How to Accelerate Digital Trade in Latin America and the Caribbean?

Kati Suominen
Founder & CEO, Nextrade Group
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NEXTRADE GROUP, LLC
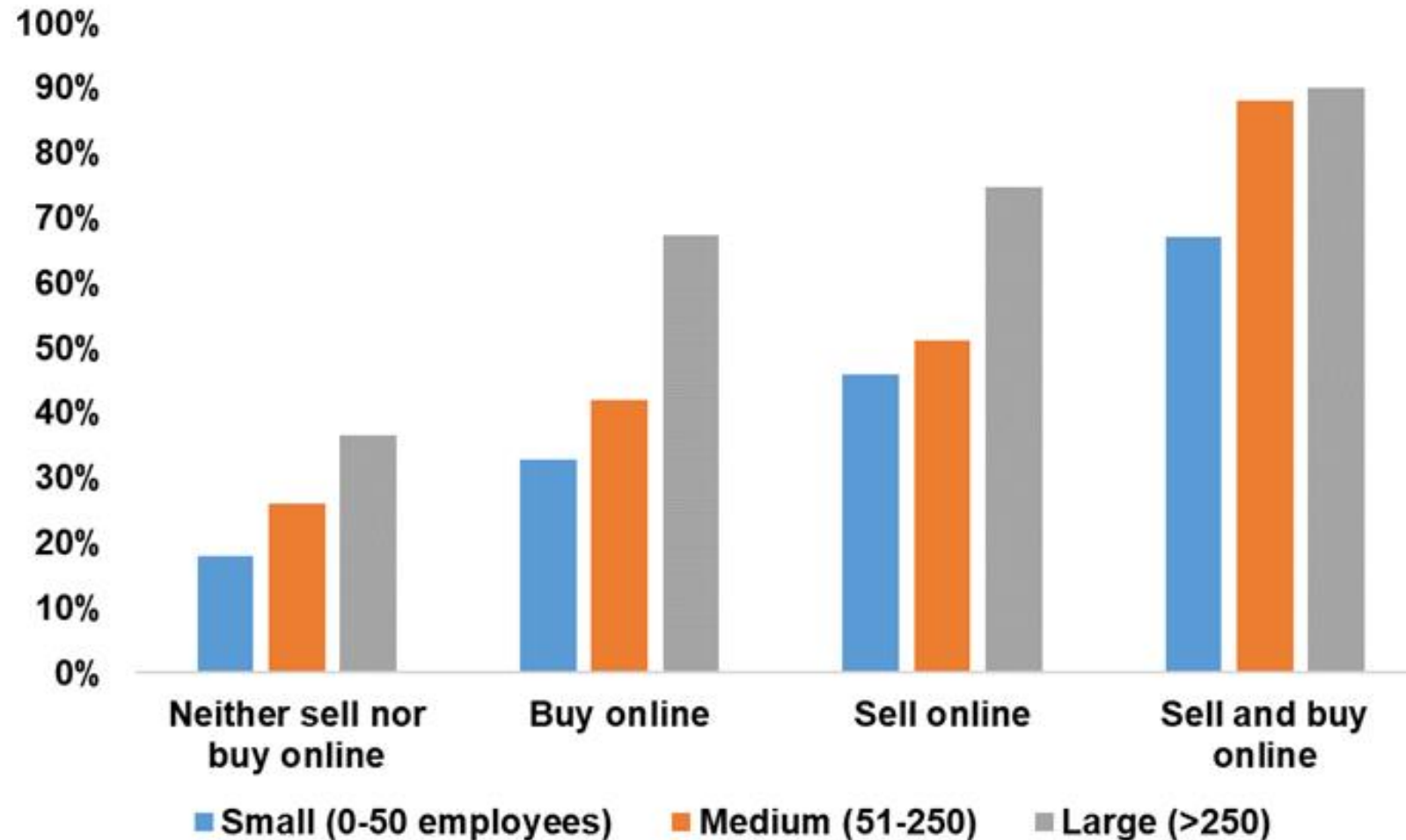*World trade is changing. Are you?*

Organization

- Opportunity: how to LAC firms use ecommerce and online platforms to trade?

- Challenge: what are the priority barriers for LAC companies to engage in cross-border ecommerce

- Solutions: what are the key policies to undo these barriers and what best practices are emerging around the world, to fuel SMEs' use of online platforms to trade?

The Opportunity

Online sellers are likelier to export – data from 1,500 LAC firms

% of firms that export. by online sales

Online buyers are likelier to import

% of firms that import, by online sales

Legend: ■ Small (0-50 employees) ■ Medium (51-250) ■ Large (>250)

Categories: Neither sell nor buy online, Buy online, Sell online, Sell and buy online
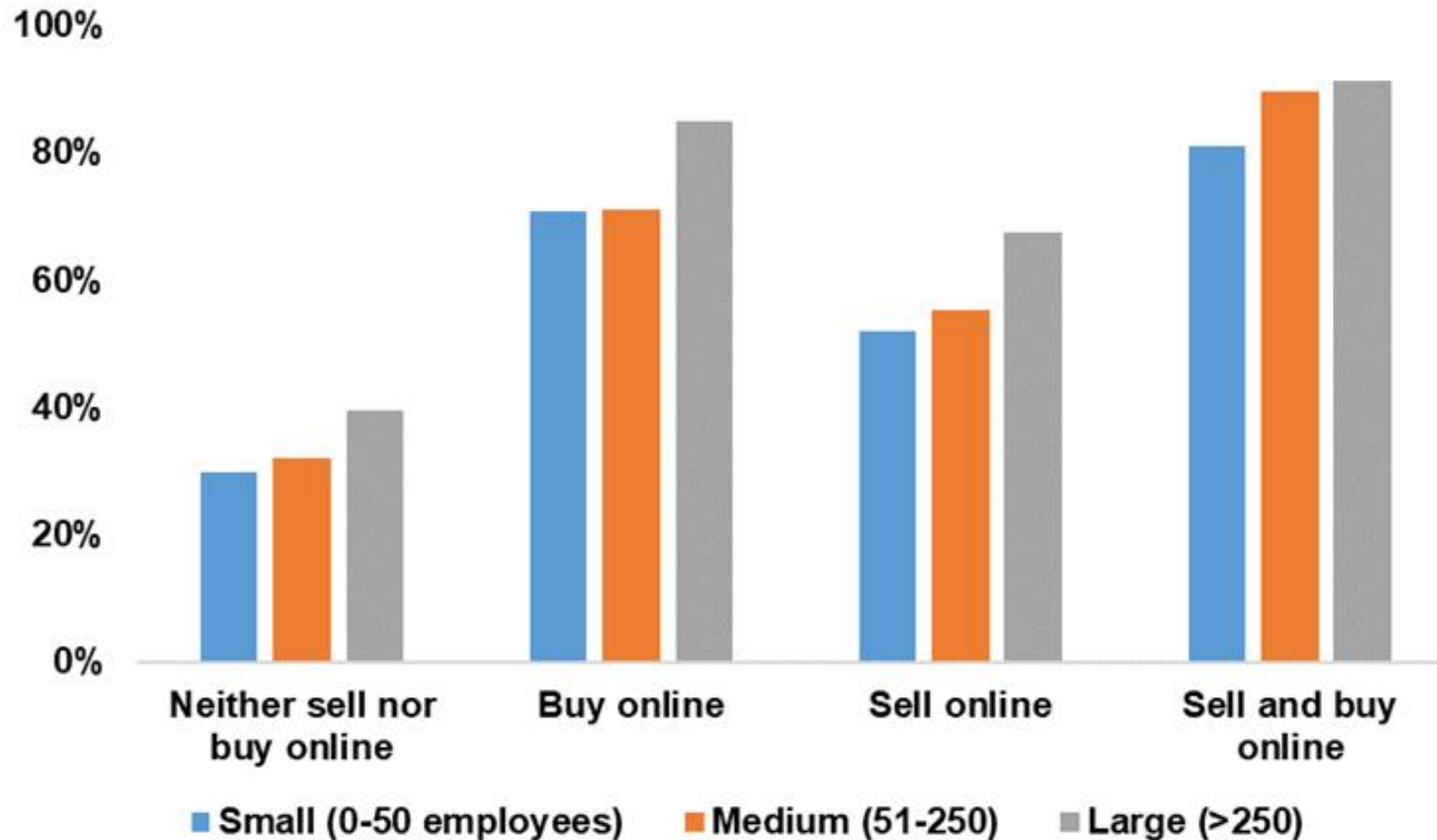
Online sellers are more diversified exporters

