

Executive Summary

Business Ecosystems for the Digital Age



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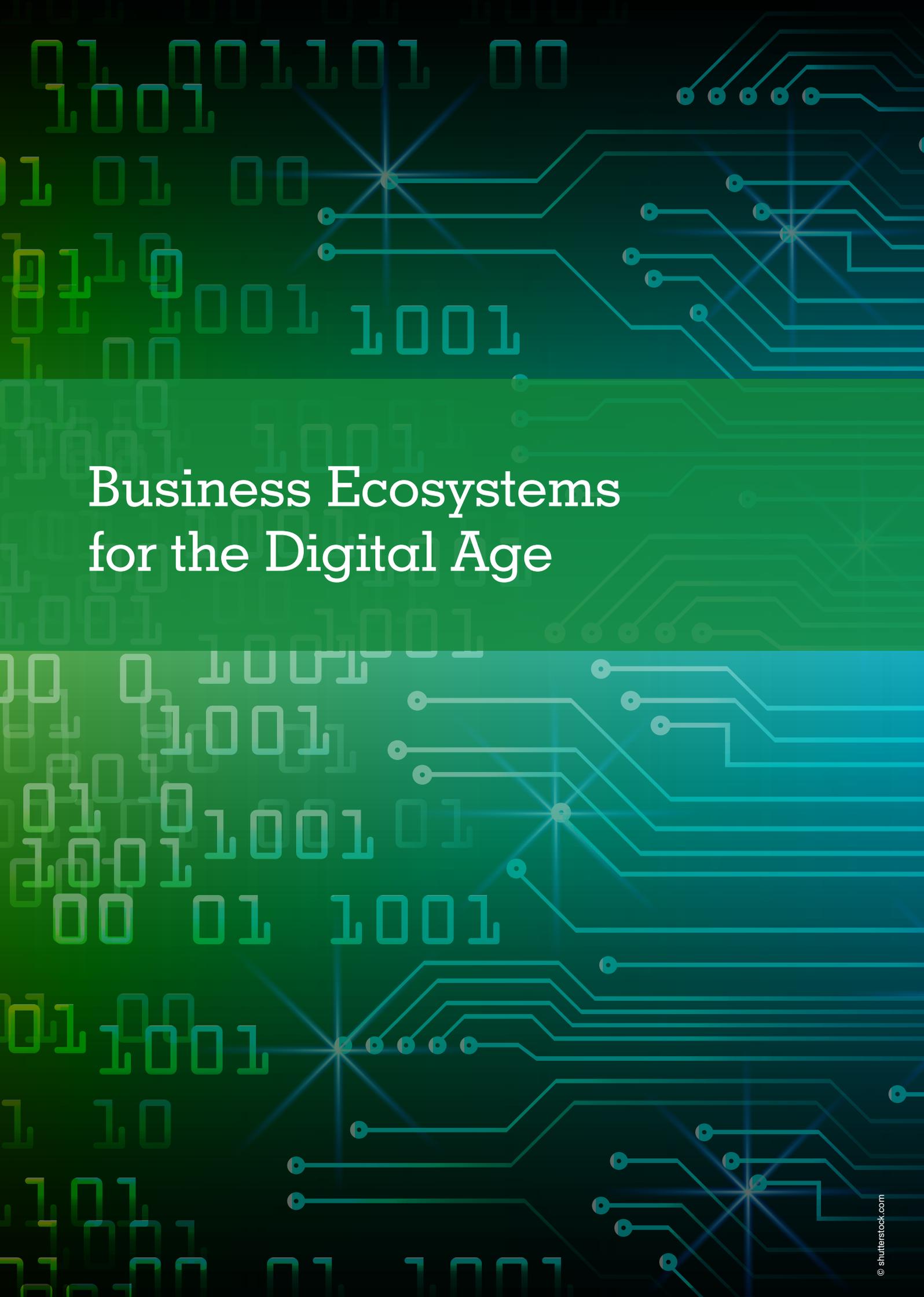
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Contents

Foreword.....	1
Executive Summary.....	3
1. The business ecosystem in transition.....	4
2. The digital platform revolution.....	6
3. Foundations for SME success in a 4.0 world.....	10
4. Shortening infrastructure's last mile.....	13
5. Embracing change for business ecosystem 4.0.....	15
Featured in 2018 SME Competitiveness Outlook.....	20
Country profiles.....	20
Thought leaders.....	21
Case studies.....	21

Foreword



Digital technologies are changing the way firms do business. New technologies are connecting buyers and suppliers across more locations and activities, opening opportunities for some but putting others under pressure. Nevertheless, one thing is clear for all firms: those who do not adjust will find it harder to thrive in the digital age.

