
BUENOS AIRES SESSION OF THE PARLIAMENTARY CONFERENCE ON THE WTO

Buenos Aires (Argentina), 9-10 December 2017

*Organized jointly by the Inter-Parliamentary Union and the European Parliament
with the support of the National Congress of Argentina
in connection with the 11th WTO Ministerial Conference (MC11)*

PC-WTO/2017/R.1
30 November 2017

E-COMMERCE AND THE INTERNATIONALIZATION OF SMES

Discussion paper presented by Ms. E. McClarkin (European Parliament)

Digital trade has grown exponentially in the past 20 years. It is estimated that e-commerce in goods and services represents already 12% of international trade, continuing to grow at a fast pace.

The rapid expansion of the internet and use of mobile devices, along with better payment options, and faster shipping and distribution have transformed commerce. These developments have created unparalleled opportunities for cross-border trade, for both consumers and businesses of all sizes.

The idea that international markets are only one click away has the potential to empower entrepreneurs and small businesses, by plugging them into global supply chains, with reduced costs and shortened distances.

It is worth highlighting the important role of a business model focused more and more on a business-to-consumer (B2C) approach, worth over \$2 trillion in 2016. B2C uses online platforms for better identification of customers, personalised offers, and faster communications.

These new trade models can be a key driver of business internationalisation, and economic growth. This applies in particular to small and medium-sized enterprises (SMEs), who are important players in the economy, contributing not only to value creation but also to deliver a more inclusive globalisation. In developed countries, SMEs account for approximately 70% of the jobs and generate between 50% and 60% of value added on average, whereas in emerging economies, SMEs contribute up to 45% of total employment and 33% of GDP. In least developed countries (LDCs), these companies can be a major contributor for integration, inclusiveness, and development.

The digital trade opportunities are many, but so are the challenges. Businesses operating in the digital space can face obstacles of all kinds: organisational; technological; or even legal. Nevertheless, the lack of a wide-ranging policy framework also causes great constraint to internet-led trade for SMEs.

So how can the trade rules, systems, and practises designed before the development of the internet adapt to the new ways of doing business and consumer behaviour?

I. Increase connectivity and capacity-building for E-Commerce

For the internet to become a platform for international trade, access to it is required. Although internet access is growing globally, there are still many rural areas and developing economies that remain disconnected, due to lack of access to reliable power supplies, high transaction costs, and poor infrastructure.

Therefore, private and public investment is required, accompanied by appropriate regulations that address these shortages, such as:

- Interconnection rules that prevent overcharging;
- Rules that foster competitiveness and access of new players to the market;
- Access to mobile devices and broadband;

Connectivity also means physical infrastructure and the efficiency of operational procedures. Modern roads, ports, and airports are crucial for businesses to enter foreign markets and participate in Global Value Chains. Information and Communication Technology (ICT) must supplement the development of these structures with interoperable systems and standards for better communication and exchanges through digital platforms.

II. Create a policy framework that facilitates digital trade

The transfer of data across borders is central to e-commerce. Consequently, restrictions in the free flow of data can halt international trade, discourage innovation, and limit consumers' access to a variety of products and services. Some restrictions have legitimate reasons, others are purely protectionist, intended to provide domestic companies with a competitive advantage.

If we want to support the growth of the digital economy, and our businesses' access to international markets, a set of rules that prohibit unjustified and discriminatory online policies must be in place. These are:

- Elimination of forced data localisation requirements;
- Limitations to internet content;
- Mandatory source code disclosure and censorship of foreign websites;

All these constraints increase the costs for SMEs of moving data globally, reducing the opportunities of the internet-enabled trade.

A number of other issues related to intellectual property rights (IPR), consumer protection, and data privacy require a balanced approach, giving the right level of trust to both sellers and consumers to provide the types of data for e-commerce to grow. This will also ensure right holders that their IP will be protected.

While these issues affect all businesses, they are particularly challenging for SMEs who might lack the capability and resources to identify infringements, and follow up legally.

III. Promote and accelerate SME participation in the global economy

Data shows that SMEs who trade via e-commerce are 5 times more likely to export; therefore, advancing the digital agenda in the policy space without addressing the problems SMEs face in the digital environment could marginalise them further.

When companies sell goods and services online they still face traditional hurdles to cross-border trade such as market access barriers and high compliance costs. Widening regulatory convergence and cooperation, and simplifying customs procedures, also on low-value goods, would significantly change small businesses' perception on e-commerce, and help them access foreign markets. Streamlined measures and reduced duties for returned items, many times facing double taxation and cumbersome paperwork through customs, could be a good way to start.

Additionally, shortage of skills and burdensome procedures for online registration, electronic billing, payment facilities, track and trace, and customer support can be a burden for SMEs, and limit SME productivity and innovation. SME e-readiness to export is therefore contingent on adequate equipment and appropriate training on how to access digital platforms, but also on how to deal with different taxation systems, regulations, and corporate governance structures.

This can be done through export promotion schemes by the national export promotion agencies, or in cooperation with the private sector, who would have the necessary tools and expertise to provide these skills.

