Enabling Small and Medium Enterprises in the Digital Age
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Introduction

In June 2018, the Asia Business Trade Association, supported by Facebook, organized a regional Summit for small and medium enterprises (SMEs). The Summit aimed to enable regional SMEs to take advantage of the opportunities presented by the digital age. It attracted more than 400 attendees from 26 countries – with 76% from Southeast Asia.

Summit participants shared their challenges and the support they need to be able to:

- **Build their business**
- **Expand their presence**
- **Thrive in the long term**

This report captures the views of the attendees¹, to provide a reference for government, industry and other stakeholders focused on the development of SMEs in the digital age.

¹ 380 representatives from micro, small and medium businesses responded to the pre-Summit survey and 415 participants at the Summit provided their views.
SMEs are key economic drivers globally, and especially within the Asia Pacific region.

Digital innovation impacts businesses, regardless of size. However, SMEs face more challenges than larger organizations, which have the resources and infrastructure to develop capabilities in this fast-evolving sector.

To provide SMEs with tools and knowledge they can use in the digital age, the Asia Business Trade Association, through its SME working council, the Asia Pacific MSME Trade Coalition (AMTC), organized its first SME Summit. The Summit focused on “Enabling SMEs in the Digital Age” and was held in Singapore on 6 June 2018. The event convened businesses, policymakers, representatives from chambers of commerce and related stakeholders from across industries and countries.

The Summit would not have been possible without the generous support of Facebook, our Platinum sponsor. We are also grateful to our silver sponsors and other partners (listed in the Appendix).

Digital technology provides unparalleled opportunities for SMEs to grow. In the Asia Pacific region, SMEs are using Facebook to increase sales, reach new customers, grow their business and expand internationally:

- 74% of SMEs on Facebook in Asia Pacific say they have increased sales because of the platform
- 85% of SMEs on Facebook in Asia Pacific state that the platform helps them attract customers
- 67% of SMEs on Facebook in Asia Pacific say they have been able to hire more employees due to growth in demand since joining the platform
- 78% of SMEs on Facebook in Asia Pacific believe the platform allows them to sell their products or services in other cities, states and countries

Facebook is committed to helping SMEs build their business, expand their presence, and thrive in the long term. We do so by supporting them as they undertake the potentially daunting journey of reaching new markets. Specifically, we provide:

- **Access:** More than half of the 2.2 billion people on Facebook are connected to at least one business in a foreign country. Through digital marketing solutions, we provide access for SMEs to these potential customers overseas.

- **Knowledge:** Our online resources provide free training modules and resources, such as Facebook Blueprint and Facebook IQ Cross Border Insights Finder.

- **Training:** We deliver capacity building programs through local partners to train SMEs on digital marketing skills. Key programs include Facebook Community Boost, #SheMeansBusiness, which focuses on women entrepreneurs, and #MadeBy, which helps SMEs reach international customers.

When SMEs reach new markets, economies benefit. In partnership with the OECD and World Bank, Facebook runs the Future of Business survey across 42 countries. A third of the surveyed countries are in the Asia Pacific region. This international trade report, released in August 2017, found that SMEs that trade internationally are more confident and more likely to increase jobs.

However, despite the potential benefits of international trade, only a minority of SMEs are currently trading internationally. Almost half of exporters (48%) identified “selling to foreign countries” as a challenge.

We are thankful for the opportunity to support the Asia Business Trade Association in this inaugural SME Summit to understand these challenges and help create conditions for SMEs to build, expand and thrive.
NEW OPPORTUNITIES

SMEs are the lifeblood of ASEAN economies. They account for more than 96% of all enterprises, and generate between 30% and 70% of their output. SMEs are also the largest source of domestic employment across all economic sectors, employing between 60% and 90% of the regional enterprise workforce.

Access to digital technologies has lowered barriers of entry into global markets, enabling SMEs to internationalize at a fraction of the cost, and making it easier for them to join international production networks, find customers abroad and make international payments.

Nearly half of exporting SMEs in a survey reported that over 75% of their international sales depend on online tools. Digital solutions can reduce export costs by up to 40% for manufacturers and 82% for service providers.

