contract must be concluded online; have its own delivery service or a contract with a person who carries out the transportation, shipping of goods.

Thus, the Tax Code of the RK regulates the activities of online stores, i.e., the sphere of electronic commerce, but not the entire sphere of e-commerce, and their omission is incorrect. Thus, if e-commerce involves trade in goods and services on the Internet, then e-commerce means the application of Internet technologies in the process of relations between sellers and buyers, including trade on the Internet, for - e-commerce is only a branch or part of e-commerce.

Taxation of e-commerce entities in Kazakhstan is based on general principles of calculating and collecting tax payments. It does not consider several individual characteristics of this type of activity. The use of this approach leads, on the one hand, to the actual complete withdrawal of huge financial resources from taxation (e-casinos, trade in digital or virtual products); on the other hand, it allows several times underestimate of the leading indicators of the tax base (electronic stores, information and entertainment services). In addition, the borderless, mobile, and anonymous nature of e-commerce makes it challenging to identify the taxpayer, income sources, and the sales place.

At present, work is underway at the Eurasian Economic Union (EAEU) level, of which Kazakhstan is a member, to harmonize national legislation, including in the area of e-commerce. The EAEU's digital agenda involves the creation of a single digital market, where suppliers within the EAEU will be able to freely engage in electronic trade and commerce without paying customs duties and taxes. In addition, to protect the internal EAEU market, customs duties on goods received from abroad increased rates. Previously, buyers could avoid customs clearance of a postal parcel if its value was less than 500 euros per month. January 1, 2020, this threshold was lowered to 200 euros per parcel not exceeding 31 kg. At the same time, the amount that exceeds this norm is subject to a duty of 15%. This allowed not only to limit foreign imports and protect local companies from competition but also to facilitate their expansion within the EAEU market. Here is mostly about Russian companies, such as Wildberries, Ozon Group,

Citylink, and Lamoda. It is expected that the number of duty-free parcels within the EAEU will be reduced to 20 euros, creating favorable conditions for established major online stores in EAEU countries.

The issues concerning contractual relations in the framework of e-commerce with other foreign countries have not been fully elaborated on so far. First, invoices issued by foreign sellers are not recognized in Kazakhstan as a form of an electronic document by law. Secondly, there is no mutual recognition of electronic digital signatures (EDS) within the EAEU and third countries. According to paragraph 12 of the Rules of electronic commerce approved by the Order No. 720 of Acting Minister of National Economy of RK dated November 25, 2015, contracts not requiring notary certification or state registration are concluded by exchange of electronic documents certified by electronic digital signature. The authenticity of EDS is certified by the legislation of Republic of Kazakhstan on electronic documents and electronic digital signatures or by electronic messages (offer, acceptance, confirmation of receipt of request)<sup>3</sup>. After international trade contracts, the written form is applied since under paragraph 3 of Article 153 of the Civil Code of the Republic of Kazakhstan, non-compliance with the simple written form of the external economic transaction entails transaction invalidity<sup>4</sup>.

Protection of the rights and legitimate interests of e-commerce participants is carried out following the laws "On Regulation of Trade Activities" and "On Protection of Consumer Rights". The increasing number of complaints from online shoppers shows several gaps in these laws. Thus, in addition to fraud, in some cases, there is no possibility to return the delivered goods due to the lack of information about the sellers or simply the unwillingness of sellers to return the money. The sellers are often not registered by state revenue agencies (online stores are registered only in social networks, olx, satu, and market). Also, consumers cannot demand documents confirming the quality of goods.

In general, the analysis of the institutional environment of e-commerce in Kazakhstan shows some problems that present specific barriers to the development of the sector. The most

<sup>3</sup> Rules for the implementation of electronic commerce, approved by order, acting. Minister of National Economy of the Republic of Kazakhstan dated November 25, 2015 No. 720. [https://adilet.zan.kz/rus/docs/P070000786\\_](https://adilet.zan.kz/rus/docs/P070000786_)

