

Removing obstacles to low value consignments trade for Asia-Pacific small and medium-sized enterprises

PASCALE BOURQUIN* AND ADAM HEAL**

Highlights

Digitalisation has opened up new opportunities for shipping goods and services around the world and has allowed a proliferation of small and low-value packages to be sold through online platforms. This especially benefits small and medium-sized enterprises (SMEs) in developing economies who are now able to engage in international trade by dispatching small packages, often with relatively low monetary value. This note identifies obstacles to this type of trade and identifies appropriate policy responses. Key findings:

- Digitally-enabled cross-border trade by SMEs typically involves low value consignments. This type of trade faces a different set of policy obstacles to ‘traditional’ trade involving large shipments moving by cargo containers.
- Cross-border trade in low value consignments is disproportionately affected by (high) fixed costs. These can arise from: customs and border procedures and taxes; transportation and delivery hold-ups; and costly access to the Internet and international payment systems.
- *De-minimis* thresholds – allowing duty free imports of goods below a certain value – remain too low in many Asia-Pacific countries. Raising them would make it easier for SMEs to access consumers in those markets.
- Customs procedure reforms such as implementing paperless trade systems and making them interoperable across borders, as well as establishing more efficient cross-border and inter-country transportation and delivery services infrastructure can cut trade costs and reduce delays in trade in small packages.
- High Internet access costs fall disproportionately on SMEs. The increasing popularity of accessing the Internet via mobile devices means that improving inter- and intra-country telecommunications infrastructure could minimize the cost barriers of connectivity for SMEs.
- Access to international payments systems is crucial but SMEs involved in low value consignments trade are more vulnerable to high establishment and transaction costs, as well as to risks and legal uncertainty associated with online payment systems. Mutual recognition and harmonization of laws on formation and enforcement of online contracts in the Asia-Pacific could help reduce such costs.

**Pascale Bourquin is an intern in the Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific.*

***Adam Heal was a staff member, Trade, Investment and Innovation Division, United Nations Economic and Social Commission for Asia and the Pacific when this text was prepared.*

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Digital trade by SMEs in developing countries

Providing a solid policy framework for SMEs¹ to prosper has proven to be a vital strategy for growth in developing countries (ESCAP, 2012). In most developing countries SMEs play a pivotal role in job creation and are the backbone of economic growth. Using a sample of 104 countries, a World Bank study found that SMEs contributed on average to around 50 per cent of full-time employment in developing countries (Ayyagari et al., 2011). The contribution of SMEs² to employment in selected Asia-Pacific economies varies but in many countries SMEs account for the majority of total (formal) employment. Their contribution is especially notable in landlocked developing countries such as Nepal (85 per cent), Mongolia (73.6 per cent) or Uzbekistan (73.9 per cent).

The diffusion of digital technology and the digitalisation of products and services have transformed the global trade environment. Digitalisation allows for developing country SMEs, whose activities are often constrained by small and unsophisticated domestic markets, which hampers the development of large consumer markets and thus economies of scale, to become globally competitive and to participate in international trade in ways that previously were not possible. Alongside easier access to an international client base, digital trade benefits for SMEs include *inter alia*: (i) lower-cost access to essential imported inputs, (ii) reduced information search-, transaction-, and advertising costs and (iii) the possibility of finding niches, specializing in tasks and becoming part of global value chains (Nejadirani, Behraves and Rasouli, 2011). Ultimately, digital trade has great potential of enhancing socio-economic development. SMEs using the Internet frequently have an up to 22 per cent higher revenue growth than those that do not use the Internet at all or use it at low levels (Dean et al., 2012).

One study found that companies using the Internet to a high degree are twice as likely to have an international as well as a national customer base compared to merely selling locally, than their counterparts that do not use the Internet or only do so sparingly (Dean et al., 2012). This could *inter alia*, result from the fact that creating a globally accessible website, for example, immediately allows companies an international presence without establishing a costly physical overseas presence. Being able to access foreign markets through digital means is especially beneficial in raising the profile of SMEs in developing countries trading in low value goods—such as clothing or handicrafts—which typically have constrained finances and thus limited budget for activities such as attending trade missions or making sales calls on potential foreign customers in order to get purchasing orders. Being able to access foreign markets through digital means is additionally particularly valuable to firms in landlocked and small island countries, where travel aimed at acquiring clients abroad is more costly and time consuming (ADB, 2015).

