



Asia-Pacific  
Economic Cooperation

## Globalization, Inclusion, and E-Commerce: APEC Agenda for SMEs

By Gloria O. Pasadilla and Andre Wirjo

Globalization created wealth for many. It improved standards of living, allowed consumption of greater variety of goods, created employment, and promoted convergence of income across economies. Yet, globalization's benefits have been seen as heavily tilted towards big firms and multinationals, whereas the rules of global trade are stacked against SMEs. Today's global agenda on greater inclusion is meant to remedy the disadvantages by small firms.

The Boracay Action Agenda to Globalize MSMEs is APEC's contribution to the economic inclusion challenge. Cognizant of the fact that 80 percent of global trade take place through global supply chains<sup>1</sup>, one of the Boracay Agenda's action plans is to facilitate SMEs' participation in global value chains (GVCs). Having policies that facilitate access to GVCs is a step in the right direction; however, there are other constraints that may not be dependent on government policies. For example, stringent industry standards at each step of the value chain and burdensome certification processes are challenging for most SMEs to meet and are obstacles for them to be part of GVCs<sup>2</sup>. GVCs, for their part, are strict about onboarding suppliers because they are as fragile and prone to failure as their weakest supplier<sup>3</sup>. In many developing economies, because of lack of capital to upgrade equipment, SMEs find substantial participation in MNC operations beyond reach<sup>4</sup>.

<sup>1</sup> UNCTAD. Global Value Chains and Development – Investment and Value Added Trade in the Global Economy. Geneva: UNCTAD. (2013), Available at: [http://unctad.org/en/PublicationsLibrary/diae2013d1\\_en.pdf](http://unctad.org/en/PublicationsLibrary/diae2013d1_en.pdf).

<sup>2</sup> See, for example, the collection of APEC PSU case studies on manufacturing-related services

(<https://www.apec.org/Publications/2015/11/Services-in-Global-Value-Chains-Manufacturing-Related-Services>).

<sup>3</sup> Nicita, A., V. Ognitsev and M. Shirotori. Global Supply Chains: Trade and Economic Policies for Developing Countries. New York and Geneva: UNCTAD. (2013), Available at: [http://unctad.org/en/PublicationsLibrary/itcdtab56\\_en.pdf](http://unctad.org/en/PublicationsLibrary/itcdtab56_en.pdf).

<sup>4</sup> A PSU study, for example, found that big multinationals tend to find domestic SMEs incapable of meeting their product demands, hence tend to work with and encourage their own supply network from home economy to co-locate with them when they move production to another economy (see the case

This policy brief considers another alternative route to SME internationalization through e-commerce. With e-commerce, SMEs face a different challenge of access but most of it can be abated through regulatory facilitation. The next section talks about the trade prospects for SMEs in e-commerce, followed by policy issues that an APEC agenda on SMEs and e-commerce can include.

### E-commerce and SME Globalization

#### *E-commerce Supports SMEs' Participation in International Trade*

The internet has empowered SMEs to sell to a bigger market. Success stories abound, indeed, of simple entrepreneurs growing their business; with some even succeeding in the export market. Most start with selling to a bigger set of 'friends' through Facebook or Snapchat, which is usually the easiest way for entrepreneurs to get an online selling experience. In time, successful SMEs get discovered and connected with e-commerce marketplace platforms that open up a much bigger market for SMEs' products. Box 1 highlights a few of them. For example, Christy Ng's shoe business grew from a small cottage industry to being a global business. A former eBay marketing person sighted Ng's growing sales on Facebook and decided to invite her to register with eBay. eBay provided the marketing 'push' for the business, ensured that Christy Ng's shoes appear in consumer searches on its site, which resulted in balloon orders from consumers and retail outlets from the United States and elsewhere. Today, the shoe business has five physical offline stores in Kuala Lumpur, Selangor and Johor, a far cry from the 'garage' business it started from.

studies on manufacturing of aircraft control systems and car in the Philippines

<https://www.apec.org/Publications/2015/11/Services-in-Global-Value-Chains-Manufacturing-Related-Services>).

