



**Asia-Pacific  
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# **Riding the Wave of the E-commerce Trend: Emerging and Expanding Business Options for MSMEs**

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## Executive Summary

This report provides an overview and summary of the *Riding the Wave of the E-commerce Trend: Emerging and Expanding Business Options for MSMEs* held on the 4th – 5th of June 2018 at the Anantara Riverside Bangkok Resort in Bangkok, Thailand by the Office of Small and Medium Enterprises Promotion (OSMEP), on behalf of the APEC SME Working Group. The main objective of the two-day conference was to devise a set of policy recommendations to be considered for enactment APEC-wide for both developed and developing member economies to encourage a sustainable and inclusive e-commerce ecosystem in the region. The main output from this conference was the identification of key recommendations on government policies and opportunities for the public and private sectors on how to strengthen the e-commerce operating environment for micro, small and medium-sized enterprises (MSMEs) in the region. The recommendations herein are intended to serve as a framework for member economies to steer future policy decisions that promote a sustainable and inclusive e-commerce ecosystem in the region.

As the digital infrastructure improves and e-commerce opportunities continue to grow, it is important to not overlook the challenges faced by MSMEs that wish to engage in e-commerce in the region. The set of recommendations derived from the conference were based in part on the challenges mentioned during the conference. The key recommendations stem from the need to **increase digital penetration**, which is critical for accelerating e-commerce adoption in the region as large parts of the population in developing economies in the region do not have access to the Internet. As such, governments should **support the necessary knowhow** through the provision of digital and marketing literacy training for MSMEs. **Leveraging global e-commerce platforms** is also critical to the success of e-commerce ventures. Logistical difficulties can be major obstacles for e-commerce in many economies in the region. Hence, **enhancing the transport and e-payment infrastructures** by improving the quality of ports, roads, and highways and developing a more secure payment system can help create the enabling environment for widespread e-commerce adoption in the region.

In terms of laws and regulations, **consumer protection laws** must be enhanced in order to increase consumer trust in e-commerce. In addition, **simplifying tariff schedules** of both individual economies and groups of economies can help reduce the time necessary for customs clearance for MSMEs. Lastly, government can help MSMEs in gaining access to finance by **providing** more direct **funding** and **incentives** for venture capitalists to invest in local MSMEs.

All in all, the conference successfully linked a multi-stakeholder network of 166 participants with speakers and panelists representing professionals in various areas of e-commerce including key MSME policy-makers, online and payment logistics experts, and MSME leaders. All participants agreed that the conference had clearly defined objectives, covered all relevant topics

from the agenda, and was well organized with easy-to-follow content, and that speakers and panelists were very well selected and knowledgeable about the topics. In addition, most participants agreed that the conference achieved its intended objectives.

Participants expressed that the conference provided them with a clearer understanding of the e-commerce landscape in the region as well as how to utilize available e-commerce platforms for business expansion.

# **Riding the Wave of the E-commerce Trend: Emerging and Expanding Business Options for MSMEs Report**

**A Report Prepared for the APEC Small and Medium Enterprise Working Group**

## **Introduction**

The growth of e-commerce, particularly in developing economies, has occurred at a breathtaking pace over the past few years. Although it still constitutes only around 10% of all global retail sales and less than 5% of retail sales in most developing economies, e-commerce is expected to become much more prominent as digital and broadband penetration rapidly expands throughout the world.

E-commerce is dramatically changing the economics of doing business not just domestically but also across borders while bringing down the costs of interactions and transactions. E-commerce creates markets and user communities on a global scale, providing businesses with a massive base of potential customers and cost-efficient ways to reach them. E-commerce thus has a significant role to play in facilitating foreign investment, lowering barriers to entry and reducing operating costs for businesses. If managed properly, it can help reduce inequality and assist MSMEs in selling globally, becoming so-called micro-nationals.

