



# Inclusive Trade: The Promise of the Global Empowerment Network

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**Abstracts:** Up until now it has only been the few largest players who have been able to take full advantage of trade and globalization. Technology, particularly drawing on the Internet, is now enabling businesses of all sizes to trade directly with consumers around the world. We refer to this emerging model as the “Global Empowerment Network”. This article explores the power of the Global Empowerment Network to support exporting by small businesses in eight emerging and developing markets. It also identifies the key policy actions that promote, or detract, from the ability of technology-enabled businesses to effectively reach world markets.

**Keywords:** Global Empowerment, Inclusive Trade, Emerging Markets, Developing Markets.

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## **Introduction**

Up until now it has only been the few largest players who have been able to take full advantage of trade and globalization. If a small business wished to participate in the global economy it was largely relegated to providing an intermediate product to a large multi-national supply process (the so-called Global Value Chains model). This model for trade is the result of the immense resources that have traditionally been required to develop an international customer base and deliver a product or service efficiently across borders.

A parallel model for trade is emerging. Technology, particularly drawing on the Internet, is now enabling businesses of all sizes to trade directly with consumers around the world. We refer to this emerging model as the "Global Empowerment Network".

The Global Empowerment Network brings together a set of conditions, such as Internet connectivity, digital services, and logistics solutions. These conditions contribute to an emerging borderless system adaptable to the needs of individual firms. However, the full potential of this model depends on the right policy, legal and administrative solutions.

This article explores the power of the Global Empowerment Network. Using economic analysis to describe what happens when technology meets trade, we look at what this means for businesses in eight developing and emerging markets and we identify the key policy actions that promote, or detract, from the ability of technology-enabled businesses to effectively reach world markets.

Our aim with this article is twofold. We want to raise awareness of the Global Empowerment Network and its power to support exporting by small businesses in emerging and developing markets. We also want to provide concrete proposals for what policy and legal conditions are conducive to expanding and strengthening the Global Empowerment Network.

## **Data and Methodology**

This article builds on the economic analysis of eBay Marketplaces data carried out in collaboration with Simon Schropp and Andreas Lendle of Sidley Austin LLP. The results presented are based on two different eBay datasets:

1. A global dataset with all global eBay transactions disaggregated by country of buyer and seller and for the years 2008 to 2012.
2. A more detailed dataset for the eight selected countries (Chile, Peru, Ukraine, South Africa, Jordan, India, Indonesia and Thailand) with information on sales conducted by all sellers based in these countries, including the location of the buyer by country and for the years 2008 to 2012.

For the most part, the analysis of these eight countries was done by considering only those eBay sellers with annual sales of at least USD \$10,000. Hereinafter, we refer to those sellers as "Technology-Enabled Small Businesses" (we refer to trade by these businesses over the eBay Marketplace as "Technology-Enabled Trade").

To allow for comparisons with what we call "traditional trade", we have used a number of other datasets:

- The World Bank Exporter Dynamics Database for information on exporters based in Chile, Jordan, Peru and South Africa.



- The World Bank Enterprise Surveys for information on the share of firms that are exporting in the eight selected countries.
- The UN Comtrade database for data on exports from about 200 countries.

The comparison with traditional trade is not intended as a perfect comparison between apples and apples. Rather, the traditional trade image provides a reference point that allows us to home in on the different characteristics of Technology-Enabled Trade.

### **Technology meets trade**

A key variable that is commonly found to have a large – and negative – impact on trade is geographic distance: countries further apart trade less with each other. One typically finds that a 10% increase in distance reduces trade by 15-20%. Trade over online marketplaces, such as the eBay Marketplace, is much less affected by distance because of how the Internet and digital services facilitate communication and information exchange and, importantly, trust creation. Our research shows that a 10% increase in distance reduces Technology-Enabled Trade by only around 3%, whereas it reduces traditional exports by 18% i.e. by almost six times as much. Significantly, the impact of technology is even more pronounced in the case of trade from developing countries. We find that a 10% increase in distance results in no more than a 1% decrease in Technology-Enabled Trade from developing countries.

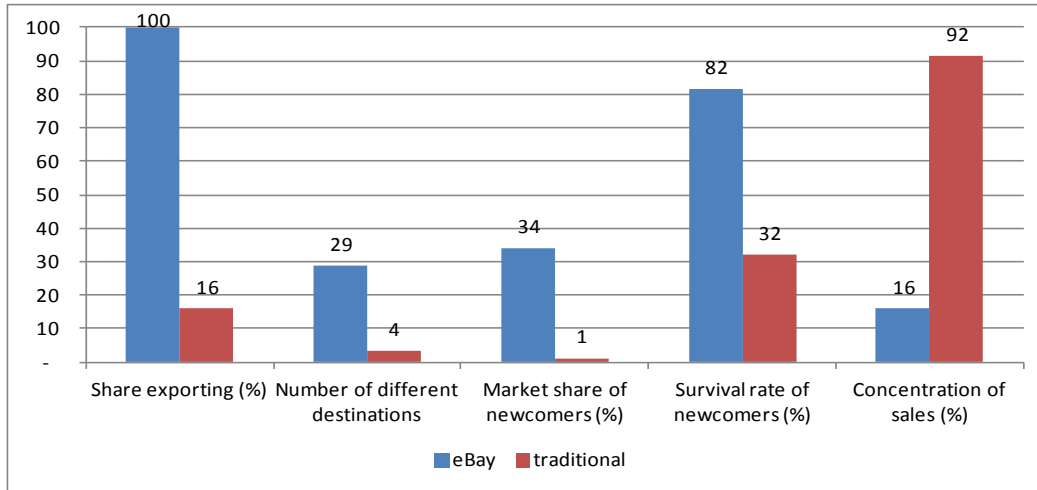
### **A look at eight countries**

In order to understand the firm-level implications of reducing the negative effects of geographic distance on international trade, we have carried out detailed research into the trade patterns by Technology-Enabled Small Businesses in eight different countries: Chile, Peru, Ukraine, South Africa, Jordan, India, Indonesia and Thailand. These countries were chosen to complement our previous research, which has looked at developed markets.

In this section, we describe the firm-level effects of the Global Empowerment Network in the eight selected emerging and developing markets and discuss what policy efforts help further positive trends.