In addition, recent changes in global trade, such as the rise in global value chains (GVCs) and the development of new forms of multilateral partnerships, offer new opportunities for SMEs to join the global economy.

BARRIERS TO TRADE

Despite these opportunities, SMEs still only account for a small proportion of regional exports – between 10% and 30%. They face barriers such as needing to comply with diverse standards, technical regulations, conformity assessment procedures, burdensome customs, and costly tariffs or restrictions. These make it difficult and costly for SMEs to profitably export.

These barriers are potentially prohibitive for SMEs since many of the costs to engaging in international markets are fixed, and often sunk, regardless of a firm’s size or revenue.

SMEs must also constantly adapt to a changing digital trade landscape, and deal with inconsistent and preventive digital trade regulations internationally. As governments consider regulation for digital trade and e-commerce, they should consider how such regulation could support or impede the ability of SMEs to operate in the international market.

OPEN TRADING ARRANGEMENTS CAN HELP

Trade agreements can make trade easier across some of the world’s largest markets. Regional trade deals such as the new Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) contain important liberalizing measures to facilitate digital trade across some of the world’s largest markets, and set the pace for future digital trade regulations around the region. A key measure of the CPTPP cuts tariffs on 90% of all tariff lines on the very first day.

Open trade and investment, trade facilitation, as well as consistent standards and regulations are key to SMEs engaging in global markets. These can strengthen SME contributions to economic development by creating opportunities to scale up, accelerate innovation, enhance productivity and increase their capacity to customize and differentiate products across different markets.
Common Challenges Faced By SMEs

In a pre-Summit survey, and during discussions between businesses and policymakers at the Summit, SMEs articulated a common set of challenges about customs procedures and paperwork, e-payment challenges and inconsistent requirements on standards, testing and labelling among different countries.

We grouped these concerns under three development stages:

- Building a business;
- Expanding presence; and
- Thriving in the long term

In the **Build Phase**, our survey data and discussions reveal that regional businesses are dealing with many basic issues closely linked to the ‘Building Phase’ of a business. These challenges could prevent businesses from getting started or threaten their survival. Typical issues during this phase are related to infrastructure, connectivity, resources, e-payment, customs paperwork and domestic regulations.

In the **Expand Phase**, businesses often face challenges that inhibit their growth, either to grow bigger or to penetrate new markets. The challenges in the Expanding Phase are more complicated than those in the Build Phase. Most issues that regional businesses are facing in this phase include inconsistent requirements and standards across different countries, complicated customs paperwork and procedures, barriers to new markets, limited online payment options for overseas customers, restricted data movement and data localization rules. A key issue highlighted by regional businesses is insufficient information and knowledge of new markets. Overall, the general consensus was that finding accurate and concise information about the Asia Pacific region or ASEAN markets is particularly challenging. The lack of good information on and knowledge about new markets will most likely prevent firms from expanding internationally.

In the **Thrive Phase**, SMEs deal with the most advanced and sophisticated issues among the three phases. Common issues in this phase relate to intellectual property and data. Solving these issues will enable them to expand to their fullest potential. However, being occupied with more basic yet pressing issues on a daily basis, most businesses do not seem to pay enough attention to other issues that could cause more harm for them in the longer term.

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Challenges Faced By SMEs By Sector

The challenges faced by a goods or product versus a service business vary slightly. Service businesses are most concerned about internet connectivity, quality and infrastructure, and e-payment delays.

There was no significant weight given to one specific issue over another. There are two possible reasons for this. First, the wide range of service sectors mean the kinds of issues service providers face are diverse. Second, the issues faced by a service provider can vary significantly depending on different markets, the business’ development stage, the business model and the procedures involved in the services they deliver.

Goods companies are primarily concerned about insufficient knowledge and information to access new markets in ASEAN. This is followed by inconsistent requirements on labelling among different countries, as well as the lack of guidance and training on using free trade agreements for goods and high customs duties for trade. They are also concerned about complicated and inconsistent requirements on customs procedures and paperwork as well as market access barriers.

It is perhaps relevant to note that goods companies do not immediately recognize they have a certain degree (and in some cases) a high degree of services associated to what they do.