## Box 1. Success Stories in E-commerce

### Unique shoe designs

Christy Ng's shoe business began humbly in her mother's house. She started selling by posting unique designs of shoes on Facebook which gained her thousands of fans within the first month. The positive response and growth in demand led to the creation of a blog with shopping cart plugins, and, eventually, to an online store on eBay which showed her products to major international markets. Today, Ng's e-commerce store is complemented by physical shops in 5 different locations in Malaysia.

### Seashells and middlemen

Emmanuel Antig started to take pictures of beautiful Philippine seashells bought from fishermen and listed them on eBay. Prior to Emmanuel's foray in the internet, the main business model had been for the seashells to go through many middlemen (e.g. village buyer, city buyer, exporter, importer). By bypassing the middlemen, he was able to sell the seashells at a lower cost, benefiting customers while also paying the fishermen a higher price than previously. Today, he employs more people and international orders have kept coming.

### Artisan book

Make-A-Book is a Bruneian SME that produces handmade books. Started by two women, the business thrives by selling customized books, albums, journals and folders. They also run workshops to share their book-binding knowledge and to raise awareness about the time and effort required to produce an artisan book. The price of each finished product varies since they are custom-made and personalized. Demand for their products remains robust despite the high shipping cost on account of its bulkiness. Most of its online orders have come from abroad, from Asia and from as far as Italy.

Source: Pasadilla et al (2017)<sup>5</sup> and eBay (2014)<sup>6</sup>

With e-commerce, SMEs can, in theory, establish an instant global presence by simply setting up a website. In practice, it is not as simple because there are privacy standards and security safeguards to comply with, among a host of other regulations, especially if its website includes a shopping cart plug-in. There are, however, other avenues for SMEs to sell online. One is through a

<sup>5</sup> Pasadilla, G., A. Wirjo and J. Liu. Promoting E-commerce to Globalize MSMEs. Singapore: APEC Policy Support Unit. (2013), Available at: <https://www.apec.org/Publications/2017/11/Promoting-E-commerce-to-Globalize-MSMEs>.

<sup>6</sup> eBay. Enabling Growth for APEC SMEs. (2014), Available at: <https://www.ebaymainstreet.com/sites/default/files/apec-commerce-3-0-smes.pdf>.

simple Facebook page or participation in other similar social networking sites. Another is by joining platform-based e-commerce sites such as Amazon, eBay, Alibaba, or even domestic- or region-based e-commerce platforms like Lazada, Lelong, and many others. The experience of the Philippine seashell photographer and seller (in Box 1) attests to the power of online sites to reach markets beyond the small, immediate confines of its business and to potentially remove geographic boundaries.

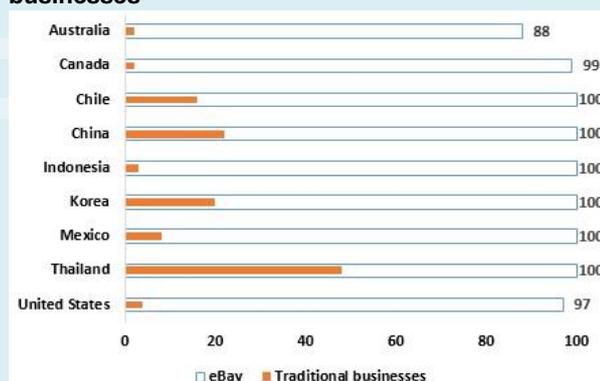
A study by eBay Public Policy Lab<sup>7</sup>, drawing on data of its own registered sellers, supports the observation that e-commerce enables SME participation in the global market. Figure 1 shows that almost all of eBay's registered online sellers in selected APEC economies are able to export globally, compared to a relatively small percentage of SMEs in traditional (offline) business. In the US, while 95 percent of online sellers export, less than 5 percent of traditional business SMEs do so offline. Among APEC economies, Thailand, China, Korea, and Chile have a relatively higher percentage of exporting SMEs offline, but this is still smaller compared to 100 percent online sellers who export. In addition, SMEs that sell online are able to reach more markets than those in traditional business. On average, firms are able to reach an average of 30 different economies using platforms for e-commerce<sup>8</sup>. In the US, 59 percent of online SME sellers sell to more than 10 economies, while the comparative figure for traditional SMEs is only 8 percent. Additionally, 74 percent of these SMEs are still exporting after three years in contrast to 15 percent of those engaged in offline export<sup>9</sup>.

