Executive Summary: Driving Economic Growth Through Cross-Border E-Commerce in APEC: Empowering MSMEs and Eliminating Barriers

The wave of e-commerce is here. Traditional impediments to doing business are being shattered, incumbent industries are losing dominance, and governments are struggling to adapt to new forms of trade. For those that do not, it will be a tsunami of creative destruction. The change e-commerce brings will be severe. In this new interconnected global environment, there will be winners and losers at both the economy and business level. For MSMEs, the era of cross-border e-commerce provides both opportunities and risks. In this newly connected world, businesses both large and small face a clear choice: be part of the wave of change, or risk falling behind. Adoption can mean access to millions of new customers. Failure means extinction and irrelevance. The choice is yours: economies can either ride the wave of e-commerce prosperity or risk being left behind.

The APEC Business Advisory Council requested the University of Southern California to interview APEC business leaders and to capture their views and experiences on the challenges and opportunities of cross-border e-commerce for MSMEs in APEC economies. Our study concludes that the potential gains are well worth the focused attention of APEC policy makers. APEC MSMEs want more policy leadership within and across economies. From the more than 500 intensive interviews across the APEC business community, we learned that MSMEs face an environment that is unnecessarily complex, biased in favor of larger firms, and lacks a coherent cross-border e-commerce trade framework.

Our research included:
• Developing a comprehensive cross-border e-commerce framework to assess the enablers and impediments affecting MSMEs engaging in cross-border e-commerce.
• Interviewing 506 APEC business executives, industry association leaders, consultants, and government officials, along with 244 survey respondents, across the APEC economies.
• Preparing selective case studies on successful game-changing MSMEs to serve as examples for other economies and MSMEs.
• Isolating barriers that are most problematic to MSMEs attempting to conduct cross-border e-commerce.
• Capturing recommendations designed to improve cross-border e-commerce opportunities for MSMEs.

Overall Findings:
• Cross-border e-services offer both the greatest growth potential and the easiest entry into the global value chain for MSMEs. However, much more effort is needed to develop MSME capacity in cross-border e-services.
• MSME’s capacity and reach must be improved. The single most critical limiting factor we observed was the lack of readiness and capability of MSMEs to engage in e-commerce. Problems of awareness, technical ability, access to talent, and financing all limit the potential of MSMEs.
• Getting e-payments rights is crucial. E-payment solutions must expand beyond traditional banking solutions. Governments must allow for new, innovative e-payments solutions and avoid the vested interests of incumbents.
• E-commerce marketplaces are critical enablers for MSMEs, but they are not benign players. Marketplaces and platforms must be encouraged and supported, but care must be exercised to avoid allowing too much market control.
• Complexity and cost of customs and trade rules destroy MSME opportunities. If major improvements “at the border” are not made – online processes, simplified procedures, and special customs clearance accommodations for MSMEs – MSME participation in global trade will remain limited.
• A harmonized coherent cross-border e-commerce regulatory framework is critical. The lack of comprehensiveness and compatibility of e-commerce laws and regulations across economies remains a major impediment.
• **Lack of awareness on the potential of cross-border e-commerce.** There is a disturbing lack of awareness among most APEC governments, and among most MSMEs, of the potential opportunities in cross-border e-commerce, and of the developments and innovations in cross-border e-commerce in other economies.

• **The multi-ministerial “oversight” challenge is, perhaps, the single most critical impediment to meaningful policy leadership in e-commerce.** A core problem across all APEC economies was that governments have overlapping ownership or lack of ownership for e-commerce.

• **M-commerce is the future.** Policy makers must not get in the way. E-commerce is rapidly evolving into m-commerce with new challenges and opportunities.

• **Governments are trying to lead; MSMEs are seeking assistance.** Across APEC economies, we found governments are trying to lead and create programs for MSMEs. However, there is a real disconnect between the public and private sectors.

• **Cross-border e-commerce flourishes best in strong domestic e-commerce environments.** Developing strong domestic supporting institutions and players is critical to creating globally competitive cross-border e-commerce firms. In turn, globally competitive cross-border e-commerce firms enhance the competitiveness of domestic e-commerce.

**Recommendations**

MSMEs are impatient. They want action. They want improvements. For them they feel they have been neglected for too long. It has been fifteen years since the 2000 APEC Small and Medium Enterprises Ministerial Meeting and progress since has been limited. Developing a truly integrated global e-commerce marketplace will take time, requiring lots of collective effort. Whether progress is smooth, awkward, or an utter failure depends critically on the policies put in place now by individual economies, the international community, and businesses.

**Recommendations for APEC:**

- Establish an APEC-wide action plan focused on creating a forward-looking e-commerce policy framework.
- Make e-commerce and m-commerce an APEC priority.
- Accelerate efforts to secure agreement on an APEC-wide framework for digital economy planning and agenda setting. Economy by economy approaches must be avoided at all cost.
- Increase discussions and efforts on harmonizing region-wide regulations especially on e-payments, e-signatures, customer protection, VAT, and limited liability protection.
- Expand and accelerate initiatives to simplify and expedite customs requirements specifically for MSMEs engaged in cross-border e-commerce, such as authorized economic operator programs. Moving to completely online processes is critical.
- Include cross-border e-commerce in the trade in services agenda.

**Recommendations for APEC Economies:**

- Tackle the multi-ministerial oversight challenge. Make e-commerce and cross-border e-commerce a national policy priority and a priority in the education agenda.
- Increase touch points with MSMEs to improve awareness of global opportunities, government sponsored programs, and MSME pain points. Expand capacity building programs for MSMEs.
- Get ahead of m-commerce. Work with leading firms to create policy frameworks to support and guide the development of m-commerce.
- Build MSME capacity and capability in MSMEs, in particular in services.
- Expand education and capacity building programs, such as the APEC-sponsored CBET.
- Engage in more public and private dialogues and partnerships on cross-border e-commerce, and find ways to get MSMEs involved.
- Governments should lead their economies to the digital economy by transitioning themselves to e-government.
- Foster and support e-commerce incubators, especially for the college educated unemployed youth.

**Recommendations for Business and Business Associations:**

- Engage in cross-industry and cross-economy dialogues on establishing mutually agreed upon standards and frameworks for cross-border e-commerce.
- Encourage large e-commerce players to provide mentoring and training to MSMEs within their ecosystems.
- Create collaborative communities to foster entrepreneurship and share best practices.
- Engage universities and technical schools in developing education and training programs in e-commerce.
Cross-Border E-Commerce Enablers and Impediments Framework

- Cross-Border Transaction Facilitators:
  - Payments
  - Logistics
  - Platforms and Marketplaces

- Cross-Border Trade Environment:
  - Foreign Market Access
  - Customs and Border Administration

E-Commerce Operating Environment:
- Smartphone and Internet Connectivity and Penetration
- Sophistication of Domestic E-Commerce
- Financing and Support for E-Commerce

E-Commerce Regulatory Environment:
- E-Commerce Regulations
- Enforcement and Protection
# Relative Readiness of APEC Economies

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<th>Customer Willingness</th>
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