Detailed Findings From Pre-Summit Survey For All Sectors

Respondents listed their top concerns when doing business:

- Costs of doing business and growing business overseas
- Complicated, inconsistent and sometimes not business-friendly policies, regulations and laws
- Finding potential customers, understanding and managing existing customers
- Challenges in keeping up with new technologies and understanding the impacts or applications of new technologies
- Funding opportunities and challenges
- Challenges with manpower and talents
- Knowledge and understanding of intellectual property rights
- Sales and competition
- Raising awareness of the business’ brand, services and products
- Access to new markets and understanding of new markets
- Payments, e-payment and online payment
- Free flow of data across borders
- Trade and customs
- De minimis thresholds
- Effective use of free trade agreements and sufficient information on free trade agreements
- Cross-border collaboration opportunities
- Data privacy laws
- Embracing e-commerce

10 The ICC Customs Guideline #11 defines “de minimis” as a valuation ceiling for goods, including documents and trade samples, below which no duty or tax is charged and clearance procedures, including data requirements, are minimal.
### Detailed Findings From Summit Responses

#### BY SERVICES PARTICIPANTS

<table>
<thead>
<tr>
<th>Policy Issues</th>
<th>Average Point*</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient knowledge in accessing new markets in ASEAN</td>
<td>2.4</td>
<td></td>
</tr>
<tr>
<td>Internet connectivity quality, internet infrastructure</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Delays in e-payments from customers</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Challenges in receiving online payments, especially from overseas customers</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Lack of guidance and training on using free trade agreements for services</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Requirements to have data storage facilities in a certain country</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Restrictions on transferring data (of any kind) from one country to another</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Obstacles to conduct e-commerce activities in new markets</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Copyright, patent and trademark issues</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Rules that require firms to have a physical office in a country to be able to do business</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Domestic policies that prevent foreign firms from entering the market</td>
<td>2.8</td>
<td></td>
</tr>
</tbody>
</table>

#### BY GOODS PARTICIPANTS

<table>
<thead>
<tr>
<th>Policy Issues</th>
<th>Average Point*</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient knowledge in accessing new markets in ASEAN</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Inconsistent requirements on labelling among different countries</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Lack of guidance and training on using free trade agreements for goods</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>High customs duties for exports and imports</td>
<td>2.0</td>
<td></td>
</tr>
<tr>
<td>Complicated, inconsistent customs procedures and paperwork</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Domestic policies that prevent foreign firms from entering the market</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Inconsistent requirements on testing among different countries</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Inconsistent requirements on standards among different countries</td>
<td>2.6</td>
<td></td>
</tr>
<tr>
<td>Rules that require firms to have a representative office in a country to be able to do business</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Obstacles to setting up business in new markets</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Copyright, patent, trademark issues</td>
<td>3.0</td>
<td></td>
</tr>
</tbody>
</table>

*The lower the point, the more important the issue is for the respondents*
Opportunities To Support SMEs

SMEs have different suggestions on how governments can improve the current situation, and they place more focus on issues arising in the Build and Expand phases. The top three policy issues that a third of respondents would like to see policymakers address include:

- Complicated customs procedures and paperwork;
- Challenges in receiving online payments, especially from overseas customers; and
- Rules that require firms to have a physical office in a country to be able to do business.

A quarter of respondents called for policymakers to address the following issues:

- Inconsistent requirements on standards, testing and labelling among different countries;
- New types of taxes for e-commerce;
- Internet connectivity quality, internet infrastructure;
- Domestic policies that prevent foreign firms from entering the market; and
- Restrictions on transferring data (of any kind) from one country to another.