IV. Access to international online payment tools

Buying and selling online requires international payment options, either via credit card or through intermediary payment systems. This can be particularly challenging for SMEs, especially in the developing world, where the low use of credit cards and consumers' preference for cash-on-delivery payments prevents businesses from trading online.

Secure and reliable digital payment mechanisms are crucial to build the trust in using the internet for international trade. However, other measures can encourage consumers to use the internet for international trade, such as:

- Greater clarity on regulatory approaches that address legitimate concerns and security threats;
- Removal of currency caps and government instructed ceilings limiting the value of cross-border purchases;
- End of restrictions on foreign companies facilitating currency transactions;
- Easier identification of the end-customer through internet service providers;

V. Access to trade finance and credit facilities for online sellers

For many SMEs, access to finance is hindered by a range of obstacles. This is an area where policy intervention to address these failures is well recognised. Credit constraints are especially severe in medium and low-income countries, where lack of funding is regularly a barrier to SME establishment and development.

For example, in Africa, over 60% of SMEs point out lack of access to finance as detrimental to their engagement in cross-border e-commerce. More than 50% of SME credit applications are turned down, whilst less than 25% of large companies' applications are rejected.

Credit conditions for SMEs must be facilitated, from both the private sector financial institutions and governments' export finance agencies.

In the last 10 years, the spread in the average interest rates charged to SMEs and to large firms has broadened. This means a more balanced approach is required, that offers special conditions for SMEs along their lifecycle, including guidance and resource to diversified financing sources. Building on the G20-OECD High-level Principles on SME Financing with concrete action is imperative.

VI. Expansion of trade in services

The internet has also played an important role in the growth of trade in services. Educational, financial, professional, and legal services, to name just a few, are now delivered online. The speed with which they reach websites and social media, targeting new markets and niche consumers, creates the space and conditions for entrepreneurs to run almost everything from an e-commerce setting.

Cutting barriers to trade in services is part of the WTO agenda but progress remains slow; therefore increasing market access commitments in services should be pursued at plurilateral and bilateral levels, without detriment of the multilateral policy objectives.

The expansion of the Information Technology Agreement (ITA), the Trade in Services Agreement (TiSA), and the WTO E-Commerce Work Programme should remain priorities and used as a forum to address digital trade issues.

VII. Multi-stakeholder approach

The topic of digitalisation is wide-ranging, but having different international bodies dealing with it could incur the risk of fragmentation of the digital trade policy agenda. This is why a holistic approach and cooperation at multilateral and regional levels can help advance regulations on matters of the digital agenda.

Current and upcoming digital trade policies could also be enhanced by complementary work done by the private sector and even NGOs on cross-cutting dimensions of e-commerce, working towards assisting SMEs in seizing the opportunities of the internet. There is already positive work being done at international level, but more could be pursued targeting specific communities and geographical areas for the implementation of capacity-building plans.

Another area where multi-stakeholder can add value, especially the private sector, is dispute settlement for digital trade. Businesses should be encouraged to set up voluntary, well-timed, and operational instruments for handling complaints and settling cross-border disputes. The public-private cooperation in this space could facilitate the take up of SMEs for international e-commerce and provide the right sense of security to buyers in the digital environment.

VIII. E-Commerce for inclusive trade

Inclusive trade means making sure that countries across the globe can make use of the benefits that globalisation brings through the extension of trade, at multilateral, plurilateral and bilateral levels. Integrated markets produce greater opportunities for growth and a greater number of jobs, which can lift people out of poverty.

E-commerce allows an open environment and broader access to the economy if the right policies are in place. SMEs have a key role to play in this, since they are often locally rooted, and frequently represent an important source of knowledge, business opportunities, jobs, and income in their local communities. This leads to more inclusiveness, and a fairer distribution of the profits of globalisation.

People who see themselves excluded from the labour market can find in digital platforms a new way to access global markets as it was not possible before. Exploring this potential is about encouraging individual entrepreneurs and SMEs to do business globally.

Digital trade has also the ability to empower women and be a significant tool in the path to gender equality. E-commerce can be a platform for female entrepreneurs to market their products and services in equal terms as men, levelling the level-playing field for women-owned businesses. This enables women to conciliate their professional and private lives, and helps them work and build companies in cultures where they do not play an active role in society, and lack the professional networks and resources only available to men.

In Conclusion

The digital revolution is consuming every aspect of our lives: from how we order and consume food to how doctors and nurses treat us. The many challenges we face are exceeded by the enormous potential of the digital economy, but in order to achieve it, our focus should be on how digital and digitally supported services operate across borders, and how this drives cross-border trade and economic growth.

We must enable connectivity, share best practice in the role out of broadband and mobile technology. Encourage private and public investments in technology and reduce barriers to online trade.

The size of our small businesses cannot be underestimated in this process, and we should look instead at the real output they bring in terms of economic gains and social change. SMEs producing niche products can find customers for their goods and services through online marketplaces. Granting them the conditions to growth and penetrate foreign markets via e-commerce is a winning solution and a development facilitator.