#### **Chile**

Our research points to a situation of low entry and start-up barriers for technology-enabled trade in Chile. Combined, Chilean newcomers on the eBay Marketplace reach a market share of about 30% in their first year and around 80% survive that critical first year. We also find that the concentration of sales to the largest traders is high in the traditional marketplace with 92% of Chile's exporting conducted by its 5% largest exporters, whereas in the online marketplace that concentration level is much lower at 16%.



The table above demonstrates the key results for Chile. Our analysis suggests that policy efforts, such as recognizing Small and Medium-sized Enterprises (SME) in trade instruments and upholding strong net neutrality, have contributed to the positive trend our research identifies. Our assessment is furthermore that raising the *de minimis* (customs relief) thresholds is one type of policy action that could further enhance the ability of Chilean businesses taking advantage of the Global Empowerment Network for exporting.

### Recognition in free trade agreements

Recognizing that SMEs engage in international trade and face unique barriers is an important first step to removing the barriers that these businesses face. The Free Trade Agreement (FTA) between the US and Chile contains an important chapter on E-Commerce where Article 15.5 recognizes the global nature of technology-enabled commerce and the importance of adding specific measurable requirements on the governments to remove barriers to technology-enabled SME trade.

### Network neutrality

Small business entities are the most likely to be discriminated against or blocked because they do not have any leverage against Internet Service Providers (ISPs). Larger entities may be able to afford to pay for faster service provision, or utilize their large user bases to exercise leverage against an ISP. Small entities do not have such means. Maintaining an open playing field on the Internet, where every actor on the edge of the network has an equal opportunity to access a consumer, brings clear benefits to small and medium sized Internet businesses.

Chile was among the first countries to codify the doctrine of net neutrality. An amendment of 2010 to the Telecommunications Act prohibits ISPs from arbitrarily blocking, interfering, discriminating, hindering, or restricting the right of any Internet user to engage in lawful use of the network. This law ensures that the Internet will remain equally open to businesses, and consumers, of all sizes.

### Raise the *de minimis* threshold

The *de minimis* threshold is the monetary level below which an importer of physical goods



is exempted from customs duty and paperwork requirements. The Chilean de minimis threshold is currently set at only USD 30. This low de minimis threshold slows down cross border technology-enabled trade for Chilean consumers, but also more importantly, limits the ability of Chilean technology-powered traders to offer returns services to their global customers.

Returns are an essential part of the retail experience. In the current environment, providing cross border returns is difficult for technology enabled businesses because if a good is valued at a level above the de minimis threshold, then upon its return it may be subject to customs duty and paperwork requirements, and the responsibility for those would fall on the seller.

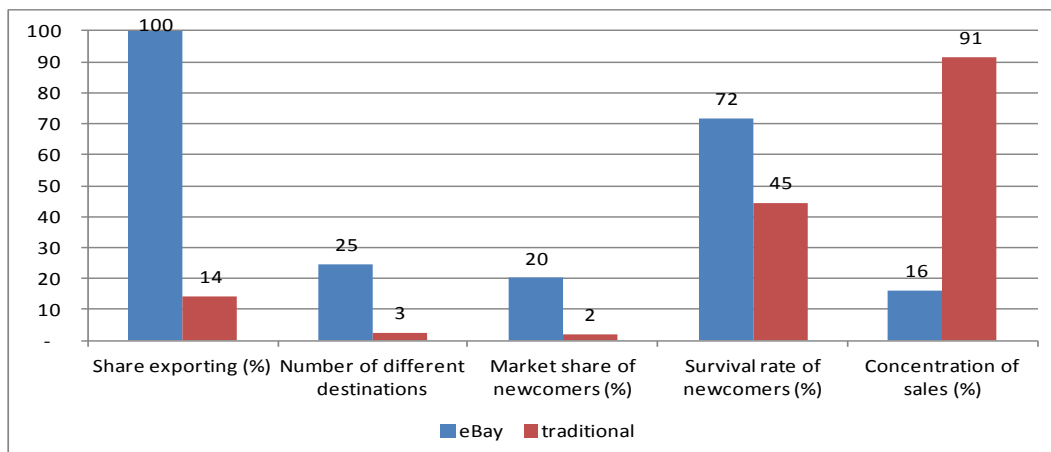
Rather than offering returns, many times a seller from a country with a low de minimis threshold will refuse to offer returns or will simply ship a new product rather than dealing with the hassle of receiving a return.

Chilean sellers that want to offer returns should not be subject to additional burdens. Several members of the Asia Pacific Economic Cooperative (APEC) signed a pathfinder initiative in November of 2011 that recognized the importance of providing higher de minimis levels. Members that signed the pathfinder initiative agreed to raise their de minimis threshold to USD 100 by the end of 2012. Chile is, unfortunately, not one of the participating economies in this initiative; we urge Chile to reconsider raising its de minimis level.

### Peru

Peru is one of the countries where Technology-Enabled Trade is particularly helpful in overcoming the barrier of geographic distance. Traditional trade flows are significantly negatively affected by distance – a 10% increase in distance reduces Peru's exports by 20%. In contrast, exports over digital services networks such as the eBay Marketplace are about 10 times less affected by distance. The “death of distance” is a reality for Peruvian firms.

Our research also suggests that small Peruvian firms seize this opportunity. We find that all Technology-Enabled Small Businesses in Peru export, reaching on average 25 different foreign markets – in contrast to traditional exporters, who reach three markets on average. In total, these Technology-Enabled Small Businesses export to 100 different foreign markets.





The table above shows the key research results for Peru. Our policy analysis suggests that these results are supported by relatively high *de minimis* levels in Peru as well as efforts to ensure balanced liability for online intermediaries. The latter is key to cultivating an environment where small firms can build their operations on third party services and platforms. However, and going to the finding of particularly pronounced “death of distance” for Peruvian international trade, we warn that intellectual property rights regimes can have the effect of raising geographical barriers where technology has dismantled them.