<sup>7</sup> eBay. Small Online Business Growth Report. San Jose: eBay. (2016), Available at: [https://www.ebaymainstreet.com/sites/default/files/ebay\\_global-report\\_2016-4\\_0.pdf](https://www.ebaymainstreet.com/sites/default/files/ebay_global-report_2016-4_0.pdf).

<sup>8</sup> Olbe, H.M. Bridging Distance for Development: Regulatory Cooperation Applied to Consumer Rights, Parcel Delivery and Sales Tax. Washington D.C.: IDB and Geneva: ICTSD. (2017), Available at: <http://e15initiative.org/publications/bridging-distance-for-development-regulatory-cooperation-applied-to-consumer-rights-parcel-delivery-and-sales-tax/>.

<sup>9</sup> eBay. 2015 US Small Business Global Growth Report. San Jose: eBay. (2015), Available at: <https://www.ebaymainstreet.com/sites/default/files/2015-us-small-biz-global-growth-report.pdf>.

**Figure 1. Share of exporters in eBay vs. traditional businesses**



Note: The eBay data reflects the share of 2014 eBay Commercial Sellers (those with \$10,000 USD or more in sales on eBay) in each economy, who exported in that year.  
Source: eBay (2016)

### Expanding Opportunities for SMEs from E-commerce

More SMEs can benefit from the expected growth in online consumer demand in the coming years. Forecast by eMarketer made in 2015 indicated that retail e-commerce will increase from USD1.3 trillion in 2014 to USD3.6 trillion in 2019 (Figure 2), and its share to total retail sales will more than double from 6.3 to 12.8 percent between 2014 and 2019<sup>10</sup>. Asia-Pacific, North America and Latin America are collectively expected to increase its share of retail e-commerce sales to 85 percent by 2019. While the online business-to-consumer (B2C) market is growing, its size is dwarfed by the business-to-business (B2B) market which, in 2015, stood at USD 19.9 trillion<sup>11</sup>.

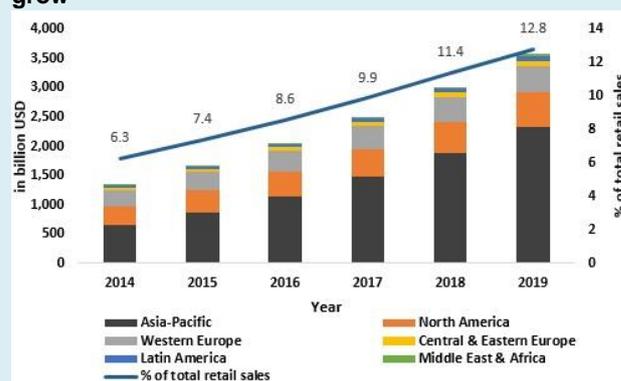
To date, most e-commerce transactions have been domestic, but cross-border retail e-commerce is anticipated to grow at twice the rate of domestic e-commerce until 2020<sup>12</sup>. This opens a potentially bigger market for SMEs if given the right regulatory and infrastructure support some of which are discussed next.

<sup>10</sup> eMarketer. Worldwide Retail Ecommerce Sales: eMarketer's Updated Estimates and Forecast Through 2019. (2015), Available at: <https://www.scribd.com/document/321791802/EMarketer-2016-Worldwide-ECommerce-Report>.

<sup>11</sup> UNCTAD. "New initiative to help developing countries grasp \$22 trillion e-commerce opportunity". (2016), Available at: <http://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=1281>.