E-commerce has tremendous potential to increase the competitiveness of MSMEs and entire economies. For MSMEs, e-commerce represents a powerful enabling mechanism by providing an accessible channel for businesses of all sizes to connect and conduct business with millions of potential customers globally, a notion inconceivable for all but the largest of multinationals just a few decades ago. Taking into account the evolving delivery and logistics infrastructure and technologies, e-commerce significantly lowers the barriers to entry for MSMEs in supplying to global markets and entering global value chains, and this cross-border access is critical for the growth and sustainability of MSMEs. E-commerce is a promising way to empower the smallest firms to become micro-multinationals and find new growth opportunities. MSMEs account for over 90% of businesses in the APEC economies, and thus e-commerce is crucial not only for the growth of MSMEs but also for the economy as a whole.

Nevertheless, e-commerce has challenges, and adopting e-commerce is an inherent difficulty for many MSMEs. To ensure that e-commerce becomes a vehicle that works for all rather than just a few large companies, it is important that the public and private sectors come together to tackle the challenges while leveraging the opportunities from e-commerce to make e-commerce an inclusive, rather than an exclusive, mechanism.

This conference built on and streamlined the existing knowledge of this emerging, high-potential trend. The aim of the conference was to bring MSME entrepreneurs and policymakers from various APEC economies together to hear from leading e-commerce experts and discuss how the public and private sectors can best collaborate to promote a sustainable and inclusive e-commerce ecosystem in the region. It is hoped that the conference enhanced participants' understanding of the issues and challenges related to the growing e-commerce trends in order to induce business expansion among MSMEs, thereby fostering economic growth.

## Conference Summary

The conference was successfully held from the 4<sup>th</sup> – 5<sup>th</sup> of June 2018 at the Anantara Riverside Bangkok Resort in Bangkok, Thailand. The main objective of the two-day conference was achieved with a set of policy recommendations produced and included in this report. Participants had an opportunity to learn from a number of prominent and well-known experts, policymakers, MSME owners, and entrepreneurs from APEC economies in order to enhance their understanding of issues and challenges related to the growing e-commerce trends.

The conference assembled a diverse group of 166 participants comprised of 14 APEC delegates; two international experts; 23 public sector officials, representing APEC member economies' Ministry of Foreign Affairs, the Ministry of Economic Affairs (Chinese Taipei), Ministry of Science and Technology, Ministry of Commerce, Ministry of Interior, Boards of Trade and Investment, Office of the Higher Education Commission, Office of National Digital Economy and Society Commission, and Electronic Transactions Development Agency; 93 private sector executives and entrepreneurs from Thailand and other APEC economies; six media members; and 28 staff from the Office of the Small and Medium Enterprises Promotion (OSMEP) and Kenan Institute Asia.

The conference's agenda was designed to bring out the relevant issues and barriers related to and opportunities for e-commerce operation from leading experts in the field and successful as well as emerging e-commerce operators. These speakers included key executives and the leaders of relevant MSME policy-making agencies, online payment and logistics providers, and well-known MSME firms who bring with them experience, knowledge, and expertise on the various aspects of online business operations. The panelists from discussion sessions were selected to represent a balanced mix of experience and backgrounds, including Thai and international, male and female, younger and older as well as those from emerging and established firms. The agenda provided participants with a variety of real-life business experiences, perspectives, and lessons learned corresponding to the diverse background of the speakers themselves.

## Conference Findings

### **Opportunities & Challenges**

Opportunities from e-commerce, particularly in the Asia-Pacific region, are extremely large. With fast-growing economies, a booming middle class, and around two billion internet users and billions more waiting to be connected, e-commerce is set to thrive in this region. According to the Technology Project Research Corporate (TPRC), the number of internet users in Asia-Pacific is growing at a compound annual growth rate (CAGR) of 11.52%, which is well above the global mean. In the Association of Southeast Asian Nations (ASEAN), the e-commerce market is projected to be worth \$200 billion in 2025. From 2015-2025, the CAGR of the e-commerce market is expected to be above 40% in Thailand and Indonesia. This trend is replicated elsewhere in the region as e-commerce continues to grow and expand into traditional retail's market share.