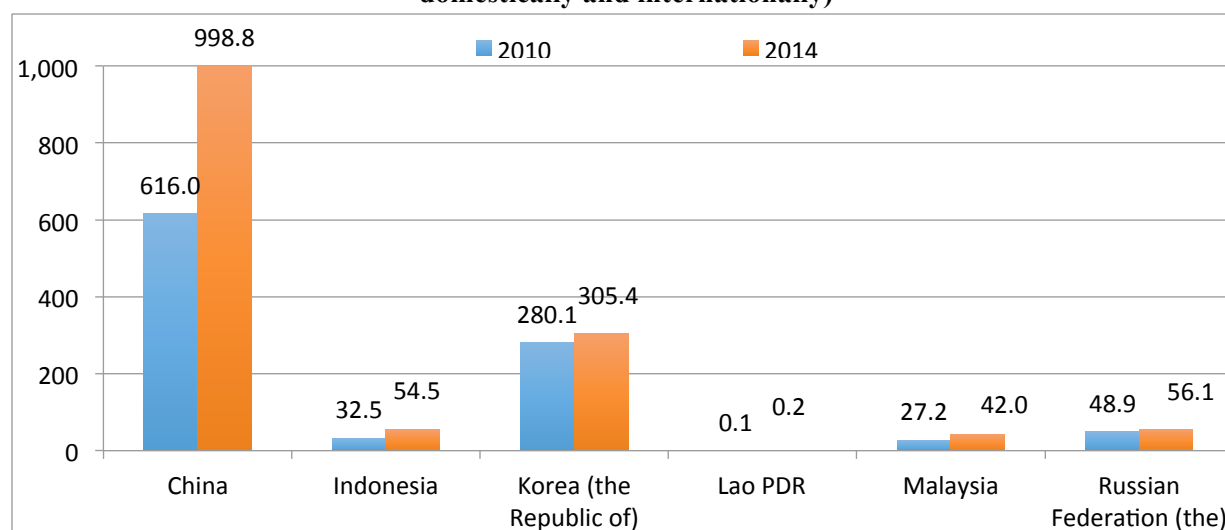
This note considers only digitally-enabled exports of physical goods and does not dwell on the parallel opportunities for SMEs to deliver goods and services purely digitally. Digital trade has been changing the composition of goods trade, making it more commercially viable to export low value or a smaller volume of goods. Data supports this showing that from 2011 to 2014 the cross-border delivery of small packets, parcels and packages increased by 48 per cent, with the Asia and Oceania region showing significant trade surpluses in such deliveries (UNCTAD, 2015). Figure 1 confirms the trend of increased trade in small packets, parcels and packages for selected Asia-Pacific economies.³ Customs, infrastructural, and regulatory regimes, however, are often still tailored to traditional large-volume trade flows or transactions. High fixed trade costs such as regulatory compliance costs or shipping costs, are especially burdensome for SMEs involved in low value consignments trade, as they make up a higher proportion of total costs compared to larger exporters trading in higher value or higher volumes.

¹ No globally adopted definition of SMEs exists: Countries independently use criteria such as number of employees, annual sales and revenues, assets and capital or investment in order to determine whether a company is an SME or not (APEC, 2013).

² Here defined as companies with up to 250 full-time employees.

³ It must be noted, however, that data does not allow an individual analysis of cross-boarder vs. intra-country trade trends for this time period.

Figure 1: Number of small postal parcels (in millions) sent and received in 2010 vs. 2014 (both domestically and internationally)



Source: Author calculations based on Universal Postal Union [UPU], Postal Statistics, Accessed 24 May 2016

Small Postal Parcels = up to 20 Kilogrammes

Costly customs procedures

Preparing, submitting, processing and storing cargo and goods declarations - paper or electronic – can be extremely costly not only for affected industries, but also for public administrations. The fixed costs that occur often remain constant no matter the value of the affected shipment. Therefore, in the case of low value shipments, governments may end up spending more resources on administrative processes than the aggregate value they collect in duties and taxes (UNECE, 2015). Additional to being costly, administrative procedures are sometimes slow, often delaying products from reaching end consumers, or components from entering the supply chain, ultimately resulting in a reduction of trade.

Establishing *de-minimis* thresholds,⁴ which enable small consignments to pass through customs free of taxes and duties and undergoing more relaxed clearance procedures, can eliminate timely and costly procedures. Moreover, it may improve the efficiency of customs by allowing administrations to concentrate on higher value and at-risk shipments. At the same time the establishment of a *de-minimis* threshold can be achieved without compromising security, as key data gathering and security screenings may be retained, and goods requiring licensing or goods such as alcohol and tobacco may be exempted from the *de-minimis* rule (ICC, 2015).

The higher the *de-minimis* threshold, the higher the value of a shipment may be whilst still passing customs free of duties and taxes (USCBC, 2013). Research indicates that some governments are not applying a cost-benefit analysis accordingly, resulting in inefficiencies caused by *de-minimis* thresholds being set too low (see i.e. Hufbauer and Wong, 2011 or Holloway and Rae, 2012). This research also showed that increasing *de-minimis* thresholds leads to positive net economic benefits and positive job creation impacts whilst simultaneously allowing public revenue collection to focus on more important issues. When setting *de-minimis* thresholds, governments should take factors such as inflation rates, risk management impacts, duties collected versus administrative costs and other costs of cross border trade transactions, as well as industry impacts, into account.

⁴ The International Chamber of Commerce (ICC) defines *de-minimis* thresholds as “valuation ceilings for goods, including documents and trade samples, below which no duty or tax is charged and clearance procedures, including data requirements, are minimal” (ICC, 2015).

The benefits accruing from higher *de-minimis* thresholds are especially valuable for SMEs who can take advantage of digital platforms to export low value packages to consumers overseas (ICC, 2015). Higher *de-minimis* thresholds allow them to participate in global trade by using e-commerce to export and import single low-value shipments without meeting complex and costly trade rules. Additionally, by being able to deliver their products to customers faster, they are better able to meet the expectations of the digital era.

