



Supporting MSMEs' Digitalization Amid COVID-19

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**Supporting MSMEs' Digitalization
Amid COVID-19**

By John Karr, Katherine Loh and Andre Wirjo

KEY MESSAGES

- Micro, small and medium enterprises (MSMEs) are particularly vulnerable to the economic impacts of the COVID-19 pandemic. Targeting economic relief for small businesses has been a critical component of policy interventions in APEC economies. These interventions have included a range of fiscal and monetary policies, as well as initiatives promoting digital adoption.
- The COVID-19 crisis is pushing more consumers online and accelerating the adoption of e-commerce – this will require further digital adaptation by MSMEs.
- While the immediate benefits of digital interventions may vary between sectors and firms, adoption of digital solutions can help MSMEs in areas such as: 1) managing transactions at a distance; 2) delivering goods efficiently; 3) facilitating access to financial services; and 4) engaging with new and existing customers.
- Promoting the digitalization of MSMEs can help address a number of the economic challenges posed by the COVID-19 crisis; however, the process of adopting new digital approaches to selling does not come without risks.
- Despite the clear benefits, it is crucial to recognize the complex challenges that digitalization presents, including: 1) cybersecurity and data privacy concerns; 2) exposure to digital fraud; 3) online misinformation; 4) asymmetric market power and platform dominance; and 5) persistent digital divide and infrastructure-related issues.
- Supporting MSMEs' digitalization efforts amid COVID-19, therefore, requires policymakers to adopt a two-pronged set of interventions that allows MSMEs to reap the benefits of the digital world while overcoming the challenges of digitalization.

This policy brief focuses on the challenges, risks, and opportunities of MSME digitalization efforts over the immediate, near-term often characterized as the "New Normal". While recognizing that digitalization is not a silver bullet, this brief outlines how digital solutions can be used to support MSMEs as the COVID-19 situation evolves, and describes numerous examples of existing technology solutions and partnerships that are currently underway in APEC. The brief also highlights an important consideration for MSMEs: that the COVID-19 crisis is pushing more consumers online, and accelerating the adoption of e-commerce in many parts of the region. The brief offers a set of policy recommendations that could facilitate

MSMEs' digitalization efforts in the near-term, before confounding with an eye towards the future, noting how the right mix of policies can build long-term enterprise resilience and more innovative economies.

COVID-19: A Grave Threat to APEC's MSMEs

As of early July 2020, COVID-19 has infected more than 11 million and resulted in more than 500,000 deaths worldwide despite aggressive mitigation measures.¹ As businesses shutter and individuals stay home, the demand for goods and services has plummeted, contributing to growing unemployment and work stoppages. Even in the most optimistic

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**Globalization, Inclusion, and E-Commerce:
APEC Agenda for SMEs**

By Gloria O. Pasadilla and Andre Wirjo

Globalization created wealth for many. It improved standards of living, allowed consumption of greater variety of goods, created employment, and promoted convergence of income across economies. Yet, globalization's benefits have been seen as heavily tilted towards big firms and multinationals, whereas the rules of global trade are stacked against SMEs. Today's global agenda on greater inclusion is meant to remedy the disadvantages by small firms.

The Boracay Action Agenda to Globalize MSMEs is APEC's contribution to the economic inclusion challenge. Cognizant of the fact that 80 percent of global trade takes place through global supply chains,¹ one of the Boracay Agenda's action plans is to facilitate SMEs' participation in global value chains (GVCs). Having policies that facilitate access to GVCs is a step in the right direction; however, there are other constraints that may not be dependent on government policies. For example, stringent industry standards at each step of the value chain and burdensome certification processes are challenging for most SMEs to meet and are obstacles for them to be part of GVCs.² GVCs, for their part, are strict about onboarding suppliers because they are as fragile and prone to failure as their weakest supplier³ – in many developing economies, because of lack of capital to upgrade equipment, SMEs find substantial participation in MNC operations beyond reach⁴.

This policy brief considers another alternative route to SME internationalization through e-commerce. With e-commerce, SMEs face a different challenge of access but most of it can be abated through regulatory facilitation. The next section talks about the trade prospects for SMEs in e-commerce, followed by policy issues that an APEC agenda on SMEs and e-commerce can include.

