Making digitalization work for small businesses in Asia

BY ASIAN TRADE CENTRE
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INTRODUCTION</strong></td>
<td>3</td>
</tr>
<tr>
<td>Digitalization in the Asia-Pacific region</td>
<td>3</td>
</tr>
<tr>
<td>Spotlight: The MSME economy</td>
<td>5</td>
</tr>
<tr>
<td><strong>DIGITAL TRADE FOR DEVELOPMENT – WHAT IS THE EVIDENCE?</strong></td>
<td>6</td>
</tr>
<tr>
<td><strong>INTERNATIONAL ORGANIZATIONS AND DIGITAL DEVELOPMENT</strong></td>
<td>8</td>
</tr>
<tr>
<td>Spotlight: Cambodia’s e-commerce knowledge platform</td>
<td>8</td>
</tr>
<tr>
<td>Platforms and development</td>
<td>9</td>
</tr>
<tr>
<td>Spotlight: Platforms and MSMEs in India</td>
<td>10</td>
</tr>
<tr>
<td><strong>EFFORTS TOWARD DIGITAL DEVELOPMENT</strong></td>
<td>11</td>
</tr>
<tr>
<td>Vietnam</td>
<td>12</td>
</tr>
<tr>
<td>Malaysia</td>
<td>12</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13</td>
</tr>
<tr>
<td>Philippines</td>
<td>14</td>
</tr>
<tr>
<td>Thailand</td>
<td>14</td>
</tr>
<tr>
<td>India</td>
<td>15</td>
</tr>
<tr>
<td>MSMEs and enabling conditions in the Asia-Pacific region</td>
<td>16</td>
</tr>
<tr>
<td>Spotlight: Platforms and MSMEs: Nilu Tea’s Experience</td>
<td>17</td>
</tr>
<tr>
<td><strong>CONCLUSION</strong></td>
<td>18</td>
</tr>
<tr>
<td><strong>RESEARCHER BIO: ASIAN TRADE CENTRE</strong></td>
<td>19</td>
</tr>
<tr>
<td><strong>ENDNOTES</strong></td>
<td>20</td>
</tr>
</tbody>
</table>
Introduction

The digital economy is viewed with skepticism by some, who argue that micro, small, and medium enterprises (MSMEs) struggle to keep up with the likes of digital platforms that twist competitive forces in their favour, leverage big data, and engage in anti-competitive behavior.

Digitalization, defined as the mass adoption of digital services by consumers, enterprises, and governments, is accelerating in the Asia-Pacific region. Digital technologies continue to transform business processes and day-to-day life and change how we make purchases, communicate, interact with government, and more. Emerging technologies such as Artificial Intelligence (AI), the Internet of Things (IoT), and big data stand to further transform global economies, boosting efficiency and growth. However, harnessing these benefits depends on several factors, including widespread access to digital technologies and the proper regulatory and policy environments.

Correctly leveraged, digital technologies contribute to growth and development, providing benefits to societies as a whole. But much of the current conversation around the accelerating growth of the digital economy focuses on big business, big tech, and big data, the argument being that large companies have captured all the economic benefits from this growth at the expense of small business and inclusive development. Discussions of these issues have featured in earlier papers published as a part of this report series on digital trade sponsored by the Hinrich Foundation.

Through boosting efficiency and enabling innovation, digital technologies stand to benefit nearly every sector of society. It is not only big business that benefits from this digital transformation. Micro, small, and medium enterprises (MSMEs) find substantial benefits from participating in the digital economy. As MSMEs constitute the vast majority of firms and a significant portion of total gross domestic product (GDP) in the Asia-Pacific region, encouraging vibrant, competitive, and digitally empowered MSMEs is key to continued economic growth and development.

But the digital economy is viewed with skepticism by some, who argue that MSMEs struggle to keep up with the likes of digital platforms that twist competitive forces in their favour, leverage big data, and engage in anti-competitive behavior. This perspective underestimates the benefits of participation in the digital economy for MSMEs and misunderstands the vital link between small business and development. Consequently, governments and international organizations (IOs) may offer up sub-optimal regulatory and policy solutions, which fail to stimulate the real drivers of MSME growth.

