

Making Small Businesses Mighty

The Digital Trade Opportunity
for Small Businesses in the
Indo-Pacific

 Global Innovation Forum

Acknowledgements

The Global Innovation Forum (GIF) is grateful for the valuable insights and contributions of the small businesses owners who were interviewed for this report.

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About the Global Innovation Forum

The Global Innovation Forum is a non-profit effort to connect small businesses and policymakers to foster an inclusive policy landscape that enables companies of all sizes to innovate, trade, and engage in the global economy. GIF works with a global network of thousands of small businesses, government officials, civil society, and private sector leaders to deliver actionable insights and impactful programs to emphasize how technology and trade policies can advance resilience and inclusive growth.

As an educational project of the 501(c)(3) National Foreign Trade Council Foundation, GIF connects small businesses and policymakers to bridge the gap between big-picture trade policy and the experiences of entrepreneurs, workers, and people.

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Executive Summary

Small businesses across the United States (U.S) and Asia Pacific (APAC) are optimistic about the opportunities that digital trade generates. They see digital tools and technologies as critical to helping them overcome traditional export barriers to grow and scale their global footprint.

The Indo-Pacific Economic Framework (IPEF), the Biden Administration's economic strategy in Asia, is a chance to make trade more inclusive by creating and facilitating greater opportunities for two-way digital trade amongst small businesses.

This report explores how IPEF can establish a strong foundation in the region by committing to high-standard digital rules that benefit small businesses from the start. The conclusions in this report were derived from interviews with small businesses in the region and a survey of 500 small businesses headquartered in seven Indo-Pacific markets: the United States, Australia, Indonesia, Japan, Singapore, South Korea, and Vietnam that are currently or intend to export goods or services.

This report highlights the role of digital trade policy and initiatives in supporting small businesses in the United States and Asia Pacific. We set out to understand directly from small businesses the key barriers standing in the way of engaging in trade; to identify how digital tools and technologies are utilized to facilitate small business exports; and to uncover the rules, practices, and initiatives that small businesses believe will help them make the most of the digital trade opportunity in the Indo-Pacific.

Our objective is to promote a better understanding of the experiences of small businesses that engage in digitally-enabled trade in the Indo-Pacific and enhance small business representation in the regional policy-making process. This report is meant to serve as a resource to aid governments in prioritizing support for small businesses in regional policymaking.

The entrepreneurs interviewed demonstrate many of the key challenges small businesses face when building their global presence and how they are using digital tools and relying on e-commerce to engage globally.

Based on our survey of Indo-Pacific small business exporters, we identified significant, encouraging, and actionable findings. Key findings from the report show that:

U.S. and APAC markets are untapped potential for small businesses. The majority of small businesses surveyed indicated that their revenue came from domestic sales. Only 10% of the current revenue of U.S. small businesses surveyed comes from the APAC region and only 11% of APAC small business revenue comes from exports to the U.S.

87% of small businesses surveyed feel that digital tools are essential to their business abroad. Further, many small businesses believe that digital tools and technology can mitigate trade barriers. The top five exporting challenges U.S. small businesses most commonly face are shipping costs, tariffs and customs procedures, regulatory uncertainty, and lack of information for marketing and tools to communicate with customers abroad.

Small businesses believe that an Indo-Pacific digital trade agreement would hugely benefit their businesses. If barriers to trade were lowered through a digital trade agreement, U.S. small business exporters project a 35% to 44% increase in export sales and APAC small business exporters anticipate an increase of 30% to 37% in export sales. This could increase U.S. economic output to the Asia Pacific by \$72 billion.

"Making Small Businesses Mighty: The Digital Trade Opportunity for Small Businesses in the Indo-Pacific" was developed by the National Foreign Trade Council's Global Innovation Forum, with support from Google, based on a commissioned survey and small business interviews.

Takeaways

Small businesses across the U.S. and Indo-Pacific are optimistic about the digital trade opportunity that exists in the region. The Indo-Pacific Economic Framework (IPEF) can best help small businesses by:

1. Making digital trade rules that enable small businesses to engage in international trade, and
2. Equipping small businesses with digital skills and tools.

By enabling small businesses to better access and engage in the global digital economy, IPEF can create a foundation for small business success in the region. New small business survey data shows that if an Indo-Pacific digital trade agreement is implemented:

- Small business exporters expect to see a 35% increase in export sales.
- These anticipated gains by U.S. small business exporters could increase U.S. exports by \$72 billion.
- On average, Indo-Pacific small businesses surveyed would add 22 jobs to accommodate the

Policy Recommendations

The Biden Administration's Indo-Pacific Economic Framework (IPEF) presents an excellent opportunity to make trade more inclusive, by addressing the concerns and issues that matter most to small businesses, including by:

Making digital trade rules that enable small businesses to engage in international trade

Our survey showed that digital trade rules in IPEF which address the following issues will help small businesses to better engage in digital trade:

- Eliminating the requirement for physical presence or a local representative as a condition of doing business.
- Ensuring consistent data rules across economies which allow for cross-border data flows and prohibit data localization.
- Improving transparency and promoting good regulatory practices in the formulation and publication of digital laws and regulations.
- Ensuring technology choice.
- Improving digital trade facilitation and simplifying licensing procedures.
- Prohibiting customs duties on digital products and electronic transmissions.

Equipping small businesses with digital skills and tools

For small businesses to fully engage in and benefit from digital trade, they will need to be equipped with digital skills and tools. IPEF can help by:

- Expanding government support to help small businesses adopt digital tools.
- Promoting inclusivity in trade promotion programs.
- Establishing a digital inclusion workstream and ongoing IPEF Digital SME Dialogue to promote cooperation.
- Leveraging public-private partnerships (PPP) to establish a framework for digital skills-building initiatives.

Key Findings

Two-way trade between small businesses in the United States (U.S.) and Asia Pacific (APAC) is thriving.

- 32% of U.S. small business exporters currently (23%) or plan to (9%) export to APAC.
- Nearly a quarter of APAC small business exporters are either currently (16%) or planning to (8%) export to the U.S.

U.S. and APAC markets are untapped potential for small businesses.

- Only 10% of the current revenue of U.S. small business exporters surveyed comes from the APAC region.
- For APAC small business exporters surveyed, revenue from other APAC countries makes up 16% of current revenue, with 11% of current revenue coming from exports to the U.S.