% LAC firms selling to a given number of markets

Legend:
- ■ Neither sell nor buy online
- ■ Sell online or sell and buy online

Online sellers are likelier to sell to USA, Asia, EU

LAC offline sellers' top markets: 55% intraregional

- 4.8%, Europe - other
- 1.2%, Other
- 8.2%, Chile
- 1.6%, Italy
- 2.4%, Spain
- 11.0%, Argentina
- 2.0%, France
- 1.2%, Asia- other
- 0.8%, Colombia
- 0.8%, Japan
- 7.8%, China
- 9.0%, Brazil
- 2.0%, Canada
- 5.3%, Peru
- 19.6%, USA
- 4.5%, Mexico
- 2.0%, Central America
- 5.3%, Uruguay
- 10.1%, South America - other
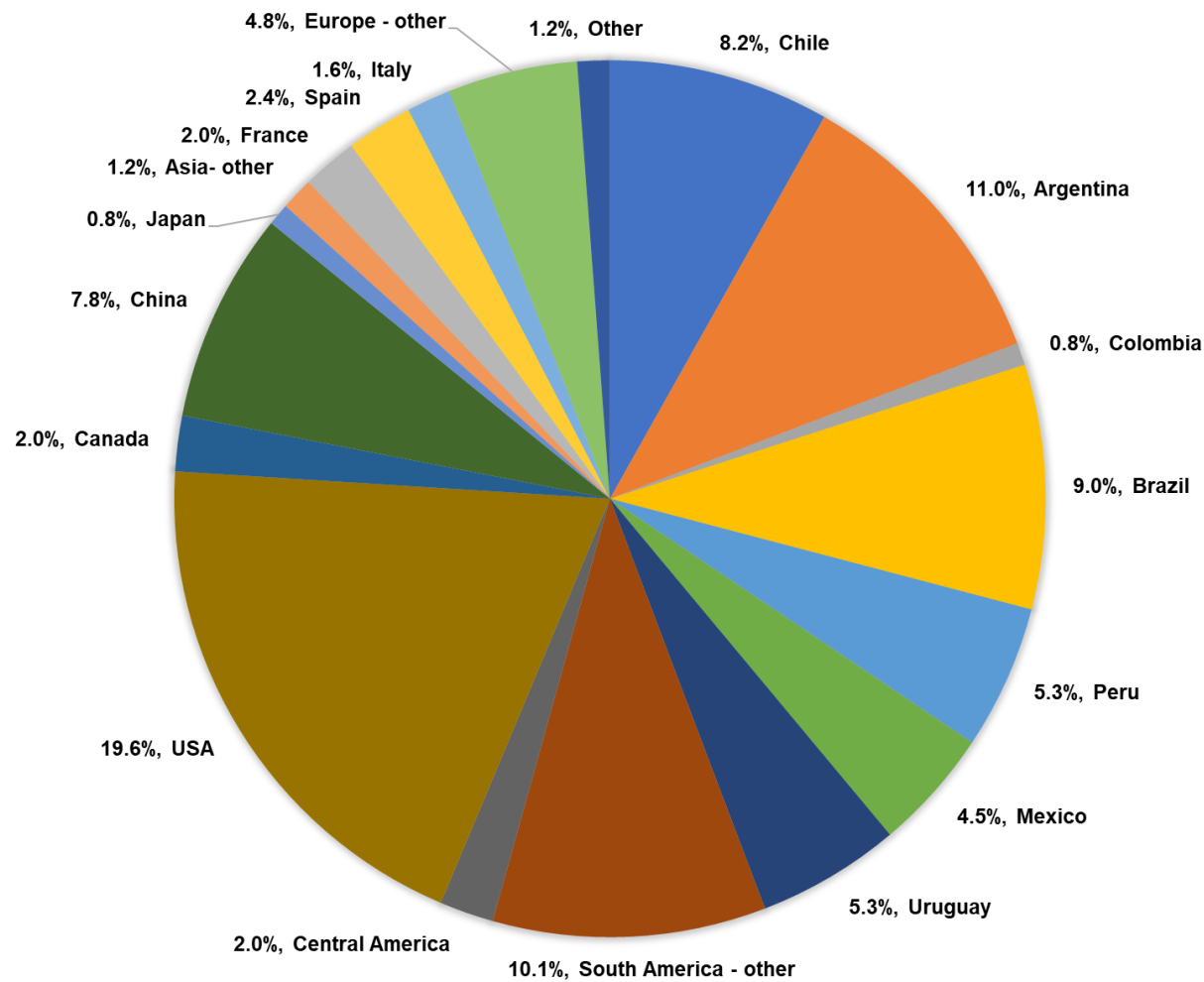
LAC online sellers' top markets: 55% extra-regional
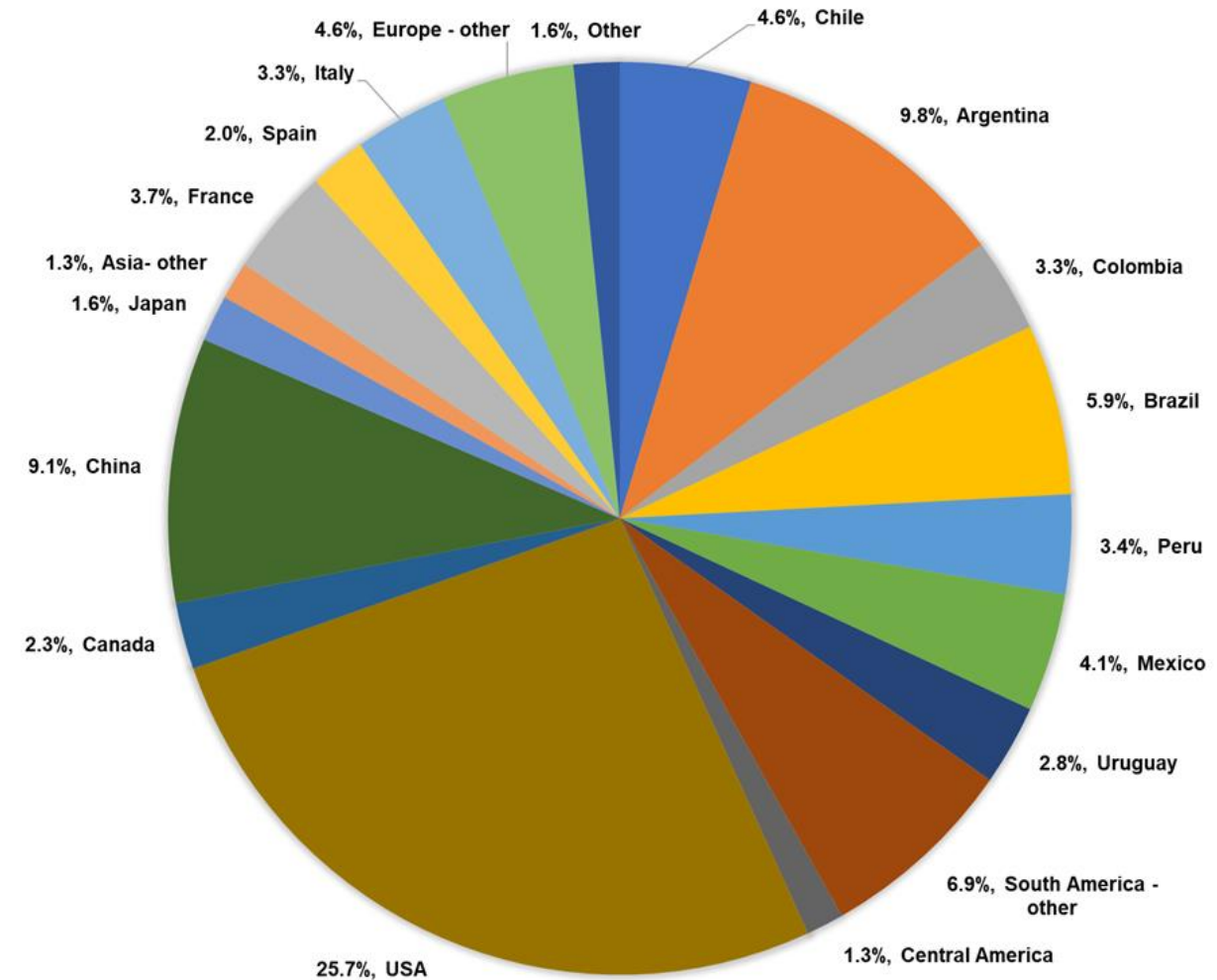
- 4.6%, Europe - other
- 1.6%, Other
- 4.6%, Chile
- 3.3%, Italy
- 9.8%, Argentina
- 2.0%, Spain
- 3.7%, France
- 3.3%, Colombia
- 1.3%, Asia- other
- 5.9%, Brazil
- 1.6%, Japan
- 9.1%, China
- 3.4%, Peru
- 2.3%, Canada
- 4.1%, Mexico
- 2.8%, Uruguay
- 25.7%, USA
- 6.9%, South America - other
- 1.3%, Central America