<sup>4</sup> Civil Code of the Republic of Kazakhstan. Code of the Republic of Kazakhstan dated December 27, 1994 No. 268-XIII. [https://adilet.zan.kz/rus/docs/K940001000\\_4](https://adilet.zan.kz/rus/docs/K940001000_4)

significant of these are the unstable delivery system due to the small capacity of the market and the scattered location of rural areas, as well as the lack of Internet access in some of them. Broadband coverage is not yet high, and there is insufficient competition in the mobile and fixed Internet markets (Zhanbozova et al., 2021). These features should be considered in developing appropriate policies for state regulation of the e-commerce market. The development of practical tools for regulating the e-commerce market is complicated by the emergence and rapid development of complex processes and technologies of data exchange in e-commerce, which also affect the changing nature of economic relations in general. In addition, the cross-border nature of e-commerce and the obligations of states in the framework of integration unions and other international agreements actualize the problem of state regulation of the e-commerce market. In this regard, it is necessary to study best practices in this area in order to extract good practices applicable to the conditions of Kazakhstan.

USA. The basis of public policy in the USA is the protection of private sector interests and their promotion, including in the field of e-commerce. Therefore, the fundamental principles of public policy to promote e-commerce are (Mann, 2000):

1. private sector leadership in the development of e-commerce and the establishment of business practices;
2. providing a clear, consistent, and predictable legal environment for businesses to thrive, avoiding unnecessary regulations or restrictions on e-commerce;
3. Encouraging the private sector to pursue the public interest through codes of conduct, model contracts, guidelines, and enforcement mechanisms developed by the private sector;
4. Ensuring that governmental impact is transparent, minimal, non-discriminatory, and predictable for the private sector.

The desire to follow these principles led to the adoption of the fundamental law in the regulation of electronic commerce in the United States - the federal law "On electronic signatures in international and national trade" in 2000. The law aims to regulate trade transactions concluded electronically in international and interstate commerce. It sets uniform rules for electronic document flow throughout the US, including the definition of the terms used in it, fixing uniform requirements for electronic signatures, and establishing a mechanism of electronic signature control (Soloveva, 2007). The main provision of the Law is the recognition of the equality of written and electronic contracts.

Later, the US authorities began to actively promote the interests of their business in the world markets and other countries, offering to unify the legal regulation of electronic documents circulation in the open information systems. Thus, based on American law, the UNCITRAL model laws "On Electronic Commerce" and "On Electronic Transferable Records" (2017) were developed, which influenced the formation of the EU Directive in the field of electronic commerce (Semiljutina, 2015).

For its implementation, it is fundamentally important to defining the location of the subject of e-commerce through the concept of "permanent establishment". This means the physical location of the server where the site of the subject of e-commerce is located, in case the server is involved in receiving and processing orders or is otherwise related to the conclusion of transactions, will be recognized as a permanent establishment. For Kazakhstan's imperfect e-commerce taxation system, using this mechanism would provide an opportunity to increase the taxable base and protect the domestic market by leveling the competitive playing field for domestic and foreign suppliers.

Since the Internet Tax Freedom Act in 1997 in the United States, all online stores have been exempt from sales tax (Damaskin, 2003). The law exempts from sales tax, access to the Internet, as well as services rendered over the network, but not "physical" goods sold through the network. In general, the definition of the type of tax and the terms of its payment is based on the type of transaction. When a product (license) is sold, a corporate income tax is imposed; in the case of a product with the possibility of further distribution, a royalty is withheld (Ilichev, 2004).

However, preferential taxation has a negative side, which is expressed in the increased growth of Internet commerce to the detriment of traditional retailing, and the state budget losses from tax shortfalls (Operkent, 2001). Thus, there is a ban on multiple or discriminatory taxations of electronic commerce and Internet banking.

The current moratorium on taxation of e-commerce subjects is an attempt to create a favorable environment for the development of e-business because most representatives of the American government see taxes as a threat to the still fragile sector of e-commerce (Palan, 2003). However, some American researchers point to the constant growth of the number of organizations that use e-business solely for the purpose of tax evasion. Thus, at the end of 2004, legally set taxes were paid only by e-commerce subjects with a turnover of tens of millions of dollars, which are

subject to much higher control by the US Internal Revenue Service (Kaufman & Hardesty, 2002).