Trade barriers are keeping some small businesses away from Indo-Pacific trade.

- The top five exporting challenges U.S. small businesses most commonly face are shipping costs, tariffs and customs procedures, regulatory uncertainty, and lack of information for marketing and tools to communicate with customers abroad.
- APAC small businesses are more likely to experience barriers to exporting, citing the lack of communication and marketing tools, foreign regulations and licensing rules, tariff and customs procedures, and competition in markets as their top challenges.
- Women-owned exporting businesses are more impacted by certain trade barriers.

Digital tools are key to reducing & mitigating trade barriers for small businesses.

- 87% of small businesses surveyed feel that digital tools are essential to their business abroad.
- APAC small businesses surveyed use digital tools significantly more than their U.S. counterparts.
- Small businesses surveyed feel many of the challenges and barriers to exporting can be solved or addressed with the help of technology.

Small businesses hope that non-tariff barriers will be addressed through digital trade rules and agreements involving the U.S. and APAC.

- 93% of small businesses surveyed believe that strong privacy protections, digital trade facilitation, and simplified licensing procedures would benefit their businesses.
- The ability to do business without a physical presence in the market, consistent data transfer rules and more transparency and information on laws and regulations were cited by small businesses as the most important provisions in digital trade agreements.

Small businesses expect a digital trade agreement between the U.S. and APAC countries to help grow their exports.

- U.S. small business exporters project a 35% to 44% increase in export sales with a digital trade agreement in place over the next three years.
- These anticipated gains by U.S. small business exporters could increase U.S. exports by \$72 billion.
- Over one in three small businesses surveyed expected to add employees to their firms in the next 3 years should there be a digital trade agreement between the U.S. and APAC countries. An average of 25 employees are expected to be added by U.S. firms, while their APAC counterparts expect to add an average of 20 employees.

Introduction

The COVID-19 pandemic fundamentally transformed many small businesses across the Indo-Pacific. As physical stores shuttered, and social distancing measures kicked in, many small businesses started adopting digital tools and technologies, leveraging the internet to adapt their businesses and everyday operations. One-third of small businesses in both the U.S. and Southeast Asia reported that digital tools and technologies provided a safety net for their businesses, without which they would not have survived the pandemic.

Through crisis and in recovery, the Indo-Pacific region's digital economy continues to grow exponentially. In Southeast Asia alone, 60 million people joined the digital economy since the pandemic started, bringing internet penetration to 75%. This momentum remains, with the adoption of digital services showing no signs of slowing down.

This is particularly true for Indo-Pacific small businesses. Enabled by digital tools, platforms, and services, small businesses are reaching and selling to new customers across their borders more than ever before. The internet has provided small businesses with an unprecedented opportunity to scale and compete globally at a low cost, overcoming traditional market access barriers. For instance, one study estimated that if U.S. small businesses had better access to global markets, their sales would see a 14% increase; U.S. economic output would also rise by \$81 billion, adding 900,000 jobs.

However, despite the world of opportunity possible for small businesses in the digital age, the current global policy environment still imposes a number of obstacles for small business owners. The development of digital trade and the rise in e-commerce has not been met with the parallel evolution of global trade rules.

The benefits of digital trade can only be unlocked if small businesses have access to a robust e-commerce ecosystem, including tools that enable marketing, communications, payments, productivity, and more. On the other hand, increasing regulatory fragmentation and the absence of interoperable regulatory standards dramatically reduce market access opportunities and create high costs to entry, disproportionately impacting small businesses.

Unfortunately, around the world, governments are building barriers to digital trade rather than facilitating the cross-border growth of small businesses. Many of these policies are designed to restrict the flow of data, force the localization of data and block or restrict access to digital services and content. In some cases, governments are unilaterally pursuing complex or discriminatory regulations that target foreign services, undermining the goal of an open and secure cross-border digital ecosystem. 2020 was documented as the tenth consecutive year of decline in global internet freedom.

Analysis from the Organisation for Economic Co-operation and Development (OECD) has demonstrated that in more restrictive services markets, new exporters are faced with costs that are 53% higher than current exporters. Conversely, when restrictions in services trade are eased, small businesses are the first to benefit.

IPEF: An Opportunity for an Inclusive Approach to Digital Trade

The Indo-Pacific region, with its growing middle class and innovative companies, will be a major market for and driver of digital trade activity. The surge of new consumers online is spurring tremendous opportunities for small businesses in the U.S. and its Indo-Pacific partners, which can ride on this growth potential and seize new opportunities to expand their global footprint.

The Biden Administration's Indo-Pacific Economic Framework (IPEF) – which brings together countries in the Indo-Pacific representing 40% of global GDP – can be a key driver of this growth. By fostering common, open and interoperable standards and rules on digital trade, small businesses in particular will be able to participate in and benefit from the digital economy. IPEF can lead the way in building a more inclusive approach to trade by building in rules and initiatives that benefit small businesses from the get-go.

In this context, our report aims to shed light on four key areas concerning Indo-Pacific digital trade for small businesses by:

- Gauging the significance of two-way trade between small businesses in the U.S. and its Indo-Pacific partners, and their desire to grow in these markets.
- Understanding directly from small businesses the key barriers standing in the way of engaging in trade or further expanding their global operations.
- Surveying the small businesses on the digital tools and technologies they utilized to facilitate their exports.
- Seeking their views on the rules, practices, and initiatives that they see as helpful under the IPEF and other digital trade agreements which would enable them to make the most of the digital trade opportunity in the Indo-Pacific.

Our findings are based on a survey of 500 small businesses headquartered in 7 Indo-Pacific markets: the United States, Australia, Indonesia, Japan, Singapore, South Korea and Vietnam that are currently or intend to export goods or services. For ease of reference, we refer to Australia, Indonesia, Japan, Singapore, South Korea, and Vietnam as “Asia Pacific or APAC” markets for the rest of the report.

A Key Driver for Growth

The Indo-Pacific region represents

40%
of global GDP

Current State-of-Play

Two-way trade between Indo-Pacific small businesses

Our findings showed that one-third (32%) of U.S. small business exporters currently (23%) or plan to (9%) export to APAC, reflecting the potential they see in the growing APAC markets. In the same vein, the U.S. is also an attractive market for APAC small businesses, with almost a quarter (24%) of small businesses surveyed either currently (16%) or planning to (8%) export to the U.S. Overall, more U.S. small businesses are engaged in exports globally (45%) compared to APAC small businesses (31%).