Platform Seller SMEs Get 95% of Their Revenues from Exports

% of export revenue of total revenue, traditional and platform sellers

Legend: ■ Traditional sellers ■ Platform sellers
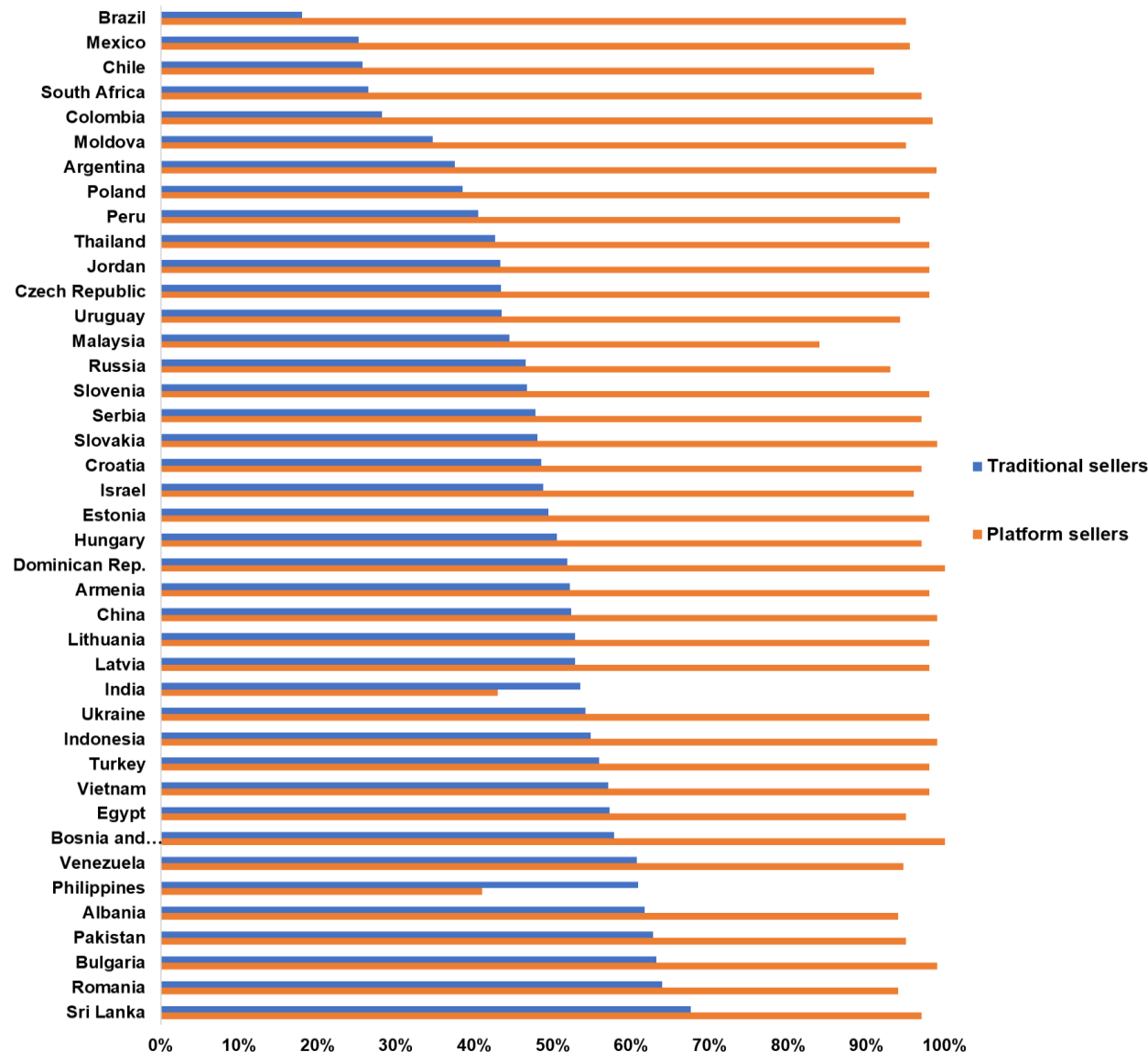
Most LAC SMEs that start using ecommerce get new foreign clients

"What are your clients like after you started to use ecommerce?"
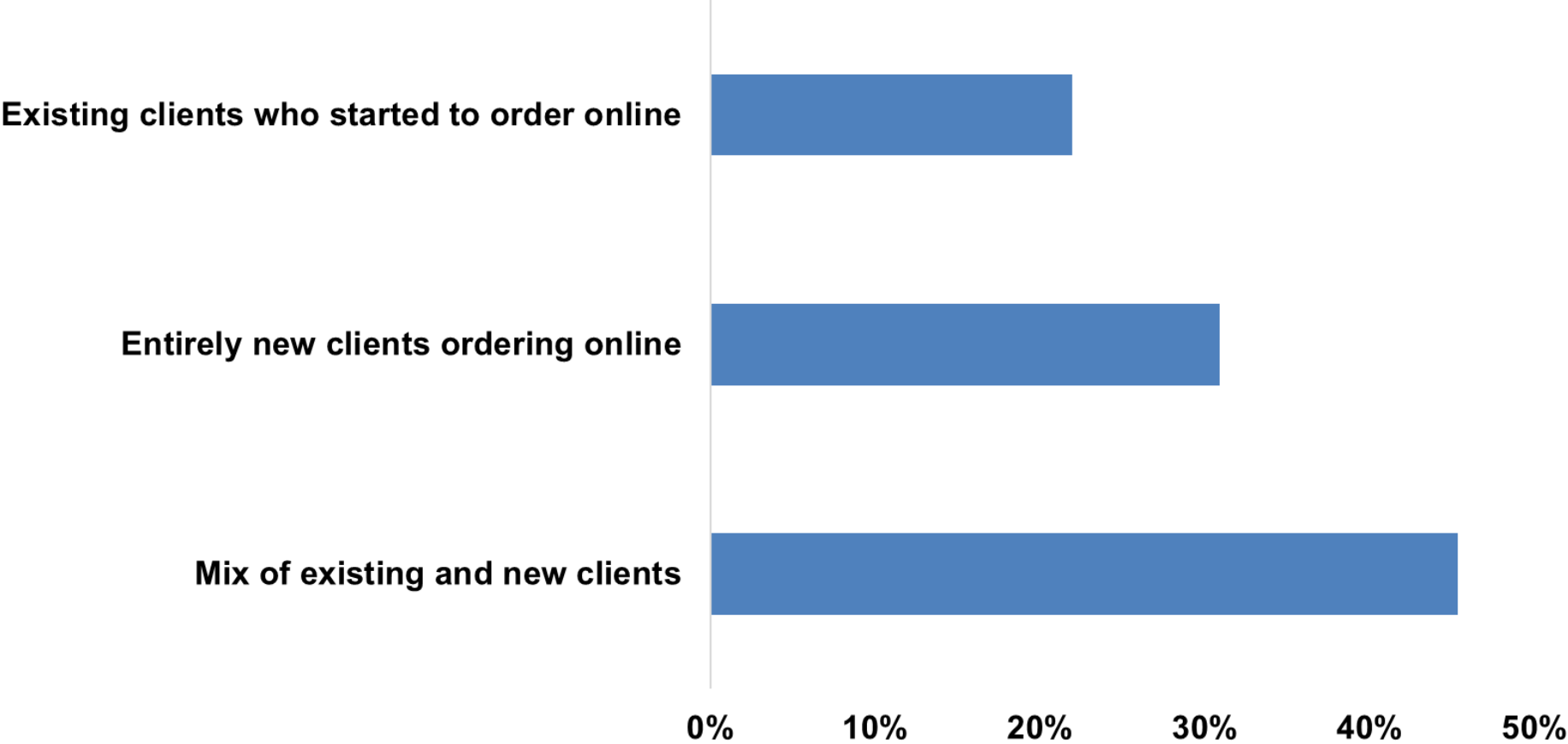
Developing country sellers are <u>particularly likely</u> to use platforms to export, and export to many markets
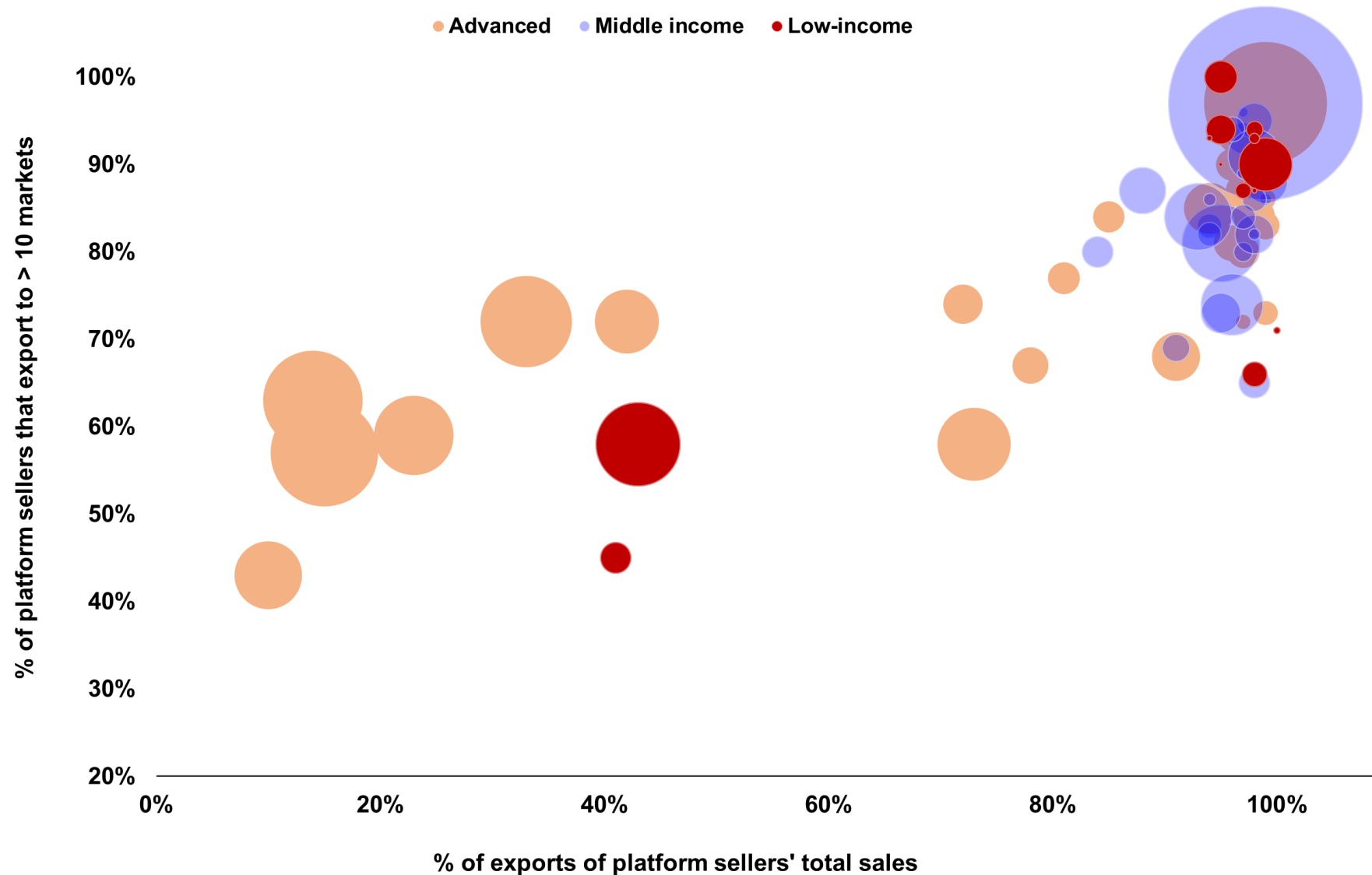
● Advanced ● Middle income ● Low-income

