



April 8, 2022

To Whom It May Concern,

The Asian Trade Centre (ATC) is pleased to provide these comments on the Indo-Pacific Economic Framework (IPEF).

IPEF is intended to be different from past methods, which relied heavily on the use of complex, legally binding free trade agreements to tackle economic concerns. A new Framework approach will help to open up opportunities to address challenges in new and innovative ways, contributing to building back better in the wake of the Covid-19 pandemic.

The IPEF is meant to be the flagship initiative of an inclusive trade agenda which will need to be attractive to possible members. Especially in digital trade, the existing landscape in Asia is already quite crowded with commitments at the bilateral and regional levels and ongoing global work. Potential IPEF members are not always aligned with one another and any final agreement needs to be interoperable with a range of existing trade commitments that increasingly tie together Asian participants.

As new market access currently not on offer as part of the IPEF, it is especially critical to design an approach that is most likely to resonate with, and be attractive to, governments across Asia. We believe that a sustained focus on the importance of inclusive growth for the smallest firms is a key element of a successful IPEF approach.

Given the importance of this effort to reach an inclusive agreement and the need to find a workable model, we are not proposing specific legal language. Instead we highlight a short set of topics for consideration in the Framework that we believe will best resonate with potential IPEF parties in Asia and fit with American objectives.

### About the Asian Trade Centre

The Asian Trade Centre (ATC) is the premier regional thought leader, advocate and educator for trade in the Asia Pacific region and serves as the resource for trade-related activities in Asia. ATC staff are trade policy and supply chain subject matter experts uniquely positioned to meet the trade related needs of businesses—small and large—and governments—regional and foreign—operating across the region.

The Asian Trade Centre is also the Secretariat for the Asia Business Trade Association (ABTA). ABTA serves as the business association dedicated to the promotion of regional trade issues across Asia in cooperation with governments. The Association represents companies based in Asia to support improved cross-border trade and regulatory policies, with a particular focus on the needs of smaller companies. The small-business wing of ABTA, called AMTC, currently includes several thousand MSMEs from across Asia.

AMTC firms, in particular, have benefited from the past decade of greater economic integration across the region. Smaller firms struggle with complex, inconsistent regulations and work best from a common policy framework. This is especially true for MSMEs in the digital space that can find markets and customers anywhere, leading to unprecedented opportunities for expansion. To help unleash the next decade of greater growth for smaller firms, IPEF needs to create digital trade rules that work for MSMEs that form the bedrock of economic activity and jobs for the US and for all likely Asian IPEF economies.

## Digital Trade Matters

There are, of course, a wide range of topics that might be added to a list of negotiating elements embedded with the IPEF. Digital trade, however, should be a key element. It matters to a wide range of American stakeholders and is also a driving factor behind economic growth across the Indo-Pacific.

The Covid-19 pandemic has accelerated the stampede towards digital delivery of physical goods and online services. Even before the pandemic, growth has been explosive. In Southeast Asia alone, the digital economy was expected to add an estimated \$1trillion to regional GDP over the next ten years, with 125,000 new users joining every day. In their *e-Economy SEA 2021* report, Google, Temasek, and Bain & Company found that 40M new internet users came online in 2021, bringing the internet penetration in Southeast Asia (SEA) to 75% of its population. The research also noted a 5% increase in online participation in 2021 from 2020, showing the ever-increasing potential of the ASEAN region, where 60M new digital consumers joined the internet economy since the pandemic started and 20M joined in 2021.

## Key Stakeholders for Digital Trade: Micro, Small and Medium Sized Enterprises

IPEF should highlight areas where trade and commerce agencies are most effective—especially honing in on the development of policy and regulation that will facilitate greater inclusion in the digital economy of the future. Absent effective policy and regulatory guidelines, it is impossible to imagine a world of flourishing digitally enabled firms with engaged and satisfied citizens.

Finding new pathways for accomplishing inclusive economic growth means looking at a wider set of relevant stakeholders. Trade policies have traditionally not considered the needs of micro, small and medium sized enterprises (MSMEs). To the extent that MSMEs have featured on the trade radar, their concerns were largely addressed by adding an “SME Chapter” to a trade agreement, which, in practice, meant designing a website. However, the increasing participation of MSMEs in the digital economy means that it is important to think of MSMEs as a key digital economy stakeholder.

In fact, given the overwhelming number of jobs and economic activity conducted by the MSME sector, it is not possible to design inclusive policies absent sustained attention to smaller firms. MSMEs are key to achieving decent work and economic growth. Job creation through MSMEs often benefits the poor and vulnerable, particularly women and youth, thereby directly reducing poverty, increasing income and positively impacting household investments in education and health over time.