#### ***Relatively high de minimis***

Peru has its *de minimis* threshold set at USD 200. This enables Peruvian businesses to offer returns on their products and lowers costs and delays for Peruvian consumers. The Peruvian *de minimis* level is the highest of the countries discussed in this report. But other countries around the world have even higher *de minimis* levels. Australia has its *de minimis* level set to USD 1'000. An eBay commissioned report entitled *Enabling Australian Export Opportunities* demonstrated that Australian technology-powered exporters have seen strong growth in the past few years. Moreover, legislation has been introduced in the United States to increase the *de minimis* threshold from USD 200 to USD 800.

Peru has set the benchmark for other countries in this study with its USD 200 *de minimis*, but Peru can also see additional cost savings by increasing its current *de minimis* level.

#### **Limitations on liability for internet intermediaries**

A well-functioning Internet relies on intermediaries that provide online services and build communication networks for user interaction. The growth of intermediaries is directly correlated to the growth of the digital economy. These intermediaries serve as platforms for large amounts of users; it is not possible for intermediaries to proactively monitor all of the actions of their users. Limitations on liability enable online platforms to host user generated content without risking unmitigated liability.

An example on point is the provision that formed part of the US-Peru FTA stipulating limitations in national law regarding the scope of remedies available against service providers for infringements of intellectual property rights that they do not control. Appropriately crafted liability limitations are crucial for the development of the Global Empowerment Network.

#### **Clarify scope of exhaustion of copyright and trademark as international**

Intellectual property rights, such as copyright and trademarks, grant a manufacturer the right to control the initial marketing of the product. Once the product has been put on the market – for instance sold to a consumer or to a retailer – the copyright/trademark owner can no longer use the copyright/trademark rights to exercise control over that product: the owner has exhausted that right. The exhaustion doctrine promotes alienability of goods, rewards innovative sourcing methods, provides a backbone for a robust secondary market, and prevents harmful downstream market restrictions.

Some countries apply the international exhaustion doctrine whereby the rights are exhausted irrespective of where the products have been put on the market. Other countries exercise more restrictive doctrines where exhaustion only occurs if the product is placed on the market in that country or within a region.

Here, Peru should clarify that its copyright and trademark laws follow the international

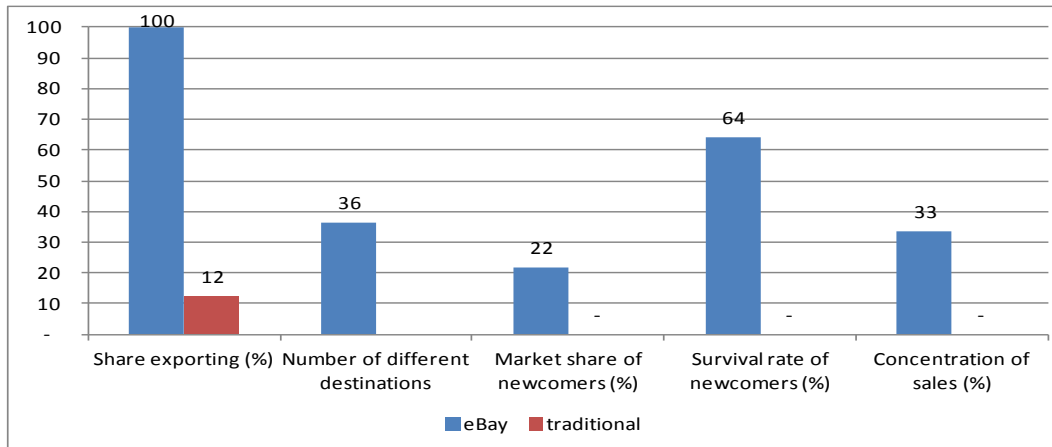


exhaustion doctrine – once a good is sold anywhere in the world its distribution can no longer be controlled by the rights owner. For instance, it is unclear under Peru’s copyright law when the copyright owner’s right to control importation is exhausted; rights owners can exploit this uncertainty to restrict sales of legitimate products into Peru and thus prevent Peruvian consumers and firms from sourcing from world markets. Copyright and trademark law should not be used as a tool to prevent the lawful trade of goods and slow down the “death of distance”.

**Ukraine**

At the time of writing, the situation in Ukraine with the occupation of Crimea is worsening. Nevertheless, we would like to put forward our research findings and analysis in the belief that facilitating and supporting small business exporting should form part of Ukraine’s strategy for economic recovery and participation in the global economy as well as in closer cooperation with the EU.

Indeed, our research points to a huge potential in technology-enabled trade for the Ukraine economy. We find that Ukrainian Technology-Enabled Small Businesses are among those reaching the largest number of foreign markets – on average 36 different markets and in total 152 different markets around the globe.



The table above sets out the key findings for Ukraine. These findings should be read in the context of general Internet trends: according to ITU figures, Ukraine had an Internet penetration of 31% in 2011, up from 5% in 2006 and the use of mobile Internet is also rising as an estimated 16% of urban Ukrainians have access to the mobile Internet.

Pursuant to our policy assessment, we would therefore emphasize initiatives in the area of high-speed mobile broadband as a key for positive developments in technology-enabled trade. Likewise, we suggest that the shift, encouraged in Ukraine, towards electronic documents in administrative procedures is a very important factor in facilitating international trade. However, to further improve the entry and participation of small businesses in trade as well as their competitiveness vis-à-vis large established exporters, we call for continued modernization of national postal systems, which includes strengthened international integration.



### **High speed mobile broadband investment**

Ukraine's Open World project is designed to develop a 4G broadband network throughout Ukraine. The initiative promotes educational uses of the Internet and describes how a wide variety of services will be enabled by increased broadband adoption.

This program reflects a key understanding of the Internet, namely that value is created at the edge. Moreover, the more users on the network the more valuable the network becomes. The project brief also notes that the state will "create a beneficial regulatory environment." This statement demonstrates that the Ukrainian government recognizes that deployment of broadband is not enough. Regulatory policies across the board must be updated to foster the digital environment.

### **Electronic customs processing**

Ukraine has a long-standing Law on Electronic Documents, which puts electronic documents on legal par with paper documents. More importantly, however, the new Customs Code of Ukraine, which took effect in June 2012 and is part of steps towards closer EU cooperation, is encouraging the use of electronic declaration forms. The new Customs Code also enables customs rulings to be delivered electronically.