% of platform sellers that export to > 10 markets

% of exports of platform sellers' total sales

Suominen, Kati. 2018. "Expanding Developing Country Small and Medium-Sized SMEs' Use of Platforms for Trade." Report on behalf the Alliance for eTrade Development for U.S. Agency for International Development, June 1. Based on World Development Indicators, various industry sources and firm-level survey (Suominen, 2017).

LAC SME traders universally outperform non-traders

Exporter and importer premia in Latin America
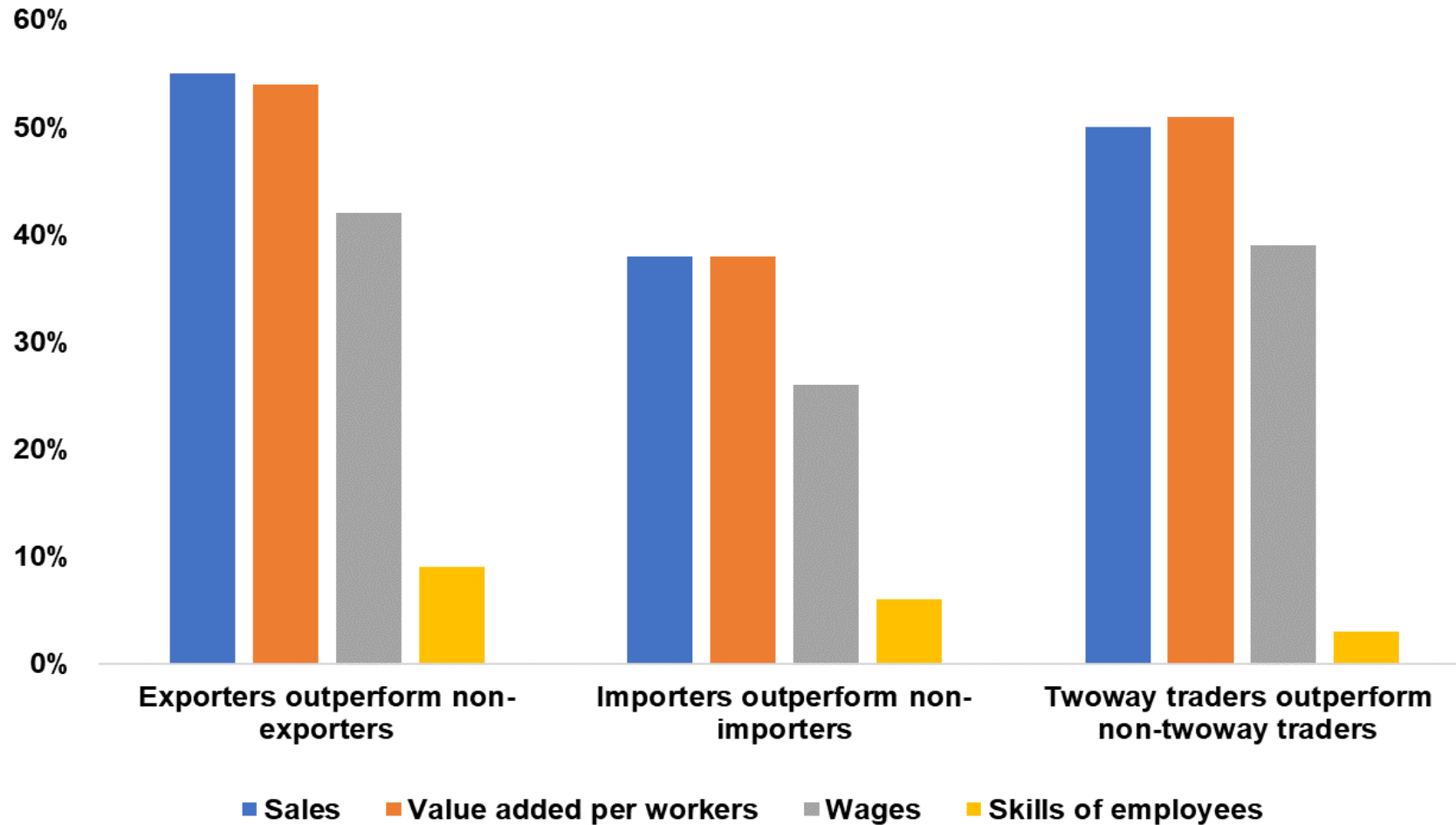
But developing country sellers' use of platforms is low: most are <10% from usage levels in the UK
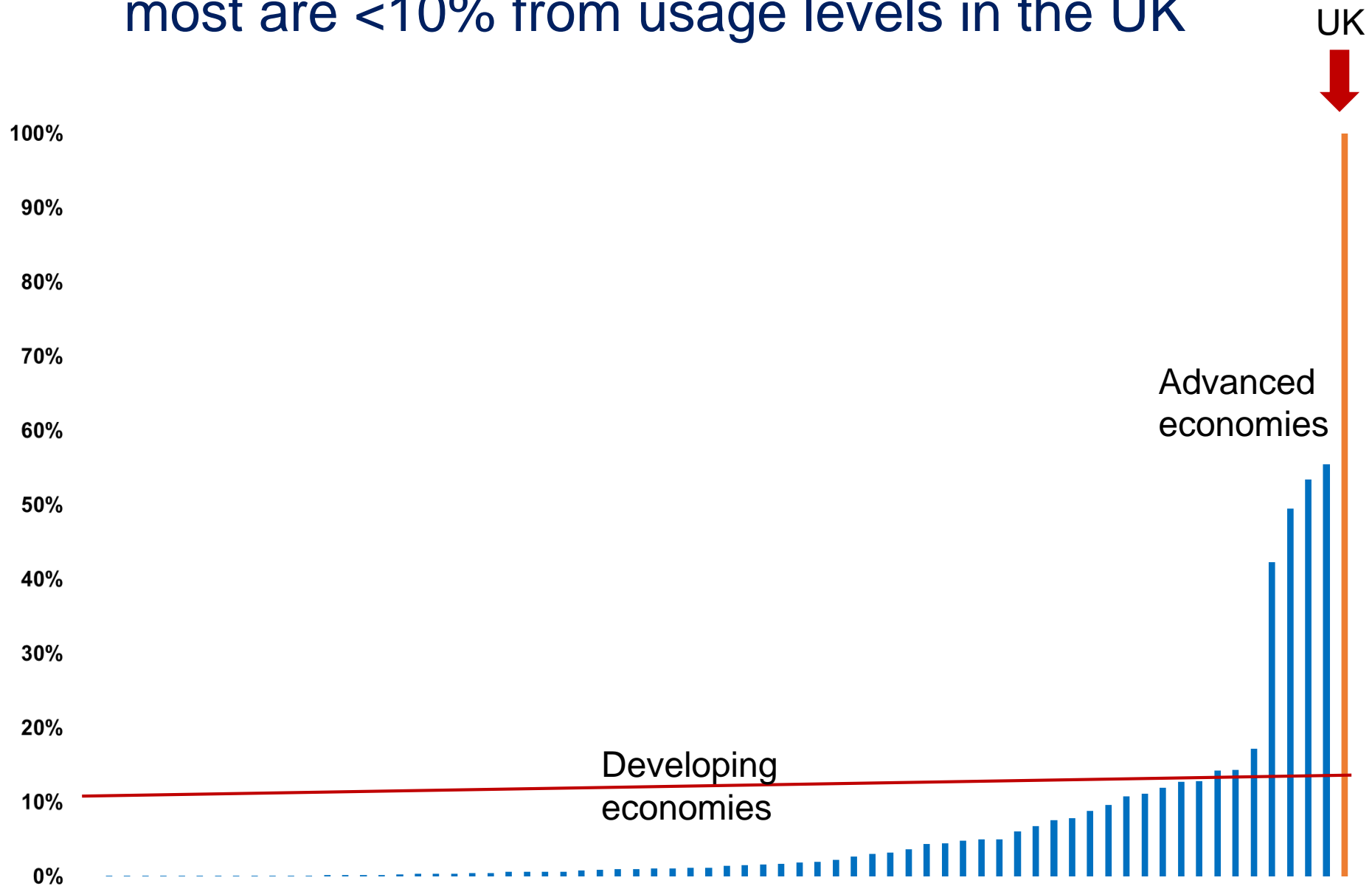
Challenges

