Chapter V
E-Commerce Security and Honesty–Credit

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ABSTRACT

E-commerce mode aggravates information asymmetry so that honesty-credit problems become more serious. This chapter discusses the honesty-credit issue and honesty-credit system construction in e-commerce. It argues that the honesty-credit issue belongs to e-commerce security problems to some extent since it also destroys information integrity, confidentiality, and availability. The study of honesty-credit issue in e-commerce will help to promote social culture development as well as improve e-commerce security. Basing on analysis of three game models, the article suggests the construction of social honesty-credit system mainly include four aspects: cultivate citizens’ sense of honesty-credit, strengthen legislation, build mechanism of third-party authentication and regulate third-party service industry. At the end of the chapter, the case of Shanghai honesty-credit system construction of is introduced to describe China honesty-credit status.

INTRODUCTION

With the trend of globalization and rapid growth of e-commerce, the credit crisis in e-commerce has quietly hit. As e-commerce belongs to a kind of virtual and non-contact economy, the mode of information communication between the trade parties becomes the major difference from the traditional ecommerce. The information communication in traditional business is face-to-face or at least can be perceived, such as voice and documents, while information communication
in e-commerce can be realized only through electronic information, resulting in serious information asymmetry. Such way of information communication provides circumstances for the possible default and decrease the expectation of trust between trade parties engaged in commercial activities. In recent years, security risks, particularly credit risk, false trading, counterfeiting, Internet theft and other illegal behaviors occur frequently. The security problems triggered by the lack of honesty-credit greatly constrains the development of e-commerce. Compared with the traditional business, e-commerce needs a higher degree of Honesty-credit to maintain the normal transactions.

Moreover, the cost of e-commerce transactions is also raised virtually as the honesty-credit is not effectively protected. In order to prevent risks and improve transaction security, enterprises and customers have to make confirmation through traditional means, such as telephone, fax, and even face-to-face meeting. For example, in 2000, in order to solve the distrust between bargainers, eBay China launched a program called “free communication site”. Customers can freely use the shooting equipments and other tools provided by eBay in the designated location to confirm the quality of products. This approach seems back to the prototype of C2C – offline flea market. Whereas the offline transactions only need face-to-face transactions, when transferred to the Internet, there needs more procedures of registration and placing order (Wang and Shen, 2002). It is obvious that the advantages of e-commerce are dying away because of the honesty-credit problem.

E-commerce as a business model entirely dependent on the virtual network has indeed brought great convenience, but the prerequisite to realize this benefit is that parties engaged in the transaction must maintain honesty-credit. No honesty-credit, e-commerce will be impossible. So it is of great importance and significance to study the reasons of absence of honesty-credit and analyze how to strengthen construction of honesty-credit system to protect the security and authenticity in e-commerce transactions.

The article studies the current status of e-commerce security and honesty-credit in China, and tries to provide useful suggestions about how to promote the integration of China’s e-commerce honesty-credit system with the international practice and to guarantee the development of e-commerce.

**BACKGROUND**

**Definition of Honest-Credit**

The so-called honesty-credit, defined from the literal interpretation is “honest and trustworthy”. Narrow definition for the honesty-credit is the definition composition of honesty and credit, which can be interpreted as honesty and compliance with the commitments. Generalized definition of honesty-credit involves almost all of contents of “honesty” and “credit”, giving a broader and more comprehensive content to honesty-credit from the inner moral virtues to the outer behaviors of the entity. In e-commerce, honesty-credit mechanism includes honest behavior and credit system two aspects, among which, honest behaviors promise the basis and premise for various economic activities to carry out smoothly and orderly (Yu et al, 2006).

Honesty-credit as a virtue has a long history in China. The ancient people think honesty-credit is an important character for man to be a man. The Analects of Confucius and Mean as well as other famous works all refer to the concept and some also give explanations and clarifications, thinking man should consciously accept this moral constraint and try best to adhere to ethics. Honesty-credit, as a favorable moral atmosphere, has close relationship with the enterprise’s commercial reputation and value as well as personal values and moral cultivation in modern society. Which