As a result, there was an increase in the volume of Internet trade to the detriment of traditional trade growth. Given this trend, starting in 2014, some U.S. states began to lift the ban on the taxation of e-commerce entities.

*China.* China gives priority to the institutional development of e-commerce, which involves considering it as a tool to promote Chinese goods in foreign markets and increase the country's industrial production; develop the country's distribution infrastructure; fight against poverty by ensuring that people in remote areas have access to low-cost online shopping; and increase the potential of agricultural trade. E-commerce in China has a strategic role in the overall economy.

In general, we can distinguish two key institutions of e-commerce regulation<sup>5</sup>:

The Ministry of Commerce formulates policies on foreign trade, export and import regulations, foreign direct investment, consumer protection, and market competition, as well as the negotiation of bilateral and multilateral trade agreements.

The Ministry of Industry and Information Technology is responsible for China's industrial planning, policies, and standards.

In 2015, China enacted an e-commerce law that regulated issues related to data protection and customer infringement<sup>6</sup>. It defined e-commerce as online profit-making by commercial dealers and organizations.

China's leadership is focused on maximizing the benefits of e-commerce, which is reflected in the measures being implemented in this area, which include:

1. Development of Internet infrastructure;
2. Tax policy;
3. Creation of special e-commerce zones;
4. Formation of modern commodity circulation system;
5. Consulting assistance for SMEs;
6. Involvement of rural entrepreneurs in e-commerce.

The sustained and rapid development of e-commerce has been made possible by better

broadband network coverage, and enhancing platform capabilities. In 2013, the Chinese government launched the «Broadband China» strategy, defining broadband as strategic public infrastructure. According to the program, by 2020, the plan was to provide broadband access to an additional 50,000 villages, upgrade broadband in 150,000 villages with fiber, and improve broadband coverage for more than 30 million rural households. In rural areas, China is developing mobile broadband infrastructure, investing tens of billions of dollars. At the same time, these measures are accompanied by other instruments of state support for innovation and the digitalization of agricultural entrepreneurship.

Until 2016, e-commerce activities in China were exempt from sales tax or VAT. China received a corporate tax on industrial production, the volume is also growing due to the development of cross-border e-commerce. Due to the emergence of large e-commerce entities with enormous profitability, it was decided to reform the taxation system of this sphere. Thus, the main accent was the individual income tax, which «will play a more important role than a tax on enterprises income» (Wong & Nah, 2001). In 2016, China increased the tax on goods purchased on cross-border e-commerce platforms. The new tax combines a value-added tax on imports with a consumption tax (Zhudzhun et al., 2008). In addition, a limit of 20,000 yuan was imposed on cross-border purchases made by individual consumers.

The growth of e-commerce and the transformation of local marketplaces into global ones has brought huge revenues to the country. As a result, in 2015, the Chinese government decided to set up special e-commerce trade zones, which offer customs benefits and simplified paperwork and customs clearance for cross-border trade through e-commerce. Such zones are already functioning in 37 cities in China, which contributes to the liberalization and facilitation of international online trade between countries. These zones have a «parcel tax,» less than the usual customs duty, and levied on goods sold through online trading platforms.

In China, most logistic activities are governed or strictly controlled by the authorities,<sup>7</sup> and the private sector has been used to build the necessary digital delivery infrastructure. Chinese e-commerce giants such as Alibaba and JD.com have succeeded by developing highly efficient systems and networks for order delivery. For example, Alibaba operates a network of delivery firms across the country that can process

<sup>5</sup> Shirley, Zh., Lu, Y., Ku, E. (2013). China's E-Commerce Legislative and Regulatory Framework. [updated August 09, 2013; cited May 16, 2022]. Available: <https://www.china-briefing.com/news/chinas-e-commerce-legislative-and-regulatory-framework/>

<sup>6</sup> China Daily (2016), 10 March). China completes drafting e-commerce law. [updated March 10, 2016; cited May 16, 2022]. Available: [http://english.www.gov.cn/news/top\\_news/2016/03/10/content\\_281475304765292.htm](http://english.www.gov.cn/news/top_news/2016/03/10/content_281475304765292.htm) 6



up to 30 million items daily through Cainiao<sup>7</sup>.