Digitalization in the Asia-Pacific region

The Asia-Pacific region is home to more than half of global internet users, and accounts for a growing proportion of the world’s investment, research and development, and profits in the digital sphere. As a result, the region is home to a rising number of digitally enabled firms and is well positioned to grow the digital economy substantially into the foreseeable future. The Covid-19 pandemic has further accelerated digitalization as consumers and firms turned to digital tools to replace in-person activities. With public health measures preventing many in-person interactions, access to digital tools became a prerequisite for doing business.
For many, the switch to digital has since become permanent. E-commerce in the region continues to grow rapidly with predictions that 2.59 billion consumers today will grow to 3.13 billion by 2025. In the same year, Southeast Asia’s total e-commerce sales will be worth a predicted US$ 234 billion – nearly double the figure from 2021.

As consumers increasingly turn to e-commerce, MSMEs must participate to remain competitive. According to the 2021 Southeast Asia e-Conomy Report by Bain, Google, and Temasek, digital merchants say that participating in platforms means more jobs, improved livelihoods, sustained revenue, and more business opportunities. Further, one in three digital merchants believe their businesses would not have survived the pandemic if it were not for digital platforms.

Access to digital tools are key drivers of economic growth and development, as they enable communication, commerce, education, and more. In advanced economies, nearly every firm makes use of digital services in some form, including search engines, social media, online marketplaces, computing services, and digital payments. While uptake is generally high across the region, digitalization is stratified across income and development lines. Least developed countries (LDCs) such as Cambodia, Lao PDR, and Myanmar, score relatively low on key digitization indicators like prevalence of internet access, enabling infrastructure, and private sector spending in the sector. This is in contrast to highly digitally enabled societies in the region such as Singapore and South Korea, where access is nearly universal among firms and individuals.

The benefits of digitalization are obvious, as access to digital tools enables communication, commerce, education, and more. But conversations about the economic benefits of digitalization tend to focus on the role of big business and suggestions that large companies have captured the lion’s share of the associated economic gains. A digitalized economy is not necessarily one where MSMEs fall behind, but where, guided by the appropriate policies, MSMEs can leverage digital tools for growth and development.

Digitalization is stratified across income and development lines. Least developed countries (LDCs) score relatively low on key indicators such as prevalence of internet access, in contrast to highly digitally enabled societies where access is nearly universal.
The MSME economy

MSMEs are a key component of wider economic development and poverty alleviation. A healthy MSME sector promotes competition and an entrepreneurial culture, both needed for economic growth. In total, there are an estimated 185 million MSMEs in the Asia-Pacific region. According to national classifications in the region, MSMEs accounted for an average of 97% of all firms, 69% of the total workforce, and 41% of GDP from 2010-2019 in Southeast Asia. Over the same period, MSMEs contributed only 20% of total export value in the region, with -0.05% annual compound growth. The majority of MSMEs in the region are in the wholesale and retail trade industry, followed by hospitality and manufacturing.

According to a study by the Economic Research Institute for ASEAN and East Asia, 34% of MSMEs in the Asia-Pacific region have an online presence. This means that approximately 63 million small businesses in the region participate in digital platforms, such as social media or online marketplaces. Of these millions of businesses, manufacturers stand to reduce costs by up to 40%, and service providers up to 82%, by leveraging digital tools.

Digital technologies stand to remove key barriers to growth for MSMEs in the Asia-Pacific region. Payments infrastructure, logistics, marketing, and access to credit remain significant challenges for MSMEs, and especially for those in developing countries. Participation in digital platforms allows businesses to reach new customers and enhances abilities to participate in international markets. Digital financial services offer access to credit otherwise inaccessible – a challenge widely cited as the foremost challenge to MSMEs.

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While economic growth can be measured with ease, development is more difficult to measure quantitatively. Measures such as the Human Development Index (HDI) aggregate life expectancy, anticipated years of schooling, and gross national income per capita into a single measure to enable cross-country comparisons. While a useful indicator, the HDI does not consider other factors now seen as key to development. Current conceptions of development tend to focus on ‘sustainable development,’ which incorporates economic, social, and environmental elements, including social justice and ecological sustainability as fundamental policy objectives inherent to the overall concept of development. To account for the multi-dimensional nature of development, the United Nations developed the 2030 Sustainable Development Goals (SDGs), a set of 17 goals with 169 individual targets.16