E-commerce and SME Globalization

E-commerce Supports SMEs' Participation in International Trade

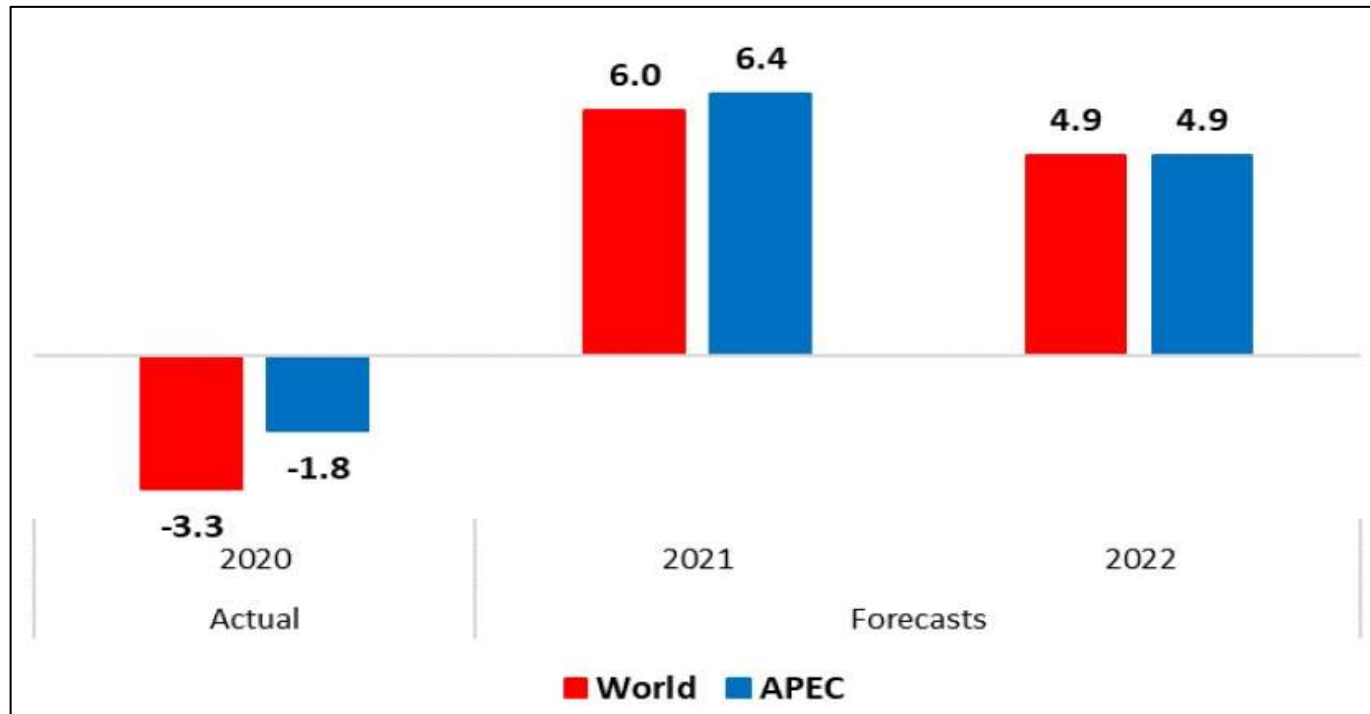
The internet has empowered SMEs to sell to a bigger market. Success stories abound. Indeed, of simple entrepreneurs growing their business, with some even succeeding in the export market. Most start with selling to a bigger set of friends through Facebook or Snapchat, which is usually the easiest way for entrepreneurs to get an online selling experience. In time, successful SMEs get discovered and connected with e-commerce marketplace platforms that open up a much bigger market for SMEs' products. Box 1 highlights a few of them. For example, Christy Ng's shoe business grew from a small cottage industry to being a global business. A former eBay marketing person sighted Ng's growing sales on Facebook and decided to invite her to register with eBay. eBay provided the marketing "push" for the business, ensured that Christy Ng's shoes appear in consumer searches on its site, which resulted in balloon orders from consumers and retail outlets from the United States and elsewhere. Today, the shoe business has five physical offline stores in Kuala Lumpur, Selangor and Johor, a far cry from the 'garage' business it started from.

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COVID-19: A Grave Threat to Health and Economy

GDP growth (year-on-year, %)



Source: IMF World Economic Outlook (July 2021 update) and economy sources



MSMEs Hit the Hardest

- MSMEs are generally more vulnerable to economic shocks than their larger counterparts.
- MSMEs' significant contribution across various metrics added to the challenges (e.g., employ over 60 percent of all workers in the region).
- Critical pain points include: 1) labor shortages; 2) lack of raw materials; 3) weak consumer demand; and 4) significant stress on balance sheets and cash flow.
- Lack of support could lead to insolvency and subsequent, lasting spikes in unemployment and societal stress.
- Persistent containment measures and non-synchronous lifting compound the challenges.

Supporting MSMEs to Weather the Pandemic

- Targeting MSMEs for relief is a critical component of policy interventions by APEC economies.
- Range of fiscal and monetary policies.
- Many also supported adoption of digital solutions by MSMEs:
 - China: B2C e-commerce solutions.
 - Malaysia: Support business operations digitalization via the government's Digital Economy Corporation.
 - Singapore: SMEs Go Digital programme.



Digitalization Amid COVID-19

Managing transactions at a distance

- Help to lock in transactions.
- Facilitate payments while minimizing transmission potential.

Delivering goods efficiently

- Help to maintain on-time delivery.
- Reduce delivery times at critical points.



Digitalization Amid COVID-19

Maintaining cash flow

- Leverage blockchain to verify invoices instantly.
- Overcome liquidity crisis via 'contactless loans'.
- Access range of banking services in absence of physical branches.

Engaging with new and existing customers

- Present products and services.
- Meet clients and business partners remotely.

Digitalization Challenges

Cyberattacks and data privacy concerns

- Threats increase significantly.
- Illegal access to data and its implications.

Exposure to digital fraud

- Increase in a variety of online fraud.
- Pros and cons of fast-tracking.

Online misinformation

- Fertile ground to spread false information.

Digitalization Challenges

Market power and dominance

- Exercise of market power to the detriment of different stakeholders.

Persistent digital divide and infrastructure-related issues

- Access remains out of reach for significant share of population.
- Lack of digital skills

Cross-border issues

- Variation in laws and regulations between economies.
- Variation in technology adoption to enhance trade facilitation.
- Issues may not be restricted to digital ones.

Policy Recommendations

1. Focus on overcoming digital divide and onboarding.
2. Promote lower data costs.
3. Promote digital literacy.
4. Support access to mobile money and fintech.
5. Enhance trust in digital solutions.
6. Address competition issues.
7. Promote regional cooperation and public-private partnerships.

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