To improve the logistical connectivity of the country's regions, including rural hinterlands, in 2015, the State Post Office, Ministry of Commerce, and other agencies jointly launched the "Express Delivery to reach Western and Rural China" initiative, which aims for 100 percent coverage of service points in cities and 100 percent delivery coverage in villages by 2020. This measure will further promote the penetration of e-commerce in rural areas. E-commerce platforms and integrated service systems will give ordinary entrepreneurs access to transactions, marketing, logistics, finance, and data and connect them directly to consumers. Active demand is the source of sustainable rural e-commerce. Instead of providing cash aid, China is taking advantage of e-commerce and creating a new business model in rural areas.

The PRC government is actively providing consulting support to small and medium-sized businesses. For this purpose, it uses the mechanism of a collaborative multi-stakeholder working group, which enables the development of a viable e-commerce ecosystem. EWTP (Electronic World Trade Platform), a tool to realize the goals of global inclusive growth, helps SMEs overcome the complex rules, processes, and barriers that impede their participation in global trade. An increasing number of trade transactions at the local, regional, national, and international levels by China's small businesses are carried out on various Internet platforms<sup>8</sup>. In this regard, China's Ministry of Agriculture, for example, uses online agricultural information platforms to effectively disseminate agricultural technology and market information. The government often initiates demonstration projects and broadcasts them through the Internet of Things applications. E-commerce, together with Internet of Things applications, helps overcome the asymmetry of information between trading partners and makes it possible to take advantage of globalization.

China and the Asian Development Bank are implementing various agricultural digitalization programs. For example, the government is funding applications to implement RFID tags, QR codes,

and blockchain technology to improve product traceability. The government has facilitated the creation of a map of unique agricultural products, posted on Taobao.com and updated interactively. This map demonstrates the specialization of regions in the production of agricultural products, with an indication of the exported products. Through its Agricultural Extension Services, the government supports entrepreneurs in the sector to standardize production, organize farmers and create logistics in remote and poor areas. In 2016, the government published a list of goods allowed for cross-border e-commerce, which prohibits the import of goods not included in this list<sup>9</sup>.

The government's policy of creating a favorable institutional environment in *China is already paying off*. As of June 2018, more than 70% of China's Internet users made online purchases. The country now conducts more daily transactions than France, Germany, Japan, the UK, and the US combined. While China accounted for less than 1% of the global e-commerce market ten years ago, today, it accounts for more than 40% (Stok & Lambert, 2005). According to the results for 2021, the contribution of e-commerce to China's economy was 11.7% of GDP, the highest in the world.

*Singapur*: Singapur is the country with the highest level of digitalization of citizens' daily lives, with the highest internet penetration rates and the best broadband bandwidth, which has contributed to the active development of e-commerce. According to forecasts, in 2025, the market volume will be about 5.5 billion USD, which is quite a lot for the population of 5.78 million people. This market volume is expected mainly due to an increase in the population's purchasing power rather than the number of people. The goods and services here are aimed at the middle and upper-middle income earners, which attracts foreign companies to Singapore's e-commerce market. Other favorable factors are:

- the opportunity to enter the actively developing markets of Southeast Asia;
- the availability of all necessary infrastructure of e-commerce and high competitive advantages in the introduction of new technologies (augmented reality and artificial intelligence);
- active government policy to stimulate e-commerce in the country.

<sup>7</sup> Jenkins G. Cainiao Logistics Unveils Preparation Plan for Alibaba's 11.11 Global Shopping Festival [updated Oct 29, 2015; cited May 17, 2022]. Available: <https://www.linkedin.com/pulse/cainiao-logistics-unveils-preparation-plan-alibabas-1111-greg-jenkins>

<sup>8</sup> McKinsey Global Institute (2021). China the Positive List on Cross-Border E-Commerce of Imported Commodities at Retail Has Been Released. [updated April 15, 2021; cited May 17, 2022]. Available: <https://www.eibens.com/news/cross-border-e-commerce-cbec-positive-list-published-and-its-expansion/>

<sup>9</sup> Ouyang Ch. etc. (2017). Inclusive Growth and E-commerce: China's Experience. AliResearch. [updated March 6, 2021; cited May 17, 2022]. Available: [https://unctad.org/system/files/non-official-document/dtl\\_eWeek2017c11-aliresearch\\_en.pdf](https://unctad.org/system/files/non-official-document/dtl_eWeek2017c11-aliresearch_en.pdf)