Policymakers at national and international levels are aware of the challenges ahead. The Group of 20 leading economies organized its first digital ministerial meeting in 2017. United Nations Secretary-General António Guterres established a High-level Panel on Digital Cooperation in July 2018. International organizations such as the International Telecommunications Union (ITU), the UN Conference on Trade and Development (UNCTAD), the World Bank, and the World Trade Organization (WTO) have published or are preparing major publications on the digital economy. And there is increasing focus on the role of women in the digital age reflected by the launch of initiatives such as Equals partnership, which aims to bridge the digital divide for women and girls; and the International Trade Centre's (ITC) own SheTrades initiative, which also helps support women entrepreneurs to climb the digital ladder.

At ITC, we are particularly interested in understanding how these changes affect small and medium-sized enterprises (SMEs), in keeping with our mandate to assist such businesses to become more competitive. This fourth annual edition of the *SME Competitiveness Outlook* finds that to flourish in the digital age, SMEs need a strong ecosystem with institutions providing business support and skills training.

ITC focuses on SMEs because they form the backbone of any economy, representing over 90% of firms and over 70% of employment in most countries. If SMEs remain disconnected from new technologies, the benefits of changes almost certainly will not be shared broadly

across the population. Moreover, the nature of new technologies may lead to the emergence of few dominant players, bringing market distortions that could harm consumers as well as smaller firms. Creating an ecosystem that allows SMEs to absorb technological change is therefore crucial for inclusive growth and fostering competitive markets.

In this report, we put the spotlight on three players in the business ecosystem that are key in ensuring SMEs can adjust successfully to the digital age:

- Trade and investment promotion organizations (TIPOs) and how they can effectively serve 'small' firms in the age of 'big' data;
- Education, skills and training providers and their importance for getting SMEs ready for the digital age;
- Quality infrastructure providers and their role in ensuring trust and interoperability among digital products, and in facilitating privacy and security.

The *SME Competitiveness Outlook 2018* urges these actors to become 'cautious revolutionaries' – to embrace data and technology, be open to new partnerships and innovation, and take measured risks in the face of novelty.

Trade and investment promotion organizations are a core ITC constituency; ensuring that they are equipped for the digital age is a key priority of this report. Successful trade and investment promotion relies on accessing information on target markets tailored to the needs of potential exporters or investors. Such information, traditionally provided by these organizations, is now also available from digital platforms, calling for TIPOs to adapt their services portfolio to new business realities.

Past research by ITC and the University of Geneva has found that increases in the budget of TIPOs raise export

growth. ITC findings presented in this report show that concentrating a higher share of trade promotion budgets on new exporters tends to expand the number of businesses engaged in exporting. More specifically, a 10% increase in the share of trade promotion spending on new exporters (with budgets constant) leads to a 4.6% rise in the number of exporters by destination. This implies that the tailoring of support matters. New technologies and digital platforms have the potential to change the way businesses access tailored market information. They can profoundly transform trade and investment promotion activities, enabling more effective targeting. Yet big data are most easily used to help big players with deep pockets. This report discusses what TIPOs can do to make big data work for small firms.

For SMEs to use digital technologies for internationalization, they must be connected to ICT and transport infrastructure. This continues to prove a challenge, particularly in remote areas. Currently, around 1 billion people in low income countries live more than 2 km from an all-weather road. About half of the world's population – 3.9 billion people, 90% of them in the

developing world – do not use the internet. New technologies are emerging with the potential to reduce infrastructure costs. But old problems such as inadequate hard infrastructure and connectivity issues remain. It is here that public-private partnerships need to find ways to share costs and responsibilities.

As an international organization supporting SMEs, ITC is itself a player in the business ecosystem described in this report. We take the digital challenge seriously, constantly assess our own use of digital solutions, and update our portfolio of services. Technological change will play a central role in the 2018 edition of ITC's World Trade Promotion Organizations Conference (WTPO) that will take place in Paris in October and focuses on 'Trade and Investment Ecosystems: Delivering for Growth'.

In this way, ITC aims to contribute to building the strong business ecosystems that will be key to ensuring that technological change contributes to improved and more equitable well-being, instead of triggering social disruption. Here, ITC also positions itself as a 'cautious revolutionary' to stay abreast of change, ahead of the curve, and deliver innovative solutions for our clients.