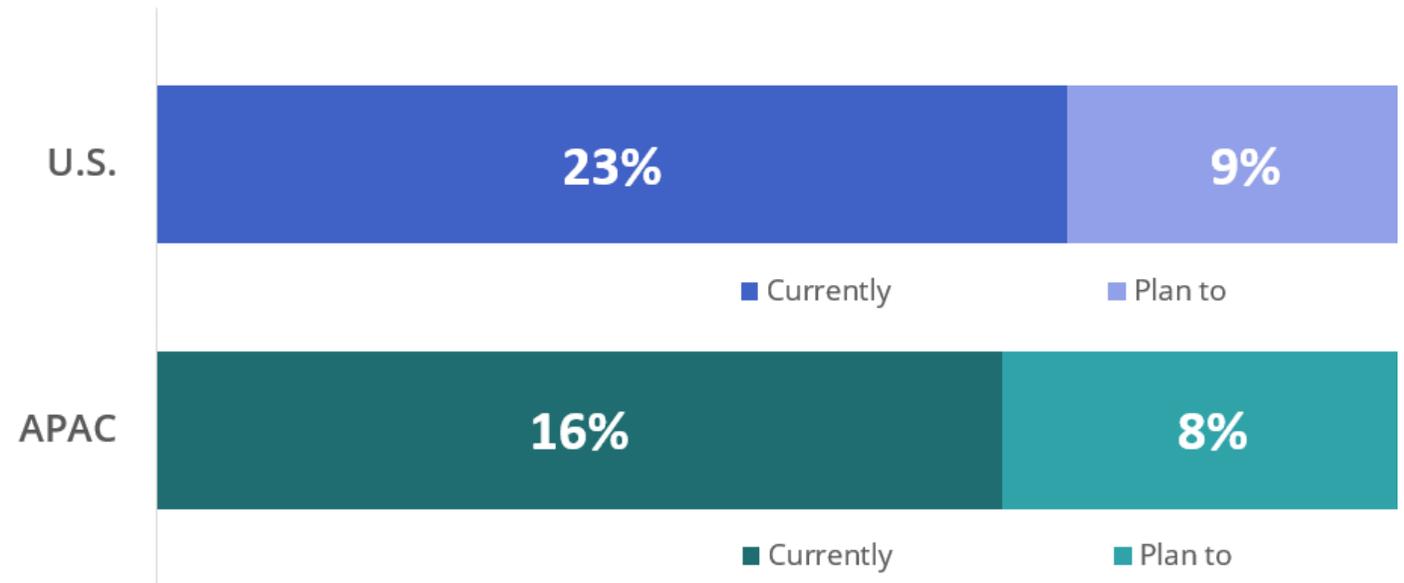
1 in 3

U.S. small businesses currently or plan to export to APAC

1 in 4

APAC small businesses currently or plan to export to the U.S.

Small Business Engagement in Global Trade



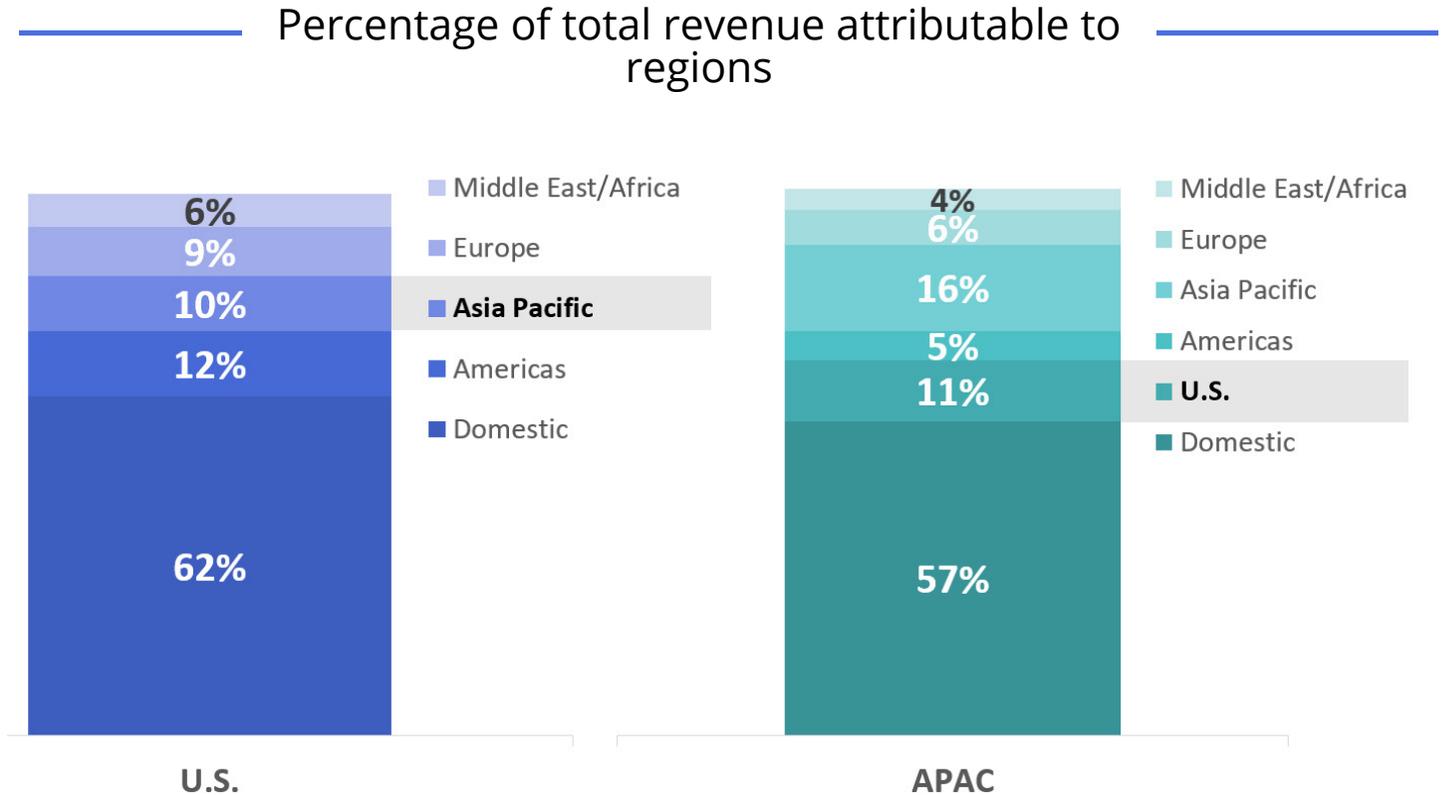
Source: GIF-commissioned survey 2022. Base: Total Contacts.

