Challenges of Small and Medium Sized Enterprises in E-Commerce in Asia

Asian Trade Centre’s Proposal: Encouraging Small and Medium Enterprises in e-Commerce

Economic growth increasingly takes place through a new mechanism for organizing production and distribution of goods and services. Firms are now using global and regional value chains or supply chains to manage ever-larger shares of their business or to directly access end-user consumers of goods and services. This new model is different from simply using middlemen, sourcing inputs or raw materials from different locations or selling the final products in different markets. Instead, the barriers of entry to global trade have been dramatically decreased, empowering SMEs to participate in global supply chains. This includes not just goods but also services. Many people believe that global supply chains are simply the extension of what has gone on before—except that the level of distribution has shifted downward, i.e., the dispersion of production of parts and components rather than just final products. This does not fully capture the extent to which chains are a new phenomenon. It is not just that parts and components are themselves sourced, produced and distributed in a geographically fragmented manner, but that the entire approach to the production of goods and services and accessing customers has been fundamentally broken apart and put back together in a new way. Lead firms, especially, can literally use the world as their “oyster” precisely placing only the step (or steps) of their processes in one space and rely on some other physical space to complete some other aspect of the process.

In this world, small and medium sized enterprises (SMEs) stand to benefit from opportunities that were never available in the past. SMEs in developing and emerging economies account for anything between about one half to two-thirds or more of jobs. SMEs can use the Internet to bypass lead firms and directly access and sell to consumers in global markets. Creating the right enabling environment to easily allow SMEs to plug into value chains and consumer markets is critical.

There are multiple ways to think about encouraging the development and growth of SMEs. This project focuses attention on using e-commerce as a pathway to SME participation in global value chains and accessing global consumers. After all, if better policies are in place to support e-commerce for small companies, they will have more opportunities overall.

Four aspects of e-commerce seem particularly key for SMEs:

- **Information.** Small and medium sized companies need to know about opportunities and need to be able to move and interpret information quickly and easily between suppliers, lead firms, customers and so forth.
- **Smooth flow of goods with minimum roadblocks.** Any impediment to the movement of goods—and particularly small size shipments or smaller value shipments—can be devastating to smaller firms. Delays cost time and money.
• Ease in moving services. In many Asian economies, the bulk of SMEs are service providers. Research has shown that up to 90 per cent of Malaysian SMEs are service providers, and in Hong Kong the number is 94 per cent. Such firms must be encouraged to participate in global and regional value chains.

• Financing and payments. SMEs have a particularly strong need for trade financing, since they do not have deep balance sheets. In addition, smaller firms need the ability to easily and cheaply access payments systems for their goods and services.

Firms increasingly need to efficiently network with one another and ensure that citizens are able to enjoy the benefits of global trade and workers are able to increase productivity and efficiency. Failure to create the appropriate infrastructure to enable e-commerce by SMEs will cripple the ability of some countries, industries and firms to participate and compete across the region.

E-Commerce is creating new industries, altering traditional ones, and changing the international trade landscape. To capture this growth, it is necessary to put in place a policy framework to facilitate e-Commerce, looking at all the components of the e-Commerce value chain and addressing the unique policy aspects that are necessary to facilitate the seamless flow of data, payments, and goods across borders, without impeding the development of innovative, new services that the internet is expected to generate in the near future.

Traditional trade negotiations around these issues can be problematic. E-Commerce often falls in between specific policy areas. To best serve the needs and interests of smaller firms, governments must adopt a holistic view to addressing diverse issues with clear focus and purpose.

**Four Policy Recommendations**

1. **Support Information Flows**

Developing policies to enable data and information to flow across borders is critical to e-Commerce growth. Digital information and services, the infrastructure that supports them, and their free movement are backbones of e-Commerce. Without a clear mechanism to connect SMEs to lead firms, suppliers, best-in-class partners and service providers, and consumers, smaller companies will be left behind.

Especially key are the following provisions in any upcoming trade agreement:

• Facilitate the flow of information without disruption
• Support cross-border data transactions
• Avoid data or server localization rules that require companies to keep data onshore

2. **Facilitate Flow of Goods**

Small firms are especially damaged by high costs caused by inefficient movement of goods across borders. While larger companies might be able to absorb, for example, a higher tariff, tariff barriers may prove insurmountable for smaller players. Delays in the movement of goods also result in expensive charges to SMEs. Excessive paperwork or problems in paperwork can keep smaller companies from trying to move goods at all. Problems at the borders are magnified for SMEs, including time lost and expenses that mount.

For e-Commerce goods to move seamlessly from seller to buyer, retailers and consumers must have access to efficient, reliable logistics. The Internet allows buyers and sellers to communicate over vast distances, but without an efficient way to fulfill these commercial transactions i.e. get a product to the buyer, these connections are of little value. As the Internet has globalized commerce, transportation networks must also be supported to service this new global demand.

Complex customs procedures are a major impediment to the growth of e-Commerce. A small company cannot withstand the risk or costs associated with issues like customs holds, late deliveries, or inefficient return procedures.

Therefore, SMEs require the following types of e-commerce rules to facilitate trade in goods:

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• Facilitate and integrate rules around transportation services to include all modes of transport (air, land, sea and multi-modal services)
• Encourage cross-border transport for consumer products
• Swiftly implement the provisions of the World Trade Organization’s agreement on trade facilitation including the submission of relevant documents online
• Review existing rules and customs procedures with an eye towards reducing barriers to small size or smaller value shipments
• Recognize that returns are a critical aspect of e-Commerce and put in place policies such as HS Code categories for more seamless returns without charging duties and taxes.

3. Facilitation of Services

Services are a critical conduit for SMEs to plug into global and regional value chains. As most economies in the region are dominated by smaller size firms, particularly in services, it is extremely important to think about how best to connect together this dynamic aspect of the economy.

The advent of the internet and new technology have introduced innovative business operating models and services unheard of a mere decade ago. To encourage innovation and transformation, governments must offer an open and competitive policy environment for the incubation of new services. An open and competitive regulatory regime encourages the investment and innovation needed to offer the range of services that meet the diverse consumer and merchant needs.

More specifically, a new trade agreement for services SMEs in e-commerce should:

• Allow for new services to be opened to international trade
• Encourage supporting services growth and development, particularly in areas like logistics

4. Financing and payments

SMEs do not generally have deep balance sheets. As a result, delays in payments cannot be sustained. But many banking services currently provided do not cater to the specific needs of smaller firms and are particularly challenged by the demands of cross-border trade in goods and services. Hence, SMEs in e-commerce need to have better access to trade finance using tools geared towards their specific needs.

Smaller firms also need swift and accurate methods of receiving payments. Delays in processing, or an ability to collect can mean bankruptcy for SMEs in short order.

To assist SMEs with finance and payment needs, an e-commerce chapter should:

• Encourage the development of trade financing systems aimed at smaller firms
• Support the growth of e-payments systems, such as debit and credit cards, mobile phone payments and online payments services and online banking
• Allow the use of e-payment systems across borders

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