



## BRIEFING: Regional Comprehensive Economic Partnership (RCEP)

### E-Commerce – the Economic Engine Micro, Small and Medium Enterprises (MSMEs)

Cross Border e-commerce significantly benefits Micro, Small and Medium Enterprises (MSMEs) particularly in developing economies as it allows them to export their products to global markets. Global e-commerce trade also creates new employment opportunities in software, telecommunications, logistics and other services that support the e-commerce value chain.

A report by eBay that studied MSMEs in 18 countries across four continents showed that technology-enabled MSMEs had higher trade activity and overall growth compared to traditional MSMEs. In addition, the report found that technology-enabled MSMEs in developing and emerging economies performed well compared to similarly sized technology-enabled MSMEs in advanced economies.<sup>1</sup>

In 2013, according to UBS, e-commerce constituted only 0.2% of ASEAN retail sales in 2013, as compared to 8.0% and 8.7% in China and the United States respectively. If the ASEAN e-commerce market were to emulate China and the United States, this could translate to a US\$49 billion opportunity by 2020. Asia has tremendous growth potential for internet enabled e-commerce. eBay sellers from ASEAN reach many global markets through exporting using eBay's global platforms. Through the power of the Internet and technology, micro and small businesses can reach beyond a local consumer base and access global markets like never before. International trade has traditionally been the privilege of the largest industry players however e-commerce opens the door for MSMEs to tap into international markets. The Internet creates a truly global network. Combining it with technology solutions and services enables merchants and consumers to connect and establish trust across national borders.

Of all the RCEP countries analysed in eBay's global study mentioned above, every single one shows significant annual growth in the number of Commercial Sellers on eBay, including India showing a 73% annual growth rate from 2010-2014. Commercial Sellers are those who sell more than US\$10,000 per annum.

### Why Free Trade is Important to MSMEs

MSMEs are naturally becoming exporters with the emergence of internet enabled global trade platforms. In 2016, a Small Online Business Growth Report, conducted by Sidley Austin LLP and eBay, looked at the enabling power that the eBay marketplace provided MSMEs across 18 different countries. The study illustrated the level of inclusive global commerce taking place on the eBay platform.

The study had several key findings including:

- The number of eBay enabled **MSMEs that exported** was significantly higher than traditional (not online) MSMEs. I.e. Chinese MSMEs that exported was 100% vs. an average of 22% for traditional (not online) sellers. In Indonesia, 100% of eBay sellers exported whereas only 3% of traditional sellers exported.
- The number of eBay enabled **MSMEs that reached 10 or more foreign markets** was significantly higher than traditional businesses. I.e. 98% in Korea and 97% in Thailand
- The **average number of different foreign markets reached** for eBay enabled MSMEs was significant. I.e. 57 for Korea MSMEs and 46 for Thailand MSMEs
- The average number of eBay enabled **MSMEs selling to more than four continents** was significant. I.e. 74% for India and 98% for Korea

The report showcases that MSMEs are highly engaged in international trade and that a technology-enabled platform is a highly inclusive model for trade. Global trade is increasingly important for MSMEs as they expand their businesses beyond their borders. In ASEAN, a region where many businesses are classified as MSMEs, this becomes incredibly important. For example, eBay Commercial Sellers from the ASEAN sell to an average of 33 international markets.

Among the full 18-country data set, half of the countries had 100% export rates, meaning every eBay-enabled MSME based in the country was an exporter in 2014. The lowest rate among the 18 countries was from Australia, where still 88% of Commercial Sellers exported in 2014. By comparison, the export rate for traditional businesses in Australia is only 2%. The report illustrates that exporting is crucial for online sellers and that an environment that promotes free global trade will unlock the e-commerce potential in Asia.

As a few examples, we examine some statistics and some case studies to highlight the impact that eBay and e-commerce in general is having on MSMEs. Below the data is shown for eBay enabled Commercial Sellers in China and Indonesia. The data illustrates the robust global trade that MSMEs in both countries are experiencing.

<sup>1</sup> "Small Online Business Growth Report: Towards an Inclusive Global Economy," eBay. January 2016

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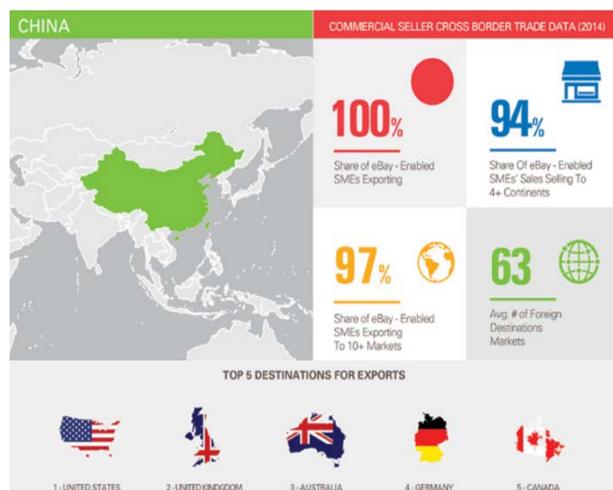