The state support is focused on the activation of small and medium-sized businesses on inclusion in e-commerce and implies:

1. Creation of the National Trade Platform (NTP), which is a database of trade information. This platform allows to digitization documents and use them in a secure form, constantly exchanging them between partners and the government. This measure saves a lot of time and money when passing through customs inspections and further on, when delivering goods to the consumer. NTP allows third-party service providers to provide and advertise additional digital services to account holders. The availability of digital services offered as a platform helps companies (both customers and suppliers) improve their digital capabilities at various levels of the supply chain and become stronger e-commerce providers.

1. Implementation of the Retail Transformation Map (Retail ITM). Adopted in 2016, the map aims to encourage retailers to move to e-commerce and online commerce, creating a dynamic and competitive digital marketplace in Singapore. The Card is expected to enable multi-channel retailing and SMEs' access to e-commerce platforms, accelerating the digital transformation of at least 10,000 SMEs.

2. Implementation of a retail training program. National training agency SkillsFuture offers specialized Skills Framework for Retail training courses designed for e-commerce and multi-channel retail newcomers. Using the curriculum and skill maps, Singapore SMEs will be able to invest in training their employees for career and skill development.

3. Encouraging ICT adoption through subsidies, certification grants for information security, and employee training:

- The iSPRINT program provides subsidies of up to \$20,000 to Singapore for technology purchases. These technologies can represent a package of digital services from accounting to more complex customized solutions like customer relationship management and supply chain management;

- The ISO27001 certification grant program provides SMEs and their customers with an independent external assessment of their information security management system for a fee. Entities that receive a positive assessment are given a grant of up to 50% of the cost of ISO 27001 certification but not more than \$20,000 from Singapore;

- The Critical Information and Communications Technology Resources Program (CITREP) is a grant that covers up to 50% (in some cases 70%) of the cost of training courses

for qualified professionals in IT services and business management, data integration, and information management, software development, and Infocomm security. At the same time, the grant does not cover the training of IT employees who are not related to e-commerce.

In addition, the Action Community for Entrepreneurship (ACE) was established in 2014 to support Singapore's small businesses by providing comprehensive access to technology providers, financing, and consulting services aimed at scaling and internationalizing SMEs. Programs offered by ACE include networking and mentoring programs for youth, as well as legal advice and accounting seminars. ACE has a dedicated one-stop-shop to support Singapore SMEs in their international growth and expansion, which facilitates partnerships and access for Singapore SMEs to networks, partners, overseas markets, and specialized programs.

In the early stages of the formation of the e-commerce market, favorable conditions were adopted. Still, in 2019 in Singapore, the priority was to establish a level playing field for domestic and foreign companies, which led to the introduction of a tax on digital services, which was 7%; from 2021 the rate was raised to 9%. These digital services include the following:

- Supply of downloadable digital content for mobile apps, e-books, and movies.

- Subscription-based media, such as news, magazines, streaming videos, TV shows, and music.

- Software (computer programs, drivers, and filters for websites).

- Electronic data management services (website hosting and cloud storage).

- support services performed electronically to arrange or facilitate transactions that may not be digital, such as ticket reservations and service fees charged by vendors or customers.

The taxation model of digital service providers in Singapore is consistent with the recommendations of the OECD and is based on international standards for the provision of services in the B2C category. It should be emphasized that in Kazakhstan, these areas are not taxed yet.

In Singapore, there is a great emphasis on consumer protection. (SOGA), which governs the sale contract in Singapore. Under The Sale of Goods Act, any sale contract must meet specific requirements. For example, the goods must be of satisfactory quality, and the description of the goods must be true. If the goods do not meet the requirements, then the buyer may refuse the goods and rescind the contract or seek damages. If the

website contains incorrect contractual obligations that affect the buyer's decision-making process and mislead the buyer, then the merchant may be held liable under the Misrepresentation Act. Thus, the study shows that the models of state regulation in the concerned countries are quite different (Table 1).