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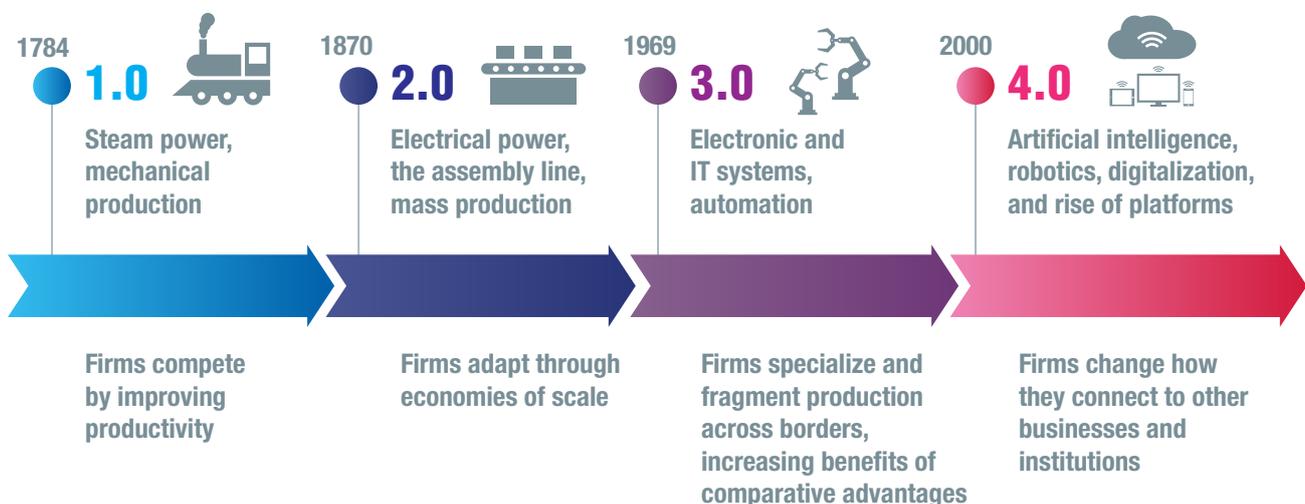
New technologies such as advanced robotics, 3D-printing, big data and the Internet of Things are rapidly changing the way firms do business. The far-reaching nature of the transformation has led many to identify it as a fourth industrial revolution, or 4.0 for short. A strong business ecosystem is necessary to manage this change. This year's *SME Competitiveness Outlook* proposes how to create it.

This report focuses on technological changes related to digitalization and the rise of the platform economy. The digital platform revolution has greatly altered the way firms connect to others, be they buyers, suppliers, peers or supporting institutions at home and abroad. It could be argued that it is entirely reshaping the business environment, or ecosystem, of small and medium-sized enterprises (SMEs) that export or intend to export.

This report suggests how to gain most from these developments and identifies potential pitfalls for SMEs. It highlights the role for traditional actors in the business environment in helping SMEs to adopt new technologies and manage risks. Such players are involved in promoting trade and investment, providing skills and education, and ensuring that products and services meet quality standards. They will have to embrace new technologies, forge fresh partnerships, build trust, and take calculated risks to help SMEs manage the transition.

Most of the potential benefits of changes in the ecosystem will be inaccessible if SMEs are not connected to physical and digital infrastructure. SMEs without internet connections cannot take advantage of services provided through the platform economy. SMEs without access to adequate and affordable transport infrastructure find it impossible or unaffordable to trade.

Four industrial revolutions



Ensuring universal access to high-quality telecommunications and transport infrastructure is a challenge even in some of the wealthiest industrialized economies. It is therefore valid to ask how to create local infrastructure for SMEs in developing countries. This question needs to be answered if technological change is to be beneficial for SMEs, which create employment for many of the world's poorest and most vulnerable households.

Questions addressed in this report

This report addresses a number of central questions:

- What is the nature of the changes that affect or will affect the business ecosystems of SMEs?
- How can big data be tailored to the needs of small enterprises?
- Which skills do SMEs need to cope with technological change?
- What can be done to instil trust in new technologies and to facilitate their use by SMEs?
- How can traditional market failures, such as lack of universal access or information asymmetries, be addressed?

1. The business ecosystem in transition

Emerging technologies are changing the business ecosystem in three key ways: Information, finance and logistics

Over the past two decades, new digital technologies have led to the creation of platforms that can instantly match global buyers and sellers in countless sectors. In addition, automation has opened the door to new ways of interacting with clients, whether in delivering goods and services or providing customer service.

The consequences for SMEs are profound

The digital platform revolution has ushered in a new era of doing business. From firms that own and control their resources to those that manage and orchestrate them, technological change has revolutionized production, connectivity and distribution. A key feature of this revolution is the digital platform – an online intermediary that links producers, consumers and service providers, and takes advantage of its reach and

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