

SMEs: The New Stakeholders of International Trade

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www.tradecoalition.org



ASIA PACIFIC MSME
TRADE COALITION
(AMTC)

αlphaβeta
strategy x economics

Who is the Asia Pacific MSME Trade Coalition (AMTC)?



ASIA PACIFIC MSME TRADE COALITION
(AMTC)

As the largest voice of MSMEs in the Asia Pacific, the AMTC is committed to facilitating the trade of goods and services by MSMEs in

the region, as well as serving as a bridge between government officials and business.

The purpose of the AMTC is to shape trade policies that are MSME friendly in collaboration with various different stakeholders.

AMTC objectives:

Help members grow their business

Connect members with tools needed to compete with larger companies

Level the playing field by working with governments across the region

Why did the AMTC launch this research?

1

MSMEs are vital for economic growth and trade in ASEAN

2

Most MSMEs in ASEAN still face high barriers to export

3

Digital technologies can lower export barriers and transform the time and cost for MSMEs engaged in exporting

4

Sound regulation of digital trade is therefore crucial for MSMEs, but often they don't have a "voice at the table" at trade negotiations



MSMEs are vital for economic activity and trade in Asia Pacific

MSME impact in Asia Pacific
Percentage share

- Other firms
- MSME



MSME firms are particularly important in ASEAN

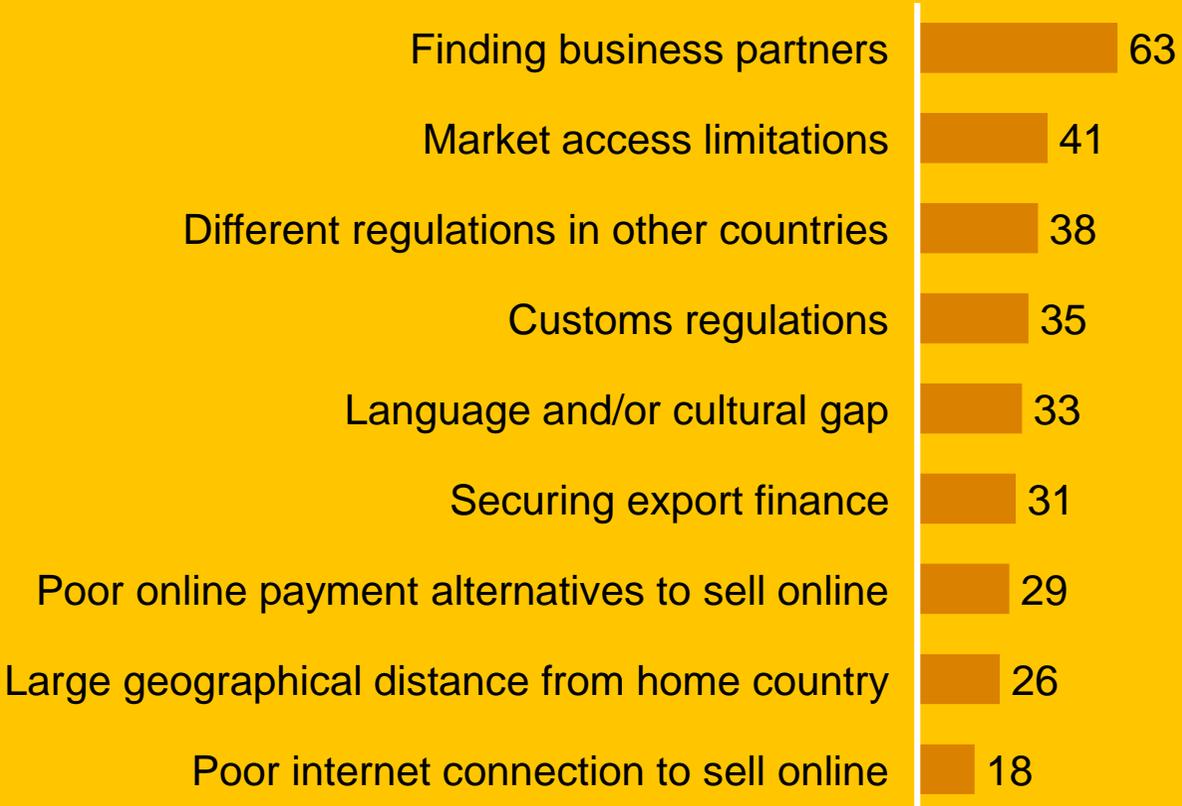
Economic data on MSMEs for selected Asia Pacific countries¹

Economy	Total MSME employment	MSME employment (% of total employment)	No. of MSME firms	MSME firms (% of total firms)	Year
Cambodia	1,300,000	71.8%	512,870	99.8%	2014
Indonesia	107,657,510	97.2%	56,534,591	99.9%	2012
Lao PDR	472,231	82.9%	124,510	99.8%	2013
Malaysia	5,100,000	57.5%	645,136	97.3%	2011
Myanmar	N/A	N/A	126,237	99.4%	2009
Philippines	4,930,851	64.9%	940,886	99.6%	2012
Singapore	2,100,000	67.7%	180,000	99.3%	2012
Thailand	11,400,000	81.0%	2,760,000	97.2%	2013
Viet Nam	5,129,980	46.8%	333,835	97.7%	2012

¹ Data is obtained from national data sources for each country. MSME definition varies between countries and is based on each country's working definition used to compile the statistics.