Both the Revised Kyoto Convention (RKC) adopted in 1999 as well as the WTO Bali Agreement of 2013 call for Members to set relevant *de-minimis* thresholds and to regularly revise them.⁵ Today countries apply diverse *de-minimis* thresholds, ranging from none at all to \$1000. In March 2016 the United States Customs and Border Protection announced that it was raising the *de-minimis* threshold for the first time since 1993 from its previous level of \$200 to \$800 (CBP, 2016). Taking into account both cost savings at various points of the supply chain⁶ as well as losses in government revenue due to non-collection of tax and duties,⁷ the change in the U.S.-*de-minimis* threshold was estimated⁸ to result in a net payoff of at least \$17 million annually (Hufbauer and Wong, 2011). Initially the U.S. tried to push for a similar increase in *de-minimis* thresholds for all parties involved in negotiating (at that time) the Trans-Pacific Partnership (TPP) Agreement. However, ultimately it was agreed merely to include a provision requiring all countries to enforce a *de-minimis* threshold and to review it regularly, not specifically defining the value it should take on.⁹

In January 2016 the Philippine Congress passed an Act, which if signed into law, will raise the Philippine's *de-minimis* threshold significantly from 33 cents to \$200 (Rappler, 2016). Moving in the opposite direction, both the Australian and the New Zealand government are currently considering lowering the *de-minimis* thresholds in their country, facing pressure from certain industries that believe the relative high thresholds are disadvantaging domestic retailers (KPMG, 2015). China, as a further example, recently¹⁰ eliminated provisions that allowed for taxes to be waived on imported goods purchased via e-commerce when they amounted to less than RMB 50 (approx. \$8). Additionally, it removed its *parcel tax*, which specifically allowed for goods retailed online via cross-border digital commerce to be taxed at a lower rate than other goods (WSJ, 2016). Such governmental trade policies can be extremely detrimental to SMEs trading in low value goods and in the extreme may lead to them refraining from entering the digital global trade market.

The International Chambers of Commerce (ICC) recommends that countries adopt a *de-minimis* threshold of at least \$200, and should aspire to a rate of \$1000 (ICC, 2012). Figure 2 shows that there are large differences in the *de-minimis* regimes between Asia-Pacific countries and that most have thresholds far below the recommended \$1000.

⁵ See RKC Transitional standard 4.13 and 2013 Bali Package paragraph 8.2.

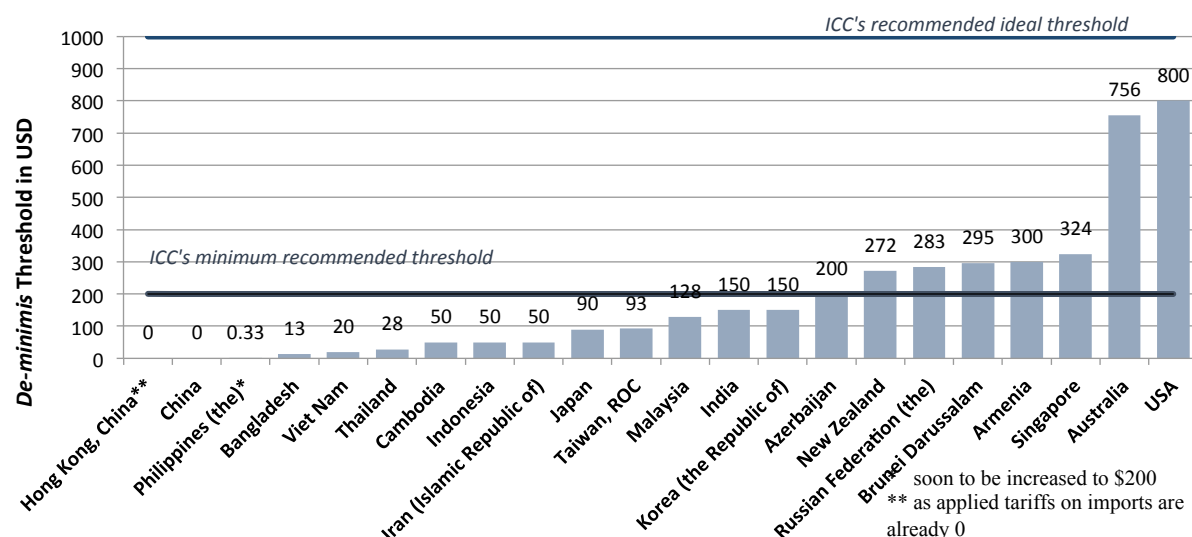
⁶ Such as cost savings for customers and for express firms.

⁷ It was estimated that 3.8 million shipments would fall into the range of affected shipments (\$200-\$800 range (as of 2011)).

⁸ These estimates stem from 2011. Acknowledging the fact that firstly, low value consignments have become increasingly important due to digital trade and secondly, that cross border trade volumes have become more significant, using present data, these estimates would presumably be much larger.

⁹ See paragraph 5.7 of TPP text (<https://www.tpp.mfat.govt.nz/text>).

¹⁰ With effect on April 8 2016.