**Table 1.** Brief characteristics of the state regulation models of e-commerce in the concerned countries

Model	Description
American	Policy in the USA involves the creation of institutional conditions for the concentration and priority development of its infrastructure within the country. Among these conditions was the complete abolition of taxation in the sphere of Internet commerce, which allowed local companies to grow and go global. But with the development of cross-border e-commerce, the USA introduced a «sales tax» that applies to goods and services on the Internet sold to U.S. consumers.
Chinese	China's experience is noteworthy because the state creates conditions for the foreign expansion of domestic e-commerce entities aimed at increasing sales of domestic industrial products; a strict tax policy is applied to cross-border purchases aimed at protecting the domestic market; special attention is paid to providing high-speed Internet and infrastructure throughout China, including the countryside so they can choose and buy goods at a lower cost. This enables China to stimulate entrepreneurial activity in the sector and help bring digital innovation into the value chain, thereby developing e-commerce. This policy can simultaneously solve the problem of poverty in the country.
Singaporean	The Singapore model is built on a well-developed ICT and Internet infrastructure and assumes simple legislation, ease of doing business, and active government support for SMEs in e-commerce, through various co-financing schemes for e-commerce business training in different jurisdictions.

## Discussion

The study allows us to group the measures of state regulation of the e-commerce market in the countries under consideration into four areas: tax and tariff regulation, regulation of electronic contractual relations, consumer protection and state support for SMEs in the field of e-commerce (Table 2).

The review of foreign experience has shown that there are sufficiently adaptive tools to regulate the market of electronic commerce.

As we can see, digital products and services in the countries under consideration are taxed, but in Kazakhstan – they are not. Why is this the case? The Tax Code of RK affects the activities of online stores, i.e., the sphere of electronic trade, but not the entire sphere of e-commerce, and their exclusion is incorrect. Thus, if e-commerce involves trade in goods and services on the Internet, then e-commerce means the use of Internet technologies in the process of interaction between sellers and buyers, including trade on the Internet, for - e-trade is only a branch or part of e-commerce. Therefore, it is necessary to clarify the definitions of e-commerce and e-trade at the legislative level.

We propose to define e-commerce at the legislative level as a commercial activity involving dealings or transactions carried out through the use of electronic means over the Internet. The definition of e-commerce should be formulated as follows: a sale-purchase transaction concluded through electronic means. Our definition of e-commerce covers all civil law commercial transactions, including electronic trade, and electronic trade is limited only to purchase and sale transactions. At the same time, we do not simply include transactions in the definition of e-commerce. This is due to the fact that in practice there are often cases when there are no electronic transactions, but there is a sale of physically intangible products or services (for example, the purchase of an annual subscription to multimedia products by an individual or a subscription to services of a foreign IT-company). In such cases, the fact of the transaction may be a payment made in Kazakhstan or the location of the site, as is customary in the United States.

The experience of Singapore and China shows that it is necessary to oblige Internet companies at the legislative level to register with the tax authorities. This is necessary not only to increase the tax base but also to protect the rights of consumers. At the same time, for foreign companies that do not have a physical representation in Kazakhstan, it is impossible to do this, as it is impossible to legally conclude

international agreements in electronic form in Kazakhstan. Here there are two alternative ways:

a) Registration of foreign Internet companies can be done of a notifying nature without providing financial statements. This way involves finding a source of information about the supplier's income from commercial banks of the second level, which will require changes in the regulatory and legal acts in the field of banking secrecy;

b) recognize electronic signatures of other countries at the legislative level and require official registration with the tax authority of Kazakhstan. High fines should be imposed for non-compliance with the registration/notification requirement for suppliers, as in China. The application of such a tool is especially justified concerning foreign companies.