<sup>12</sup> International Trade Centre (ITC). New Pathways to E-commerce – A Global MSME Competitiveness Survey. Geneva: ITC. (2017), Available at: [http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce\\_Low%20res\(2\).pdf](http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce_Low%20res(2).pdf).

**Figure 2. Global retail e-commerce sales poised to grow**



Note: Retail e-commerce includes products or services ordered using the internet via any device, regardless of payment or fulfillment method. Excludes travel and event tickets.  
Source: eMarketer (2015)

### APEC Agenda to Support SMEs in E-commerce

Despite the inspiring stories of SMEs that succeed through e-commerce, the number of successes is a mere drop in a bucket considering that SMEs number in the millions. In the first place, not all SMEs know about, let alone use, e-commerce. Why are successes not shared by more SMEs? What are the challenges faced by SMEs to participate in e-commerce? And consequently, how can APEC help SMEs? We discuss below various challenges in supporting SME internationalization through e-commerce, gleaned from focused discussions and interviews with major stakeholders in e-commerce, including SMEs, technology-enabled marketplace platform operators, payment providers, aggregators, logistics providers and relevant government agencies<sup>13</sup>.

<sup>13</sup> This draws mainly from Pasadilla, G., A. Wirjo and J. Liu (op. cit.). The focused group discussions took place in five economies: Brunei Darussalam, China, Korea, Malaysia, and Chinese Taipei. Other sources include: 1) Accenture. Cross-border Ecommerce. (2016), Available at: <https://www.scribd.com/document/332919657/Cross-Border-Ecommerce-Accenture>; 2) A.T. Kearney. Lifting the Barriers to E-Commerce in ASEAN. (2015), Available at: <https://www.atkearney.co.uk/documents/10192/5540871/Lifting+the+Barriers+to+E-Commerce+in+ASEAN.pdf/d977df60-3a86-42a6-8d19-1efd92010d52>; 3) Competition Commission of Singapore. Handbook on E-Commerce and Competition in ASEAN. (2017), Available at: [https://www.ccs.gov.sg/~media/custom/ccs/files/media%20and%20publications/publications/inhouse%20publication/ccs\\_ecommercer%20handbook\\_2017\\_ashx](https://www.ccs.gov.sg/~media/custom/ccs/files/media%20and%20publications/publications/inhouse%20publication/ccs_ecommercer%20handbook_2017_ashx); 4) eBay. Commerce 3.0: Enabling ASEAN Small and Medium Enterprises (SMEs). (2015), Available at: [https://www.ebaymainstreet.com/sites/default/files/asean\\_commerce\\_3\\_0\\_final\\_1.pdf](https://www.ebaymainstreet.com/sites/default/files/asean_commerce_3_0_final_1.pdf); 5) International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum (WEF). Maximizing the Opportunities of the Internet for International Trade. Geneva: ICTSD and WEF. (2016), Available at:

## 1. Need to Raise More Awareness and Build Capacity

### Low SME participation

Awareness among SMEs on how to participate and benefit from e-commerce is poor. For example, a survey conducted by the SME Corporation Malaysia in 3Q of 2016 showed that less than 26 percent of SMEs are involved in selling products or services online. In Korea, while 34 percent of larger firms were engaged in e-commerce in 2013, only 15 percent of SMEs did so<sup>14</sup>. Less than 36,600 of the more than 1.3 million SMEs have registered online stores with PChome store, the biggest e-commerce platform in Chinese Taipei. Several reasons explain the relatively low participation by SMEs in many economies including poor connectivity and lack of access by many SMEs as well as fear of trying and misconceptions about e-commerce.

### SMEs should have a unique value proposition

Many SMEs are deficient in knowledge of business fundamentals required to go online. SMEs do not have complete knowledge of the different components of e-commerce and corresponding cost - for example, that some services of technology platforms are not free, or that logistics costs vary according to destination. Consequently, SMEs do not always factor all the associated costs into the final product price leading to either a loss or only minimal profit.

Salability of SMEs' products abroad depends on attractive packaging, taste/preference in target markets, and price but SMEs do not realize the more demanding taste and competition in e-commerce. Not to be underestimated is the desirability of product information written or translated into the buyers' language if SMEs want to increase foreign sales.