What It Takes to Succeed: Good Enabling Environment for Ecommerce

IT infrastructure and services

Ecommerce logistics and trade facilitation

Online payments

Digital regulations

E-skills

Access to finance, including online

Business regulations
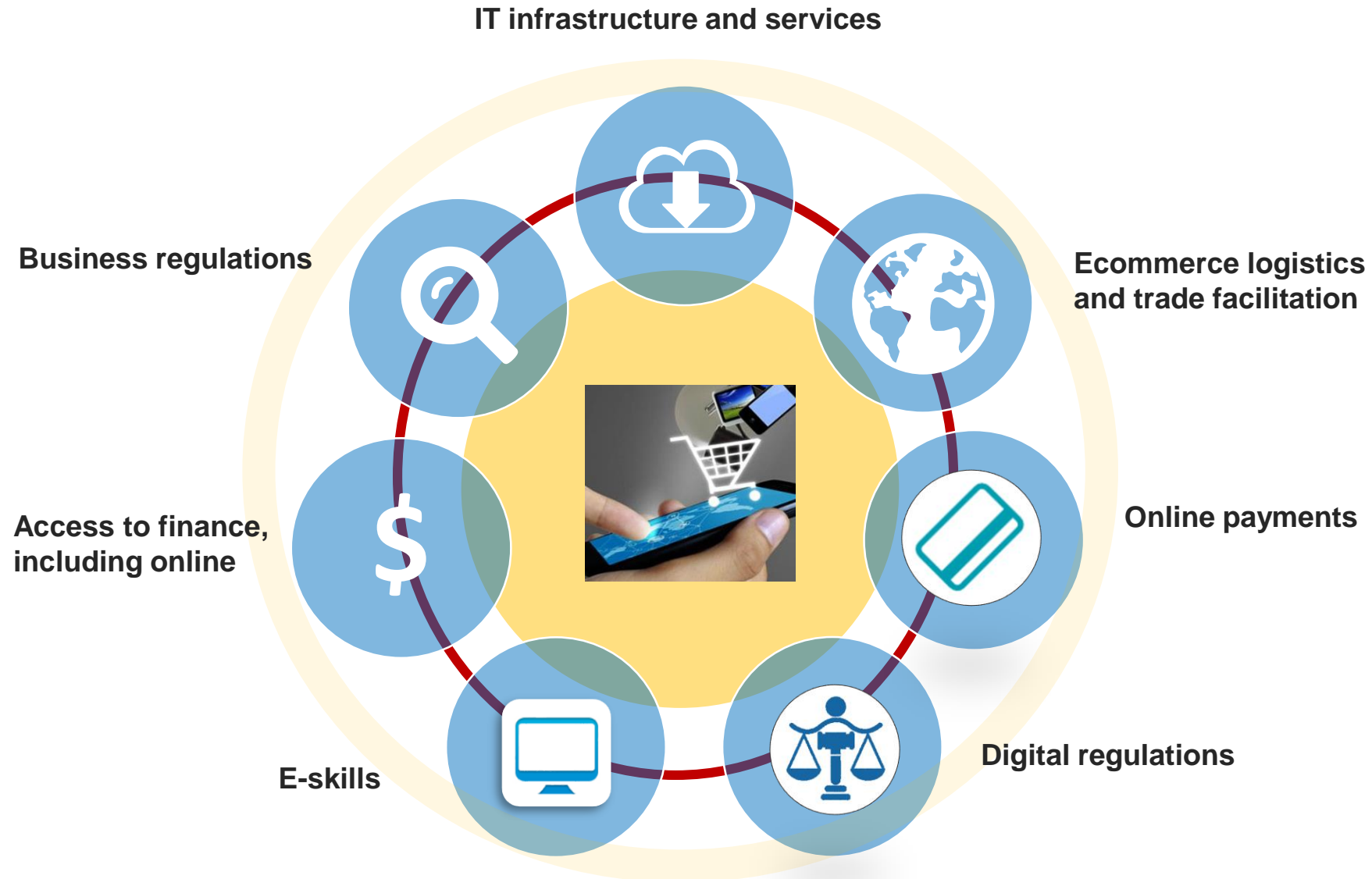
LAC SMEs' scoring of the enabling environment for cross-border ecommerce in Latin America
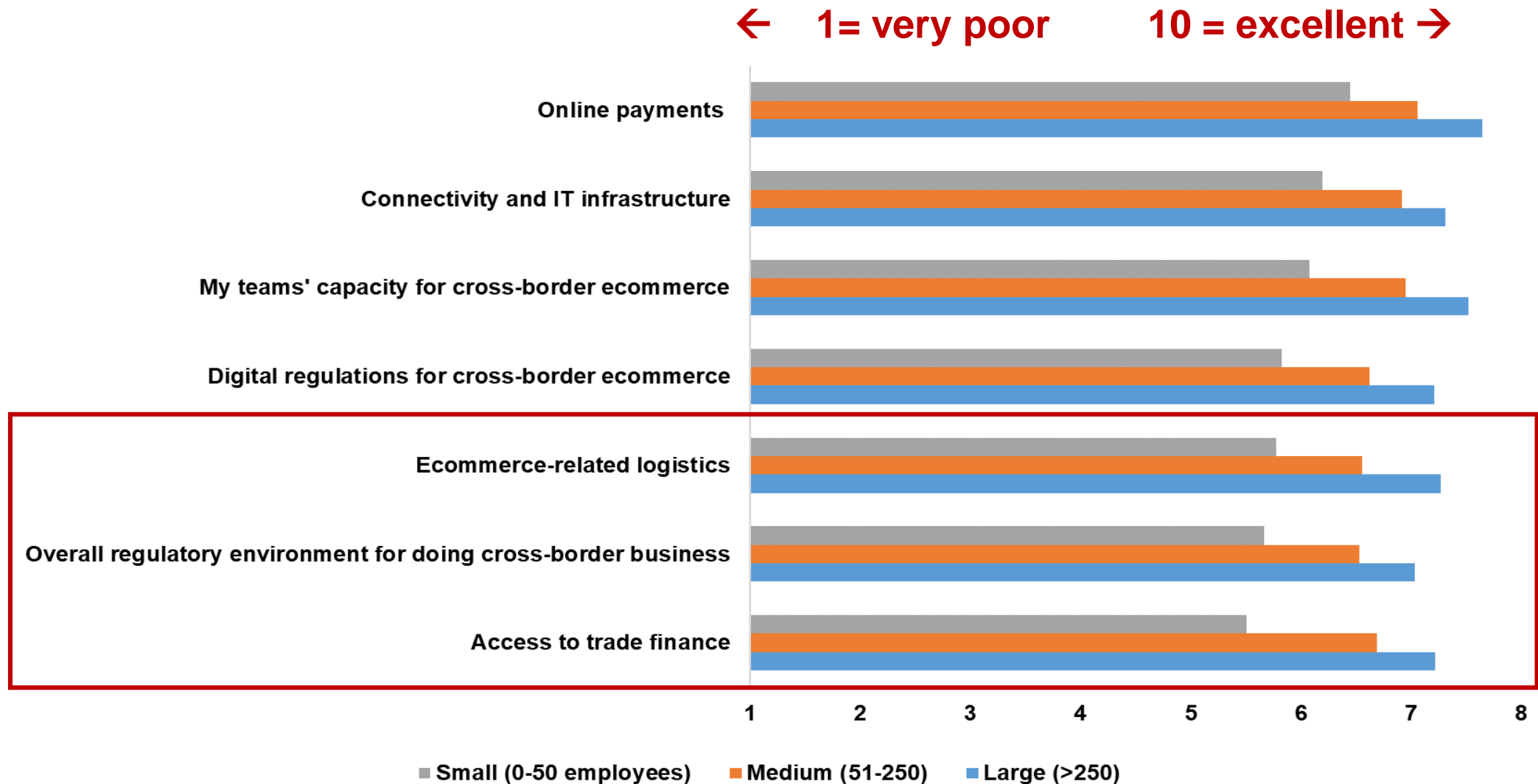
Top-20 specific challenges (out of 67) for small & micro firms to engage in ecommerce in Latin America

#	Challenge
1	Availability of online finance (peer to peer lending etc.)
2	Availability of working capital
3	Availability of early-stage funding and growth capital
→ 4	Availability of trade finance
5	Banks providing ecommerce merchant accounts to businesses
6	Population's digital literacy
→ 7	Customs procedures for ecommerce imports
→ 8	Total cost of delivery from my country
9	Customs procedures in export markets
10	Cost of logistics to buyer
→ 11	Cost of cross-border online payments
12	IP protections for online sellers
→ 13	Infrastructure for cross-border transport
→ 14	Market access and tariffs in other countries
15	Cost of broadband
→ 16	Postal services for cross-border ecommerce
→ 17	Infrastructure for cross-border ecommerce
18	Cyber security concerns
19	Rural last-mile delivery
20	Domestic tax rules

Legend:
- Logistics & market access
- Digital regulations
- Connectivity
- Payments
- Finance
- Firms' capabilities
- → Related to exports

