

APEC Project: SME 01 2018

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APEC WORKSHOP ON HARNESSING DIGITAL TRADE FOR SMES

Ha Noi, Viet Nam

17 – 18 January 2019

Summary Report

I. Introduction

On 17 and 18 January 2019, the APEC Workshop on Harnessing Digital Trade for SMEs, initiated by Viet Nam and co-sponsored by Hong Kong, China; Mexico; Peru; USA was held in Ha Noi, Viet Nam. Speakers and participants came from private sector, business associations; international organizations and research institutions and APEC member economies' relevant Ministries and government's agencies.

The APEC Workshop on Harnessing Digital Trade for SMEs aims at the following objectives: (i) Identifying and sharing global trends in digital trade; data sources and methods as well as opportunities and challenges to enable SMEs to harness and benefit from digital trade; (ii) Identifying policy issues that affect the expansion of digital trade as well as sharing experiences in enable favorable regulatory environment for SMEs to harness digital trade; (iii) Sharing experiences, practices in using digital technologies; and (iv) Making recommendations to APEC economies on how to facilitate SMEs to take advantages of opportunities brought about by digital trade.

II. Background

Given the fact that the Internet has great impacts on changing how people interact; how consumers shop; how products and services are designed, developed, marketed, and delivered; and how businesses operate and interact with one another; it is widely recognized that digital trade—commerce in products and services delivered via the Internet—is increasing and having more and more significant impacts on regional and global economies.

Across the APEC region, SMEs account for more than 95 percent of all enterprises and generate more than 50 percent of domestic employment. Supporting their integration in digital trade could bring about significant economic growth. While many multinationals actively and proactively take advantages of digital trade to promote their business, SMEs tend to have limited awareness and capability of harnessing digital trade while also facing more difficulties in overcoming policy issues related to digital trade; as a result, they are often less productive and competitive than their larger counterparts.

While it is agreed that digital trade is “opening opportunities for millions of micro entrepreneurs and small businesses to engage in cross-border trade, grow into multinational sellers, and craft their own global supply chains”, however, “these gains depend on an

adequate infrastructure and on supportive policies at national and international levels. These challenges might include inadequate broadband connectivity and skills in information and communications technology; policy and regulatory issues which represent increasing costs to digital companies, such as onerous legal liability regimes and data privacy rules; limited adoption and use by small businesses of digital technologies, such as e-commerce or online payments; the traditional challenges to cross-border trade, and public digital infrastructures and regulations that are incomplete and do not interact optimally with those of other economies.”¹

By focusing on providing capacity building for SMEs to take advantages of digital trade, it contributes to APEC capacity building’s goals and objectives that aim to attain sustainable growth and equitable development in the Asia-Pacific region; to reduce economic disparities among APEC economies; and to improve the economic and social well-being of the people since SMEs account for more than 95% in the region and contribute much to job creation, stability and wealth of the region.

The project aligns with the 2017 AMM Statement when the Ministers stress that “We support initiatives to foster greater MSMEs' capacity and participation in e-commerce, and promote “Online-to-Offline” (O2O) model and digital resilience” and that “We emphasize that MSMEs’ participation in the digital economy should foster inclusive growth and reduce inequality”.

In the 2017 Leaders’ Statements, the Leaders stated that “We will work together to realize the potential of the internet and digital economy, including through appropriate regulatory and policy frameworks, and taking into account fair competition to encourage investment and innovation. We welcome the adoption of the APEC Internet and Digital Economy Roadmap” and also affirmed that “We commit to strengthen the ability of MSMEs to compete in international markets and participate in global value chains through enhancing MSMEs digital capabilities, competitiveness and resilience”.

With a focus on how to enable SMEs to take advantages of digital trade, this project aims to respond to APEC Leaders’ and Ministers’ concerns and commitments to enhance SMEs’ capacity to “realize the potential of the internet and digital economy”.

The SMEWG has endorsed its Strategic Plan for 2017 – 2020, which missions itself to “promote the development of an enabling environment, foster capacity building for SMEs and enhance the synergy with other APEC fora, the private sector and other stakeholders to promote the development and growth of SMEs, and to maximize the benefits of policy dialogue and best practices sharing in the Asia-Pacific region”. In particular, one of their priority areas is “entrepreneurship, innovation and the internet and digital economy” which aims to “helping SMEs to build capabilities to take advantage of and compete effectively in the internet and digital economy”.