Most MSMEs in the Asia Pacific still face high barriers to export

Share of MSMEs with a digital presence highlighting issue as a barrier to exporting; Percent (July 2017)



Digital technologies have changed the way MSMEs export

Export value chain



Impact of digital

Traditional scenario

- Labour intensive: dedicated staff, market research agency, potential field trip
- Potential travel to market

- Procurement of local advertising space in foreign market (e.g. newspaper, radio & TV ads)

- Limited transparency
- Time intensive paper based approach
- Dedicated brokers

- Time intensive paper based approach
- Dedicated consultant

- Manual management of supply chains
- Limited information on causes of inefficiencies

- Special IT equipment (e.g. servers, office software)
- Communications services
- Dedicated travel agents

Digital scenario

- Desktop research
- Digital market research tools (e.g. online surveys)
- Reduced need for travel

- Digital advertising channels (search engine optimisation, display, social, video)
- Leveraging market platforms

- Product comparison sites
- Single window view into market
- Digital financial products

- National single window

- Automated and digitalised supply chain management (e.g. Internet of Things)

- Cloud computing and software
- Voice over IP
- Online travel services

Digital technologies can lower export barriers and reduce the time and cost for MSMEs engaged in exporting

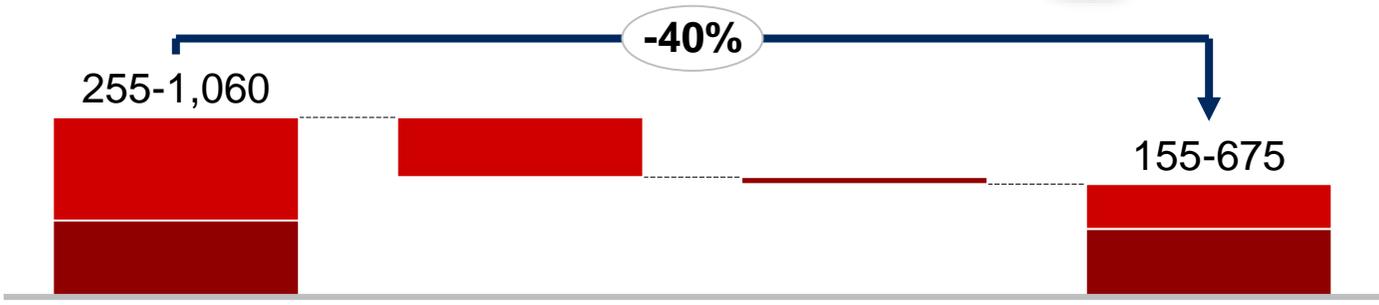
MSME savings associated with market entry

Market entry costs, 000s US\$

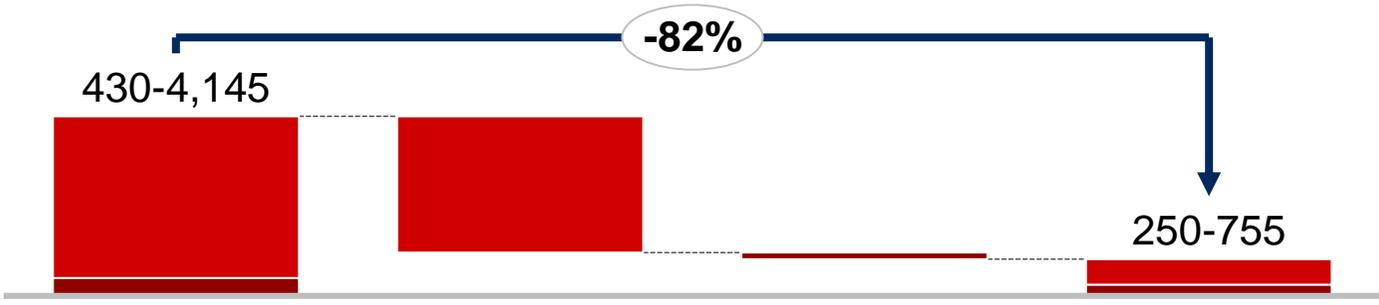
Market entry costs Foreign market operating cost