The Global Enabling Sustainability Initiative (GESI) suggests a concrete link between digital technologies and achieving the SDGs. In a 2019 report, GESI found that 103 of 169 SDG targets are influenced by digital technologies, and that the predicted deployment of existing technologies will accelerate progress toward achieving the SDGs by 22% and mitigate negative progress by 23%.17 In general, digital technologies like AI, IoT, blockchain, and more stand to contribute to the SDGs through increasing efficiency and facilitating access to new knowledge. Examples include leveraging data to increase crop yields and using AI to diagnose illnesses in remote communities.18

### Figure 1 – Digitalization and the Sustainable Development Goals19

<table>
<thead>
<tr>
<th>Sustainable Development Goal</th>
<th>Potential contributions to development</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDG 1: No Poverty</td>
<td>Provides MSMEs with access to a larger pool of customers; increases financial inclusion through digital bank and non-bank services; boosting access to information; enabling participation from marginalized groups</td>
<td>Exposes MSMEs to new competition</td>
</tr>
<tr>
<td>SDG 3: Good Health and Wellbeing</td>
<td>Boosts access to digital health services</td>
<td>Inadequate privacy laws and regulations</td>
</tr>
<tr>
<td>SDG 4: Quality Education</td>
<td>Boosts access to digital education resources; increases access to education in rural areas</td>
<td>Lack of public oversight over curricula</td>
</tr>
<tr>
<td>SDG 8: Decent Work and Economic Growth</td>
<td>Increases market access through network effects of platforms; enables access to employment through matchmaking services</td>
<td>Precarious work due to the gig economy</td>
</tr>
</tbody>
</table>
There is a strong link between uptake of digital technologies and economic growth. This connection has been demonstrated through several empirical studies, with the evidence showing that digitalization can significantly increase labor productivity and total factor productivity.\textsuperscript{20} This boosts countries’ aggregate outputs, otherwise known as GDP. The importance of the uptake of digital technologies is further demonstrated by the evidence showing that sectors with a high level of digitalization have the highest productivity growth.\textsuperscript{21}

Though interrelated, growth and development are distinct concepts. Though economic growth is a necessary input for development, governments must construct the correct regulatory and policy environments to ensure the benefits of growth are reflected in development gains. Notably, digitalization in the Asia-Pacific region has an inverse relationship with countries’ Gini coefficient, a measure of economic inequality.\textsuperscript{22} This means that as uptake of digital tools increases, economic inequality falls, implying that digitalization plays a key role in achieving development gains across the region.

While digital tools can certainly unlock economic growth and development, it is not without risk to MSMEs. To these firms, the digital economy presents many opportunities, such as an expanded customer pool, efficiency gains, access to banking services and credit, and more. But with expanded markets comes new competition, which is a key concern raised by some international organizations when considering the role of digitalization and development. Digital platforms can contribute to achieving several SDGs by leveraging knowledge-sharing, boosting access to resources and expertise, as well as boosting employment and financial inclusion. However, participation in the digital economy is not without risks. Without the appropriate legal, regulatory, and policy frameworks in place, digital platforms may operate in ways at odds with development.

Unlocking the benefits of digitally enabled development relies on widespread access to digital tools. As these tools are increasingly leveraged by those who are able, the LDCs risk falling even further behind. In the Asia-Pacific region, uptake of digital tools varies widely. Advanced economies in the region, like Singapore and South Korea, have a nearly universal uptake of digital tools like mobile internet. Conversely, the least-developed countries in the region have low uptake of such tools, with less than half of the population having access to the internet in Lao PDR and Myanmar.\textsuperscript{23, 24} Without widespread access to digital tools, developing countries in the region lost out on the associated benefits, including those provided to MSMEs. Broadly in line with the variation in the uptake of digital tools across the Asia-Pacific region is the adequacy of legal, regulatory, and policy frameworks that ensure the digital economy is fair and reliable.

Digital tools offer remarkable opportunities for firms, individuals, and societies as a whole. Digitization allows for firms, and especially MSMEs, to extend their reach and access new markets. But the rapid digitalization of almost all facets of our lives is not without risk, particularly in terms of exposure to new competition at the firm level, as well as inadequate protections in terms of data sharing, labor laws, and public oversight.
Some international organizations point to the dangers associated with growing digitalization, arguing that multinational tech giants benefit from e-commerce at the expense of smaller domestic competitors. This argument insists that ‘digital free trade’ has failed to produce inclusive, participatory, and development-friendly digitalization. Instead, ‘platform monopolies’ have emerged, putting MSMEs at a distinct disadvantage. The platforms, it is argued, have unfair advantages over others and engage in anti-competitive behavior. With this argument in mind, some suggest that that governments must build parallel digital platforms to compete with global e-commerce giants, suggesting that domestic MSMEs would benefit from dedicated platforms and the absence of competitive forces.