Responses to the question: "Which of the following best describes your company' export or selling practices with entities in countries other than _____."

Significant potential for greater two-way trade

We also found through our survey that there is significant growth potential for two-way trade between small businesses in the U.S. and APAC. Currently, 62% of the revenue generated by U.S. small business exporters is domestic, followed by 12% from the Americas. Only 10% of the current revenue of U.S. small businesses is coming from the APAC region.

The APAC numbers are similar. Revenue from other APAC countries makes up 16% of current revenue, with 11% of current revenue coming from exports to the US. This suggests significant room for two-way growth, particularly if facilitated by a government-to-government framework such as IPEF.



Source: GIF-commissioned survey 2022. Base: Currently export to any country. Responses to the question: "What percent of your total revenue is attributable to sales to customers in ____."

Small businesses are gearing up for a potential upsurge — and adding new employees

In fact, U.S. and APAC small businesses are already gearing up for a potential upsurge in exports, including through the creation of new jobs and adding new employees in the next 3 years. Overall, 43% of the U.S. small businesses surveyed said they were planning on adding 50 or more full-time equivalent employees solely due to U.S.-APAC exports. Similarly, 39% of the APAC small businesses surveyed anticipated adding 50 or more full-time employees to manage a potential uptick in U.S.-APAC trade.

43%

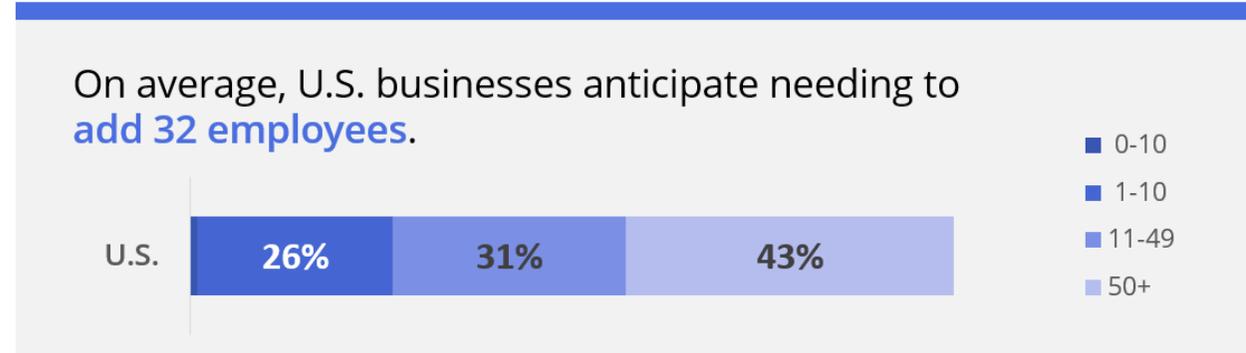
of U.S. small businesses would **add 50 or more employees** over the next 3 years

39%

of APAC small businesses would **add 50 or more employees** over the next 3 years

Anticipated Employee Additions Due to U.S.-APAC Exports

Over the next 3 years, small businesses expect they will need to increase their workforce based only on their U.S.-APAC exports.



Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. / APAC. Responses to the question: “Earlier you said you currently have [INSERT S3 #] full-time equivalent employees. How many employees do you expect to add in the next 3 years solely due to your sales/exports to the Asia-Pacific region/United States of America?”

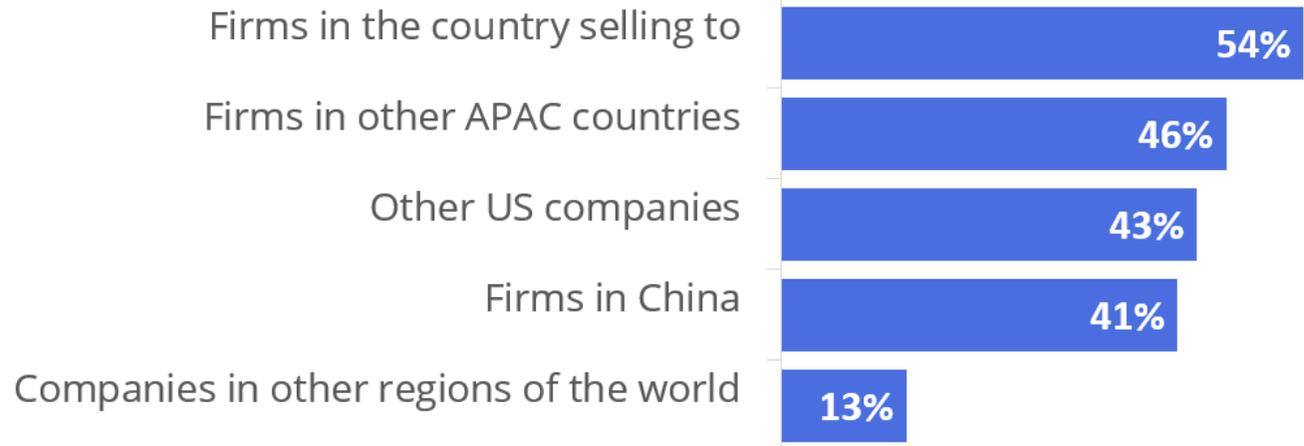
U.S. small businesses see **Australia, India, Japan, New Zealand, and Singapore** as top potential export markets in APAC

U.S. small businesses surveyed saw Australia, India, Japan, New Zealand and Singapore as top markets in terms of current or potential sales. When asked about where their primary competition comes from, U.S. small businesses named firms in the APAC country they are selling to (54%) as well as other APAC country firms (46%) as top competitors. 41% of U.S. small businesses surveyed saw Chinese firms as their top competitors in APAC markets.