E-commerce still represents only around 5% of all retail sales in most developing economies. As the digital infrastructure improves and as people become more acquainted with and embrace this new mode of commerce, the share of e-commerce to overall retail sales will increase significantly. With such an abundance of opportunities, it is not surprising to see the emergence of a plethora of new e-commerce companies and traditional retailers expanding into the e-commerce sphere in recent years.

To be sure, e-commerce has exciting potential; however, the difficulty of capitalizing on these opportunities should not be overlooked. There are plenty of challenges for MSMEs that wish to engage in e-commerce in the APEC economies. The challenges listed below are based in part on those identified during the conference.

#### ***Low Digital Penetration***

Low digital penetration remains a significant and pressing issue in many APEC economies. In the Asia-Pacific region, despite the fact that two billion people are already on the internet, billions more remain disconnected. Moreover, broadband speed remains low in many parts of the region. This means that beyond large urban centers, there are large areas with little or no internet connection, which presents a formidable challenge for e-commerce operations.

#### ***Low E-commerce Adoption***

Low e-commerce adoption is another significant challenge. Although e-commerce adoption is growing rapidly in developing APEC economies, it remains well below the global mean. This is partly due to the low digital penetration, as mentioned previously, as well as reluctance by many to embrace this new form of commerce.



### ***Lack of Knowhow***

A lack of knowhow presents another major impediment for MSME entrepreneurs who wish to enter the e-commerce sphere. Many entrepreneurs in the region lack the necessary competency to effectively operate in the e-commerce space. Some do not know where and how to begin selling online and do not possess the necessary skillsets and knowledge on issues like marketing, customs, logistics, data analysis, and basic digital literacy.

Many participants raised concerns about using digital platforms because they do not know how to build an effective platform, especially one that works seamlessly across multiple devices, or how to sell on established platforms.

### ***Underdeveloped Digital Payment Systems***

Online payments remain relatively novel in the region. Cash remains dominant with many vendors, and many customers are still unable or unwilling to utilize digital payment options. This lack of digitalization presents extra transaction costs for businesses. The security of the online payment infrastructure is also questionable in many APEC economies, which further erodes the already fragile trust in online payments.

### ***Lack of Trust***

With e-commerce still new to many, customers are reluctant to fully trust online shopping and would rather shop at traditional brick-and-mortar stores. Adding to this skepticism is the prevalence of fraud and lack of consumer protection on many regional e-commerce platforms. This credibility issue is particularly troublesome for MSMEs which usually are not well-known brands.

### ***Inadequate Transport Infrastructure***

Inadequate transport infrastructure represents another major obstacle to e-commerce operations in the region. There are several archipelago economies, including Indonesia and the Philippines, which have natural and unique logistical challenges. Elsewhere, many economies lack established and reliable logistics companies. With the transport infrastructure still undeveloped in vast areas of the region, logistics will continue to present a formidable challenge for the foreseeable future.

### ***Lack of Funding***

Funding is a major hurdle raised by both the speakers and participants. Establishing a robust e-commerce operation requires a substantial level of funding. Hiring the right personnel to

handle the various facets of e-commerce operations, creating or accessing an online selling platform, and setting up a warehouse or fulfillment center are all costly. This level of funding may be impractical for most MSMEs without assistance from other parties.

### ***Complicated and Inconsistent Tariff Schedules***

Finally, the region's complicated and inconsistent tariff schedules significantly hinder e-commerce growth. Because e-commerce often involves cross-border trade, having simple, uniform, and harmonized tariff schedules is critical. However, the current reality is that tariff schedules across the region vary widely and are replete with complicated and ambiguous classification systems and guidelines. This is exacerbated by the burdensome number of documents required for customs clearance in several economies. All of this translates into extra costs that MSMEs struggle to bear.