From this perspective, building up domestic digital capacities and enabling infrastructure are not sufficient to stimulate development. Instead, it is argued that developing countries should pursue a form of digital protectionism, ignoring the potential benefits for MSMEs that participate in digital platforms. Key to this assertion is the perception that a handful of platforms dominate global markets, but this is simply not true. Uptake of individual platforms varies greatly across regions and countries. The Asia-Pacific region is home to several large platforms that do not operate extra-regionally, and platforms like Amazon have not always found success entering Asian markets.

**SPOTLIGHT**

**Cambodia’s e-commerce knowledge platform**

KhmerSME acknowledges the benefits of digitalization and participation in the digital economy but does not offer MSMEs with practical information as to how businesses can harness digital tools for growth.

KhmerSME, an online platform that provides information to small businesses, was developed by the Cambodian Ministry of Industry, Science, Technology, and Innovation. Live since 2021, the platform offers digital learning resources and training for Cambodia’s MSMEs.

The initiative acknowledges the benefits of digitalization and participation in the digital economy but does not offer MSMEs with practical information as to how businesses can harness digital tools for growth. The platform and Cambodia’s overall e-commerce strategy was developed in partnership with several IOs.
The suggestion that developing countries should enact technology transfer, data localization, and internet filtering requirements, or force the breakup of large e-commerce firms, ignores the platforms’ benefits to development and the consequences of pushing them out of small markets.

Perceiving the digital sphere as winner-takes-all leads to an incorrect assessment of the market forces shaping the digital economy and suboptimal policy responses. In particular, the suggestion that developing countries should enact technology transfer, data localization, and internet filtering requirements, or force the breakup of large e-commerce firms, ignores both the benefits of these platforms to development and the potential consequences of pushing platforms out of small markets. Instead, governments should focus on creating an enabling environment for MSMEs to pursue digitalization, enacting regulation that encourages firms to leverage digital tools for growth and development.

Platforms and development
Simply put, platforms are digital venues that facilitate the exchange of goods or services, regardless of whether they charge a fee. These platforms include search engines, social media, marketplaces, financial services, among other functions. Multi-sided digital platforms facilitate economic exchanges between distinct user groups. To do so, these outlets offer the necessary inputs for these exchanges to take place, including the digital payments system, so that money can flow from buyer to seller, enabling the delivery of the purchased good or service to the buyer, the digital venue for the transaction, and more. Thus these platforms have both a matchmaking function, bringing users together to exchange goods or services, and a role in making transactions easy and reliable.

For MSMEs, there are several reasons why participating in digital platforms can be beneficial. First they increase visibility for participating MSMEs, as large platforms are accessed by large numbers of customers. Participation in digital platforms contributes to lowering operational costs, as economies of scale and their marketing abilities reduce the burden of logistics, payment methods, and marketing on individual firms participating in the platform. For example, a small firm may struggle to navigate customs rules when engaging in cross-border trade, adding risk and increasing costs. E-commerce platforms with sufficient scale and expertise can easily navigate the complexities of cross-border trade, reducing

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costs for participating MSMEs. This has enabled the emergence of a growing number of ‘micro-multinationals’ in the Asia-Pacific region, wherein small businesses engage in cross-border e-commerce.28

A further benefit in participating in platforms for MSMEs is access to their analytics capabilities and optimization programs. Using data analytics to collect information about customer preferences, MSMEs can leverage the available data to optimize offerings to customers.29

Digital platforms, like any other business, are profit-seeking. But this does not mean that this profit-seeking behavior functions to stifle MSME growth or development. Instead, the opposite is true. Platforms tend to push capacity-building efforts to enable MSMEs to participate in their platforms, unlocking new growth opportunities. For example, Meta, Amazon, Gojek, and Flipkart offer training, advisory services, and more to boost the capacity of MSMEs to participate in their platforms. From this arrangement, the companies benefit from an increased number of suppliers, and MSMEs unlock new growth opportunities, increasing access to customer pools and addressing key barriers to growth.

