

Building Bridges to New e-Commerce Markets

A blueprint for small and medium-sized enterprises



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About the paper

Advanced economies have developed highly competitive and innovative e-commerce services, making it simple for small enterprises to set up online stores, transport their goods and receive payments. Although entrepreneurs in developing countries can sell online by accessing these services, most are blocked from doing so because of their origin.

This paper shows these enterprises how to set up international business structures so they can use such services. They would also gain more control over their distribution arrangements, better account and pay for duties and taxes, achieve higher margins and operate as if local in the target market.

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Foreword

E-commerce is big business. More than 1.3 billion people now buy goods and services online, and enterprises are increasingly sourcing through digital means – an opportunity representing \$25 trillion in annual sales.

Most of these sales happen in domestic markets, where large e-commerce sites such as Amazon, Flipkart, Rakuten, and Taobao hold significant shares. Getting onto these marketplaces is not always easy for foreign enterprises, however, because they cannot satisfy the commercial rules or compliance obligations.

Multinationals have long recognized the benefits of having branches in foreign markets, wherever possible adopting legal structures that allow them to trade as local operators. A subsidiary, once incorporated locally, can operate in a customs union with full market access and many of the advantages of local enterprises. It can pay import duties and taxes, and include these costs in local operations. A subsidiary can also enter into business contracts in the same manner as its local counterparts and benefit from deals that are often only available to other local enterprises.

In the age of e-commerce, many small enterprises see going international as a priority. Having local representation is important to making this happen. Before the digital age, these advantages could only be found by hiring international lawyers and setting up expensive structures to manage the international business. The growth of digital services mean many business registration requirements can be met online, independently or through service providers, greatly simplifying the process and lowering its costs.

This can be a route for small enterprises from developing countries to enter new markets. But it may mean more than gaining access to site listings and payment solutions – it can also open up the potential to work with other service vendors such as marketing agencies, logistics enterprises and tax advisers.

The International Trade Centre (ITC) helps micro, small and medium-sized enterprises in developing countries access global e-commerce through training and coaching that shows them how to tackle the barriers that prevent them from trading online. ITC's ecomConnect work helps these enterprises build their capability to select and prepare products, manage inventory, enter online marketplaces and organize promotional activities. Small enterprises increasingly understand the potential of e-commerce, and many remain frustrated by restrictions that block them from participating.

The cost of setting up a foreign structure may be too heavy for a small enterprise. As a rule of thumb, export sales should exceed €100,000 to justify creating such a structure. A better alternative initially may be to explore and develop an international presence through partners.

Another option is to collaborate with other businesses. In a 2019 report, ITC examined how clusters of enterprises could work together to share promotional activities and other resources. Combining these collectively managed entities with an export structure opens market entry. An added benefit of this route is that the costs to set up and manage an international business structure would be shared.

This framework and its lessons are set to be the basis of future work with small enterprises in developing countries. Together with local partners, ITC will train and advise when and how to set up representative structures and, in doing so, facilitate access to new services in foreign markets.



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