Top Potential Markets for U.S. Small Businesses

- Australia
- India
- Japan
- New Zealand
- Singapore
- Thailand
- Philippines
- South Korea
- Indonesia

Primary Competition for U.S. Small Business Exporters



Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to APAC. Responses to the questions: "Who would you say are your primary competitors when selling to customers in APAC countries? Select all that apply," "Which of the following APAC countries are most important in terms of your current or potential sales to them? Select all that apply."

Barriers

Key barriers standing in the way of small business exports

We surveyed U.S. and APAC small businesses on the top barriers they experienced in exporting to the respective markets, and how important the respective barriers were in determining whether or not they would sell their products to a new foreign market.

On the top barriers experienced, we found some commonalities across the barriers cited by both U.S. and APAC small businesses, as well as some region-specific differences. On average, U.S. companies mention three to four barriers to exporting to APAC while APAC small businesses identify four to five.

U.S. small businesses cited shipping costs, tariffs and customs procedures, regulatory uncertainty, and lack of information for marketing and tools to communicate with customers abroad were cited as the top export barriers.

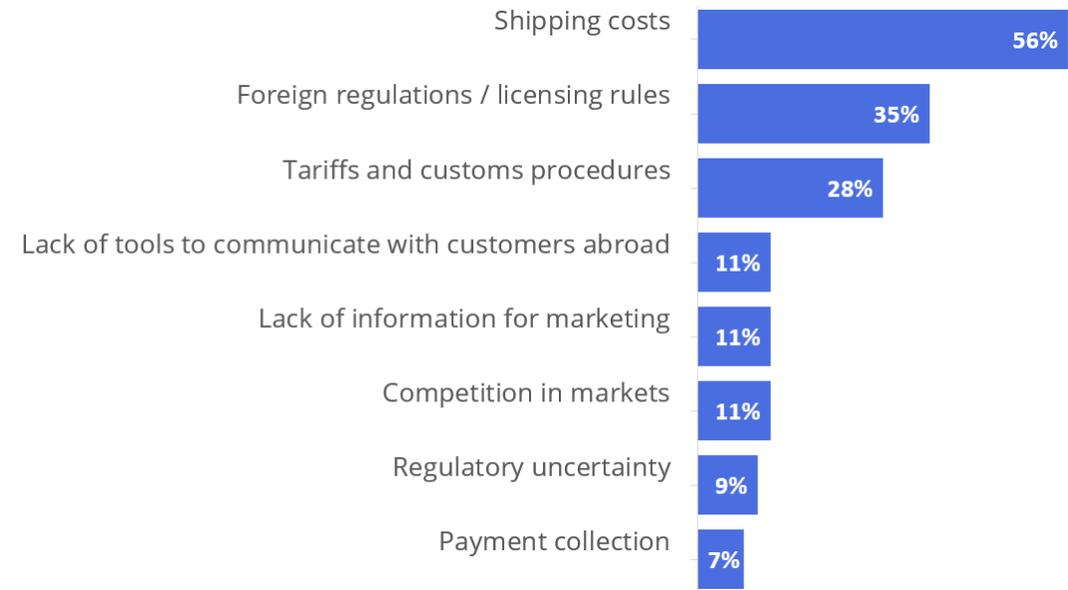
Shipping costs (56%) are the primary reason U.S. companies planning to export are not including APAC in their plans. Foreign regulations / licensing rules (35%) and tariff and customs procedures (28%) were also significant deterrents.

Among U.S. small businesses



Many U.S. Small Businesses Are Discouraged From APAC Exports Because of Barriers They See in the Region

Reasons U.S. Small Businesses Have No Plans to Export to APAC



Source: GIF-commissioned survey 2022. Base: Not currently doing any exporting, plan to export but not to APAC. Responses to the question: "Why are you not planning to sell goods/services to customers in the Asia Pacific region? Select all that apply."

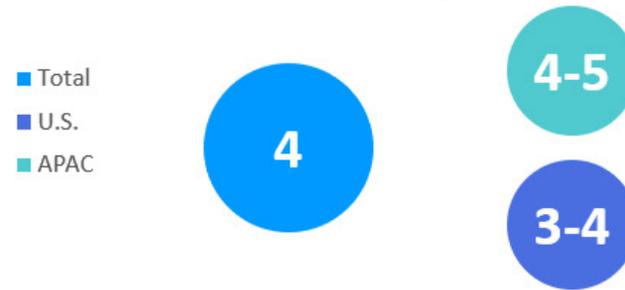
APAC small businesses struggled with more barriers, including the lack of communication and marketing tools, foreign regulations and licensing rules, and tariff and customs procedures.

APAC small businesses consider the following more challenging than their U.S. counterparts: tariffs and customs procedures, competition in market, lack of tools to communicate with customers abroad, lack of information for marketing, lack of preferential access, limited market for the product in the US, and regulatory uncertainty.

In particular, APAC small businesses who are currently not exporting to the U.S. but have the intention to do so cited the lack of tools to communicate with customers abroad (27%) as their key challenge. APAC exporters with no plans to export to the U.S. cite in-market competition (31%), foreign regulations and licensing rules (28%), and lack of information for marketing (27%) as reasons for unwillingness to export to the US.

APAC Small Businesses See More Barriers to Exporting to the U.S.

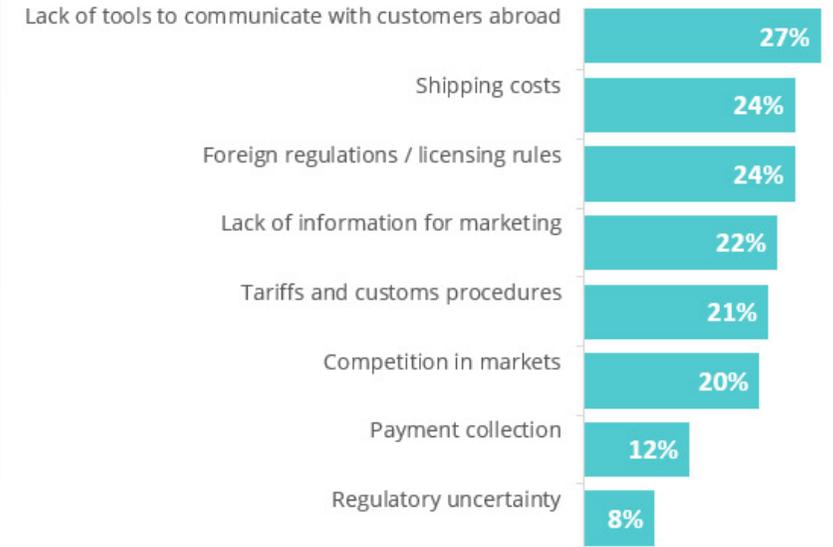
Number of barriers to exporting



Among APAC small businesses



Reasons APAC Small Businesses Have No Plans to Export to the U.S.