**Table 2.** Features of e-commerce regulation in the U.S., China, Singapore, and Kazakhstan

	USA	China	Singapore	Kazakhstan
1	2	3	4	5
<b>Tax and tariff regulation</b>	<ul style="list-style-type: none"> <li>• A complete repeal of e-commerce taxation.</li> <li>• The introduction of a «sales tax» that applies to online goods and services sold to U.S. consumers with the development of cross-border e-commerce</li> </ul>	<ul style="list-style-type: none"> <li>• Before foreign players entered the Chinese market, e-commerce was not taxed. Since 2016, the country has withdrawn corporate tax from e-commerce entities.</li> <li>• State regulation of the e-commerce market is strictly protectionist. A new tax on goods purchased on cross-border e-commerce platforms was introduced. There is a restriction on cross-border purchases made by individual consumers.</li> <li>• There are special e-commerce trade zones which contribute to the liberalization and facilitation of international online trade between countries. These zones have a «parcel tax,» which is less than the customs duty</li> </ul>	Foreign companies are required to register as taxpayers. All digital services are taxed at 9%	Provides for a 100% reduction of the calculated income tax for new subjects of electronic commerce under the following conditions: the income from e-commerce in goods must be at least 90% of total annual income; the payment for goods should be made by bank transfer; the contract must be concluded online; have its own delivery service or agreement with a person engaged in shipping, forwarding goods
<b>Electronic contractual relations</b>	<ul style="list-style-type: none"> <li>• Uniform rules for electronic document flow throughout the country were established, uniform requirements for electronic signatures were enshrined, and mechanisms for their control were selected.</li> <li>• Electronic contracts are equated with written ones</li> </ul>	<ul style="list-style-type: none"> <li>• Under PRC law, a written contract is deemed to be entered only if both parties sign and seal it.</li> <li>• Under PRC law, a contract may be in writing, orally or otherwise, unless the written form is required by applicable law or administrative regulations.</li> <li>• However, for the purpose of recording the agreements reached, the written form of a contract stipulating specific terms is preferred</li> </ul>	Contracts can be concluded electronically	<ul style="list-style-type: none"> <li>• Invoices issued by foreign sellers are not recognized by law in Kazakhstan as a form of the electronic document;</li> <li>• There is no mutual recognition of electronic digital signatures)</li> <li>• When concluding international trade contracts, the written form is used</li> </ul>
<b>Protection of Consumer Rights</b>	The rights of e-commerce consumers are protected by general consumer protection law. In general, the rights of traditional and online shoppers are equal. In addition, public associations protecting consumer rights are very well developed in the U.S.	The relevant law regulates it. In e-commerce, food quality and safety are most often given high priority. The penalty for violating the norms is a heavy fine, up to and including criminal prosecution	The goods ordered over the Internet must comply with the characteristics stated on the label or website of the online store, otherwise, the supplier must refund the money, as well as incur penalties. Also, the clearance and delivery processes must not be isolated	Protection of the rights and legitimate interests of participants in electronic commerce is carried out under the laws «On Regulation of Trade Activities» and «On Protection of Consumer Rights». In practice, the laws do not work to their full potential. Due to the relative youth of Kazakhstan's e-commerce market, the institute of e-commerce consumer protection requires improvement



1	2	3	4	5
<b>SME support programs</b>	There are no specific programs to support SMEs, specifically in the area of e-commerce at the national level. However, there are hundreds of programs aimed at small business development, most of which are curated by the U.S. Small Business Administration	Most of the programs are of an advisory nature to support the mastery of new e-commerce technologies. Often the government initiates the implementation of demonstration projects and broadcasts them through the Internet of Things applications. Special attention is paid to the development of SMEs, specifically in rural e-commerce. The authorities manage the distribution infrastructure of e-commerce in China. The Internet infrastructure has been brought up and is being improved at the expense of public funds. And to build the necessary digital delivery infrastructure, the private sector's capabilities were used voluntarily and compulsorily	Various co-funding schemes for activities related to training employees to do e-commerce business in different jurisdictions	Training SMEs to conduct business on cross-border platforms in the field of B2C e-commerce at the expense of budgetary funds, providing an annual subscription «golden account» in Alibaba. Improvement of digital competencies of SMEs for all comers on a free-of-charge basis

The basic principles of taxation should be preserved, at the same time, they should be extended to the subjects of e-commerce. At the same time, it is necessary to determine the choice of a possible taxation system of these subjects with smoothing the tax burden in certain sectors of e-commerce activities. Reforming of tax administration should follow the following principle – the transformation of existing types of taxes, without introducing new types of additional taxes for the subjects of e-commerce. Here of interest is the experience of the United States, under which most state administrations are obliged to pay sales tax. In our case, instead of sales tax, we can use the already existing VAT tax, which is essentially similar to it. In tandem with preferential taxation of newly created businesses in Kazakhstan, this tool would reduce the aggressive influence of large foreign online stores on the competitiveness of domestic entrepreneurs and moderately limit the trend of monopolization of e-commerce industries in Kazakhstan.