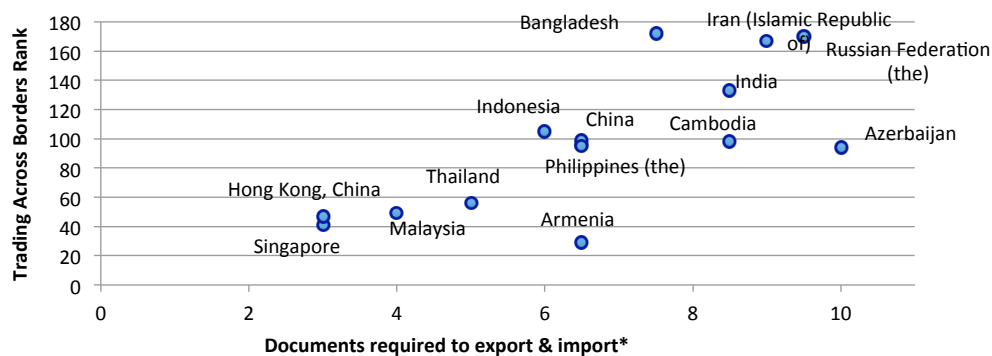
Figure 2: Examples of *de-minimis* thresholds in selected Asia-Pacific economies

Source: Global Express Association, 2016 and respective government websites

A 2012 study of twelve APEC economies found that raising *de-minimis* thresholds in Japan, Indonesia, Malaysia, the Philippines and Thailand to \$200 would result in net economic gains of \$304 million, \$49 million, \$23 million, \$21 million and \$79 million annually, respectively with savings in *government resources* being the largest benefit followed by *savings in business compliance* (Holloway and Rae, 2012). These amounts would presumably be larger today due to the increased importance of low value shipments and cross-border trade for SMEs. Furthermore, net economic gains would presumably be even larger if the *de-minimis* thresholds were raised further to, for instance, the \$1000 threshold recommended by the ICC.

In order to unlock overall economic gains and especially to expand the opportunities for SMEs to participate in cross-border digital trade, countries could work together to set a minimum *de-minimis* threshold level throughout the region or among groups of cooperating countries. Emerging regional trade agreements such as the Regional Comprehensive Economic Partnership could be one vehicle for cooperation on this issue. Regional collaboration would leverage the benefits accrued from taking unilateral action and would allow individual countries to have the option of applying thresholds to better suit their individual circumstances.

In the absence of sufficiently high *de-minimis* thresholds or when SMEs trade in consignment-values that surpass the thresholds, streamlining other customs procedures, for instance by lowering the amount of documents required by an importer or exporter, can become critical for low value consignments digital trade, similar to the case of *traditional* trade. As can be seen in Figure 3 the average number of documents required at the border to import and export significantly varies between selected Asia-Pacific countries and serves as a good indicator of *Trade Across Borders Efficiency*. The number of required documents is especially high in South Asia (with an average of 8.75) and in some economies in Central Asia such as Kazakhstan (11) and Kyrgyzstan (10) (ADB, 2015).

Figure 3: Average number of documents needed to export and import and trade efficiency

Source: World Bank Doing Business 2014 and 2015, accessed May 10 2016

* Calculated as mean of documents required for exports and those required for imports

Studies have estimated that reducing the number of documents required by an importer by 10 per cent would increase trade by 11 per cent (ADB, 2015). Implementing paperless trade systems, as called for in Article 10.4 of the WTO Trade Facilitation Agreement, reduces the number of documents required by allowing for the exchange of trade-related data and documents to take place electronically, making fulfilling documentation requirements more efficient and effective. Hong Kong's implementation of its paperless system, the "Digital Trade and Transportation Network (DTTN)", for example, is estimated to have generated cost savings to SMEs of nearly \$0.9 million per year (APEC, 2011). A number of Asia-Pacific economies are currently in the process of implementing such systems: the regional average level of implementation of paperless trade amounts to under 50 per cent (ESCAP, 2015). However, large differences in the level of implementation of paperless trade measures exist between individual countries.

ESCAP research found that whilst many Asia-Pacific countries have developed frameworks to enable paperless trade, most have not begun the implementation of cross-border paperless trade (ESCAP, 2015). In order for the benefits of paperless trade to accrue to SMEs wishing to enter the digital global trade environment by trading low value goods across borders, however, paperless trade systems must be recognized and implemented across borders. The ESCAP Framework Agreement on Cross-Border Paperless trade agreed in 2016 is a step in this direction. However, in order for SMEs to be able to reap the benefits, paperless trading systems must specifically be made more easily accessible to SMEs, for instance through assistance to help them register and use the facilities (ESCAP, 2016a).

Transportation and delivery services infrastructure

Inadequate transportation systems are seen to be particularly significant barriers to SMEs in developing countries involved in low value consignments trade, which are more sensitive to high transportation and delivery costs (Saslavsky and Shepherd, 2012). One of the biggest advantages of buying a product online is its quick and cheap delivery. SMEs in developing countries participating in digital trade must be able to guarantee timely delivery of intermediate and end products. This is especially true for SMEs trading in perishable goods such as fruit or vegetables. It has been estimated that each day of delay in delivery of goods reduces 'traditional' trade by at least one per cent (World Bank, 2013). Aside from losing customers and/or suppliers, not being able to rely on timely delivery means that companies have to resort to more costly measures such as stocking up on inventory, which results in increased warehousing costs and reduces competitiveness, especially in the case of SMEs that typically do not have deep cash reserves. Lastly, handling returns is an important aspect of digital commerce, which also heavily relies on efficient, timely and cheap transportation.

