

BRINGING SMES ONTO THE E-COMMERCE HIGHWAY



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BRINGING SMES ONTO THE E-COMMERCE HIGHWAY

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This publication studies e-commerce-related policies that affect SMEs' engagement in cross-border e-commerce. It identifies the bottlenecks and requirements of e-commerce participation and presents examples of best practices in regulating cross-border e-commerce. The paper addresses competitiveness issues in each segment of the cross-border e-commerce process chain, including establishing business online, international e-payment, cross-border delivery and aftersales services. It provides a checklist of the essential ingredients for SME success in cross-border e-commerce, by examining enabling factors at the firm level, immediate business environment level and national policy level. The paper also reviews global cross-border e-commerce and offers a deeper analysis of selected economies. The paper serves as a starting point for a public private dialogue on e-commerce, especially for SMEs in developing countries.

Descriptors: **Electronic Commerce, Cross-border Trade, SMEs, Competitiveness, Public Private Dialogue**

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Foreword

Transformations in the landscape of trade and technology have fundamentally altered the way we purchase and consume goods and services. As the costs of international communication and transportation decrease, and the demand for immediacy increases, suppliers are increasingly turning to e-commerce and e-platforms as the preferred method for reaching clients. Online shoppers are experiencing a revolution in their buying habits, often seeking options in other countries and regions. These changes can offer significant opportunities for businesses in both developed and developing countries to expand their outreach into global markets.

By any measure, e-commerce is big business. For example, by 2018 Africa's e-commerce market is projected to soar to US\$ 50 billion, up from US\$ 8 billion in 2013. E-commerce represents a sea change in the way that trade is conducted, and offers great potential to contribute to the United Nations Global Goals.

For many people, e-commerce is becoming business as usual. Online retail is estimated by the Centre for Retail Research to account for 13% of consumer spending in the United States and around 10% in Europe, and much more in some countries such as the United Kingdom and Germany. And yet, many developing countries are still not taking full advantage of this opportunity. Best estimates put the current share of African enterprises in e-commerce, for instance, at below 2%, a share that could be much higher.

Cross-border e-commerce has opened up a new, more efficient way to connect producers and merchants directly to customers around the world, bridging the gap between demand and supply. It opens new opportunities by providing new markets, products and services but also by reducing the role of intermediaries, which can result in substantial purchasing discounts.

Cross-border e-commerce also provides a unique opportunity for small and medium-sized enterprises (SMEs) in countries and regions that may traditionally have found it difficult to reach regional and international markets – such as landlocked developing countries (LLDCs) – and connect with potential buyers beyond their borders.

This report provides practical guidance on how to ensure that the opportunities posed by e-commerce are accessible to SMEs, especially those in developing countries.

In practice, a number of barriers effectively preclude the involvement of a majority of SMEs. Key among them is the level of shipping costs, which can be especially high for small volumes of traffic from remote SMEs. Another barrier is the availability and cost of international payment solutions: In many least developed countries, for example, firms cannot open such facilities, or must rely on expensive cash transfers that are increasingly shunned by international customers.

Business-to-consumer (B2C) e-commerce opens the possibility for producers to capture higher margins, again by disintermediation in the international distribution of goods. However, this form of trade also requires the use of postal or express delivery services that ship directly to the consumer. Failure to take taxes and duties into account can generate a high proportion of rejected shipments and have a negative impact on an SME's profitability and reputation.

The high-frequency, low-value nature of B2C cross-border e-commerce presents new challenges for regulators, particularly customs authorities, in handling the growing number of items traded across borders. Some countries have piloted innovative trade facilitation and regulatory practices, such as simplified customs duties and clearance procedures for low-value items, which further reduce cross-border e-commerce costs.

This publication examines regulatory issues and key determinants for competitiveness related to cross-border e-commerce from the perspective of a small e-business. Potential bottlenecks are identified and examples of best practices are provided. Each segment of the cross-border e-commerce process chain, including establishing business online, international e-payment, cross-border delivery and aftersales services, is considered in detail.

A checklist of the essential ingredients for the success of cross-border e-commerce is presented, analysing factors affecting competitiveness of e-commerce businesses at the firm level, in the immediate business environment and at the national policy level. The publication also features the opinions of entrepreneurs active in developing countries, offering a vivid picture of concrete issues encountered by SMEs in cross-border e-commerce.

At ITC our vision is one where small firms in developing and least developed countries have access to advanced solutions. We actively support SMEs in acquiring the necessary skills and capabilities to trade through e-commerce channels. Our e-Solutions Programme provides a platform of shared technologies and services, including access to international payment solutions and logistics, enabling small firms to share the costs of exporting goods, handle foreign payments and generate awareness in foreign markets.

Rapid cross-border e-commerce growth will have an impact on traditional brick-and-mortar retailers, whose business opportunities might shrink as consumers turn to virtual marketplaces. Nevertheless, the growth of cross-border e-commerce, driven by reduced transaction costs and rapidly evolving consumer preferences, may provide new employment opportunities and demand new skill sets. ITC, with its mandate of helping to build the competitiveness of SMEs, will continue to facilitate adaptation to this new paradigm for trade.

It is our hope that this publication will provide policymakers, trade and investment support institutions and SMEs with a better understanding of the policy aspects of cross-border e-commerce and make them better equipped to capitalize on the opportunities offered by the growing global online market.



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Contents

Foreword	iii
Acknowledgements	v
Abbreviations	x
Executive Summary	xi
Introduction	1
Chapter 1 Establishing online business	6
1. Building blocks for establishing successful online business	6
2. Main channels for setting up an e-commerce business	9
2.1. E-commerce platforms	9
2.2. Social media e-commerce	11
2.3. Company's own website	13
3. Enabling policies for establishing e-commerce businesses	14
3.1. Seller registration on online e-commerce platforms	14
3.2. IP-related issues in e-commerce	15
3.3. Solid ICT infrastructure and affordable access to the Internet	16
3.4. Access to skilled labour market	18
3.5. Simple business registration process with the local authorities	18
3.6. Successful implementation of e-signatures and e-contract laws	19
3.7. National strategies for e-commerce growth	19
Chapter 2 International e-payment	23
1. E-payment markets in e-commerce development	23
2. Challenges to adopting e-commerce	25
3. Policy recommendations	27

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