In this regard, the project directly contributes to the SMEWG’s Strategic Plan 2017 – 2020 with a focus on enabling SMEs to take advantages of the digital trade.

¹ Fuelling Trade in the Digital Era – Policy Roadmap for Developing Countries – by Kati Suominen – ICTSD.

III. Key Issues

1. Opening remarks

In the opening speech given by Ms Lai Viet Anh, Deputy Director General of the E-commerce and Digital Economy Agency (IDEA), Ministry of Industry and Trade, she stresses that digital trade brings about opportunities for various stakeholders, especially Small and Medium size enterprises (SMEs), thanks to technology advances, growth of online platforms, etc., hence, they create unprecedented opportunities for SMEs to enter global markets. However, it is a fact that a large number of SMEs have not been able yet to reap the benefits of the technological transition. Evidence shows that SMEs are lagging behind in adopting digital technologies. Furthermore, according to an OECD's report,² for many SMEs, "digitalization has resulted in disruption of markets, including increased contestability of local markets, rapid obsolescence of knowledge, skills and business models, and increased complexity in the business environment". The Workshop is expected to be a good opportunity for APEC member economies to share their experiences in how to promote SMEs in taking advantages of digital trade in various aspects, such as legal framework issues, other business and technology factors that might have impacts on SMEs, logistics issues, business facilitation, etc.

2. Global trends in e-commerce and e-trade

In this session, Ms Ho Uyen from Viet Nam Ecommerce and Digital Economy Agency and Mr Pham Quoc Phi, an independent consultant portrait an overall picture of e-commerce growth in various region and economies, with a focus on the Asia Pacific. It is recorded that in 2017, the retail e-commerce sales reached USD 1.365 trillion in Asia Pacific. E-commerce legislation (e-transaction and e-signature; consumer protection; data protection and privacy; and dispute resolution in e-commerce) in APEC economies varies from economy to economy. Accordingly, in terms of e-transaction, 20 out of 21 APEC economies (except for Papua New Guinea) have adopted laws addressing e-transaction. Also, most of APEC economies have adopted consumer protection legislation that covers e-commerce. For example: some economies rely on general civil law legislation to address e-commerce; meanwhile, some have adopted their consumer protection laws including special provisions to deal with e-commerce. It is a fact that legislation variations make cross-border enforcement of consumer protection challenging, therefore, requires the cooperation between enforcement agencies among economies. With the increase of e-commerce, increased concerns around personal data use and/or misuse remain. In the framework of APEC, there have been initiatives such as APEC Privacy Framework and APEC Cross-Border Privacy Rules (CBPR) System which facilitates privacy-respecting data flows while still ensuring the free flow of information in place. In reference to the fact that 3% to 5% of all transactions, online and offline, result in a dispute, it is important to have an efficient dispute resolution system, in which online dispute resolution (ODR) is expected the one thanks to its fast, efficient, flexible and inexpensive mechanism for handling e-commerce disputes. Effective

² Meeting of the Council at Ministerial Level 7-8 June 2017: Enhancing contribution of SMEs in a global and digitalized economy

use of ODR across APEC requires the adoption of relevant laws and treaties by member economies. APEC member economies have made great efforts in facilitating ODR; for example: the New York Convention is ratified by 19 APEC member economies; UNCITRAL Model Law on International Commercial Arbitration (revised in 2006) is enacted by 17 APEC economies; UN Convention on the Use of Electronic Communication in International Contracts is ratified by 2 APEC economies; and UN Convention on Contracts for the International Sales of Goods (CISG) is ratified by 13 APEC member economies.

It is recommended that (i) e-commerce legislation should be revised to promote interoperability of legislation among APEC members; (ii) building a sustainable ODR Platform; (iii) strengthening information sharing and exchanges of best practices between member economies; (iv) enhancing capacity for lawmakers; and (v) enhancing awareness of consumers and companies.

3. Key barriers to and Opportunities of digital trade

Apart from the opportunities brought about by digital trade, Dr Tzong Ru Lee, Professor, Chung Hsing University, Chinese Taipei highlights difficulties and barriers that SMEs face while integrating in cross border digital trade. They include but not limited to: tax, laws, quarantine and epidemic prevention. Each member economy might have different regulations on tax and customs procedures that might cause difficulties for SMEs to implement those regulations, hence, impede and slow down their integration. Methods to quarantine and prevent infectious diseases are important to protect consumers' health and safety but might also cause troubles for enterprises if it is too costly and takes much time.