By participating in digital platforms, MSMEs can also avoid needing to build their own websites and manage their own logistics and warehousing. Instead, participating in platforms massively simplifies the process for businesses without relying on their own resources and digital skills, both of which are often lacking.

With the proper policy and regulatory frameworks in place, countries across the Asia-Pacific region, and especially the developing countries, can leverage the digital economy to benefit MSMEs and the economy as a whole. With MSMEs making up such a large portion of total employment and economic activity, digitalization stands to provide substantial benefits and harness growth for development.

SPOTLIGHT

Platforms and MSMEs in India

The Vridhhi program seeks to support MSMEs across India by providing advisory support, learning resources, financing solutions, and more. The Flipkart Samarth program seeks to enhance digital inclusion through bringing artisans and micro-enterprises to participate in e-commerce.

Walmart and subsidiary Flipkart, a digital marketplace, have made significant efforts to increase MSME participation in the digital economy. The Vridhhi program is a long-term commitment to digitize and scale India’s MSMEs, providing advisory support, learning resources, financing solutions, and more. The program seeks to support 50,000 MSMEs across India, enabling them to become Walmart suppliers, both in India and abroad, as well as Flipkart sellers.30

The Flipkart Samarth program seeks to enhance digital inclusion through bringing artisans and micro-enterprises to participate in e-commerce. Targeting daily wage workers, the program supports the livelihood of 950,000 Indians in partnership with the state-level governments and Non-Governmental Organizations (NGOs). Flipkart provides program participants with a variety of enabling resources, such as cataloguing support, training, and commission-free participation in the Flipkart marketplace platform.31
Access to digital tools is not sufficient. Governments must create the enabling conditions to ensure reliable digital payments, establish Intellectual Property (IP) protections, allow goods to cross borders, and increase the uptake of digital technologies through education programs.

While digitalization’s contribution to growth and development is clear, governments must take care to establish the infrastructure, as well as the regulations and policies, necessary to leverage digital transformation into society-wide benefits. For businesses and individuals to leverage digitalization into growth and development, governments in the Asia-Pacific region must establish the appropriate legal, regulatory, and policy frameworks. In doing so, governments can unlock the benefits of the digital economy, namely efficiency and productivity gains, as well as improving access to markets and enabling communication.

The digital economy relies on an extensive network of physical infrastructure such as data centers, cross-border fibre optic cables, and cellular towers, usually built through joint public-private funding. But access to digital tools is not sufficient. Governments must further create the enabling conditions for e-commerce through legal and regulatory structures that ensure digital payments are reliable, establish basic Intellectual Property (IP) protections, ensure sufficient consumer protections, and allow e-commerce goods to cross borders. Governments can further establish enabling conditions by putting forward programs and policies to increase the uptake of digital technologies through education programs, introduce e-government initiatives, and encourage digitization in the private sector. Governments must also take care to ensure uptake by MSMEs, which risk lagging behind big business without appropriate efforts.

**Figure 2 – Regional efforts toward digital development**

- **India** – Digital India Initiative
- **Indonesia** – Making Indonesia 4.0
- **Malaysia** – Digital Economy Blueprint
- **Philippines** – Digital Philippines Plan
- **Thailand** – Thailand 4.0
- **Vietnam** – 2021-2025 E-Commerce Development Master Plan
As digitalization is a whole-of-society change, government-led efforts to establish enabling conditions are essential to the success of digital transformation. This transformation, which has significant consequences for both economic growth and development, has found varying success across the Asia-Pacific region. Though every government in the region – from the most developed to the least – has a digital strategy, success has varied widely. Though digitalization is accelerating across the region, the ability to harness digital tools for growth and development will vary in line with the successes of efforts to stimulate the appropriate enabling conditions.

Government-led efforts to create these enabling conditions are essential to supporting MSMEs and their digitalization. In doing so, regional governments can drive growth and efficiency gains for the businesses that make up the vast majority of GDP and employment in the region. The following section details government-led efforts to boost digitalization through creating these enabling conditions.

Vietnam

Uptake of information and communication technology is high in Vietnam. Between 2000 and 2010, total mobile cellular subscriptions in Vietnam rose from less than 1 million to 112 million – more than the total population of the country. Since, the digital economy in Vietnam has matured significantly, with e-commerce reaching new heights due to a pandemic-related bump in users. As of 2021, 70.7% of consumers make use of digital services, and plan to continue to do so. The value of Vietnam’s internet economy was US$ 21 billion in 2021 and is predicted to grow to US$ 57 billion by 2025.