To succeed, SMEs need to be aware of and capitalize on the unique value proposition of their products. This is all the more important in e-commerce considering the competition intensity and product varieties that compete for buyers' attention in the online world.

[http://www3.weforum.org/docs/E15/WEF\\_Digital\\_Trade\\_report\\_2015\\_1401.pdf](http://www3.weforum.org/docs/E15/WEF_Digital_Trade_report_2015_1401.pdf); and 6) ITC (2017).

<sup>14</sup> Large firms in Korea are those with more than 250 employees, while SMEs are those with 10-49 employees.

### Technology skills upgrading

Also critical is the technical know-how among SMEs. At a minimum, basic computer skills are necessary to access account, respond to enquiries and check online orders among other things. But in the digital world, buyers who cannot touch and examine products physically care a lot more about good product presentations, either in pictures or videos or written descriptions, as well as endorsements from other consumers. In addition, they need to understand consumer preferences and mentalities to choose, for example, the right keywords or ad words or descriptors for their products, to increase their probability of surfacing in product searches.

### Knowing which platform is appropriate for their products

There is a plethora of platforms that SMEs can join, starting with social networking sites. In fact, many usually start their online businesses through social media because there, it is costless to open an account. They can also try the waters in social networking sites without the rigid requirements, including minimum production scale, from platform-based e-commerce sites. Not all social media platforms, however, are the same. For example, Instagram is more popular among teenagers and youth, hence are appropriate for products targeted for the young. Some e-commerce sites predominantly target women buyers and so are more appropriate for female wear. Yet, not all SMEs are savvy about making distinctions among different platforms.

### Platform regulations and scaling up difficulty

For SMEs joining marketplace platforms, adhering to its set terms and conditions may be challenging. Conditions can include requirements to use specific platform-accredited logistics providers; strict delivery timeline like shipping the product out within 24 hours from receipt of the customer order; and predetermined returns policy, often longer and more generous than the seller's own.

To adhere to platforms' delivery policy entails that the SMEs should have grown sufficiently able to supply products with a minimum scale. This is a growing up problem that not all SMEs can successfully go through because this necessitates more financial capital. To supply 100 products through Facebook is vastly different from having

to produce thousands to meet the demand from platform-based e-commerce sites. This entails not only additional capital investments but also investment in systems and technology to automate orders, keep track of inventories across platforms as well as respond efficiently to multiple customer enquiries. SMEs may not have the resources and ability to efficiently use these technologies, as well as financial resources to expand production. Financing is a barrier to business especially for SMEs, whether engaged in online or offline business.

#### Role for 'aggregators' or intermediaries

Aggregators (also referred to as value-added services providers or intermediary firms) help facilitate SMEs participation in e-commerce by acting as middlemen, sometimes with e-commerce platforms, or directly with importers abroad. Aggregators can own an online retail store listed with platforms but whose products are supplied by SMEs. They usually have a more extensive experience in cross-border e-commerce, as well as network relationships with logistics service providers than individual SMEs. They can also take care of all the necessary arrangements to participate in e-commerce including repackaging, pricing, translations, logistics, and dealing with all the requirements by the technology platforms and from international markets, thereby enabling SMEs to focus on production activities.

#### *2. APEC Should Continue with Efforts to Improve Business Environment*

Finding out the various requirements on licenses and permits and dealing with various rules and regulations to set up and run businesses across economies is challenging for all firms, but especially for SMEs which have limited financial and human resources. Making information on rules and regulations more easily available is one way to help businesses; but fulfilling them is another matter. Sometimes, specific regulations impose obligations that essentially preclude SMEs' participation in the foreign e-commerce market. For example, regulations that require that listed sellers on domestic-based e-commerce platforms are registered domestically effectively foreclose the chances of foreign SMEs to export by selling through that platform.