With digitalisation making low value consignments trade increasingly relevant, concerns regarding logistics have moved from focusing solely on bulk transportation to additionally focusing on the

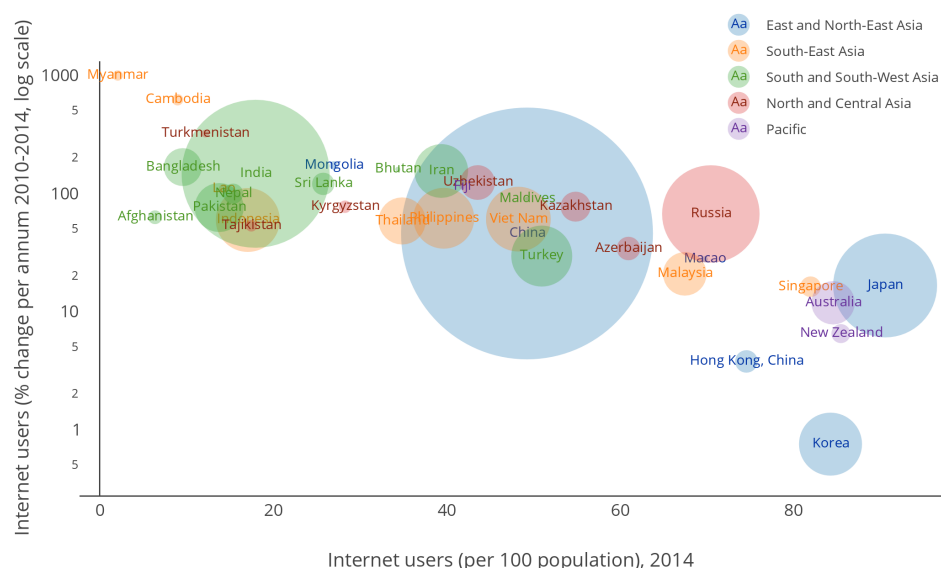
transportation of small, individual packages, generally managed by delivery service providers. Logistics such as warehousing, handling orders, distributions and returns have become more complex and sophisticated with goods directly being delivered to customers' homes or workplaces. India's potential pool of e-commerce customers, for example, is spread out over more than 100,000 ZIP codes. This makes it extremely challenging for logistics companies and postal services to manage door-to-door delivery throughout the whole country (ADB, 2015). Furthermore, some countries lack a precise address- or postcode system, both of which play a key role in enabling an efficient delivery network. In developing countries, lacking public or private parcel delivery service companies that have the capacity and capability to provide efficient, reliable and traceable postal deliveries with full geographical coverage may pose a significant hurdle to SMEs trading in low value packages aspiring to enter the global digital trade market (UNCTAD, 2015).

Eliminating barriers related to transportation and delivery services infrastructure could be achieved by establishing better transportation and delivery services infrastructure including increasing inter-country interoperability. Liberalisation of services trade to facilitate foreign investment in logistics services is also important. Furthermore, implementing universal address and post code systems as well as ensuring a level playing field for competitive delivery services or out-of-home delivery options (i.e. parcel lockers or at-work delivery) by exploring possible partnerships between the private sector and local post offices is vital, as SMEs involved in low value consignments trade, due to lack of resources, typically do not have the option of building their own distribution network. The postal and courier industry has tried to push for the adoption of a set of trade liberalization commitments targeted at liberalizing trade and enhancing competition in the postal and express delivery sectors in the WTO Doha Development Agenda, though the future of this negotiation remains uncertain.

Internet connectivity

Internet access plays a central role in enabling SMEs in developing countries to be able to participate in global digitally-enabled trade. Although Internet access is growing worldwide, especially in developing countries, significant differences between Asia-Pacific countries still remain.

Figure 4: Internet usage in Asia-Pacific countries



Source: Author calculations based on ESCAP Statistics, Accessed 12 May 2016

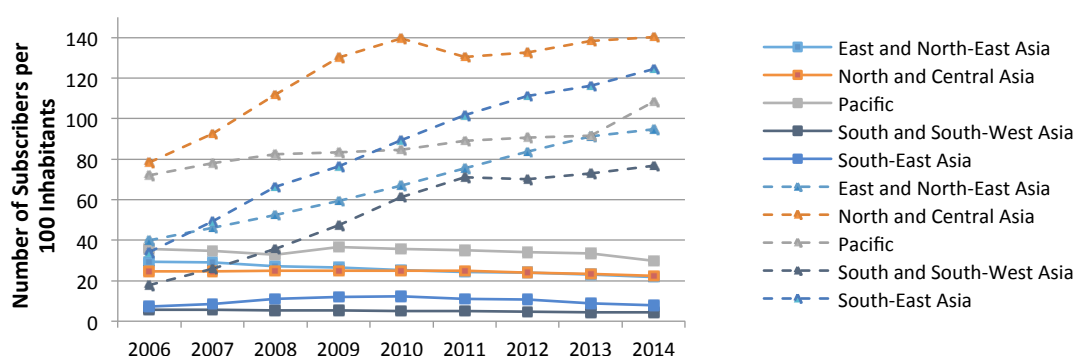
Note: Size of Bubble equivalent to total number of Internet users in corresponding country

Ninety per cent of the four billion people who still remain offline are in developing countries with only 89 out of 940 million people living in LDCs using the Internet (ITU, 2015). Figure 4 confirms this, with

Asia-Pacific countries such as Myanmar, Bangladesh or Nepal demonstrating a comparatively low - though rapidly growing - number of Internet users per 100 people. Low Internet access rates in developing countries may be due to poverty, higher access costs, low quality of technologies and lacking of or inadequate infrastructure, especially in rural areas (Meltzer, 2016). A lack of access can inhibit the adoption of digital trade in low value goods by SMEs, as they are highly sensitive to fixed installation as well as maintenance costs of ICT, require high-quality Internet access to be able to fully utilize available Internet services and ultimately are dependent on potential customers having access to the Internet.