## **Policy Recommendations**

The policy recommendations gathered from the speakers and participants during the conference were diverse and covered many different areas. The recommendations summarized below are based in part on the recommendations gathered from the conference as well as from the challenges listed in the preceding section.

### ***1. Increase Digital Penetration***

Increasing digital penetration is critical for increasing e-commerce adoption in the region. Large parts of the population in developing economies do not have access to the internet. Government initiatives to increase high-speed broadband access and fiber optics penetration in rural areas are important to increasing digital penetration, which is a necessary prerequisite for e-commerce proliferation.

### ***2. Support Acquisition of Necessary Knowhow***

Because MSME owners and operators have a lack of knowhow in several areas, the solutions to helping them acquire the necessary knowledge and skills should be multimodal. First, the government can provide in-depth trainings and workshops to enhance the digital and marketing literacy of MSMEs. In addition, MSMEs struggle to gather data and consumer insights. To help MSMEs make data-driven decisions, the government should make the abundant data it has access to available to businesses because gathering such data and extracting insights can be difficult and costly for MSMEs. Moreover, the government can help provide enabling software for MSMEs to effectively handle the various aspects of their operations such as accounting and warehouse and inventory management.

### ***3. Leverage Global E-commerce Platforms***

Platforms are critical to the success of any e-commerce venture. Without an effective platform, selling products to international markets becomes difficult regardless of the product's quality. Nevertheless, creating an effective platform is a challenge. Effective platforms are those that are, among other things, user-friendly, compatible on various digital platforms (omni-channel), able to process online payments quickly and securely, able to collect and analyze large amounts of data, equipped with algorithms to allow for mass personalization for each group of customers, and, most importantly, accessible and well-known globally.

For governments to create their own platforms that meet all of the aforementioned requirements is extremely difficult. Thus, governments should instead encourage MSMEs to leverage existing global platforms rather than creating their own. Although some autonomy and monetary benefits may be sacrificed, it is worth considering the great risks and difficulty of establishing a new platform. Governments should assist their MSMEs in gaining greater access to and presence on well-established platforms with large global reach, such as Amazon and Alibaba.

### ***4. Strengthen Consumer Protection Laws***

To tackle the low level of consumer trust in e-commerce, consumer protection laws must be enhanced. It may be worth considering specific regulations for e-commerce where there is an extra layer of trust required beyond that of traditional brick-and-mortar stores. Promoting cash-on-delivery (COD) sales may also help alleviate the trust deficiency. In addition, governments should put pressure on e-commerce platforms to vigorously police their own platforms as well as create a legal mechanism for consumer recourse or mandatory refunds in case of fraudulent transactions or products.

### ***5. Enhance Transport Infrastructure***

Logistical difficulties are a major obstacle for e-commerce in the region. Not only is there inadequate infrastructure in many developing economies, but several APEC economies are also archipelagos, such as Indonesia, the Philippines, and Papua New Guinea. This presents unique challenges for shipping products. Fixing this issue is going to take time and a significant level of investment. To solve logistics challenges, governments should (depending on their unique contexts) consider developing a sophisticated port system, improving the quality of roads and highways as well as ensuring that airports are available in all strategic locations of their economies. Additionally, governments should consider providing funding and financial and/or tax incentives to existing private logistics companies to enhance and expand their operations.

## ***6. Enhance E-payment Infrastructure***

With the large majority of people in developing economies still primarily using cash for financial transactions, promoting e-payment is crucial to the region's e-commerce ecosystem. A major obstacle is trust, but with stricter regulations and consumer protection laws as well as a more secure payment infrastructure, trust can be earned. In addition, national payment systems, such as Thailand's PromptPay, can help bring more people into e-payment. Governments can also collaborate with leading e-payment companies to establish their own national payment systems.