Interviews conducted with e-commerce stakeholders disclose the role that aggregators

play in such situations. Unlike SMEs individually, aggregators have the necessary resources to register its business in multiple locations, and thus are able to export using different domestic e-commerce platforms. For example, a Korean aggregator can register as a Japanese business in Japan or a Chinese business in China, list with Rakuten or Alibaba or Taobao, and thus be able to sell Korean products in the respective markets. SMEs, in contrast, do not have the necessary wherewithal to be able to apply for multiple business registrations.

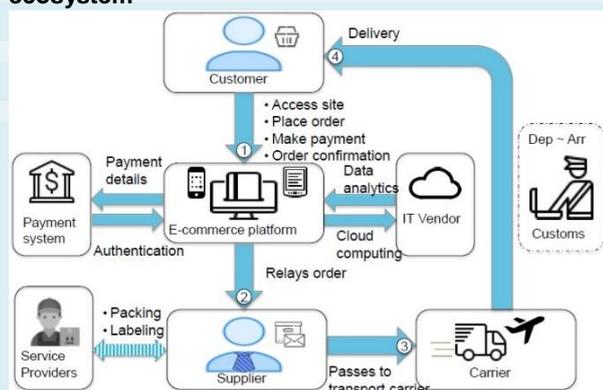
While governments' purported policy is to help SMEs, some regulations inadvertently do the opposite. For example, it is usual that small sellers run very tight operations and use their residences for production and to run its small operations. Christy Ng shoe design business that started from her mother's house described earlier is an example of many SME business arrangements, especially in the beginning of its venture. However, in one ASEAN economy, SMEs cannot use a home address to apply for value-added tax (VAT) registration number; but without it, e-commerce platforms cannot register the small seller.

Other regulations that vary across economies add to the difficulties. For example, some APEC economies, up to now, do not recognize e-contracts. Without e-contracts, online contract fulfillment becomes more burdensome and adds additional cost.

#### *3. Develop Robust E-commerce Ecosystem: Payments, Fulfillment Centers, Logistics*

Seamless e-commerce experience necessitates that various actors in the e-commerce ecosystem, including secured payment system and shipping/logistics, work with the least friction. Figure 3 illustrates a simple ecosystem which an online consumer interacts with but may be unaware of. The customer enters an integrated e-commerce site, whereby the platform connects its order with the supplier, payment processor, logistics service provider, as well as other value added service providers such as IT services or third party fulfillment centers that handle the packaging, labelling, and product returns. Challenges in any components of the ecosystem will impact e-commerce and hence the market opportunities for SMEs.

**Figure 3. Simplified diagram of an e-commerce ecosystem**



Source: Adapted from Drew & Napier seminar presentation (2017)<sup>15</sup>

### Payment services

The payments ecosystem is a complex system in itself. Payment services require correspondent banking relationships or agreements between banks, as well as between payment service providers and banks. However, discussions on such arrangements have become more tedious due to anti-money laundering and counter-terrorism financial laws in developed economies where majority of the payment service providers are headquartered. Thinly-staffed SMEs, for their part, find the onboarding process laborious and, in some cases, costly due to the required provision of reserves for chargebacks. In some economies, widely used payment service options are not available because the cost-benefit ratio does not warrant its provision locally. Fewer cheaper payment options, in this case, limit sellers' possibilities to sell to foreign markets where consumers prefer the payment option that is unavailable to domestic sellers. Other limitations of SMEs are their inability to hedge their foreign exchange receipts because payment service providers dictate the exchange rates for the remittance of their earnings, as well as limited possibilities to open multiple foreign currency accounts.

Low percentage of banked population also represents a challenge for e-commerce. Such limitation, however, has led to other creative means and forms of payment including cash payments through a network of retail outlets or the use of mobile payments.

<sup>15</sup> Drew and Napier. E-commerce and Personal Data II – Navigating Cross-border Data Transfers. Presentation on 24 November 2017.

### Advertising and internet services

Advertising is also an integral component of e-commerce. Online sales rely on targeted advertising, which in turn depends on big data analysis usually based on buyers' browsing behavior. Advertising can help raise shopping conversion rates (or the percentage of website visitors who actually buy), unless the data analytics was based on fake traffic created by bots. In some economies, however, access to customer browsing data for analysis, especially cross-border data, is restrictive. Moreover, geo-blocking which prevents domestic buyers to view certain e-commerce sites abroad also prevent SMEs from selling to a larger market.