Many firms also expect to see changes in important barriers to trade such as local presence requirements, new types of e-commerce taxes and non-tariff barriers to market access.
## Detailed Findings From Pre-Summit Survey For All Sectors

Respondents were asked to answer the question:

*Identify the top 3 issues where changes would make the most impact on your business*

<table>
<thead>
<tr>
<th>No</th>
<th>Issues</th>
<th>Count</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Complicated customs procedures and paperwork</td>
<td>130</td>
<td>34.2%</td>
</tr>
<tr>
<td>2</td>
<td>Challenges in receiving online payments, especially from overseas customers</td>
<td>124</td>
<td>32.6%</td>
</tr>
<tr>
<td>3</td>
<td>Rules that require firms to have a physical office in a country to be able to do business</td>
<td>124</td>
<td>32.6%</td>
</tr>
<tr>
<td>4</td>
<td>Inconsistent requirements on standards, testing and labelling among different countries</td>
<td>110</td>
<td>28.9%</td>
</tr>
<tr>
<td>5</td>
<td>New types of taxes for e-commerce</td>
<td>108</td>
<td>28.4%</td>
</tr>
<tr>
<td>6</td>
<td>Internet connectivity quality, internet infrastructure</td>
<td>101</td>
<td>26.6%</td>
</tr>
<tr>
<td>7</td>
<td>Domestic policies that prevent foreign firms from entering the market</td>
<td>101</td>
<td>26.6%</td>
</tr>
<tr>
<td>8</td>
<td>Restrictions on transferring data (of any kind) from one country to another</td>
<td>97</td>
<td>25.5%</td>
</tr>
<tr>
<td>9</td>
<td>Copyright, patent and trademark issues</td>
<td>75</td>
<td>19.7%</td>
</tr>
<tr>
<td>10</td>
<td>High customs duties for exports and imports</td>
<td>74</td>
<td>19.5%</td>
</tr>
<tr>
<td>11</td>
<td>Requirements by policy makers to have data storage facilities in a certain country</td>
<td>69</td>
<td>18.2%</td>
</tr>
<tr>
<td>12</td>
<td>Others</td>
<td>19</td>
<td>5.0%</td>
</tr>
</tbody>
</table>
Detailed Findings From Responses

BY SERVICES PARTICIPANTS
When asked what kinds of support businesses need from governments, service participants gave the following suggestions:

- Data and information of all ASEAN countries, especially requirements and guidelines that are related to doing business in one country, should be available online, ideally consolidated on the same platform. Businesses, especially SMEs, should be able to easily access the information online and use that information for their business.
- No restriction of data movement.
- Governments should work together to come up with a solution for data center requirements that will not harm firms doing business across borders.
- More opportunities and platforms for businesses, especially SMEs, to connect with overseas businesses who could then become their business partners, customers or suppliers.
- Capacity and training for businesses, especially SMEs.
- Dialogues and platforms for businesses to exchange information on market insights, rules and regulations in overseas markets.
- Regional copyrights, trademarks and patents.
- Common use of social media tools across countries in the region.
- More cashless payment and online payment options should be available.
- Simple paperwork and procedure to certify the origin of goods or services.
- More support and grant opportunities from governments.
- No tax for e-commerce or digital trade.
- Do not remove or lower de minimis thresholds.

BY GOODS PARTICIPANTS
When asked what kinds of support businesses need from governments, goods participants gave the following suggestions:

- Easier and more convenient payment options for firms.
- More support for local brands to go global.
- Integration and standardization of process and documentation requirements.
- No data localization requirements.
- Ensure free movement of data across borders.
- More investment in better internet connectivity and infrastructure.
- No requirements of local presence in return for market access.
- Simplify requirements related to privacy or data protection.
Conclusion

The data collected from the pre-Summit survey and directly from participants at the SME Summit provided valuable data around the challenges and issues faced by SMEs across the region, primarily ASEAN.

The responses were fairly consistent and fundamental challenges still prevail, including:

- Insufficient and inaccessible information on new markets, regulations and rules;
- Internet connectivity quality and infrastructure;
- E-payment challenges;
- Inconsistent requirements on labelling, testing and standards among different countries;
- Complicated customs procedures and paperwork;
- Local presence requirement; and
- Non-tariff barriers to trade.

SMEs are also paying more attention to new policies and policy trends that could affect their business. We hope this means that, in part, the AMTC and the Asian Trade Centre has been successful in creating awareness in this important area.