Simplifying customs processes by allowing for goods to be declared electronically is an important measure towards facilitating the participation of small businesses in international trade.

### **Continue to modernize Ukrainian post**

The Ukrainian postal operator Ukrposhta is a state enterprise, operating as an independent unit since 1994. In 2008, the Minister of Transport and Communications recognized that the Ukrainian postal service needed to improve operations.

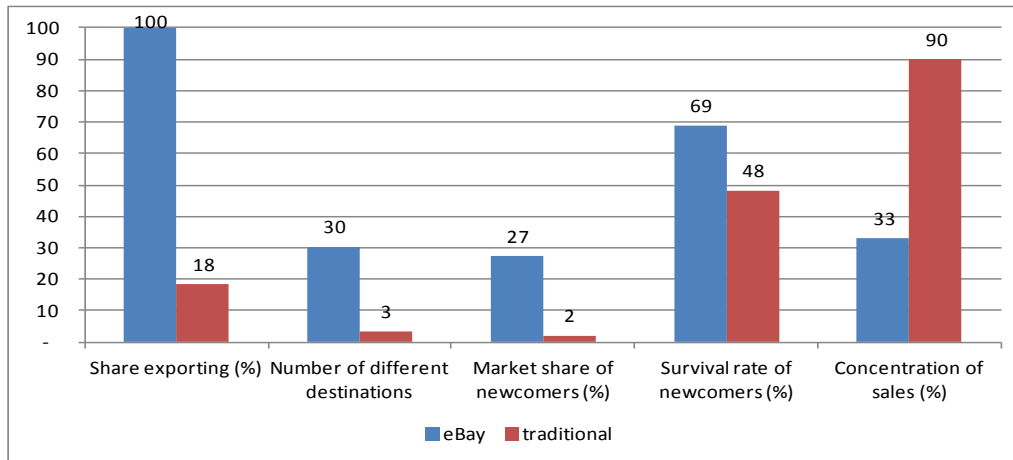
Ukraine has met the Universal Postal Services (UPU) "A-Level" rating. A UPU report from 2011 found that Ukraine ranked among the top 25 countries in postal e-services development. Yet, in the World Economic Forum's Enabling Trade Report of 2012, Ukraine was ranked 74 out of 132 in postal service efficiency.

The Ukrainian postal service could continue to improve by promoting technology services that leverage efficiencies in scale and aggregation to achieve volume discounts. Ukrposhta would also benefit from working with other countries to harmonize shipping platforms between countries. Finally, Ukrposhta could work with the private sector to create interoperable systems that both the public and private sectors can utilize. Creating interoperable tracking systems would enable merchants and consumers to track their packages throughout the shipping process, and thus to improve reliability.

### **South Africa**

Our economic analysis shows that Technology-Enabled Small Businesses in South Africa sell more to distant markets than to markets closer to home; in contrast, traditional exports decrease with distance. Overall, these Small Businesses reach 118 different markets worldwide. Adding to the picture, our research shows strong performance by newcomers – with those in the online marketplace accounting for 27% of sales compared to merely 2% in the traditional marketplace.





The table above sets out the key research findings for South Africa. We would attribute some of the positive trends to South Africa's ambition to harmonize bilaterally and multilaterally both customs processes and postal systems. Pursuant to our policy assessment, we would however urge continued efforts in improving Internet connectivity and access to strengthen the ability of the Global Empowerment Network to facilitate international trade by remote and small firms.

#### Harmonization and modernization of customs processes

The South African Customs Union (SACU) is the world's oldest customs union. Its members include Botswana, Lesotho, Namibia, South Africa, and Swaziland. It was designed to encourage the free movement of goods between member countries. In 2009, the SACU in conjunction with the World Customs Organization launched a three-year initiative designed to create harmonized customs policies in the region. The initiative was also designed to improve risk management and information technology aspects of customs in the region.

Small businesses are disproportionately affected by complicated customs procedures. Harmonizing procedures reduces the number of considerations a small business needs to account for when engaging in trade. Modernizing standards, particularly through the introduction of technological solutions, greatly reduces costs for small businesses and reduces barriers to the customs process. Standardization and simplification of customs processes should be a central goal for governments around the world that are interested in seeing an increase in technology-enabled exporting by SMEs.

#### Harmonization and cooperation on postal

The South Africa-European Union Agreement on Trade, Development and Cooperation Article 56 contains unique language on postal cooperation. It calls for cooperation in the area of postal to include:

- Exchange of information and dialogue on postal matters in relation to, inter alia, regional and international activities, regulatory aspects and policy decisions
- Technical assistance on regulation, operational standards and human resource development



- Promotion and implementation of joint projects, including research, on technological development in this sector

This provision is notable for two reasons. First, postal services are included in the discussion of an FTA. Second, policy, regulation, and technological development are all identified as keys to cooperation.

Harmonization and simplification of policy and regulation, as well as increased technological investment and development of postal services are extremely beneficial for technology-enabled firms that utilize the postal service to deliver their goods around the world.

We would urge moving some of these aspirations from a bilateral discussion to a multilateral context. That would be greatly beneficial as multilateral harmonization would further reduce divergent burdensome standards.

#### **Investing in broadband access proliferation**

South Africa has the laudable goal of universal broadband access by 2020. However, in 2013, a report by the Broadband Commission, an international body set up by the ITU and UNESCO, ranked South Africa at 111 out of 183 countries on fixed broadband penetration (2.2 connections per 100 inhabitants). On a positive note, the report noted that South Africa ranked number 62 out of 170 countries on mobile broadband penetration (26 connections per 100 inhabitants).