## ***7. Simplify and Harmonize Tariff Schedules***

Although many economies and groups of economies have made concerted efforts to simplify and harmonize their tariff schedules in recent years, they remain complicated, ambiguous, and inconsistent across different economies in the region. Simplifying tariff schedules and making them more uniform can and should be done both by individual economies and groups of economies. Tariff schedules should also be able to accommodate new and innovative products. This will help reduce the time needed for customs clearance and unexpected costs and even legal fees in some cases.

## ***8. Provide Funding Support***

E-commerce operations require a substantial amount of funding, and access to funds is a major issue for MSMEs because financial institutions are unwilling to provide capital to many MSMEs. There are many possible solutions to this problem. For example, governments can provide more direct funding through competitions or business pitching events, organize business matching events, incentivize venture capitalists and angel investors to invest in local MSMEs, or issue tax exceptions to MSMEs. Current tax exemptions mostly exempt corporate income taxes, but, because most MSMEs do not make a profit for several years, the benefits of this are limited. Governments could consider other types of tax exemptions for MSMEs, such as sales tax or VAT exemptions for all business purchases.

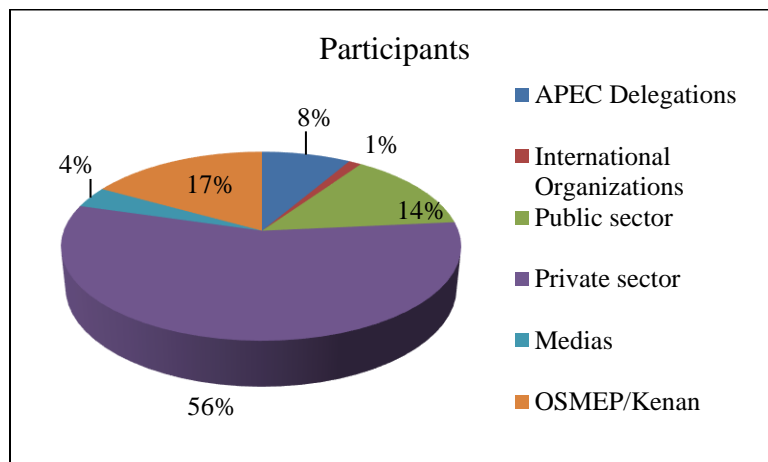
## **Conference Survey Results**

The two-day conference had a total of 166 participants, comprised of 14 APEC delegates, two international organization representatives, 23 public sector officials, 93 private sector executives, six media members, and 28 staff from OSMEP and Kenan Institute Asia.

**Table 1: Summary of conference participants**

Participant Group	Number
APEC Delegation	14
International Organization	2
Public sector	23
Private sector	93
Media	6
OSMEP/Kenan	28
<b>Total</b>	<b>166</b>

**Figure 2: Percentage of participants who attended the conference**



The participants were asked to complete a post-conference evaluation, and the organizing team received 52 completed evaluations. The results are compiled and shown in Table 2 below.

Overall, the evaluation shows an above average satisfaction with the conference.

**Table 2: Evaluation results**

Area	Disagree	Agree	Strongly Agree
1. The objectives of the conference were clearly defined	-	28 (54%)	24 (46%)
2. The conference achieved its intended objectives	1 (2%)	32 (63%)	18 (35%)
3. The agenda items and topics covered were relevant	-	30 (58%)	22 (42%)
4. The content was well organized and easy to follow	-	30 (58%)	22 (42%)
5. Gender issues were sufficiently addressed	4 (8%)	35 (69%)	12 (23%)
6. The trainers/experts or facilitators were well prepared and knowledgeable about the topic	-	21 (40%)	31 (60%)
7. The materials distributed were useful	7 (13%)	32 (62%)	13 (25%)
8. The time allotted for the training was sufficient	3 (6%)	34 (67%)	14 (27%)

Comments from Participants

Several participants shared their comments which can be summarized as follows:

- A number of participants thought that the time allocation for most sessions was very limited and suggested more time should have been allocated.
- Every participant who returned the evaluation indicated their satisfaction with the conference.
- Some participants requested access to presentations from the conference.
- Some participants suggested more time should be set aside for networking.
- Some participants suggested there should have been an attempt to extract more comments and opinions from the MSMEs in attendance.