These policy trends include:

- More trade agreements are being negotiated and signed, although there is insufficient guidance and training on how to benefit from these trade agreements;
- New types of taxes for e-commerce that can negatively affect businesses, especially SMEs, and
- Restrictive requirements on data movement and data localization.
SMEs called for domestic and regional policies to provide more balanced opportunities in the international and digital trade realms. They suggested the following policy recommendations:

- **Sufficient and accessible information:**
  Governments should collaborate with other stakeholders to build a database or portal where all the information on regulations, rules, guidelines and market insights are accessible in English to businesses. This portal should be updated regularly and allow businesses to request for information or provide feedback.

- ** Improve internet connectivity quality and infrastructure:**
  The wide gaps of internet connectivity quality and internet infrastructure quality among Asia Pacific countries remain a challenge for cross-border collaboration and cross-border trade.

- **Resolve e-payment barriers:**
  Governments should not restrict e-payment options that firms should be able to use, especially internationally-recognized payment options. E-payment companies should be enabled and encouraged to provide better, more affordable e-commerce payment options for SMEs.

- **Resolve inconsistency around requirements on labelling, testing and standards:**
  Governments should agree on similar or ideally common requirements on labelling, testing and standards for firms who trade across borders. This process might take long but a set of principles or a framework to resolve inconsistency around requirements for imports and exports will be a good start.

- **Simplify and improve customs procedures and paperwork:**
  Governments should work together and engage stakeholders to simplify customs procedures and paperwork. This can be done through automation, digitization and digitalization of customs procedures and paperwork. Other aspects of customs such as transparency, efficiency and effectiveness should also be improved.

- **Local presence requirements:**
  Businesses should be allowed to provide services and supply goods to customers in another country without having to be present in that country. Governments should remove barriers for firms to access new markets. Barriers such as local presence requirements present huge barriers for SMEs, particularly in the Expand phase.

- **Resolve non-tariff barriers to trade:**
  Non-tariff barriers (NTBs) exist in Asia Pacific countries in various forms and have increased significantly in number over the past decade. The cost of NTBs to businesses can be extremely damaging and can easily prevent firms from expanding their business overseas. Governments should seek to understand the impact of NTBs on businesses and how to address the impediments posed by NTBs.

- **More capacity building on trade knowledge and application:**
  Governments should provide more training, workshops, guidelines and directions for firms to acquire better understanding of international trade rules, so that they can better take advantage of international trade opportunities.

- **Remove e-commerce and digital trade taxes:**
  E-commerce and digital trade taxes can hamper e-commerce growth, digital trade and impede global expansion opportunities. Governments should refrain from imposing e-commerce and digital trade taxes.

- **Increasing de minimis threshold:**
  Removing or lowering the de minimis thresholds will negatively affect small firms who are trading goods across borders by increasing time and monetary costs when dealing with customs procedures. Governments should keep their de-minimis thresholds and consider raising them.

- **Remove restrictive requirements on data movement and data localization:**
  Free movement of data is a basic element of cross-border business transactions. Restricting data flows will lead to higher costs of doing business for enterprises that are involved in cross-border trade. Governments should allow the free flow of data across borders.

- **Training on Intellectual Property Rights (IPR):**
  Governments should provide more training to help firms, especially SMEs, better understand how IPR can affect their business and what they can do to better use copyrights, patents or trademarks.

Taking these suggestions into consideration, the Asia Business Trade Association will continue to work with businesses, governments and stakeholders to help improve and expand the opportunities available to SMEs in the region and beyond.
Appendix

The Asia Business Trade Association and its SME working council, the Asia Pacific MSME Trade Coalition (AMTC), would like to thank the following organizations for their support of the SME Summit:

- Platinum sponsor – Facebook
- Silver sponsors – Verra Asia, DVUCA and Thomson Reuters

Other supporting organizations and partners:
- Singapore Business Federation
- Funding Societies
- The Singapore Centre for Social Enterprise (raiSE)
- Vietnam Chamber of Commerce and Industry (VCCI)
- Shopmatic
- Pacific Basin Economic Council (PBEC)
- Agoda
- ICC Academy
- Logistics Executive
- Shipa Freight (Agility Logistics)
- Resorts World Sentosa
- International Trademark Association (INTA)

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