Vietnam’s government has put forward regulations on electronic transactions and electronic signatures, which are key to e-commerce and fintech. These regulations facilitate mobile payments and digital banking platforms by creating a stable, reliable, and customer and business-friendly digital environment. The Ministry of Industry and Trade (MOIT) is the regulator responsible for e-commerce. In 2020, MOIT issued new requirements for e-commerce entities, requiring foreign entities to establish in-country website domains and comply with regulations on consumer protection and product quality.

The 2021-2025 E-Commerce Development Master Plan, announced by the Vietnamese government in May 2020, seeks to promote digital transformation and enhance e-commerce capabilities. Specifically, the Plan promotes business uptake of digital services, and makes efforts to narrow the existing urban-rural digital divide, build a sustainable virtual market, and increase cross-border, e-commerce trade. Further regulations are expected on digital identities, which are anticipated to improve trust and security for online transactions. Despite efforts to create these enabling conditions through regulation, firms operating in Vietnam have noted difficulties due to laws around cybersecurity, data privacy, and cross-border data transfers.

Malaysia

As of 2019, 90% of Malaysian households had access to the internet, and the value of the country’s e-commerce market was RM 16 billion. The Malaysia Digital Economy Blueprint seeks to grow the digital economy, doing so through building enabling infrastructure, increasing competitiveness, and digitizing the public sector. Through the plan, the Malaysian government has made efforts to
stimulate the growth of the digital economy by establishing enabling policies and regulations. The Blueprint broadly pursues digital transformation in six thematic areas: the public sector, private sector, enabling infrastructure, and human capital, as well as improving inclusivity and trust in the digital economy. With dozens of individual programs, targets, and outcomes, the Blueprint is a robust effort to leverage digitalization into growth and development.

Through the Digital Economy Blueprint, the Malaysian government stands to make significant strides toward boosting MSME participation in the digital economy. Specifically, this includes adapting the IP system and regulatory environment to the digital economy; lowering barriers to trade for MSMEs participating in cross-border e-commerce; clarifying tax frameworks for the digital economy; and building up internet infrastructure. These initiatives, combined with the others in the Blueprint, are likely to contribute to harnessing Malaysia’s digital economy for growth and development.

Further efforts are being made to attract foreign investment in the country’s digital sector. Announced in July 2021, the Digital Investments Future5 Strategy is a five-year plan to attract investment in Malaysia’s digital economy and establish the country as the “Heart of Digital ASEAN.” By 2025, Malaysia aims to attract RM 50 billion in investment for the digital sector, facilitate growth in key digital sectors, attract 50 new Fortune 500 companies to Malaysia, establish five unicorns, and create 50,000 jobs.

**Indonesia**

In 2021, Indonesia’s digital economy was valued at an estimated US$ 70 billion, and is predicted to reach US$ 146 billion by 2025. Much of this growth will be driven by the country’s already large e-commerce sector. Indonesia is home to several popular digital platforms, including marketplace Tokopedia and multiservice platform Gojek.

The Indonesian government is making efforts to induce further growth of the digital economy. The Making Indonesia 4.0 strategy seeks to increase uptake of...
Advanced technologies and boost participation in the digital economy. With the stated goal of helping Indonesia grow to be one of the ten largest economies in the world by 2030, the strategy further seeks to increase labor productivity through digitalization and increase research spending. To do so, the Indonesian government has prioritized ten action areas, including the empowerment of MSMEs, harmonizing digital policies and regulations, and building digital infrastructure. However, the Strategy is primarily focused on the manufacturing sector.

Though the Indonesian digital economy is expected to grow rapidly, large platforms have captured most of this growth and MSME participation is limited. Both businesses and consumers are often constrained by limited trust in digital transactions, lack of internet connectivity, and complicated and expensive logistics. Addressing these issues will require robust regulatory and policy responses from the Indonesian government.

Philippines

Compared to other countries in the Asia-Pacific region, the Philippines is a relative underperformer in terms of digitalization. Acknowledging these limitations, the Philippine government are enacting a series of laws and policies to boost internet access, encourage digital innovation and investment, strengthen data privacy, and build capacity to use digital tools.