Between years 2000 to 2010 mobile phone subscriptions in developing countries (figure 5) globally rose by more than 1,500 per cent with a major driver of this growth being the decreasing cost of mobile devices as well as building telecommunication networks for mobile devices being cheaper than building fixed line networks (Meltzer, 2014).

Figure 5: Wired-telephone (solid) and mobile-cellular subscriptions (dashed) in Asia-Pacific countries per 100 inhabitants, 2006-2014



Source: ESCAP Statistics, 2016

The increasing popularity of using mobile phone devices to access the Internet presents new opportunities to SMEs in developing countries. Not only does it allow them to access the Internet itself, it also enables them to undertake financial transactions (see below), to establish client bases, to contact customers and to coordinate supply-chain deliveries. Globally, in 2015 mobile data traffic grew at around 74 per cent, whilst in the Asia Pacific it grew by 83 per cent. At the country level, Indonesia, China, and India led global growth with growth rates of 129 per cent, 111 per cent, and 89 per cent (Cisco, 2016). Cisco estimates that by 2020 the Asia Pacific region will account for 45 per cent of global traffic, making up the largest share of traffic by any region (2016).

Although “mobile subscriptions per 100 inhabitants” are high in the Asia Pacific and mobile data traffic has been growing rapidly, this does not necessarily mean that all subscribers have access to the Internet via their mobile devices. A study shows that in 2015 only 35 per cent of mobile devices in the Asia Pacific were smart compared to 74 per cent in North America and 36 per cent globally (Cisco, 2016). This is likely to be due to the high cost of the devices themselves as well as of monthly mobile Internet-access plans. Though prices of mobile broadband relative to gross national income per capita (GNI p.c.) have been falling globally, in LDCs they are on average still twice as high as in developed countries and 20 times higher than in developed countries (ITU, 2015). In SIDS such as Papua New Guinea and the Solomon Islands, mobile-broadband prices also tend to be comparatively higher. The example of Fiji, the SIDS in the region with the highest mobile-broadband penetration and simultaneously the most affordable mobile-broadband prices, however, demonstrates that lower prices can in fact lead to higher mobile-broadband uptakes (ITU, 2015).

Although mobile-broadband has become dominant in many developing countries, access to fixed-broadband connections still remains important as it often provides for higher speeds and a more reliable connection (ITU, 2015). Having access to broadband technology is vital for SMEs to be able to take

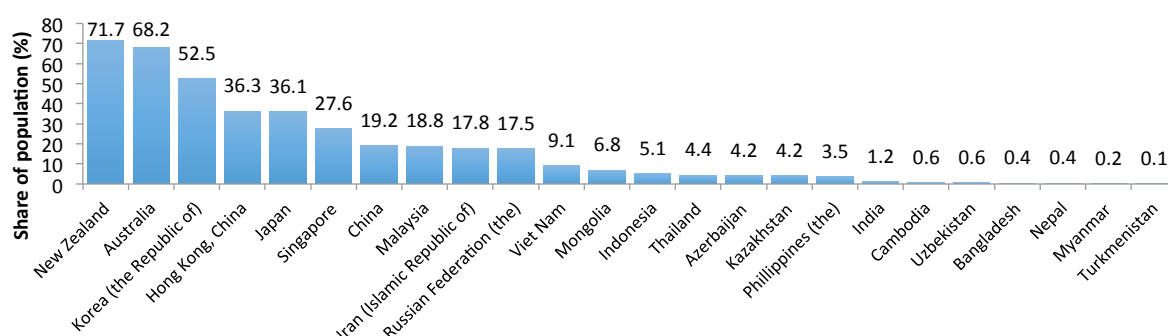
advantage of the full range of services available via the Internet (Meltzer, 2016). Average monthly fixed broadband prices, however, are three times higher in developing countries than in developed countries and penetration is consequently below 2 per cent in nearly half of developing countries (ITU, 2015). In the Asia-Pacific region average fixed-broadband prices are 16 per cent of GNI p.c. compared to 1.3 per cent in Europe. Additionally noticeable is the high standard deviation (39.1 compared to 0.7 in Europe), showing that prices vary immensely within the Asia Pacific, with services remaining especially unaffordable in LDCs, LLDCs and SIDS. Singapore, for example, enjoys low prices of USD 10 per Mbps, while in Cambodia, Lao PDR and Myanmar the price is USD 100 per Mbps (ESCAP, 2016b).