In the US, SMEs account for nearly two-thirds of net new private sector jobs in recent decades. Similarly, small and medium-sized enterprises (SMEs) make up more than 96% of all Asian businesses, providing two out of three private-sector jobs on the continent. MSMEs are thus crucial employers of labor, and as such, an agenda that works for MSMEs is, by definition, an agenda that works for workers.

In addition to generating most of the new jobs, MSMEs can be a powerful force for integrating women and other minority groups into the economic mainstream. Women-owned businesses, which tend to be micro or small enterprises, represent between a third and two-thirds of vendors on some e-commerce platforms and are key drivers of e-commerce growth. In Southeast Asia, IFC research found that women represent between a third and two-thirds of vendors on the Lazada platform and noted the importance of online platforms in generating employment for women.

Given the overwhelming importance of MSMEs to the economies of the region, an inclusive IPEF should put smaller companies at the core. Doing so automatically drives innovative approaches to managing digital trade, as such companies have not been at the heart of past trade agreement initiatives. The importance of smaller firms to domestic economies across the region cannot be

overstated. MSMEs employ the majority of workers and are involved in industries across all societies. Encouraging their digitization has been a long-standing objective for most governments, with the pandemic accelerating this push.

The primary reason for picking MSMEs is that they best capture the range of opportunities and challenges presented by digital trade and the issues associated with managing inclusive outcomes. MSMEs account for the majority of jobs and workers in every market in Asia. To be successful, MSMEs need to maintain very close watch on the interests of their customers which tend to be predominantly consumers. If a policy works for MSMEs, it likely can be managed by larger players in the system. If it works for MSMEs, it is more likely to be accepted by consumer or civil society groups.

### Achieving Inclusive Digital Trade: Placing MSMEs at the Center

In this digitally-connected and integrated world, MSMEs stand to benefit from opportunities that were never available in the past. There are multiple ways to think about encouraging the development and growth of MSMEs. The IPEF could make a valuable contribution to economic development in all participating members by putting MSMEs front and center. Better digital policies that support trade for small companies leads to more growth opportunities overall.

Four aspects of digital trade are key for MSMEs:

1. **Information.** Small and medium sized companies need to know about opportunities and need to be able to move information and data quickly and easily between suppliers, lead firms, customers and so forth.
2. **Smooth flow of goods with minimum roadblocks.** Any impediment to the cross-border movement of goods—and particularly small size shipments and smaller or low value shipments—can be devastating to smaller firms. Delays cost time and money.
3. **Ease in moving services.** In many Asian economies, the bulk of MSMEs are service providers. Research has shown, for example, that up 90 per cent of Malaysian MSMEs are service providers. Such firms must be encouraged to participate in global and regional value chains.
4. **Financing and payments.** MSMEs have a particularly strong need for trade financing, since they do not have deep balance sheets. In addition, smaller firms need the ability to easily and cheaply access payments systems for their goods and services across borders. Firms that cannot be paid cannot be engaged in trade.

Companies increasingly need to efficiently network with one another and ensure that citizens are able enjoy the benefits of global trade and workers are able to increase productivity and efficiency. Failure to create the appropriate infrastructure to enable digital trade by MSMEs will cripple the ability of some countries, industries and firms to participate and compete across the region. Digital trade is creating new industries, altering traditional ones, and changing the international trade landscape. To capture this growth, the IPEF has an opportunity to put in place a policy framework to support greater MSME participation in the digital economy, including by examining elements of digital value or supply chains and addressing appropriate supporting policy settings to better facilitate the seamless flow of data, goods, services, and payments across borders, without impeding the development of innovative, new services that the internet is expected to generate in the near future.

#### I. Support Information Flows

Developing policies to enable data and information to flow across borders is critical to digital trade growth. Digital information and services, the infrastructure that supports them, and their free movement are backbones of electronically enabled trade. Without a clear mechanism to connect MSMEs to lead firms, suppliers, and consumers, smaller companies will be left behind in the development of resilient supply chains for the future.

Especially key are the following elements:

- Facilitate the flow of information without disruption
- If there are exceptions to information flows, have these explained in ways that make sense to smaller firms to help ensure easy compliance
- Support cross-border data transactions
- Avoid data or server localization rules that require companies to keep data onshore

## 2. Facilitate the Flow of Goods

Small firms are especially damaged by high costs caused by tariffs and the inefficient movement of goods across borders. MSMEs typically do not ship 40-foot containers of goods, but a few boxes at a time. Delays and complexities in the movement of goods result in expensive charges to MSMEs. Excessive paperwork or unclear and complex procedures and regulations for import and export can keep smaller companies from trying to expand to markets outside their home market at all. Problems at the borders are magnified for MSMEs, including time lost and expenses that mount. A study by the OECD has pointed out that customs requirements and lengthy administrative procedures can increase costs by 2-24 per cent of the value of traded goods.