Domestic e-commerce subjects are registered in Kazakhstan, they already pay all types of taxes that are due. The innovation should affect the activities of foreign Internet companies engaged in the distribution of virtual digital products, which currently do not pay VAT. In this case, taxpayers should be not only online stores and service providers but also foreign companies that sell digital products or services to individuals in Kazakhstan.

Implementing the proposed measures will make it possible to replenish the state budget with tax revenues from e-commerce entities of foreign origin whose activities are related to the sale of digital products or services that do not have a physical presence in Kazakhstan. Also, these measures will not adversely affect the develop-

ment of domestic e-commerce entities, as the proposed changes will not affect their activities.

Equally important is the introduction of restrictive measures against the activities of foreign suppliers through tariff regulation. Many countries have developed by now a practice of eliminating taxes on minor imports from other countries. This is because the size of such taxes often falls short of the resources of the customs service spent on processing small parcels. It should be noted that too high a threshold encourages the development of cross-border trade to the detriment of the domestic e-commerce market. In doing so, the dilemma is not only the freeing up of customs resources versus the infringement of the domestic market but also the loss of some import duties versus the stimulation of tax-paying delivery businesses. These elements are part of the equation to see where the maximum benefit lies.

It would be advisable to consider China's experience in developing new e-commerce technologies, the Internet of things for application in the conditions of Kazakhstan in certain sectors, for example, in the field of agriculture. The state through its Development Institutes such as Damu, Qazventure, etc. could promote the development of new knowledge by village live-entrepreneurs.

As we noted earlier, electronic contracts have legal force within Kazakhstan and are recognized on par with written contracts if there is an electronic digital signature. However, there are no requirements for the forms of electronic contracts in the legal framework. Unified standard contracts in the sphere of e-commerce should be developed here. As for cross-border e-commerce, electronic international contracts are not legally enforceable in Kazakh-

stan. This is a significant barrier to the development of e-commerce, so it is necessary to introduce a point on equating electronic international agreements with written ones into the legislation. We consider it advisable to amend the relevant regulatory documents to make it possible to equate the rights of an Internet buyer with the rights of a traditional buyer.

Thus, we have proposed measures to improve state policy to regulate the e-commerce market in Kazakhstan. In other cases, the state can only play a stimulating role, creating an environment in which e-commerce can flourish, as well as stimulating the activities of SMEs in the e-commerce sector.

### Conclusion

The study of individual countries' experience in regulating electronic commerce shows the existence of various methods and tools for its state regulation. China's experience is noteworthy in that the state creates conditions for the foreign expansion of domestic e-commerce entities to increase domestic industrial product sales; a strict tax policy is applied to cross-border purchases aimed at protecting the domestic market.

The American model of e-commerce market regulation is characterized by a complete rejection of taxation in the field of Internet commerce at the beginning of the formation and development of this market. As cross-border e-commerce develops, the US imposes a "sales tax" that applies to online goods and services sold to US consumers, i.e., protects the domestic market.

In the Singapore model, the government's efforts are primarily aimed at stimulating the development of ICT and digital technologies, while the growth of e-commerce is promoted indirectly: clear and simple legislative norms, simplification of doing business, as well as financial and consulting support for SMEs by the government. The concerned models have one thing in common - they first created the conditions for developing ICT infrastructure and the Internet, including at the expense of public funds. The Chinese and American models are similar in that both models seek to protect the domestic market through restrictive taxation. On the other hand, Singapore provides state support to e-commerce entities as part of general programs for developing small businesses.

According to the results of the study, proposals for the implementation and adaptation of foreign experience in state regulation of the e-commerce market in Kazakhstan in the following areas: tax and tariff regulation, regulation of electronic contractual relations, consumer

protection and state support for SMEs in the field of e-commerce were developed.

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