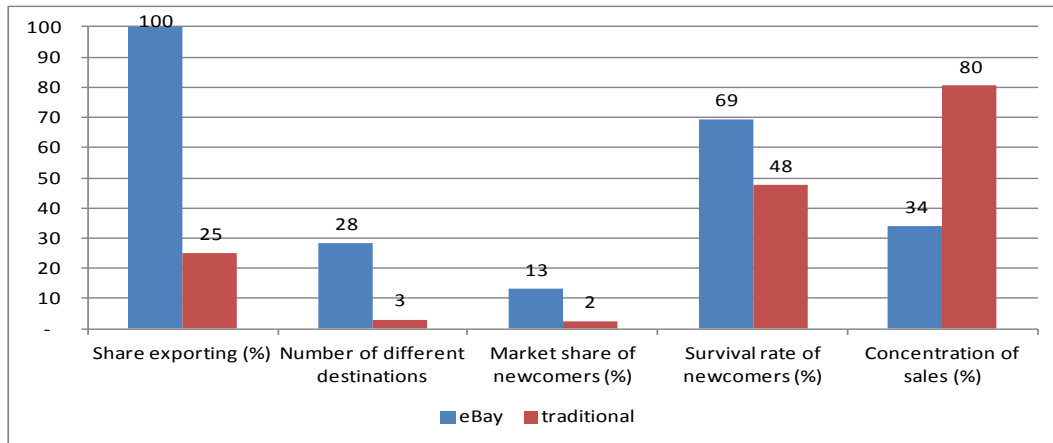
South Africa does have a national broadband plan, which was drafted in 2010. But there have been delays at the national level and lack of coordination of implementation at the local level, which have impeded the rapid distribution of broadband access.

Needless to say, ensuring that citizens from every economic level and in every part of the country can access a high speed connection is an essential step in creating inclusive participation in and spur the development of global, borderless markets.

#### **Jordan**

Our research confirms that Technology-Enabled Small Businesses from Jordan adopt export strategies similar to those in other countries. These Jordanian Technology-Enabled Small Businesses export and reach customers in on average 28 different markets and in total 93 different countries. In comparison, traditional exporters reach only three different markets on average. We also find that survival rates of newcomers and the concentration level of the largest traders to be similar to the findings for the other countries discussed in this article, including the five developed countries.

However, we note that the market share of newcomers is comparatively low in Jordan. Newcomers in the online marketplace account for 13% of sales, which is the lowest among the eight countries selected for the research. To put this in perspective, 13% is still significantly higher than the 2% found for newcomers in the traditional marketplace.



The table above gives the key research results for Jordan. Studying the Jordanian policy landscape, we have tried to identify policy initiatives that could both explain these results as well as spur further positive development. Here, we believe Jordan's efforts putting in place a national e-commerce strategy and promoting competition in electronic payments to be key measures already underway. We also believe that measures that derail uptake of new technology must be avoided and runs counter to the ambition of promoting electronic commerce and payments; rather, promoting the usage of smartphones should form part of the national e-commerce strategy.

### Comprehensive national e-commerce strategy

In 2007, Jordan's Ministry of Information and Communications Technology launched its National E-Commerce Strategy. The vision behind the Strategy is for Jordan "to become a leading e-commerce centre in the region through the exploitation of its information technology capacity and the creativity of its people." The Strategy recognizes the relevance to e-commerce of a range of policy areas, such as payments policy, consumer production, information communications technology, customs, and tax policy. It also draws up specific actions, for example in the area of encouraging SMEs to take up e-commerce.

We support the model of creating a national strategy as it allows a government to holistically, across policy areas, consider the appropriate conditions for technology-enabled trade. We suggest the Global Empowerment Network would make a helpful conceptual framework when constructing such a strategy.

### Competition in electronic payments

One of the digital services that is key to a well-functioning Global Empowerment Network is electronic payments. It is therefore encouraging to note that Jordan's National E-Commerce Strategy recognizes the central role of globally accepted electronic payments. It lays out a specific action plan to increase consumer usage of electronic payment methods.

In addition, the 2001 FTA between the US and Jordan was the world's first trade agreement to include a chapter on e-commerce. Adjacent to the FTA is a Joint Statement on Electronic Commerce with a number of important principles and recommendations. In particular, the Joint Statement makes a strong declaration on electronic payment systems: "Developments in this area should recognise the importance of private sector leadership and should promote

both a competitive market for, and user confidence in electronic payment systems.”

We encourage Jordan, and other countries, to follow down the path of promoting competition in electronic payments in FTAs as well as national e-commerce strategies.

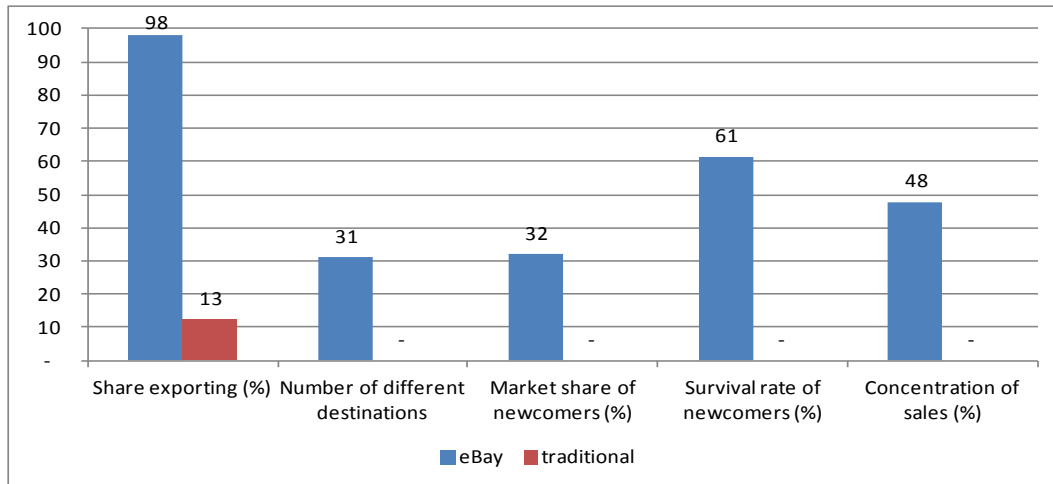
**Reconsider the high taxation on mobile phones**

A Cabinet decision published in the Jordan Official Gazette in July 2013 raised the special tax on mobile phones to 16% from 8%. The decision also raised the tax on mobile subscriptions –pre- and post-paid – to 24% from 12%.<sup>43</sup> This tax not only affects consumers but it also affects businesses of all types that are using mobile devices to optimize processes and develop new mobile services. The Jordanian Consumer Protection Society (CPS) has stated that it plans to file a lawsuit against the government because of the decision to raise taxes on mobile phones and subscription.

The government should reconsider its high tax on a technology that is enabling business innovation and consumer empowerment.