In summary, both mobile and fixed broadband services remain out of reach for people with low incomes, with their high prices posing a significant barrier to SMEs wishing to use the Internet to engage in low value consignments trade. Barriers specific to Internet access via mobile phones include the cost of Internet-enabled smartphones as well as interconnection charges. Poor quality of Internet connection (such as Internet speed and low broadband coverage) can additionally pose a hurdle for SMEs participating in digital trade in lower value goods, where time is of essence. Promoting the establishment of adequate mobile telecommunications infrastructure in both rural and urban areas by increasing competition in the communications sector or by exploring public-private partnership options, as well as eliminating barriers to trade in IT goods and thereby driving down the prices of devices such as computers and smartphones could help SMEs overcome the above-described barriers. A recent ESCAP report highlights the necessity of establishing cross-border terrestrial fiber connectivity and more Internet Exchange Points (IXPs) in the Asia-Pacific region in order to manage Internet traffic and drive down costs (2016). Furthermore it proposed that the IXPs should be set up to be operator-neutral in order to let competition to flourish and innovative services to arise (2016).

Access to international payment systems

The share of the population in Asia-Pacific economies that used the Internet to pay bills or buy things varies enormously (figure 6). In many Asia-Pacific countries, using online payment methods is a rarity. Paying online and handling refunds in the case of returns, however, are important components of digital trade. Ways to pay for online transactions include using a credit card, an intermediate payment system such as PayPal or checks, as well as money orders and cash on delivery (Meltzer, 2014). In the Asia-Pacific region, on average, 37 per cent of online buyers use credit cards, 23 per cent eWallets, 11 per cent cash on delivery and the rest other payment methods such as bank transfers or mobile payments to conduct online transactions (WorldPay, 2014). There are, however, huge heterogeneities in the preferred online payment method between Asia-Pacific countries with in India, for example, 40 per cent preferring to pay by cash on delivery whilst eWallets and mobile payments are preferred by a much smaller percentage. In China on the other hand a significant amount prefer to pay for online transactions per credit card or via eWallets, whilst cash on delivery is the preferred method of only 20 per cent (Payvision, 2015).

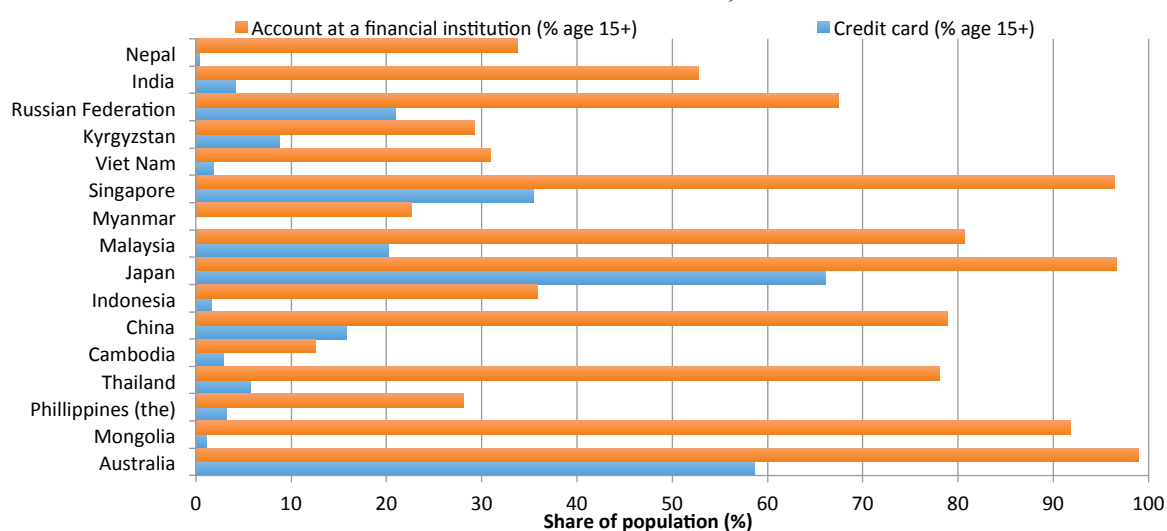
Figure 6: Share of population (15+) of selected Asia-Pacific economies that used the Internet to pay bills or buy things, 2014



Source: World Bank, Global Financial Inclusion Data base, accessed 9 May 2016

Differences in preferred online payment methods between countries may arise due to country-specific characteristics such as internet-access (explored in the previous section), access to financial institutions and instruments, transaction costs, data privacy and consumer protection laws, transparency, security concerns, as well as restrictions of cross-border financial and data flows (Meltzer, 2014).

Figure 7: Share of adults (age 15+, in per cent) with a bank account and credit card in selected Asia-Pacific Economies, 2014



Source: World Bank, Global Financial Inclusion Data base, accessed 9 May 2016

According to the World Bank up to 2.5 billion people worldwide do not have access to banks (2014). As figure 7 demonstrates, a large proportion of the Asia-Pacific population, especially in developing countries, does not have access to financial institutions and is still *unbanked*. This is problematic, as even if SMEs and their customers could forgo having a bank account or credit card to conduct international online transactions, organizations that provide alternative payment services themselves will require services directly from banks, making having access to an efficient and sound national banking system vital.