Source: GIF-commissioned survey 2022. Base: Not currently doing any exporting, plan to export but not to U.S. Responses to the question: "Why are you not planning to sell goods/services to customers in the United States? Select all that apply."

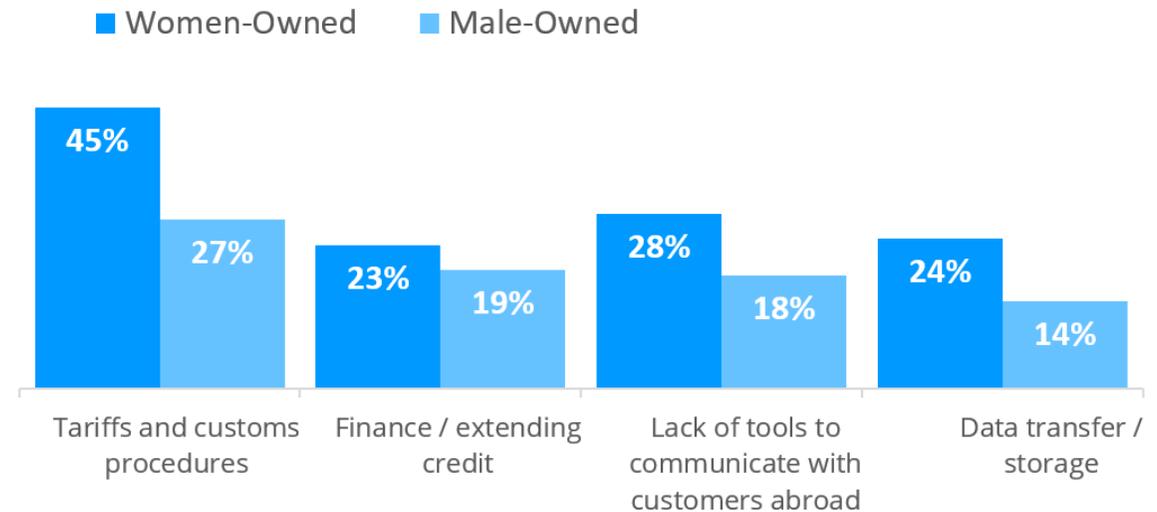
Shipping costs relatively less of a concern in determining export to new markets

Interestingly, when surveyed on the importance of specific barriers in determining whether or not a U.S. or APAC small business would export to a new foreign market, shipping costs and delays were relatively less of a concern. Instead, small businesses cited foreign regulations and licensing rules, access to information, distribution in market, information for marketing and marketing for the product in the region as the top 5 determinants of whether they would enter a new foreign market.

Women-owned small businesses are more likely to experience certain trade barriers

Representatives from women-owned U.S. small businesses are more likely to cite tariffs and customs procedures in addition to challenges accessing financing as barriers they experience. Much like their U.S. counterparts, tariffs and customs procedures also present a challenge to more APAC women-owned businesses. Additional barriers women-owned APAC firms face include the lack of tools to communicate with customers abroad and data transfer & storage.

Barriers to exports by gender



Source: GIF-commissioned survey 2022. Base: Women-owned, Currently or Plan to Export to U.S. / APAC. Response to the question: "Which of the following challenges and barriers to conducting business abroad have you experienced? Select all that apply."

Digital Tools

Use of digital tools and technologies in facilitating small business exports

Digital tools and technologies are critical to facilitating small business exports for both U.S. and APAC small businesses

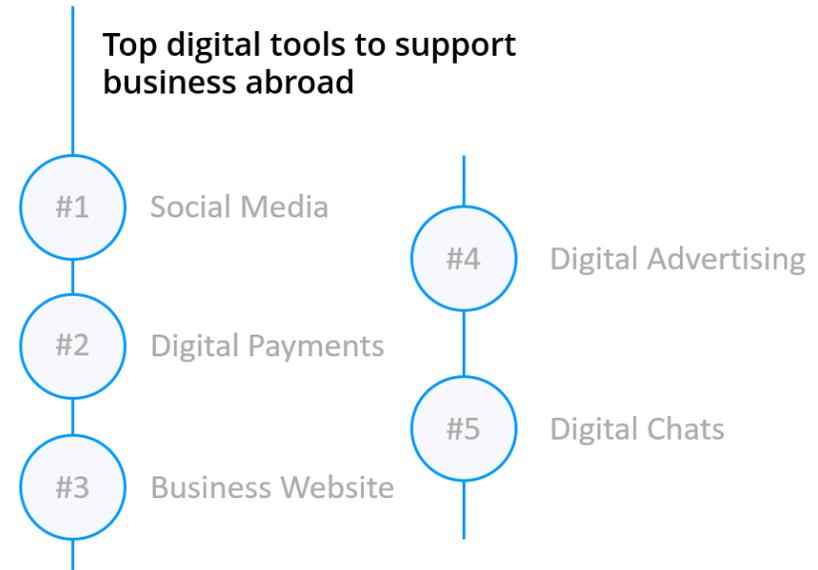
Small businesses in the U.S. and APAC actively use digital tools and technologies to facilitate their exports. 87% of small businesses surveyed felt that digital tools were essential to and provided support to their business abroad.

Of the digital tools and technologies most utilized, social media, digital payments, business websites, digital advertisements and digital chats/messenger functions were the top five cited by small businesses.