**India**

Our research results for India confirm the ability of technology and the Internet to lower entry barriers. In total, Technology-Enabled Small Businesses in India reach 194 different markets and newcomers account for around 32% of exports in the online marketplace and have high survival rates.



The table above presents the key results for India. Our policy assessment suggests that these results are underpinned by efforts to increase and improve Internet connectivity across India and encourage a shift away from cash and towards electronic payment methods. We note that our research suggests that Indian large firms seem to be in a relatively stronger market position than small firms, also when compared with the other countries discussed in this article. Our policy recommendation would be for the Government of India to enact procedural reforms to simplify export processes for SMEs, taking into account their lack of experience and limited resources.

**National optic fibre network**

Positive policy actions over the last several years have resulted in a fast growing mobile



telephony and data market with about 870 million subscribers and one of the lowest tariffs in the world. The mobile Internet users in the country are expected to grow from 4.1 million users in 2009 to 164.8 million in 2015 at a CAGR of 85%.

India should continue promoting investments in connectivity. For example, the Government of India approved on 25 October 2011, the setting up of National Optical Fiber Network (NOFN) to provide connectivity to all the 250,000 Gram Panchayats (GPs) in the country. This is to be achieved utilizing the existing optical fiber and extending it to the GPs. This would ensure broadband connectivity with adequate bandwidth. Moreover, in the last 5 - 10 years, India has significantly liberalized and opened up its telecom sector with broadband wireless, 2.3 GHz spectrum and 3G auctions to private sector companies for broadband & wireless services. In 2013, the government allowed Foreign Direct Investment in the telecom sector to 100%.

### **Encouraging a “less-cash” economy**

With the rise of online commerce, it is important that electronic payment methods advance to meet the needs of the consumer. A regulatory policy that encourages a shift towards electronic payment methods will no doubt help the online commerce experience in India continue to thrive.

The Reserve Bank of India's (RBI) Payments System Vision document 2012 states:

“The overall regulatory policy stance is towards promoting a less cash/less paper society, the ‘green’ initiative, and hence the increased emphasis on the use of electronic payment products and services that can be accessed anywhere and anytime by all at affordable prices. Embracing new technology and innovation to unveil a bouquet of simple low cost, easy to use modern payment products and services would be the corner stone of this endeavour.”

This is an extremely positive statement as electronic payments methods empower consumers and improve security for the system. Cash and check, however, currently remain major methods of payment in India. RBI's document recognizes the shortcomings of the current model and calls for a need to substitute cash-on-delivery with non-cash payment modes such as mobile wallets, cards etc.

The RBI has also enhanced the limit for exports processed by an online payment gateway from \$3000 to \$10,000 per transaction. This will no doubt help Indian small business exporters to sell their locally manufactured goods around the world.

### **Facilitated procedures for technology-enabled trade**

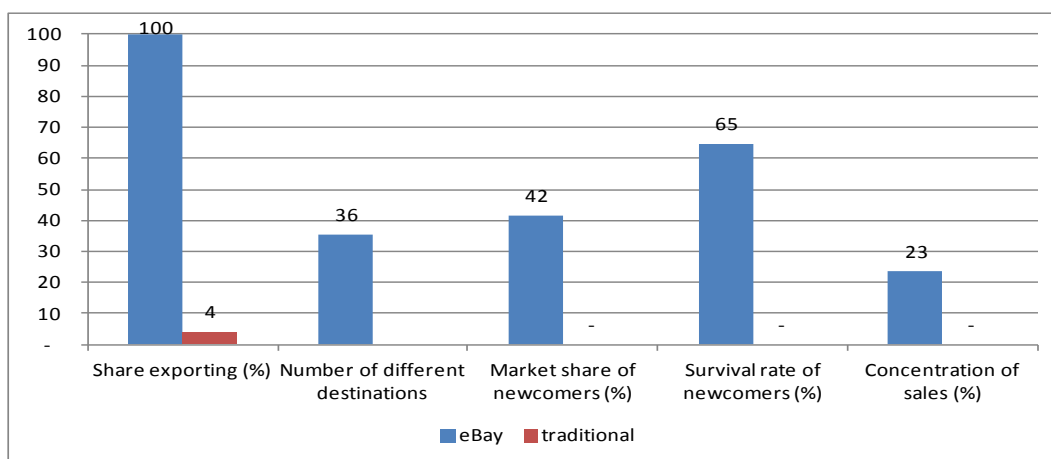
In 2012, the Ministry of Commerce recognized the importance of technology-enabled exports for small businesses.<sup>51</sup> The Ministry of Commerce encouraged small businesses in India to begin to take advantage of technology services, and worked with thought leaders like the Federation of Indian Export Organizations to create seminars, incentives, and best practices to help ease the transition for small businesses. Implementation of these aspirations has proven to be difficult.

Now that a high-level commitment to technology enabled small businesses has been made, the government should enact procedural reforms to simplify export processes for small businesses. Currently, export clearance, notifications, VAT, services taxes, and valuation are all issues faced by technology-enabled traders in India. Addressing these challenges

through simplified procedures would be of tremendous benefit to the growing sector of technology-enabled businesses.

### Indonesia

Our research finds that Indonesian Technology-Enabled Small Businesses are among those reaching the largest number of foreign markets. They reach on average 36 different foreign countries, and overall they export to 162 different markets. Underscoring this finding of easy access to world markets, newcomers are effective in gaining market shares, accounting for 42% of all sales. There is also a fairly low degree of concentration to the largest firms in the online marketplace: only 23% of sales are conducted by the largest 5% of all Technology-Enabled Small Businesses in India.



The table above gives the key research results for Indonesia. Our policy assessment has identified two separate initiatives, which both support the Global Empowerment Network for Indonesian consumers and businesses and can help explain some of the promising research results. Those are investments in branchless banking and mobile wallets and efforts to develop the logistics industry. In order to not undo the effect of such initiatives, we warn against localization proposals that seek to nationalize otherwise global operations.

### Branchless banking pilot programs

Indonesia has a large rural population, and the Internet is an incredible tool for connecting this population to essential financial services. The Indonesian government has recognized this and is investing in branchless banking and mobile wallets through its National Financial Inclusion Strategy. The plan includes improving financial education and facilitating the ability of intermediaries to enter the process of giving consumers access to a variety of financial tools.