Cost effective access to international payment systems is important for SMEs to be able to participate in global digital trade. Credit cards, together with e-wallet services tend to be the most cost effective and convenient, due to vendors almost immediately receiving payment and thus being able to better manage cash flows and to expedite delivery (Meltzer, 2014). Furthermore, unlike bank transfers or cash on delivery, payments may be stopped in the case of fraud or in case the good or service is not delivered and are therefore less risky (Meltzer, 2014; Gomez-Herrera et al., 2014). Banks, however, tend to overcharge SMEs for international transactions (Money Mover, 2016). Often final costs are not transparent, as most banks do not guarantee an exchange rate or margin before a payment has been

made. Such uncertainty regarding transaction costs is especially burdensome for SMEs trading in low value goods and operating with lower profit margins.

According to case studies of SMEs located in Singapore, the online platform PayPal on average charges around 3-4 per cent in commission, credit cards charge around 4 per cent to offset the risk of fraud, and mobile phone platforms may collect up to 30 per cent of a company's revenue for sales made through an app store (ATC, 2015). Next to the transaction costs occurring when conducting or managing international payments, there are also high initial costs of introducing online payment mechanisms (Money Mover, 2016). These may include acquiring credit card terminals, the process of finding a bank that will handle settlements of accounts - an activity which is more burdensome for SMEs who do not have well-established contacts to banks - and the cost of linking payment methods to a website (ATC, 2015). Furthermore, as SMEs generally do not have deep cash reserves, they are especially sensitive to delays in payments and in having to make refunds in the case of returns, making swift and accurate methods of receiving and cancelling online payments crucial for their survival (ATC, 2015). Finally, not only SMEs themselves but also their customers are affected by costs of online transactions. Demand for purchasing low value goods online may be more affected by online fees or subscriptions required of customers to access online banking services than the demand for purchasing larger value goods online, as the costs make up a larger proportion of the end price.

Next to the initial and on-going costs of using online payment methods, trust is a further key determinant of whether both businesses and consumers are willing to participate in online trade. Survey data shows that in 2014 around 67 per cent of digital buyers in the Philippines, 62 per cent of those in Thailand and 60 per cent in Indonesia did not trust giving their credit card information online compared to a global average of 49 per cent (A.T. Kearney, 2015). The nature of digital trade makes it difficult to verify who is making a transaction and thus concerns of becoming complicit or the victim of illegal activities such as fraud, money laundering or terror lowers trust in making online transactions (Meltzer, 2016). A further concern, which may undermine the willingness of consumers and businesses to engage in digital trade, is data privacy. This refers to concerns regarding potential criminal misuse of personal data as well as to government use of the Internet to collect personal data (Meltzer, 2016). Cross-border digital trade complicates such matters as consumer protection laws across countries are often not interoperable, which increases the risk and uncertainty of digital trade and lowers the trust in the system (Meltzer, 2016). In the Asia-Pacific region, only 29.2 per cent of economies have privacy and data protection, 37.5 per cent consumer protection and 56.3 per cent cybercrime laws compared to 97.6 per cent, 85.7 per cent, respectively 83.3 per cent of developed countries (UNCTAD, 2015). Lack of clarity and inter-country heterogeneity on regulations concerning digital and traditional financial services create unnecessary costs and uncertainty (Meltzer, 2016).

Initial instalment and on-going costs, as well as regulatory, legal uncertainty and trust issues related to conducting and managing online transactions as depicted above are especially detrimental to SMEs involved in low value consignments trade. Although the costs are not all monetarily quantifiable, if too high, they will quickly make such trade unprofitable. SMEs compared to larger companies, generally do not enjoy the benefits of having an internationally established brand that may act as a guarantee of quality and security and have constrained compliance and financial capacities to navigate the complex regulatory environment of online transaction systems or to absorb costs such as hiring lawyers in case transactions go wrong (Meltzer, 2014). Policies enabling free flow of data and information, mutual recognition or harmonization of domestic laws on the formation and enforcement of online contracts, addressing data privacy concerns and increasing transparency to address fraud could overcome some of the root concerns underlying online payment systems (A.T. Kearney, 2015). Furthermore increasing competition in the financial sector to allow for more innovative payment methods to arise that are better catered to smaller companies' needs, facilitating the use of e-payment systems across borders, as well as increasing awareness of companies and consumers and transparency regarding relevant laws could allow SMEs in developing countries more access to international payment system.

Conclusion

Digitalisation has enabled the emergence of low value consignments trade and has established a platform for SMEs in developing countries to participate in global trade. However, with companies involved in low value consignments trade being more sensitive to trade costs, and e-commerce particularly hinging on efficient delivery, transportation and payment systems, trade costs entailing high fixed cost components and lacking infrastructure can easily make trade uneconomic. In order for SMEs in developing countries to be able to reap the benefits of cross-border digital trade in low value goods, identified barriers must be reduced. Critical actions include: raising *de-minimis* thresholds; lowering customs document requirements; establishing low-cost and efficient transportation, delivery services, telecommunications and broadband networks; and establishing a legal framework that gives players the confidence to conduct online transactions. The nature of cross-border digital trade requires that such policies be interoperable. Asia-Pacific countries should therefore strive to not only concentrate on improving domestic policies and procedures, but to additionally coordinate and work together with their neighbours to build the required infrastructure and to allow for mutual recognition or even harmonization of the systems, procedures, enforcement mechanisms and laws that affect digital trade.

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Trade, Investment and
Innovation Division

United Nations ESCAP

Rajadamnern Nok Avenue

Bangkok 10200, Thailand

Tel: +66(0) 22881410

Fax: +66(0) 22881027