Among all small exporters



Technology Can Equip Small Businesses with Tools to Succeed Abroad

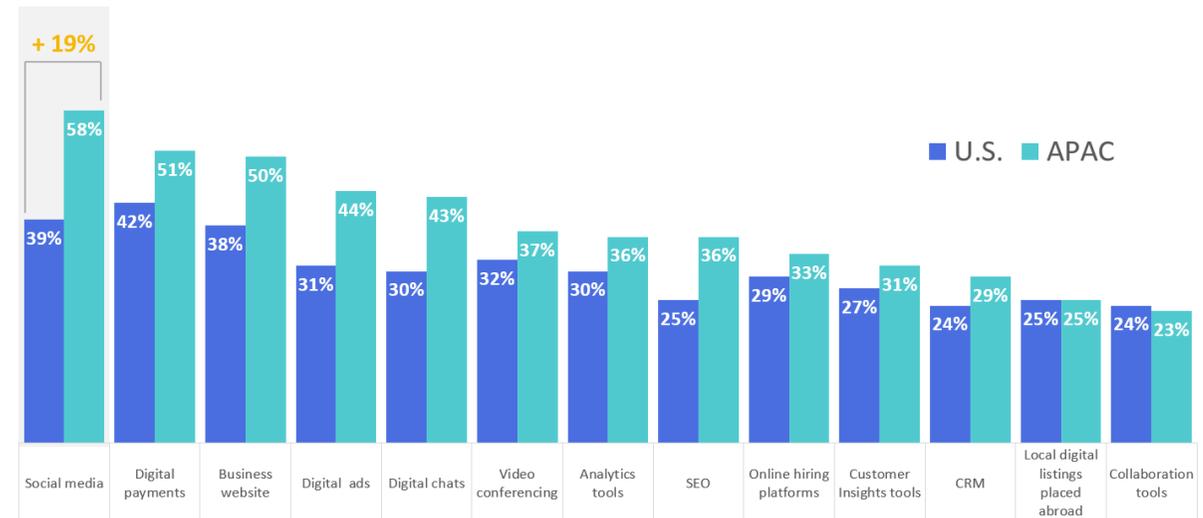


Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. / APAC. Responses to the question: "Which of the following digital tools has your company used to conduct business abroad? Select all that apply."

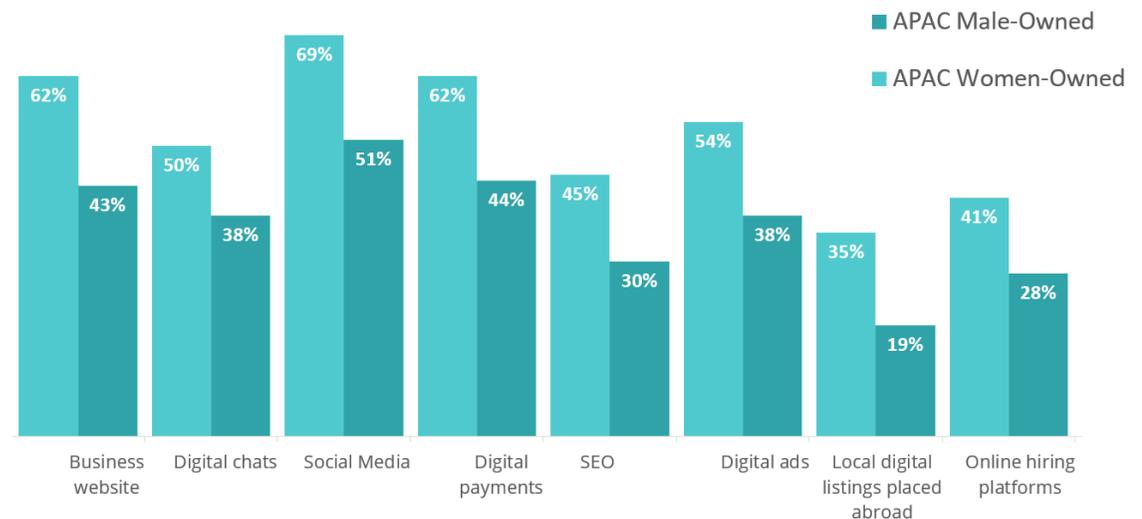
APAC small businesses use digital tools significantly more than their U.S. counterparts.

APAC small businesses surveyed used digital tools to reach out to customers and support their exports more intensely than their U.S. counterparts. In particular, the use of social media, business websites, digital payments, digital advertisements and digital chat/messenger functions helped APAC small businesses scale beyond their home markets. Further, in APAC, women-owned businesses use significantly more tools than male-owned businesses.

Digital Tools Leveraged by Small Businesses to Conduct Business Abroad



APAC Women-Owned Businesses Use Significantly More Tools Than Male-Owned



Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. / APAC. Responses to the question: "Which of the following digital tools has your company used to conduct business abroad? Select all that apply."

Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. Response to the question: "Which of the following digital tools has your company used to conduct business abroad? Select all that apply."

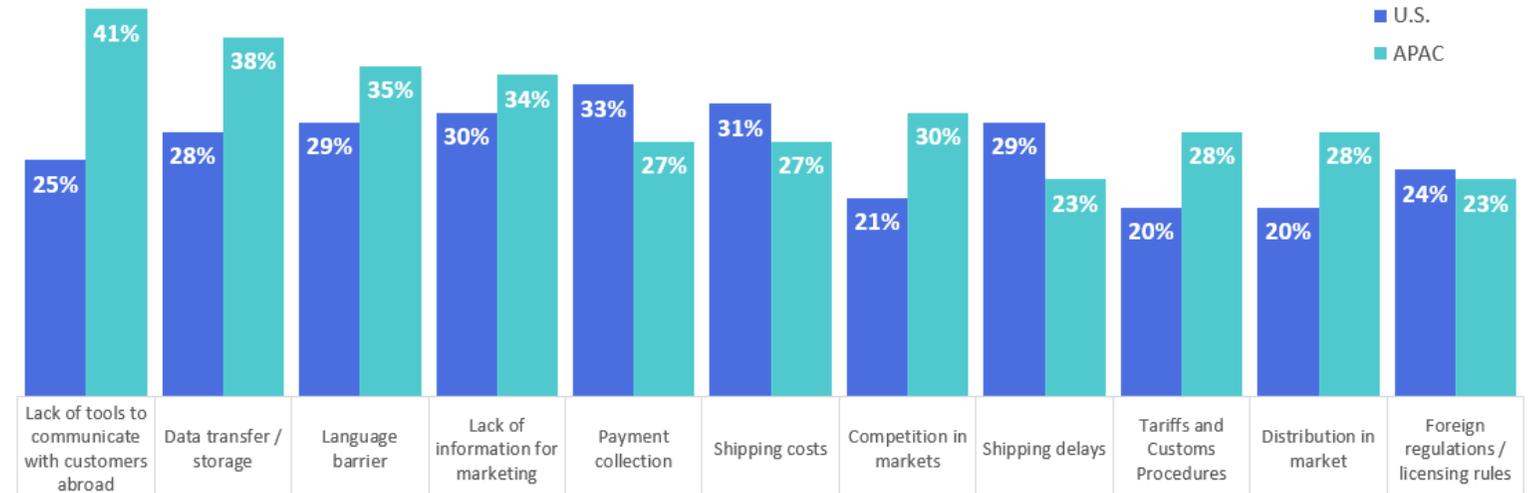
Digital tools can help address traditional export barriers