Common challenges for Latin American firms to engage in cross-border ecommerce

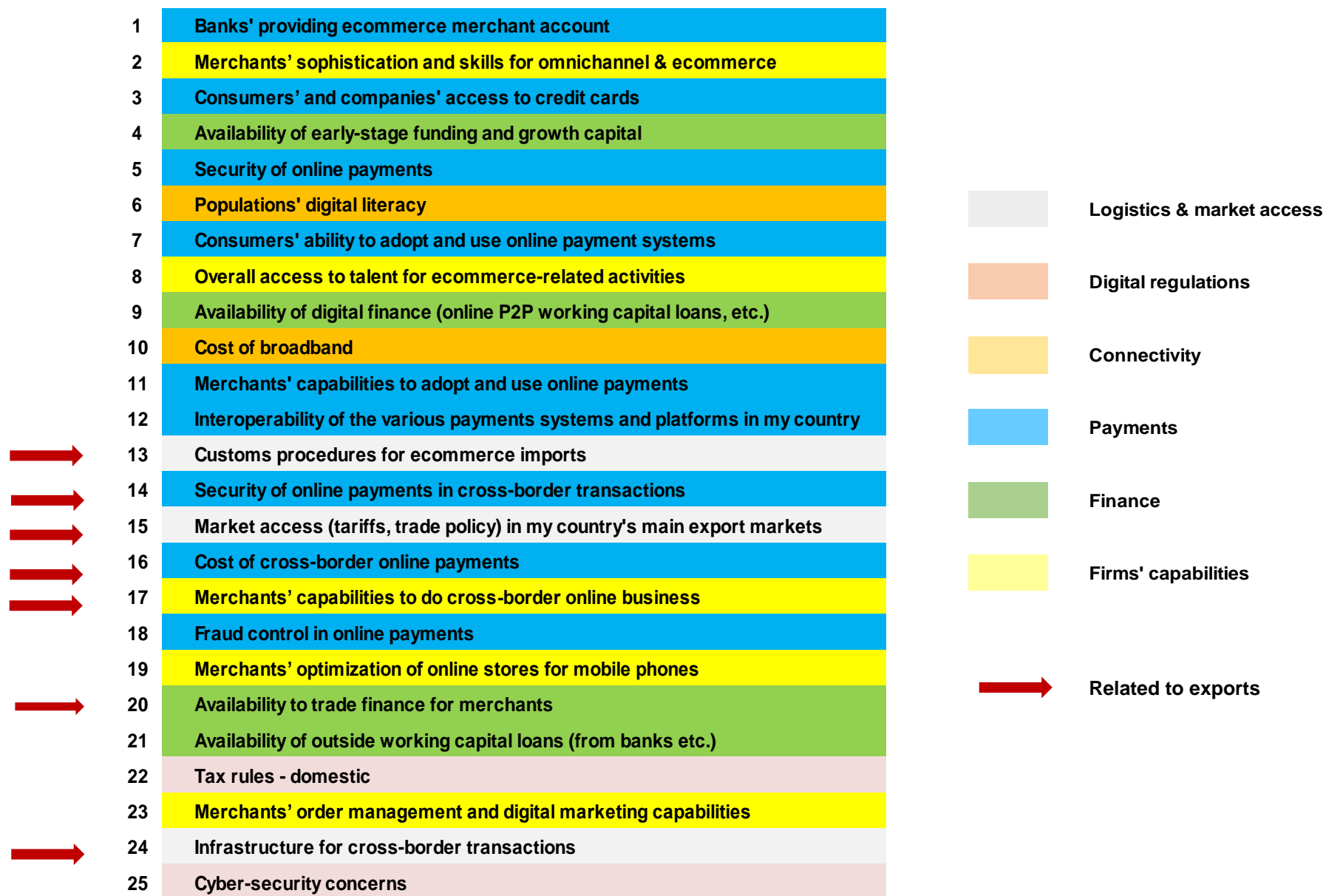|	LAC	Argentina	Brazil	Chile	Colombia	Mexico	Uruguay	Guatemala
Availability of trade finance	1	1	3	7	6	1	2	2
Customs procedures in main export markets	3	2	7	2	3	5	7	3
Customs procedures for ecommerce imports	3	6	6	5	2	2	6	1
Infrastructure for cross-border transactions	4	4	1	8	5	8	2	8
Total cost of delivery from my country to foreign buyers	5	3	2	1	7	6	10	6
Infrastructure for cross-border ecommerce	6	13	4	3	4	11	8	7
Postal services for cross-border ecommerce - import or export	7	11	5	4	10	7	9	4
Market access in my country's main export markets	8	7	8	6	1	4	15	12
Cost of cross-border online payments	9	17	18	9	16	3	20	15
Interoperability of my country's digital regulations with trading partners	10	9	13	19	9	15	4	24
Data localization requirements in other markets	11	12	12	10	12	12	11	11
IP protections in other markets	12	8	14	13	11	16	4	20
Tax rules in other markets	13	5	10	15	19	9	14	9
Legal liability laws for online sellers in other markets	14	18	15	16	8	14	13	13
Consumer protection laws in other markets	15	15	16	14	14	13	17	19

Top challenges to ecommerce – small services exporters

1 **Populations' digital literacy**
2 **Consumers' ability to adopt and use online payment systems**
→ 3 Customs procedures for ecommerce imports
4 **Banks' providing ecommerce merchant account**
5 **Tax rules - domestic**
6 **Infrastructure for cross-border transactions**
7 **Data localization requirements**
→ 8 **Market access (tariffs, trade policy) in export markets**
9 **Legal liability laws / safe harbor from liability for platforms and merchants**
10 **Consumer protection laws**
11 **Availability to trade finance for merchants**
12 **Data privacy requirements**
13 **OTT regulations (application of telecom and broadcast rules)**
14 **Copyright laws**
→ 15 **Data localization requirements in other markets**
16 **Availability of early-stage funding and growth capital**
17 **Security of online payments in cross-border transactions**
18 **IP protections for ecommerce merchants**
→ 19 **Copyright laws in other markets**
→ 20 **Merchants' capabilities to do cross-border online business**
21 **Cost of broadband**
22 **Merchants' capabilities to adopt and use online payments**
→ 23 **Tax rules in other markets**
→ 24 **Consumer protection laws in other markets**
→ 25 **IP laws in other markets**

Logistics & market access

Digital regulations

Connectivity

Payments

Finance

Firms' capabilities

→ **Related to exports**

Top challenges to ecommerce – small services non-exporters

	1	Banks' providing ecommerce merchant account
	2	Merchants' sophistication and skills for omnichannel & ecommerce
	3	Consumers' and companies' access to credit cards
	4	Availability of early-stage funding and growth capital
	5	Security of online payments
	6	Populations' digital literacy
	7	Consumers' ability to adopt and use online payment systems
	8	Overall access to talent for ecommerce-related activities
	9	Availability of digital finance (online P2P working capital loans, etc.)
	10	Cost of broadband
	11	Merchants' capabilities to adopt and use online payments
	12	Interoperability of the various payments systems and platforms in my country
→	13	Customs procedures for ecommerce imports
→	14	Security of online payments in cross-border transactions
→	15	Market access (tariffs, trade policy) in my country's main export markets
→	16	Cost of cross-border online payments
→	17	Merchants' capabilities to do cross-border online business
	18	Fraud control in online payments
	19	Merchants' optimization of online stores for mobile phones
→	20	Availability to trade finance for merchants
	21	Availability of outside working capital loans (from banks etc.)
	22	Tax rules - domestic
	23	Merchants' order management and digital marketing capabilities
→	24	Infrastructure for cross-border transactions
	25	Cyber-security concerns

Legend:

- Logistics & market access
- Digital regulations
- Connectivity
- Payments
- Finance
- Firms' capabilities
- → Related to exports

Fixing Problems Has Payoffs:
LAC SMEs' gains if top-3 challenges to ecommerce were removed