Apart from the rating scores and comments, the evaluation also asked the participants to answer the following questions:

**1. How relevant was this conference to you and your economy?**

<b>Very</b>	15	(31 %)
<b>Mostly</b>	25	(51 %)
<b>Somewhat</b>	8	(16 %)
<b>A little</b>	0	(0%)
<b>Not much</b>	1	(2%)

Explanation: The majority of the participants (x%) indicated that the conference was relevant to their current work and their economies since e-commerce is a new business trend globally and many MSMEs either have integrated e-commerce into their businesses or will do so in the near future.

**2. In your view what were the conference’s results/achievements?**

Explanation: According to the evaluation results, the most important result/achievement of the conference was the knowledge on the benefits of e-commerce platforms and how to utilize them. Additionally, they viewed the knowledge sharing by speakers from both public and private sectors on the opportunities and challenges in adopting e-commerce in APEC economies as beneficial.

**3. What new skills and knowledge did you gain from this event?**

Explanation: The results show that the participants gained a clearer picture of MSMEs and the e-commerce landscape in APEC economies and learned how to adopt and utilize fast growing digital platforms to expand their businesses and take advantage of new opportunities. Many participants also indicated that they acquired new knowledge on e-payment and logistics systems as well as heard different perspectives on and experiences with e-commerce from stakeholders from many economies.

**4. Rate your level of knowledge of and skills in the topic prior to participating in the event**

<b>Very high</b>	3	(6 %)
<b>High</b>	11	(23 %)
<b>Medium</b>	19	(40 %)
<b>Low</b>	12	(26 %)
<b>Very low</b>	2	(4 %)

**5. Rate your level of knowledge of and skills in the topic after participating in the event**

<b>Very high</b>	7	(15 %)
<b>High</b>	24	(51 %)
<b>Medium</b>	16	(34 %)

**6. How will you apply the content and knowledge gained from this event in your organization/home economy? Please provide examples (e.g. develop new policy initiative, organize trainings, develop work plans/strategies, draft regulations, develop new procedures/tools, etc.)**

Explanation: The results can be divided into two points of view by the type of organization that the participants represent as follows:

MSMEs: They could develop new strategies in order to prepare for the fast growing e-commerce environment. MSMEs could consider social media as a new marketing tool for business expansion. By utilizing online platforms, international markets could be within reach and worth considering as a new market opportunity.

Governments/Policymakers: They could develop new policy initiatives and regulations supporting MSMEs and new procedures to promote enabling environments for e-commerce adoption among MSMEs. They could also provide relevant training to MSMEs.

**7. What needs to be done next by APEC? Are there plans to link the conference's outcomes to subsequent collective actions by fora or individual actions by economies?**

Explanation: The evaluation suggested that APEC should keep information about e-commerce updated and continue holding similar APEC training programs. Some examples include workshops focusing on capacity building and outreach activities. Additionally, speakers from around the world should be invited to APEC workshops in order to connect the region to the world. APEC could also initiate pilot projects to help governments in the region develop new policies to promote the adoption of e-commerce by MSMEs.

**8. How could this conference have been improved? Please provide comments on how to improve the conference, if relevant.**

Explanation: According to the evaluation results, the conference could have been improved by providing more time for interactive sessions between speakers and participants and spaces for networking among participants in order to encourage peer-to-peer learning experiences. A number of



participants suggested that there should be more time for break-out sessions as they are interesting and useful. Several MSME participants indicated their preference for the conference to include more topics that are relevant to MSMEs such as copyright laws and digital advertising in order to help MSMEs export to other economies. In addition, there were suggestions for APEC to provide training to government officials on doing business online (e-commerce).

# Appendix