The key to the success of these investments will be to ensure openness and competition in the mobile wallet environment. Allowing innovative new players to offer Indonesian consumers a mobile wallet solution will be imperative to ensuring that Indonesian customers are able to enjoy the benefits of a "cash-light" economy

### Reviewing customs with aim of trade facilitation

In January of 2012 Indonesia signed the ASEAN Australia-New Zealand FTA. Chapter 4 Article 4 of the FTA states: "The customs administration of each Party shall review its



customs procedures with a view to their simplification to facilitate trade.”

Frost & Sullivan predicts that the Indonesian logistics industry will grow 14.5% year-over-year in 2013. Frost and Sullivan credit the Government’s initiatives and development of the logistics industry for much of this growth. Yet, Indonesian customs processing is largely still done in paper form, and a move towards paperless trading could further enhance the productivity gains aimed at by the above provision.

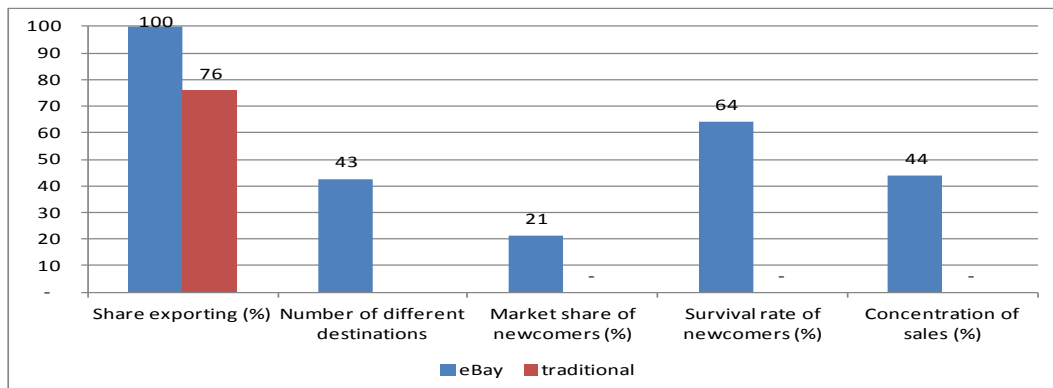
**Avoid localization proposals**

The strength of the Internet is that it is an open distributed network enabling information to travel to its destination through the most efficient path. Introducing any additional barriers beyond basic protocols makes the network less efficient. Requiring that all businesses operating in Indonesia acquire a “.id” global top-level domain is an unnecessary burden on the Internet. It limits the potential of the Internet by bifurcating a website operators’ attention, perhaps unnecessarily, to a unique “.id” site. It should be up to the website operator to determine if s/he wishes to setup a “.id” site that is independent from its other sites.

There is an understandable desire for government to have law enforcement authority over websites operating in country. But, good faith corporate citizens will comply with law enforcement requests regardless of whether the corporate citizen has a domestic domain name. Domestic Indonesian businesses that are export-oriented will be harmed by this requirement since they will be forced to operate a “.id” alongside another international-facing global top-level domains even though their products are aimed primarily at international consumers.

**Thailand**

Among the countries covered by our research, Thailand is the most effective in reaching a large number of different markets. We find that Technology-Enabled Small Businesses based in Thailand reach in total practically all countries in the world – 198 countries. On average, those Small Businesses trade with 43 different markets. One explanation is to be found in the fact that geographical distance has no statistically significant effect on Technology-Enabled Trade from Thailand. Interestingly, geographical distance has a comparatively very low negative effect also on traditional trade: an increase in distance by 10% reduces traditional trade from Thailand by about 6%, compared to typically 15 – 20%. The consequence is likely the high share of exporting also by traditional traders in Thailand, as shown in the table below.





The table above presents the key results for Thailand. We would attribute the high export share and number of destinations to Thailand's ambitions in the area of electronic submission of trade administration documents as well as efforts to increase Internet access. However, we emphasize that building an effective digital economy also requires balanced legal regimes for online intermediary liability.

#### **Electronic submission of trade administration documents**

Small technology-enabled traders are accustomed to conducting business online, and having to obtain paper copies of customs forms and turn them in to a physical location can be a large burden. Facilitating this type of trade therefore includes processes for accessing and managing customs forms and other trade administration documents online.

Working together bilaterally and ideally multilaterally and/or in international fora to enhance the acceptance of electronic trade documents is important as harmonizing rules across the international landscape is key for the global digital economy. For example, the Thailand-Australia Free Trade Agreement (TAFTA) contains a provision on Paperless Trading in its Article 1107. It stipulates as the general rule that the parties shall accept the electronic format of trade administration documents as the legal equivalent of paper documents.

However, we would point out that electronic acceptance is merely the first stage in optimizing customs for the 21st century. Online submission, interoperable systems, and application programming interfaces (APIs) that enable importers and exporters to plug data elements into a customs agency's back-end system should be aspirations that customs agencies around the world should aspire to.

#### **Working to increase Internet access**

In 2003, Thailand began in earnest its efforts to bridge the gap between those who benefit from technology and those that do not. The Ministry of Information and Communication Technology has been working hard to provide accessible Internet to the disadvantaged and disabled. For example, the Budget PC project brought millions of computers to Thai citizens.

In a survey of rural Thailand, 60% of respondents reported using the Internet daily for e-mail. Notably, only 24% of those surveyed reported they used the Internet daily for online shopping and only 12% reported using the Internet daily for mobile banking. These figures indicate that while much has been done to increase access to the Internet there is still more that can be done to tie rural Thailand into the global digital economy.

#### **Intermediary liability for offenses of third party users**

Thailand's Computer-Related Offences Commission Act has been the subject of controversy as a result of provisions, which arguably could hold intermediaries liable for content placed on their platforms by third parties. Section 15 of the Act holds service providers liable if they "intentionally support or consents" to an offense of the Act.

There is a need to target the enforcement of Internet crimes in a smart and tailored manner. Intermediaries should not be held responsible so long as they take the content down after receiving valid notice from the relevant authorities and cooperate within a reasonable framework.