■ Increase in sales - domestic   ■ Increase in sales - international
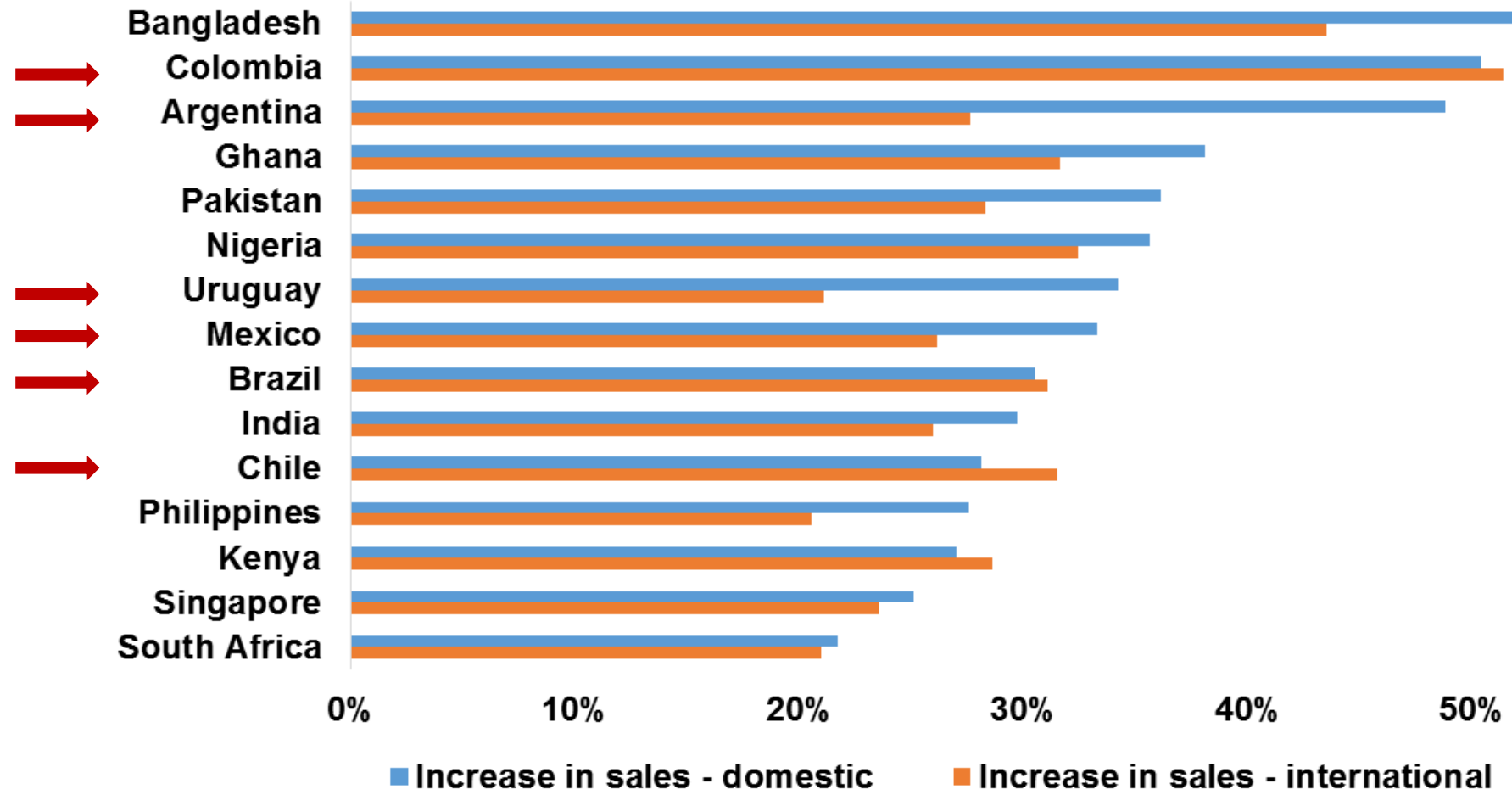
How to Induce More SMEs to Sell Online and Use Platforms?

Policy Roadmap created with USAID & Alliance for eTrade Development

http://business4etrade.org/2018/03/28/business-for-etrade-creates-alliance-for-etrade-development

6 main policy areas

Examples of ~ 60 policy success drivers and innovations mapped

Digital regulations

- Safe harbor laws for internet intermediaries
- Cross-border data transfer allowed
- Online dispute resolution (ODR) of consumer complaints
- OTT rules that do not hamper internet services
- Fully online business registration possible

Payment regulations

- Digital cash initiatives
- Incentives for interoperability of payment providers
- E-payment laws in place
- Payment licensing defined
- Risk-based approach (RBA) to AML

Digital infrastructures

- Broadband development plan
- 5G broadband roadmap
- Competition among wireless loop providers
- Tariffs on ICT products

Ecommerce logistics & trade facilitation

- Digital single window
- Blockchain piloted in customs
- *De minimis* >$200
- Postal innovations, e.g. ecommerce logistics, drones
- Competitive logistics markets

SME ecommerce export promotion

- Online training for companies to export using ecommerce
- Channel management platform or program
- Digital transformation services for exporters
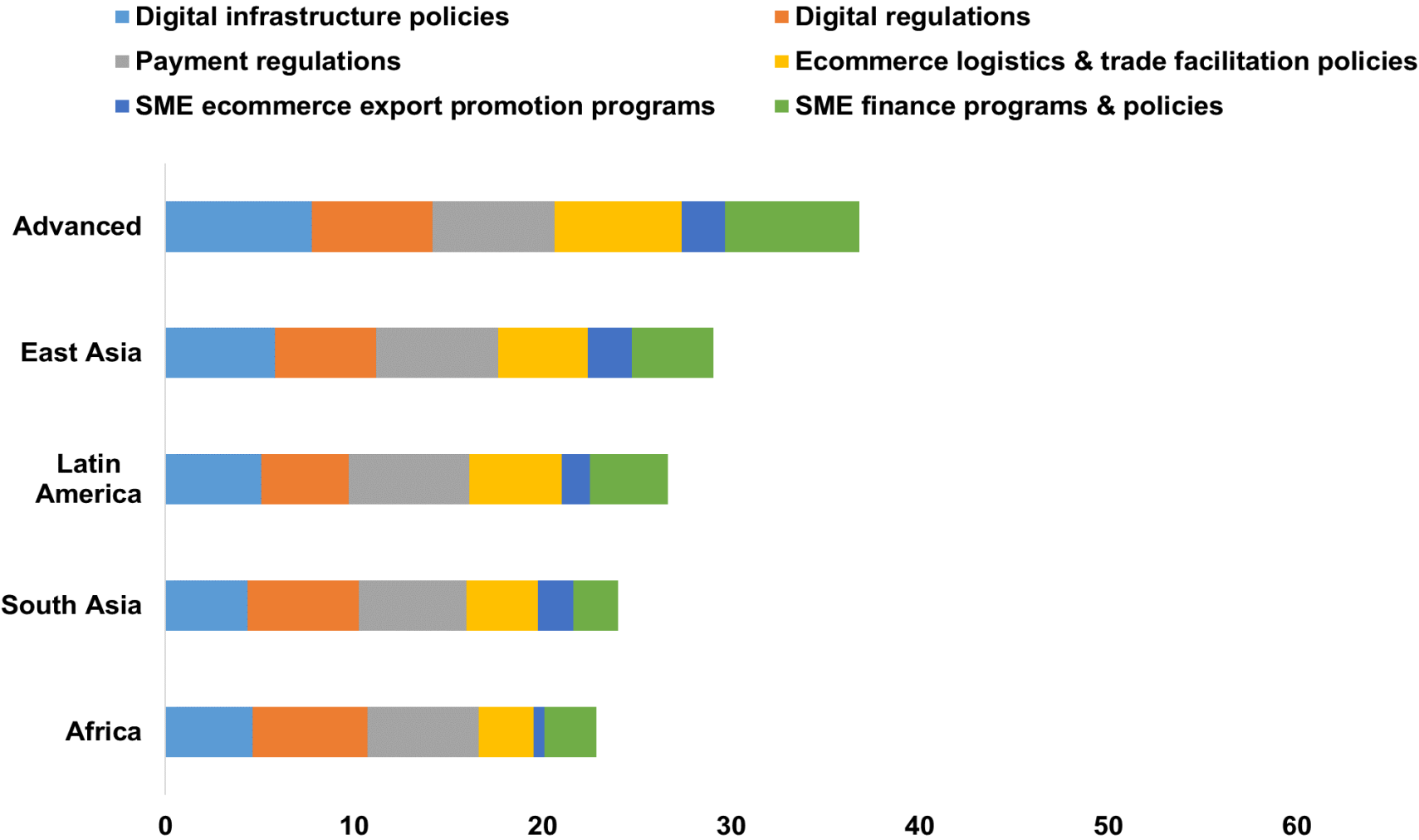- PPPs to train companies use platforms
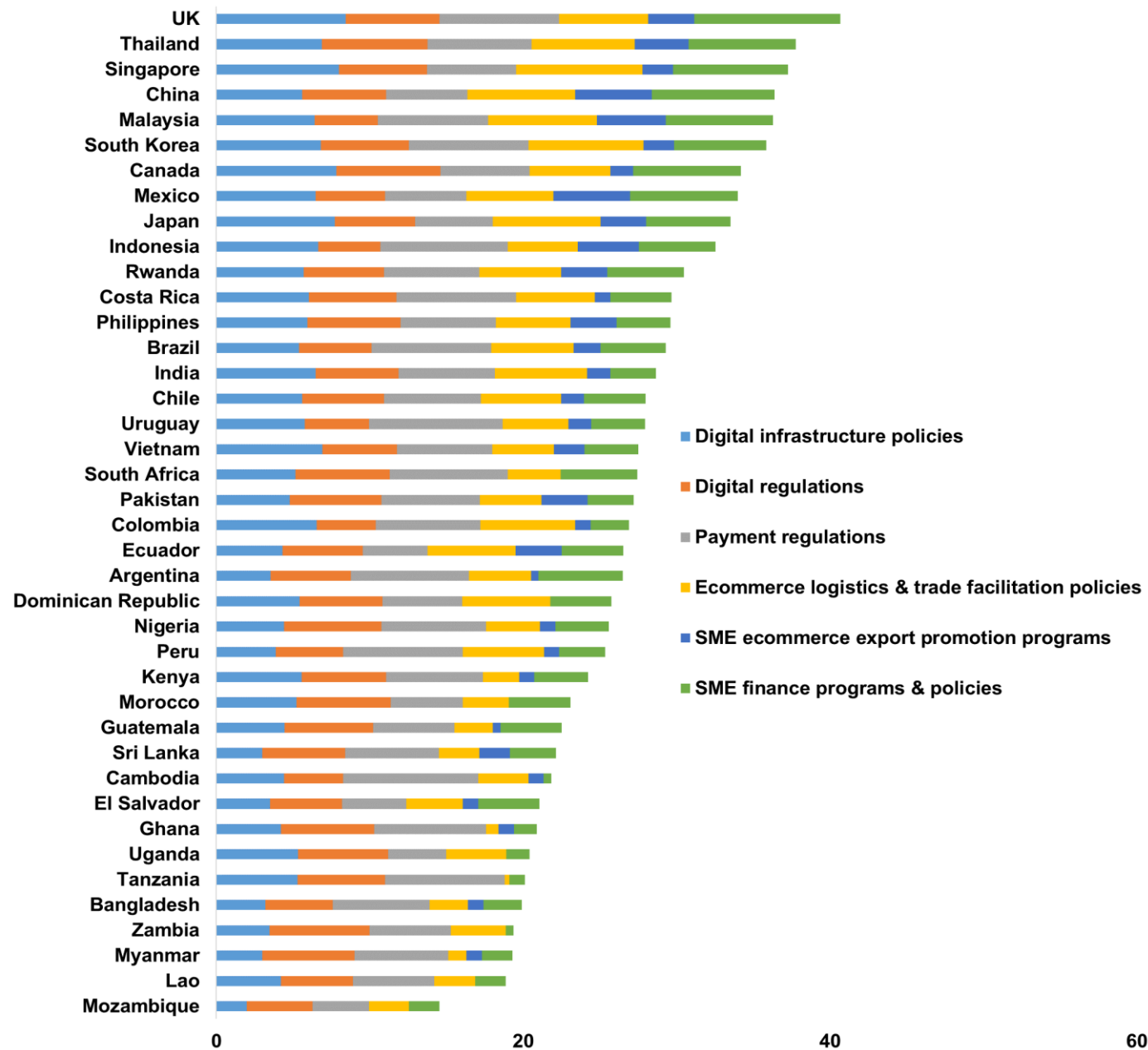
SME finance