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Philippines

Compared to other countries in the Asia-Pacific region, the Philippines is a relative underperformer in terms of digitalization. Though the country is home to a growing digital economy with an annual growth rate of 17%, the value of e-commerce in the Philippines was only US$ 4.8 billion in 2020. Despite this rapid growth, the Philippine digital economy will remain relatively small compared to other countries in the region, due to limited infrastructure and regulatory constraints, including restrictions on new entrants to the telecommunications and logistics sectors. A further barrier to e-commerce is lack of trust in digital payments. The Philippines is also, in general, a cash-based economy. Hence many consumers and MSMEs are unfamiliar and uncomfortable with digital payments services.

Acknowledging these limitations, the Philippine government is making efforts to encourage digitization. They are enacting a series of laws and policies to boost access to the internet, encourage digital innovation and investment, strengthen data privacy, and build capacity to use digital tools. This includes high-level strategies such as the Digital Philippines Plan, the E-Commerce Roadmap, and the National Broadband Roadmap, as well as legislation such as the Innovation Act, the Innovative Startup Act, and Data Privacy Act.

Thailand

Thailand’s digital economy was worth a total US$ 21.9 billion in 2021 and is anticipated to grow to US$ 53 billion by 2025. The Thai government has developed several initiatives to enhance uptake of digital technologies, particularly among MSMEs, as well as to develop e-government services. These strategies include Digital Thailand and Thailand 4.0, both of which take a multi-sectoral approach that relies on public-private collaboration to achieve digitalization goals. The Bank of Thailand’s Financial Sector Master Plan seeks to modernize technology and boost adaption of digital payments, which remain relatively low due to Thailand’s cash-based economy.

Despite these efforts, regulatory and policy barriers to digitalization remain in place for many MSMEs. In the 2021 Thailand Economic Monitor, the World Bank highlights several Thai regulations that are likely barriers to MSME participation in the digital economy. Businesses wishing to participate in e-commerce are subject to registry requirements from several government agencies, including

Thailand’s Digital Thailand and Thailand 4.0 strategies take a multi-sectoral approach that relies on public-private collaboration to achieve digitalization goals.
the Department of Business Development, the Office of Small and Medium Enterprise Promotion, the Bank of Thailand, and the Consumer Protection Board. All businesses engaging in e-commerce must further comply with the Computer-Related Offenses Act, the Cybersecurity Act, and the Personal Data Protection Act. The World Bank notes that these laws disadvantage MSMEs due to high compliance costs, while the laws lack clarity and further burden data-dependent business models like AI and IoT. Thailand further lacks enabling regulations on things like e-signatures, robust consumer protections, and interoperable digital payments.

India

As of 2019, India’s digital economy was worth a total US$ 170 billion, and is predicted to reach a potential US$ 435 billion by 2025. Though large in terms of total value, only 5% of India’s commercial activity is online, compared to 25% in China. However, as the Indian government continues rapid progress in digitalization initiatives, uptake of digital tools is likely to accelerate.

The Digital India strategy, launched in 2015, seeks to boost connectivity, the delivery of digital government services, and improve digital skills. The strategy was conceived to address both connectivity gaps and economic inequality between regions, firms, and individuals. To do so, the strategy has dozens of individual initiatives broadly pursuing the improvement of digital infrastructure, the expansion of digital governance, and the digital empowerment of Indians. Some of the strategy’s successes include the Aadhaar digital ID program, enabling the delivery of e-government services to its 1.2 billion participants, and rapidly increasing access to digital tools in India’s poorest states.

The Digital India strategy has enabled participation in the digital economy. The Aadhaar digital ID enables digital payments and e-signature verification for e-commerce. The ID system offers further benefits to MSMEs, as it allows the use of online services to register their businesses and pay taxes.
While the Indian government has made significant efforts towards increasing access and usage of digital tools, recently enacted regulations threaten to increase the costs and risks associated with digitalization, especially for MSMEs. Firms may struggle to comply with stringent data regulations in the 2019 Personal Data Protection Bill and the 2021 Information Technology Rules. Though these regulations target large digital platforms, MSMEs that use digital platforms as a part of their business may be affected by enforcement actions. Engaging in international e-commerce may risk non-compliance with data rules.