Consumer protection and security are legitimate goals for regulation, but regulation must be aimed at the actor that has violated the law rather than the platform that the actor has used. It is neither technically possible nor economically feasible for intermediaries to monitor all





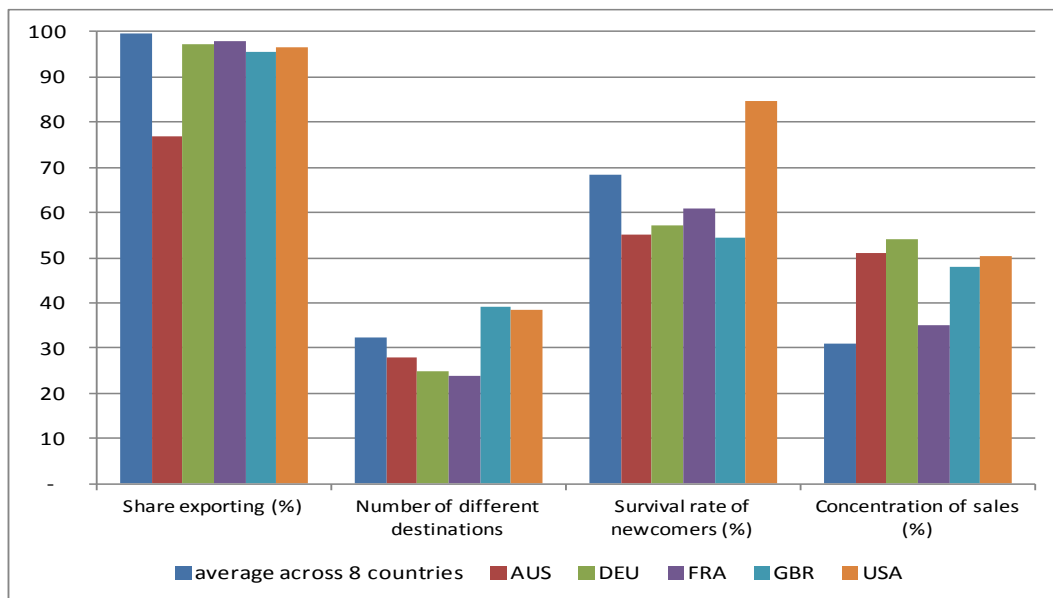
of their users' actions. We propose that Thailand should consider creating a safe harbor provision for intermediaries that exempts them from liability for the actions of their users.

**When technology is put to use**

The research presented in the previous section allows us to conclude that there are stark contrasts between Technology-Enabled Trade and traditional trade in the eight selected markets. Almost all the Technology-Enabled Small Businesses are exporters. In comparison, according to the World Bank survey data, roughly 10 - 20% of traditional firms across the eight countries report that they export. (Thailand is an outlier, with three out of four firms reporting to export.) Moreover, these businesses reach on average 30 to 40 different markets, whereas traditional traders serve on average three to four different markets.

Data from the World Bank shows that conventional exporting is dominated by established firms, with newcomers accounting for a mere 1 - 2% of exports. The data also shows that the largest 5% of firms typically account for 80 - 90% of all exports of a country. In contrast, across the eight selected countries, the share of "newcomers" on the eBay Marketplace (defined as sellers that did not make any sales in the previous year) is on average around 26%, and in some countries even more (e.g., 42% in Indonesia). Moreover, these "newcomers" have a much higher chance to remain in the market: we find that 60 - 80% of newcomers survive their first year, while the respective figure for traditional exporters is significantly lower. Only around 30 - 50% of such exporters remain active in their second year.

This research also allows us to conclude that Technology-Enabled Small Businesses in developing and emerging markets are remarkably similar to those in developed markets in terms of the share exporting, the number of foreign countries they reach on average as well as survival rates and concentration of sales among the largest of traders. This conclusion can be drawn based on the research presented in this article together with previous economic analysis of eBay data (presented in a number of "Commerce 3.0" reports).





The table compares key research results of developing, emerging and developed markets. We have aggregated the results of the eight countries selected for this article and compared with results for Australia, Germany, France, the UK and the US. Overall, these findings demonstrate that the benefits of new technologies are spread in very similar ways across markets in different regions and at different levels of economic development.

We argue that these findings demonstrate how the Global Empowerment Network supports small traders in developing and emerging markets to reach customers all around the globe. These trade patterns are almost identical to what we have previously identified for developed markets while in stark contrast to traditional trade patterns.

### **Final word**

Perhaps the single most important finding from the research presented in this article is that the very same trends and benefits our previous research identified in developed markets are present in developing markets. Firstly, geographic distance has little negative impact on online trade flows. We have found that true for trade flows arising from developed as well as developing markets. Secondly, technology and the Internet foster multi-country exporters. We have found that the large majority of small business traders on eBay in both developed and developing markets reach on average about 30 to 40 different foreign markets.

Against these research findings, we conclude that the Global Value Chains model (i.e., whereby small businesses enter the global market by becoming a part of the production process of a much larger firm) is not the only way for small businesses to reach and service customers in international markets. The combination of the Internet and digital services make it possible for businesses anywhere to reach consumers everywhere. This means that sustainable global operations can spring out of small local establishments.

We argue that our research demonstrates the existence of an alternative, complementary, path to globalization. That path is made up of effective Internet connectivity, adaptable digital services and cross-border logistics; when brought together, these conditions allow also small traders to serve world markets as this article has described. We propose this alternative globalization model be called the "Global Empowerment Network".

While the Global Empowerment Network is underpinned by technology, its effectiveness also depends on the right legal rules and administrative procedures as the policy assessment presented in this article emphasizes. We have identified the following policy areas as key for creating conditions that enable also small business traders to access and serve foreign markets:

- Investment in open, interconnected broadband and smartphone technology.
- Optimized and harmonized shipping and postal regimes.
- Robust intermediary liability protections.
- Increased and harmonized de minimis thresholds.
- International exhaustion of copyright and trademark rights.
- Promoting electronic payment methods.
- Improved customs processes through increased technology adoption.



- Recognition of technology-enabled SMEs and the global empowerment network in free trade agreements.

We are excited about the continued growth of the Global Empowerment Network and believe it will be an integral part of global trade in the future.

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