According to surveys conducted by the APEC – Canada Growing Business Partnership in three economies, presented by Alisha Clancy, Program Manager at Asia Pacific Foundation of Canada, namely: Viet Nam, Philippines, and Indonesia, SMEs also face a number of other difficulties, such as:

- (i) **ICT Infrastructure:** Four powerful forces (Cloud-based tools and computing; Social media platforms and apps; e-commerce platforms and apps; and, Sharing economy platforms and apps) have emerged in the digital landscape and are transforming South East Asia and other emerging markets. These digital ecosystems require robust digital infrastructure to support high-speed broadband wireless access to the internet. The economies surveyed have seen uneven development of its digital infrastructure because of the challenges posed by unique geography and funding needed for remote areas.
- (ii) **Improving Business Operations:** The most recurrent challenge to expanding markets identified by SMEs is business operation inadequacies. This includes various aspects of running an efficient business, such as having proper facilities and access to relevant technologies. Online business operations have been perceived by many as a strategic way to expand a firm's market.
- (iii) **Human resource constraints:** Finding the right employees was a prime concern of SME respondents. The lack of qualified individuals to build digital systems poses a market access barrier for SMEs because it affects the overall business operation.

Penetrating new markets may also require marketing, innovation and the improvement of existing products or development of new ones, which is difficult without qualified employees.

- (iv) Difficulties in complying with international standards and government regulations: Compliance with government regulations and policies also stands in the way of market access for SMEs. Inefficiencies include numerous forms and requirements, corruption, and cumbersome business registration procedures which hinder SME growth and expansion into new markets. Compliance with administrative regulations is also the most frequently identified hindrance to market access cited by business organization respondents. SMEs also find it difficult to comply with international standards that allow them to penetrate international markets. Many SMEs do not have access to the required financial capital and technologies to comply with these standards.
- (v) Lack of access to finance: Penetrating new markets often requires additional capital to develop new products, improve existing ones, and comply with regulations and standards in target markets. SMEs often lack access to finance or are too risk averse to seek external financing. Because of their small size and lack of fixed assets, SMEs usually do not have access to common collateral such as land and buildings. Also, lenders do not have access to credit history of SMEs or information that could prove a business's creditworthiness. This is because many SMEs are unable to maintain proper and accurate financial statements.
- (vi) Marketing and branding constraints: Effective branding and marketing strategies are needed to penetrate new markets. However, many SMEs lack this capability. They lack the necessary skills to inform consumers how their product differs from others through package design, labelling, and advertising. SME managers and owners need to develop effective branding and marketing skills to attract potential buyers.
- (vii) Lack of access to market information: SMEs have limited access to information on preferences, needs, spending capacity, and the willingness to pay of potential buyers in their target markets. To expand market reach, SMEs must identify where there is a demand for their product. For instance, an SME planning to export must not only comply with international quality standards and regulations of its target economy, but it must also know whether its products would match consumer tastes and preferences. It must also know if personal income levels are high enough for consumers to afford the product. This information is costly to obtain and not usually available to SMEs.

Shifting consumer preferences & technologies: Some SMEs have trouble keeping up with constantly evolving technologies and find it tough to learn and finance them. When market demand changes and consumer preferences shift, these SMEs fail to adapt because acquiring new assets requires significant capital. Policy issues that affect the expansion of digital trade and SMEs' Participation

Canada's government have undertaken a range of activities to support SMEs trade, and in particular through the Export Diversification Strategy, Strategic Innovation Fund, Innovation Canada Business Support, Women Entrepreneurship Strategy.