For e-Commerce goods to move seamlessly from seller to buyer, retailers and consumers must have access to efficient, reliable logistics. The Internet allows buyers and sellers to communicate over vast distances, but without an efficient way to fulfill these commercial transactions and get a product to the buyer in a predictable and timely manner, these connections are of little value. As the Internet has globalized commerce, transportation networks must also be supported to service this new global demand.

Complex customs procedures are a major impediment to the growth of e-Commerce. A small company cannot withstand the risk or costs associated with issues like customs holds, late deliveries or inefficient return procedures.

Therefore, MSMEs require the following types of e-Commerce provisions to facilitate trade in goods:

- Harmonize and integrate rules around transportation services to include all modes of transport (air, land and sea)
- Include national post in the conversation along with logistics providers and express carriers as all have relevant roles in moving cargo
- Swiftly and ambitiously implement the provisions of the World Trade Organization's agreement on trade facilitation including the automation of customs procedures
- Review existing rules and customs procedures with an eye towards reducing barriers to low value shipments. One obvious way of facilitating the movement of low value shipments is the introduction of a consistent de minimis threshold.
- Recognize that returns are a critical aspect of e-Commerce and put in place policies for more seamless cross-border returns without charging duties and taxes.
- Provide for regulatory transparency by setting up national enquiry points at Customs as MSMEs have a particularly difficult time understanding regulations in foreign markets and transparency will help firms respond in a timely and cost-effective manner to regulatory changes.

## 3. Digital Services

Services are a critical conduit for MSMEs growth, particularly to allow smaller firms to plug into global and regional value chains. As most likely IPEF member economies are dominated by smaller size firms, it is extremely important to think about how best to connect together this dynamic aspect of the economy.

The advent of the internet and new technology has introduced innovative business operating models and services unheard of a mere decade ago. To encourage innovation and transformation, governments must offer an open and competitive policy environment for the

incubation of new services. An open and competitive approach encourages the investment and innovation needed to offer the range of services that meet the diverse consumer and merchant needs. Restrictions on foreign investment ownership in the logistics sector and in retail services as well as postal monopolies, adds to costs and complexities in the e-Commerce supply chain.

More specifically, the IPEF for services should:

- Support the opening up of as many service sectors as possible for digitally delivered services
- Allow for new services, not yet invented or in early growth stages, to be supplied by IPEF companies
- Encourage supporting services growth and development, particularly in areas like logistics by opening up for full foreign ownership in transport and logistics services, including postal/courier services.
- Avoid local presence requirements, which can be costly or impossible for smaller firms to achieve.
- Limit qualification and licensing requirements and avoid using these criteria as a means to block the flow of services trade.

#### 4. Financing and Payments

MSMEs do not generally have deep balance sheets. As a result, delays in payments cannot be sustained. But many banking services currently provided do not cater to the specific needs of smaller firms which are particularly challenged by the demands of cross-border trade in goods and services. Hence, MSMEs need to have better access to trade finance using tools geared towards their specific needs. Smaller suppliers need to continue to receive access to trade finance provided by financial institutions through lead firms.

Smaller firms also need swift and accurate methods of receiving payments. Delays in processing, or an inability to collect funds, can mean bankruptcy for MSMEs in short order.

To assist MSMEs with finance and payment needs, the Framework should:

- Encourage the development of trade financing systems aimed at smaller firms
- Support the growth of e-payments systems, such as debit and credit cards, mobile phone payments and online payments services and online banking
- Allow the use of e-payment systems across borders
- Encourage innovative new approaches to managing trade financing aimed at supporting MSME involvement in supply chains

#### No-Nonsense Outreach

MSMEs are stakeholders with limited capacity to manage complexity. They will need any and all IPEF outcomes to be clearly explained in language that makes clear what rules apply and how they can best comply. A commitment to openness and engagement has to go beyond transparency in notifications, the creation of enquiry points, or publication of details on official government websites alone to ensure that all outreach makes sense to the broadest possible range of stakeholders and can easily be found and understood by smaller firms.

#### Conclusion

In developing an innovative, inclusive approach to digital trade focused on MSMEs, ATC sees strong potential for a new trade arrangement under IPEF that will advance American and regional standards for cooperation in digital trade and help to unlock digital trade opportunities for businesses.

For more questions on this IPEF submission, please contact the Asian Trade Centre at [info@asiantradecentre.org](mailto:info@asiantradecentre.org).