On internet connectivity, the high cost of access impedes SMEs' interest to use e-commerce, while poor connectivity frustrates potential buyers who are used to a fast response to customer clicks.

### Logistics

Another critical component of e-commerce is logistics services. A compelling appeal of e-commerce for consumers is the convenience of having products delivered to their location of choice. SMEs, especially from developing economies, face a range of logistical challenges. They tend to face higher cost because of low sales and shipment volume from certain locations. For example, it is cheaper to ship goods across the Pacific or Atlantic, than to ship them within the ASEAN region. Cheaper domestic logistics providers may be available but they may not operate in a wide number of markets or have insufficient capacity for security and safety measures. Low frequency of cargo flights that lead to delays in delivery and higher shipment cost likewise affect SMEs' bottomline and competitiveness.

Some of the constraints described above can be addressed by economies unilaterally. For example, improvement of investment and business environment, regulatory reforms to promote the banking sector and improve payment services are policy options that economies can implement on its own. Others may need regional cooperation such as consistency in data privacy rules and standards, data flows, competition and logistics and customs issues.

#### 4. *Improve Customs Rules/Regulations and Clearance Process*

Access to products that are not available locally is one advantage from cross-border e-commerce. What hinders growth of this type of transaction is high international shipping and logistics cost. What facilitates it is the establishment of local or regional fulfillment centers that help cut the cost. Still, to bring foreign products inside an economy requires product certification and registration – sometimes for standards or health protection or for tax purposes - which can be burdensome for individual SMEs to comply with. Compounding the difficulty is the inconsistency of applications of rules and regulations across economies, and even in the same economy across different government agents. Inexperienced SMEs, surprised at how their cost balloon to comply with these regulations, often find their expected margin disappear.

Establishing a local presence by locating warehouses or domestic fulfillment centers or e-commerce sites help cut the cost and take advantage of scale economies from the regulatory procedures. Another solution that platform operators resort to is limit sale to products that do not require complicated registration and certification procedures. This, however, tends to exclude many products that SMEs typically produce such as food products and delicacies or local handiwork and crafts.

To expedite release of products from customs, logistics providers or platform operators self-regulate by, for example, limiting the number of products per container or employing sophisticated x-ray machines or canine teams to screen packages before shipping them out of their facilities. These increase the cost of e-commerce which is, naturally, passed on to sellers and buyers.

In an effort to address customs challenges from e-commerce, some economies are trying out innovative ways, such as for example, having a special lane specifically for e-commerce. Because at the moment these are policy experiments, there are limitations to this type of solutions. For example, the e-commerce lane may allow only a limited type of products, or the list contains description of products that is not based on the internationally accepted harmonized system of classification, thus causing confusions and issues of interpretation.

#### 5. *Examine Laws on E-commerce-related Taxes and Duties*

##### De-minimis value for tax

De-minimis indicates the minimum value of products that are dutiable. Among APEC member economies, the de-minimis value ranges between USD0.33 and USD800. Low de-minimis values essentially foreclose growth of cross-border e-commerce as it would subject almost all packages to import duties.

##### Product returns and double taxation

Facilitating returns is integral to e-commerce business strategy to attract consumers. Generous returns policy helps increase sales but comes at a cost. Besides paying for the reverse logistics, refund processing, and shipping of replacement product, sellers also pay a new set of taxes and duties (if the product is dutiable) without being refunded for the original duty paid for the returned product. At the moment, there is no clear process in many economies on how sellers can claim back paid taxes and duties if products are returned. Additionally, returned packages are, in many economies, treated as new exports or imports and therefore subject to a new set of taxes and duties.

##### New e-commerce tax

E-commerce has changed the way people shop and impacted government revenue as well as domestic competition. In response, some economies are implementing forms of e-commerce tax, particularly for digital products and services, but are watching whether it can indeed be effectively deployed and what its effects are on the domestic market. Discussions in APEC of these type of policies and their impact is important going forward.