**MSMEs and enabling conditions in the Asia-Pacific region**

A robust digital economy requires an ecosystem of public sector actors to establish a regulatory and policy framework to establish trust, transparency, and the rule of law in the digital sphere. In doing so, governments can construct an environment wherein e-commerce can flourish, and where both businesses and individuals benefit from digitalization. Several governments in the region have made efforts to create such an environment, attempting to establish relevant and prescient regulation to stimulate growth in the digital sphere.

Despite these efforts, many governments, such as those noted above, maintain policies, laws, and regulations that are less than ideal. In the Asia-Pacific region, MSMEs demonstrate a remarkable level of resiliency – even the smallest of firms are accustomed to stiff competition and challenging business environments. But governments must realize that high-level policy decisions have a tangible effect on these MSMEs. By improving enabling conditions for MSMEs, governments in the region stand to help small firms grow and contribute to development. Conversely, without making such efforts, governments risk harming the sector, which constitutes the vast majority of firms and employment in any given country. Despite their resilience, even the most successful of MSMEs can fail under unnecessarily challenging conditions.
Platforms and MSMEs: Nilu Tea’s experience

Nilu Tea, founded in 2018, is a premium tea company based in Sri Lanka. Confronted with the uncertainty of the Covid-19 pandemic, founder Nilushika Silva increasingly turned to digital tools. Though these tools were in place prior to 2020, Nilu Tea saw increased benefits from digital marketing initiatives, online payments platforms, and participation in marketplace platforms.

With customers making more purchases online during the pandemic, a re-prioritization of digital capabilities was a necessary shift for the continued success of Nilu Tea. With existing points of sale shuttered due to pandemic-related supply chain issues, Nilu Tea pivoted to selling its products through social media, such as Facebook and Instagram, as well as the brand’s website. In 2021, the MSME saw additional sales through marketplaces Shopee and Lazada, facilitated by Singapore-based social enterprise Air Amber, as well as Amazon. Social media remains key to Nilu Tea’s digital marketing strategy. Digital payments services PayPal and Paynow, as well as cross-border transfers through Wise, were essential to facilitating the brand’s participation in e-commerce platforms.

Maintaining sales through digital marketplaces was key to Nilu Tea’s foundational commitment to giving back to the community. The company donates 10% of all profits to Emerging Hope Lanka, a not-for-profit that empowers and educates women in Sri Lanka to help them start micro-enterprises.
Digitalization is a key driver of economic growth. While this is true of every sector of the economy in the Asia-Pacific, it is especially true of MSMEs, which are the bulk of business and employment across the region. As such, the continued growth of the digital economy offers significant benefits to firms that can navigate new technologies, creating access to new customers and opportunities. But this is not without risks to business. Small firms are especially vulnerable to risks, as they have limited resources and expertise to navigate complex regulatory regimes around the digital economy.

Governments have a key role at the center of digitalization, ensuring firms and individuals have access to digital tools through publicly funded infrastructure. This role further extends to enabling participation in the digital economy through constructing the legal and regulatory frameworks wherein businesses can operate. But this view is not shared by all. Certain international organizations believe governments, especially in small and developing markets, must take a more active role in the digital economy – one where they should build their own digital platforms. This perspective ignores the role platforms have played in incorporating MSMEs into the digital economy. Through boosting access to new markets, simplifying logistics, and more, these platforms have unlocked new growth levers for small business.

This is not to say that digitalization is not without risk. Absent of appropriate regulation, the digital economy can become anti-competitive and favor a select few, deterring development. But the evidence suggests that MSMEs and economies as a whole tend to benefit from digitalization and the platform economy – as long as governments ensure the suitable laws, regulations, and policies are in place.
The Asian Trade Centre (ATC) is the regional thought leader, advocate and educator for trade in the Asia Pacific region and serves as the resource for trade-related activities in Asia. They are a team of trade policy and supply chain subject matter experts positioned to meet the trade related needs of businesses — small and large — and governments — regional and foreign — operating in the Asia-Pacific.

ATC’s primary activities include research, corporate advisory and capacity building services.

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— They assist companies with a regional supply chain footprint with the design and implementation of supply chain and duty optimization strategies that minimize tariffs, trade compliance and global trade management costs.

— They design and conduct training and capacity building programs for government officials and companies throughout Asia on key aspects of trade policy.

ATC is also the Secretariat to the Asia Business Trade Association (ABTA) and the Asia Pacific MSME Trade Coalition (AMTC).
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