For example, the Export Diversification Strategy – a cross government program, will invest \$1.1 billion, including investment in infrastructure to support trade, investment in CanExport to help SMEs explore trade opportunities, launching an export mentoring program to connect Canadian entrepreneurs looking to export and successful exporters, investing in SME export-readiness programs through local organizations, etc., with aims of increasing Canada's overseas exports by 50% by 2025. Meanwhile the Canada's Ministry of Global Affairs and Trade Diversification aims at increasing the competitiveness of Canadian small and medium-sized businesses by modernizing regulations so that it is easier for Canadian SMEs to grow; removing internal trade barriers within Canada to encourage domestic trade and growth; allowing businesses to immediately write off the full cost of machinery and equipment for the manufacturing or processing of goods; etc. These new measures will help bring Canada's marginal effective tax rate to 13.8%, the lowest among the G7 economies, and will strengthen Canada's economy, attract investment and grow the middle class. Besides, recognizing the full and equal participation of women in the economy is essential to Canada's future competitiveness and prosperity, the Government is also attentive to promote women entrepreneurship through investment in areas such as mentoring, skills development and networking; increasing women's access to capital; enhancing data and knowledge (The Government of Canada will fund the creation of an independent Women Entrepreneurship Knowledge Hub, to gather and disseminate information, data and best practices for women entrepreneurs), etc.

In Viet Nam, the Government has also created an adequate legal infrastructure for e-commerce to support enterprises and people. They have laws and regulations in all 4 areas, including e-transaction, consumer protection, cyber crime, and data protection and privacy.

Viet Nam has developed the Master Plan on e-commerce Development for the period 2016 – 2020 as well as the National Program for e-commerce development period 2014 – 2020. Currently, the issues of e-commerce have been also on the agenda for trade agreements' negotiation in many Viet Nam's RTAs/FTAs with partners.

4. SMEs' Participation In Digital Trade – Challenges And Recommendations From Private Sector's Perspective

The Asia Pacific MSME Trade Coalition (AMTC) is considered one of the largest voice of MSMEs in the Asia Pacific, and 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. According to the AMTC's research, it finds out that up to ~29% reduction in time for MSMEs exporting by leveraging digital tools can make digital benefits to MSMEs. Up to 78% of this time saving is driven by a more streamlined operational support backend. Digital technologies can save over US\$339 billion in export-driven costs in China, India, Indonesia, South Korea, and Thailand. Up to ~82% reduction in exporting costs for MSMEs comes from digital tools and up to 65% of this cost saving comes from a more efficient marketing

solution. On the other hand, MSMEs also face regulatory challenges such as red tape, copyrights, intermediary liability, cross-border data restrictions. The red tape can impact market access for MSMEs since domestic registration can threaten scale economies by requiring firms, even small ones, to register locally, if operating in an economy. 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. Copies issues raise concerns about 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. Liability of platforms for their users’ online activities is one of the key factors that affect innovation and free speech. Many jurisdictions have ‘safe harbours’, however, conditions vary across economies, as do the punishments for infringement.

Cross border data restrictions also remain as a big concern, e.g: it can provide domestic companies with competitive advantages such as: local storage requirements, traffic routing, geolocation data and export controls.

Some resolutions are recommended to address the above concerns, such as:

- (i) Minimising border frictions: finding alternatives for enforced local establishment when trying to regulate importers; raising de minimis thresholds, plus remove customs duties on digital products;
- (ii) Build flexibility into copyright regulations: clear definitions and cost-efficient requirements for intermediaries to comply with the legislation; providing clarity on any potential liability;
- (iii) Building flexibility into intermediate liability regulations: ensuring clarity on issues such as the ‘fair use doctrine’
- (iv) Ensuring open information flow: improving transparency on data management requirements. Ms Nguyen Huong Giang, a trade advisor shares that the World Economic Forum (WEF) assesses that only a few economies have benefited and excelled: only 25 economies will benefit from the fourth industrial revolution, mainly from the European, North American and East Asian regions, which own more than 75 % of global production value and continue to be able to grow market share in the future. Moreover, about 70% of the robot market's turnover falls to economies such as China, Japan, South Korea and the United States, with Germany, Japan and the United States dominating the manufacturing of high value robots. More than 90 percent of economies in Latin America, the Middle East, Africa, and Asia are classified as nascent economies, which may fall into lag.

Viet Nam is considered as one of economies not ready for the industrial revolution 4.0. Viet Nam started to connect to the Internet at the end of 1997. In the period 1998-2005, e-commerce was a new concept and began to be noticed. At this time most of the users only used email in the transactions; websites are simply introduced to the information of business; e-market platforms (vatgia.com, chodientu.vn,...) began to develop because businesses lack

resources and skills in information technology and e-commerce, they should rely on e-marketplace to trade. Electronic payment was not available at this time. However, in the period 2016 – 2025, it is expected that Viet Nam is going to witness a rapid growth in e-commerce. It is advised that SMEs should take advantage of digital ads such as responsive ads, in-app ads; and pay more attention to attract customers to generate more traffic.