Figure 1: Commercial Seller data for China

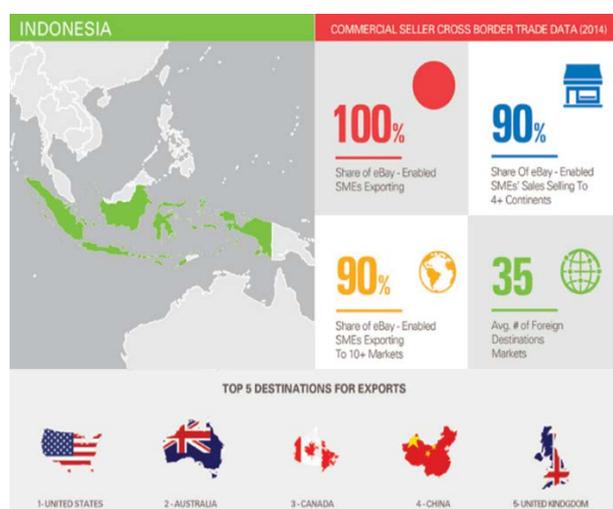


Figure 2: Commercial Seller data for Indonesia

### eBay Enabled MSME Success Cases in Asia

**Philippines** - Ms. Joanne Lim began her entrepreneurship success story five years ago, too, but wasn't originally looking to make it a full-time business. When her fragrance sales soared, she realized the power potential eBay had as an e-commerce platform. Her home business is running strong to this very day, and she has earned far more than just money. "Thanks to eBay, I am actually able to work at home and I have met many individuals from almost every province, some of who have become very good friends of mine."

**South Korea** – Nice Motors. In 2011, college student Yonghoon Kim turned his car and motorcycle hobby into a business on eBay after winning an eBay Korea competition. On eBay, he benefits from convenient access to a global market for his auto parts without any high initial investment costs. He has experienced growth of 10-15 % each year, and has expanded into an office and inventory warehouse. Today, he ships all of

his products internationally to more than 30 countries, and leverages eBay's language tools to help make selling across borders smooth and convenient for his customers.

**Thailand** - Wuttinum Sangon founded Tuff, based in Bangkok, in 2003. When he first started, he only had one employee and now the business employs over 40 individuals. Wuttinum produces and exports Muay Thai products including shorts, gloves, and protective gear. The products they sell are unique to Thailand and this facilitates customers coming to their eBay store. Owning an eBay business gives Wuttinum the ability and flexibility to work from home, spending time with his wife and two daughters. "eBay gives strength to a small business to compete with a larger company on the global market."

### Trade Facilitation for Small Size, Low Value Items

Complicated border clearance procedures are a problem for all international traders, but they can be even greater obstacles for MSMEs. The high costs of determining import requirements and completing excessive paperwork hamper cross-border e-commerce. Retailers risk their reputations – and in the case of MSMEs their survival – with customs holds, late deliveries, or inefficient return procedures.<sup>2</sup> "Import duties vary widely among countries, which hampers the regionwide e-commerce market and consumer adoption...For a \$100 dress purchased from an ASEAN country, a digital buyer would have to pay an additional one-third of the dress price in duties and taxes in Thailand, Indonesia, Vietnam and The Philippines. If the dress must be returned, reclaiming the import duties would either be impossible or overly expensive."<sup>3</sup>

Regulators should seek to reduce the costs and complexity for small size and or low value shipments to enable technology-enabled e-commerce MSMEs to benefit from expanded trade. For example, increasing customs duty exemption thresholds will support MSMEs who regularly ship lower value small items across borders. This would reduce the time, costs and uncertainty for MSMEs while expanding opportunities for trade and increased business opportunities.

Finally, it is widely recognized that logistical and compliance hurdles and costs are proportionately costlier to MSMEs than to large and established businesses. The International Organization of Employers finds that proportionate compliance costs can be 10 to 30 times greater for smaller firms than for larger firms<sup>4</sup>.

### Key Policy Considerations to Enable E-commerce Potential

E-commerce represents a tremendous opportunity for MSMEs to expand and grow. There are several general policy

<sup>2</sup> US-Asean Business Council Inc "Enabling Cross Border E-Commerce Trade in Asean" April 2016

<sup>3</sup> "Lifting the Barriers to E-commerce in ASEAN" AT Kearney

<sup>4</sup> eBay Small Online Business Growth Report January 2016



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recommendations to consider to enhance the ability of technology-enabled MSMEs to be successful.

- Expand access to the internet
- Increase Customs Import Duty Exemption Thresholds
- Standardize Digital Single Windows
- Eliminate duties on Cross-Border Returns
- Treat postal systems as MSME Trade Facilitators
- Promote balanced Internet Intermediary Policies

### **Conclusion**

Today more than ever MSMEs are leveraging global trade platforms to grow their business. The ASEAN region has tremendous upside potential to expand the marketplace for MSMEs across the region.

Visit eBay's Policy Lab for additional information on e-commerce best practices:

<http://www.ebaymainstreet.com/>

For additional success stories from Southeast Asia, please visit:

<https://sea.ebay.com.sg/ebayforbusiness/success/seller-story.html>

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