Percentage saving

Manufacturing

Service

Traditional scenario

Market entry savings

Foreign market operating cost savings

Digital scenario

Digital services can also create entire new business models for MSMEs

Business models	Key Facts in APAC
<p data-bbox="99 389 502 494">App developer and publisher</p> 	<ul data-bbox="551 389 1731 663" style="list-style-type: none">▪ The APAC market in 2015 alone had 58.5 billion app downloads on Android, generating roughly US\$22.9 billion in revenue for app developers▪ There were an estimated 2.25 million app developers working in APAC in 2016
<p data-bbox="99 760 408 858">Online content creator</p> 	<ul data-bbox="551 760 1690 1034" style="list-style-type: none">▪ YouTube provides access to 1 billion viewers worldwide.▪ Digital “banner” and video advertising revenue is estimated to hit US\$14.1 billion and US\$8.4 billion respectively in Asia for 2017

Several challenges prevent MSMEs from fully leveraging digital technologies in ASEAN

Area

Description

1 Lack of access

- **Broadband infrastructure** and access varies among Member States – fixed broadband penetration in 2014 ranges from 28% (Singapore) to around 1% and below (Indonesia, Laos, Cambodia and Myanmar)
- **Average internet speed** also poses challenges in internet connectivity; 9 out of the 10 ASEAN Member States fall below the world's average in terms of internet speed (World's average is ~20 Mbps) except Singapore

2 Lack of understanding of the benefits

- **MSMEs are not fully aware of the potential benefits** of going online, and the different ways digital could benefit both in market expansion, productivity enhancement etc.
- Therefore, **MSMEs do not want to invest time/ resources** to adopt digital/ technology

3 Barriers to adoption

- **Limited capability and understanding** on digital/ technology products, and their use
- **Digital/ technology content are usually available in English**, and not in local language, which creates inconvenience for MSMEs to adopt

4 Challenges to scale

- **Regional connection and opportunities** among between MSMEs, MSMEs to technology vendors and MSMEs to large corporate could be improved
- **Trade legislation often ignores concerns of MSMEs**, such as market access and data restrictions

The export success of ASEAN's MSMEs relies on sound regulation of digital trade

Policy issues



Red tape
impacting
market
access



Copyright
issues



Inter-
mediary
liability



Cross-
border
data
restrictions

These policy issues were selected according to three criteria:

- They are of core relevance to the ongoing trade discussions taking place in Asia
- These issues have largely been seen as only impacting large firms and the impact of these issues on MSMEs has not received sufficient attention to date
- While these issues may not be “front of mind” for MSMEs today, they will become increasingly relevant as the digital economy evolves

Red tape impacting market access



Issue

- Domestic registration can threaten scale economies by requiring firms, even small ones, to register locally, if operating in a country
- It can also add significantly to costs and result in a large amount of lost time for businesses as they seek to comply with these requirements, e.g., in Cambodia, starting a business can take up to 99 days



ASEAN Example

- Customs thresholds vary across ASEAN from: < US\$1 to US\$150
- Coverage also varies: from air express only to all by all modes (air, sea & mail)



Resolution

Minimising border frictions

- Finding alternatives for enforced local establishment when trying to regulate importers
- Raise de minimis thresholds, plus remove customs duties on digital products.



Issue

- How to balance the need to protect an author's intellectual property from unauthorised use without hampering innovation – ‘fair usage’
- Smaller businesses (including individual content creators) generally lack the resources to effectively monitor and remedy any copyright concerns



Example

- Taiwanese stop motion animation studio using licensed characters
- “Inability to use licensed characters, could reduce viewership by 30%”



Resolution

- Build flexibility into copyright regulations
- Clear definitions and cost-efficient requirements for intermediaries to comply with the legislation
 - Provide clarity on any potential liability

Intermediary liability



Issue

- Liability of platforms for their users' online activities is one of the key factors that affects innovation and free speech
- Many jurisdictions have 'safe harbours', however, conditions vary across countries, as do the punishments for infringement
- Small firms may lack of capacity to monitor and remove content in time

Example

- Indian consumer review web site
- Legal challenges require full-time team of five people
- Removal of content may reduce perceived objectivity of the website



Resolution

- Building flexibility into intermediate liability regulations
- Ensuring clarity on issues such as the 'fair use doctrine'

Restrictions on cross-border data



Issue

- Various draft legislations across countries in Asia to regulate the movement of cross-border data.
- Many restrictions are for legitimate reasons others are imposed to provide domestic companies with a competitive advantage such as: Local storage requirements, traffic routing, geolocation data and export controls



ASEAN Example

- e-procurement property management services platform
- Using local data centres in Indonesia exposes the company to additional costs and risks



Resolution

Ensuring open information flow

- Improve transparency on data management requirements (i.e. clarity around type of data that can be shared, boundaries of sharing, and required consumer consent)
- Adopt the APEC Privacy Framework and join the APEC Cross Border Data Privacy Rules System, as well as adopt ISO Standards

Recap of main messages

1

Digital technologies have the potential to transform the export capabilities of MSMEs in ASEAN

2

A number of barriers are limiting digital adoption of MSMEs in ASEAN, including poorly designed digital trade regulation

3

Three imperatives from trade regulation for MSMEs:

- Minimising border frictions;
- Building flexibility into copyright & intermediate liability regulations;
- Ensuring open data flows