- Government lending & equity programs for tech companies
- Guarantees for ecommerce transactions
- Funding for women-led firms
- Open banking practices encouraged
- Fintech sandboxes

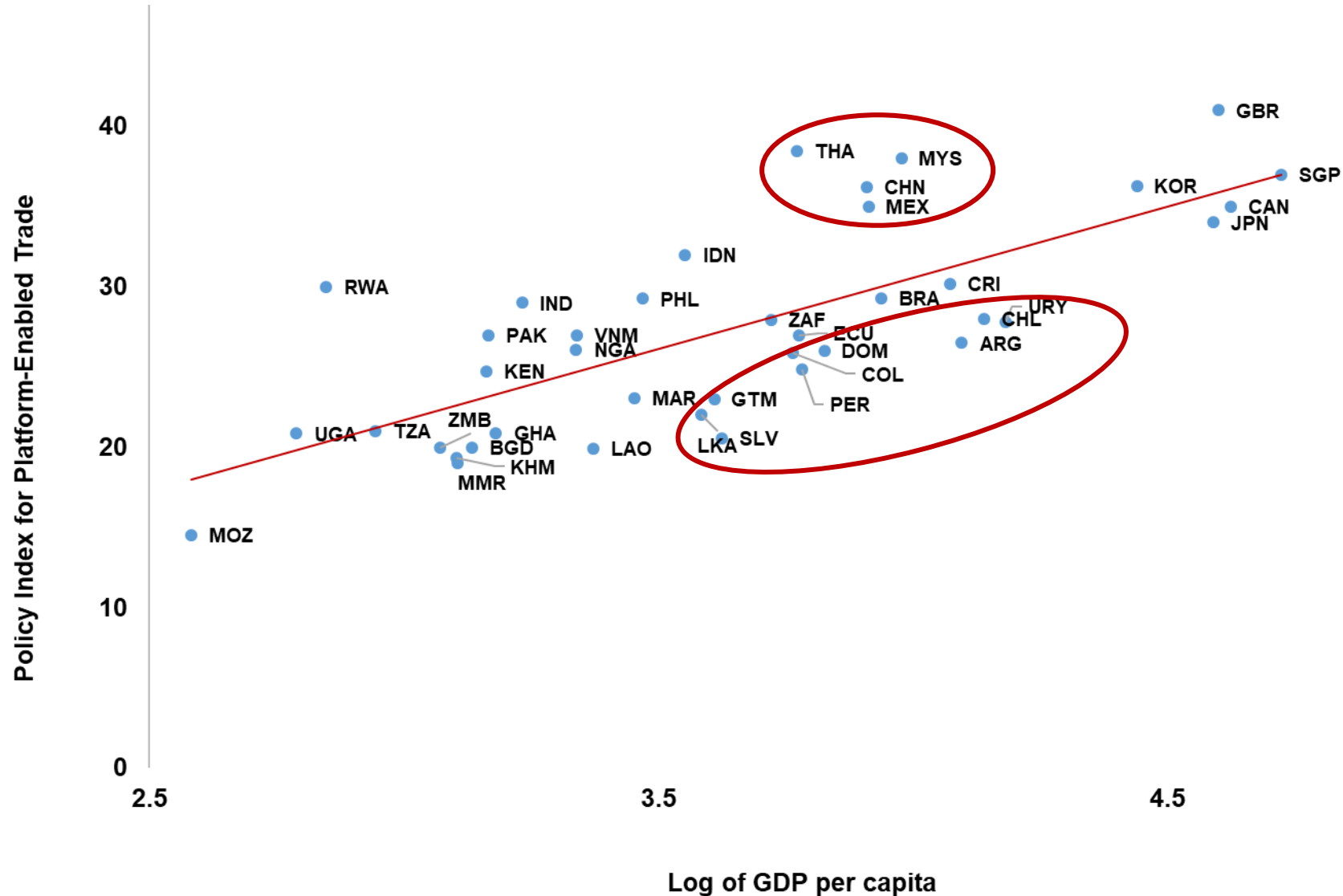- **Qualitative mapping of designs of policies**

- **Case studies**

- **Composite policy index → *compare and track* adoption of key policies**

Policy Coverage for Platform-Enabled Trade

Suominen, Kati. 2018. "Expanding Developing Country Small and Medium-Sized SMEs' Use of Platforms for Trade." Report on behalf the Alliance for eTrade Development for U.S. Agency for International Development, June.1

Legend:
- Digital infrastructure policies
- Digital regulations
- Payment regulations
- Ecommerce logistics & trade facilitation policies
- SME ecommerce export promotion programs
- SME finance programs & policies

Countries (top to bottom): UK, Thailand, Singapore, China, Malaysia, South Korea, Canada, Mexico, Japan, Indonesia, Rwanda, Costa Rica, Philippines, Brazil, India, Chile, Uruguay, Vietnam, South Africa, Pakistan, Colombia, Ecuador, Argentina, Dominican Republic, Nigeria, Peru, Kenya, Morocco, Guatemala, Sri Lanka, Cambodia, El Salvador, Ghana, Uganda, Tanzania, Bangladesh, Zambia, Myanmar, Lao, Mozambique

Asian countries, Mexico outperform peer economies; most LAC a bit behind

Source: Suominen (2018).

Interesting Best Practices

- **East Africa, Korea, UK, Peru – blockchain, machine learning in customs to facilitate and secure trade**

- **Singapore, Germany, Uruguay, South Africa – postal innovations, drone delivery, regional fulfillment centers for ecommerce logistics**

- **Singapore – next generation single window to provide services to SMEs and trade ecosystem**

- **ProMexico – PPP w/ Alibaba, eBay, DHL to train SMEs and offer discounts**

- **PromPeru – online courses to SMEs across Peru on how to export online**

- **Malaysia, Uruguay – funding for SME exporters' digital transformation**

- **UK – "channel management" to enable SMEs get on the right platform**

- **Canada – trade missions and services for women business leaders**

- **Korea, India, Argentina, Peru – pilots to launch 5G connections**

- **UK – bringing ultra high-speed broadband to women business owners**

Interesting Best Practices

- **Brazil – intermediary liability law – safe harbor ("Marco Civil")**

- **Mexico, China – online dispute resolution**

- **Costa Rica, Colombia – toward more flexible cross-border data transfer regime**

- **Peru, Tanzania, Brazil – interoperable online payments**

- **India, Kenya – P2G and B2G e-payment policies, financial incentives and apps to turn society cashless payments**

- **UK – "open banking" to share data across the financial services on SME borrowers**

- **Korea – government guarantees for online buyers**

- **Mexico, Asian countries – regulatory Sandbox for FinTech solutions**

- **Canada, Mexico – venture capital and seed funding for women entrepreneurs**

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Roadmap to Fuel SMEs' Use of Platforms for Trade

Get Basics Done

- Diffuse broadband, 4G

- Put in place safe harbors for internet intermediaries

- Fuel digital & interoperable payments, including cross-border

- Reinvent posts for ecommerce

- Digitize customs, pilot blockchain

- Fuel SME lending through FinTechs

Scale and Grow

- Incentivize SMEs' uptake of broadband
- Remove tariffs on ICT products
- Pilot 5G for competitive ecommerce user experience

- Digital regulations to fuel platforms & accommodate SMEs using platforms (safe harbors, freer data flows, flexible OTT)
- Online dispute resolution (ODR) to boost consumer trust

- Postal transformation for ecommerce
- Competitive logistics markets
- Blockchain, AI, machine learning for customs
- Single windows as G2B and B2B service

- Training of SMEs to export online via PPPs with platforms, online training
- Channel management services for SMEs to use many platforms
- Digital transformation programs for existing exporters

- Incentives for open banking
- FinTech regulatory sandboxes
- Government as fund-of-funds supporting VCs investing in tech
- Guarantees for ecommerce transactions

- In all areas: focus on women and gender reporting