JD.com remains as one of Chinese largest e-commerce platforms which has facilitated SMEs' participation in the regional and global markets. In the case of JD, their technology empowerment has contributed to SMEs' development through improving employment, increasing exports, boosting logistical efficiency, growing e-commerce industry, and supporting countryside e-commerce sellers. It is recommended that SMEs should integrate themselves into the smart supply chain through smart control, smart operation and smart retail. The block-chain traceability platform will contribute to empowering vendors, retailers, as well as retail innovation.

5. The Impacts of logistics and trade facilitation on digital trade

From the perspective of a logistic firm operating in Viet Nam, Dao Ngoc Thanh Huyen, Legal Deputy Head from TIKI shares that overall, Viet Nam's infrastructure is inconsistent, lack deep-water port, lack large logistics center, making costs of logistics operations accounting for 25% national GDP. He also notes that trade habit makes logistics costs increase: Economies always import under FOB condition, export under CIF condition. In addition, when the trend of Digital Trade is a direct connection, direct transactions will appear to increase shipments of small, easy to disperse, decentralization lead to logistics costs increase. If not well managed, lack of consistency, combine resources, the high logistics cost will even higher.

In Viet Nam, it is suggested that it should not only be electronically traded goods but also need to transform traditional logistics transactions onto trading platforms, shipping exchanges.

From the perspective of Dr Tzong Ru Lee, Professor, Chung Hsing University, Chinese Taipei, cross border e-commerce have changed international trade and supply chain nowadays as well as provides multi-functional and fast logistics services compared to the past. Logistics firms are contributing increasingly important roles to the business development; therefore, there is a requirement to improve the logistics services. Some ways can be taken into account, such as: (i) understanding regulations and taxes in each region; finding local logistics companies overseas as business partner; reducing costs by operating their business through blockchain; etc.

6. Sharing Experiences by member economies on Harnessing Digital Trade for SMEs

In this session, Claudia Chan, Senior Vice President, Government Affairs, Lazada Group shares the story of how Lazada, an e-commerce platform support SMEs in their integration into the cross border digital trade.

Ms Nguyen Thi Y Nhu, Coca Cola Communication Manager shares the experiences of how SMEs can tell their product stories to outreach customers in digital channels.

IV. Recommendations and Conclusions

Through the sharing of information and experiences among APEC member economies at the Workshop, speakers and participants have exchanged views on what individual government and APEC should do to harness digital trade for SMEs. Recommendations are as follows:

Governments' roles:

- Conduct compliance training and information seminars to support SMEs to meet regulatory and quality standards.
- While compliance and technology can be expensive, government agencies and business organizations can assist SMEs by helping them pool their resources to acquire knowledge and technology for everyone's use.
- Build public outreach campaigns with online information for entrepreneurs and SMEs to take advantage of available government support.
- There are government support projects for SMEs such as mentoring programs, trade fairs, and other capacity-building programs. Business and industry associations can help SMEs expand their market horizon.
- Improve ICT Infrastructure and free access
- Improve ease of doing business
- Implementing reforms to make it easier for a business to register and operate online, which will help SMEs grow and become more competitive.
- Improving banking systems at an overarching level will assist in e-commerce set-up and other online capabilities.

SMEs and business associations:

- SMEs should take advantage of online markets. SMEs may start with simpler, less expensive platforms such as online sales websites and then gradually move to more complex platforms such as the firm's own website with sales capability.
- Business associations can provide information and support to help SMEs engage in online sales. For newer SMEs, this support includes introducing them to online sites where retailers can sell their products.
- For more established businesses, this includes providing training for online marketing and running an online sales platform.
- Gain market research and information from joining a business association
- Look for new market niches where competition is not yet too intense.
- Explore shared services for SMEs.
- Promote SME partnership with larger businesses and foreign partners

APEC Roles:

- Encourage initiatives and cooperation in the APEC agenda SMEs integration into global value chains as well as in the digital economy;

- Promote capacity building and workshops to share experiences, best practices to increase SMEs' integration in general, help SMEs take advantages of digital trade in particular.

Here are some recommendations for further thoughts and discussion at the upcoming SMEWG Meetings.