#### **Summary and Conclusions**

E-commerce has an ecosystem with multiple stakeholders that help make the system work smoothly and efficiently. Regulations that adversely affect any of the players in the ecosystem impact the whole, including the buyers and sellers, some of whom are SMEs. Still few SMEs are able to take advantage of the potential of e-commerce. Many lack awareness of business possibilities through e-commerce and even lack basic business skills such as knowledge of excel or the importance of attractive packaging and

product photos and information. Even SMEs that have some years of experience selling online need more tailored training in e-commerce selling strategy, in branding and packaging their products, in the smart use of videos or pictures for online marketing, as well as appropriate ad words. Online business is more demanding with respect to quality, not only of the product itself but also of how they are presented in the internet.

Initial introductions to e-commerce for SMEs usually happen through social media like Facebook or Instagram. But SMEs have problems scaling up once business picks up. Value added service (VAS) providers, such as inventory management application providers or web 'decorators' help SMEs transition to a more commercialized setting as in technology-enabled marketplace platforms. But joining the latter has its own challenges.

Marketplace e-commerce platforms facilitate access to a wider market, and particularly in the case of cross-border trade, provide the necessary regulatory information collection that SMEs need to sell abroad. The complexity of regulations and the disproportionate cost in money and time to collect, understand and meet these regulations is a major hurdle for SMEs. Marketplace platforms partly provide the necessary minimum information by already limiting the products that can be sold in specific economies through the websites. But SMEs still face the challenge of meeting requirements on sustainability, and industry and product standards.

While it is relatively easy to join marketplace platforms catered to the SMEs' own domestic market, it is difficult to list themselves in platforms catered to foreign markets. Most economies require that listed sellers on platforms have local business registration, a condition that SMEs would be hard pressed in complying in other markets. Aggregators or intermediaries, including the platform itself, can help solve this problem because they have the financial capacity to do multiple local business registrations. SMEs can, in this case, act as suppliers to these intermediaries without the need to list themselves independently.

In theory, SMEs need not list themselves in foreign market platforms to access those markets if foreign buyers can find them through their domestic platforms. This requires that buyers anywhere are not blocked from accessing any e-commerce website from any economy. This also

requires that the marketplace platform itself is well-known enough and has significant traffic so they are found in engine searches. In practice, however, domestic buyers prefer buying through the domestic marketplace platform, for reasons of language and shipping cost.

Logistics cost is a significant portion of e-commerce cost. SMEs shipping parcels abroad will not be competitive, unless they have a unique product that buyers are willing to get despite the high shipping cost. To be competitive, SMEs need volume which is obtained by using intermediaries or aggregators who can negotiate better shipping discounts, or by using the logistics arranged by the marketplace platform operator.

Payment service providers are another important link in the chain. Sellers from economies that do not have payment options generally preferred abroad like PayPal are disadvantaged and are unable to sell to many foreign customers.

Good digital infrastructures including ICT, payment services, postal services and others are important for the development of e-commerce and internationalization of SMEs. Affordable broadband connection helps access to the internet and fosters increased SME awareness of e-commerce. But just as important are the regulatory infrastructures like transparent regulations, expeditious customs clearance through for example electronic single window, and overall facilitative business environment starting from business registration to taxation to application of international standards.

Regular dialogues in APEC between various regulators and market players are useful to understand emerging technology trends. As well, it is important to hear policy developments that may be useful to replicate in other economies such as the use of digital free trade zones.

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**Gloria O. Pasadilla** is Senior Analyst at the APEC Policy Support Unit. **Andre Wirjo** is Analyst at the APEC Policy Support Unit.

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**Address:** 35 Heng Mui Keng Terrace, Singapore 119616

**Website:** [www.apec.org/About-Us/Policy-Support-Unit](http://www.apec.org/About-Us/Policy-Support-Unit)

**E-mail:** [psugroup@apec.org](mailto:psugroup@apec.org)

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