Small businesses surveyed felt that digital tools and technologies could help to solve or address traditional export barriers. In particular, digital tools could help to facilitate communications with customers abroad, and address data transfer/storage barriers. Language barriers (33%), lack of information for marketing (32%), payment collection (29%), and shipping costs (29%) were also cited as main barriers digital tools may help solve.

Translate functions in digital tools and platforms for instance, help to reduce the language barriers between the small business and their customers abroad. Using digital tools such as cloud computing services could help small businesses better navigate data transfer and storage challenges. Access to free, quality information through the internet could also help close the information and knowledge gaps on marketing products to overseas customers.

Technology is Key to Reducing & Mitigating Trade Barriers for Small Businesses

Exporting Challenges Small Businesses Believe Could be Solved by Digital Tools



Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. / APAC.

Responses to the question: "Which of the following challenges or barriers to exporting do you believe could be solved or addressed with the help of technology? Select all that apply"

When asked which digital trade provisions were most important to small businesses, the top 3 provisions identified were **the ability to do business in a market without physical presence, consistent rules across markets for the transfer of data and more transparency and information on laws and regulations related to digital trade.**

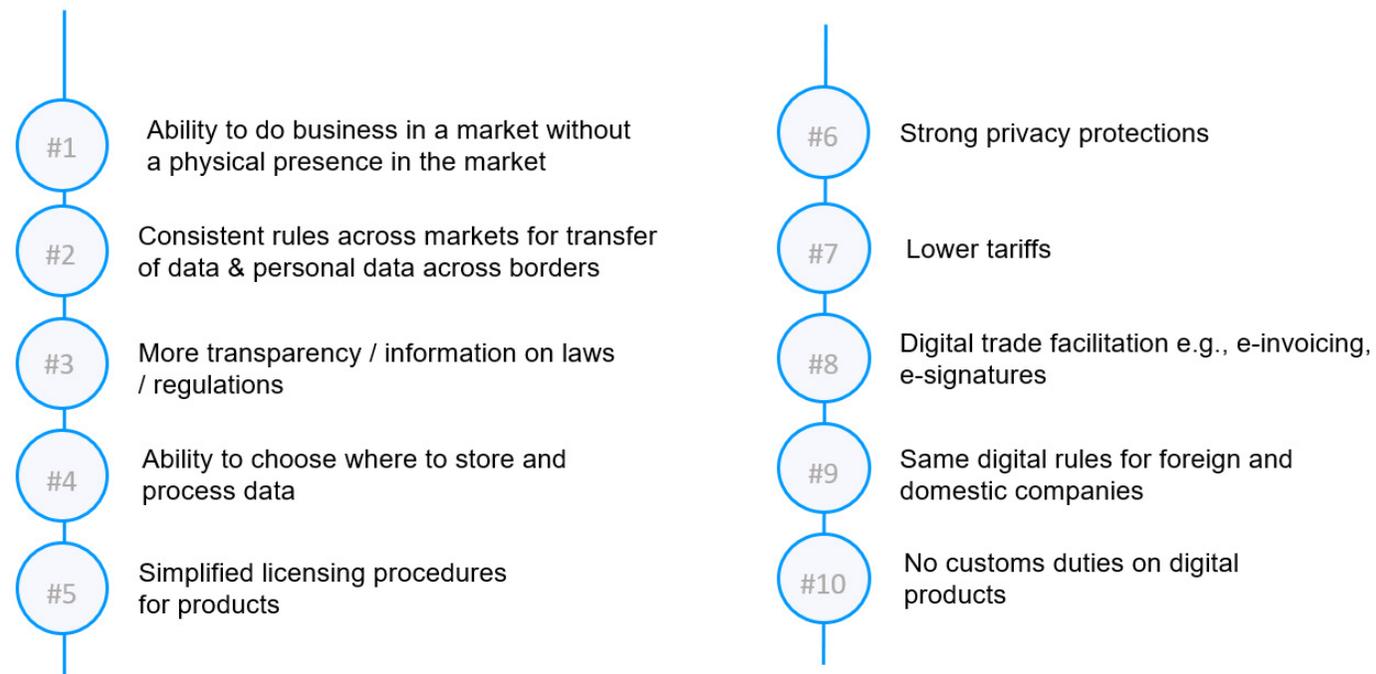
When asked which digital trade provisions were most important to small businesses, the top 3 provisions identified were the ability to do business in a market without physical presence, consistent rules across markets for the transfer of data and more transparency and information on laws and regulations related to digital trade.

These findings are consistent with the constraints faced by small businesses when scaling abroad. Local presence requirements fundamentally undermine the digital opportunity for small businesses. Whereas they previously had to make upfront capital investments, set up offices and shops around the world and enter into complex supply and distribution deals just to reach foreign customers, such costs can now be greatly reduced through engaging in digital trade.

Fragmented digital regulation across markets, particularly on data issues, are major barriers for small businesses who do not have the resources to comply with and customize their products to meet the differing regulations and laws across markets.

Finally, the sheer number and pace of digital regulations and laws enacted by governments make it challenging for small businesses to keep up. As an example, the Digital Policy Alert regulatory tracker recorded over 1800 digital policy or regulatory changes from 1 January 2020 to end July 2022 alone. Efforts to promote greater transparency and information on digital laws and regulations would be of immense help to small businesses, given resource constraints on their part to keep up with changing regulations.

Top provisions to include in a digital trade agreement according to small businesses



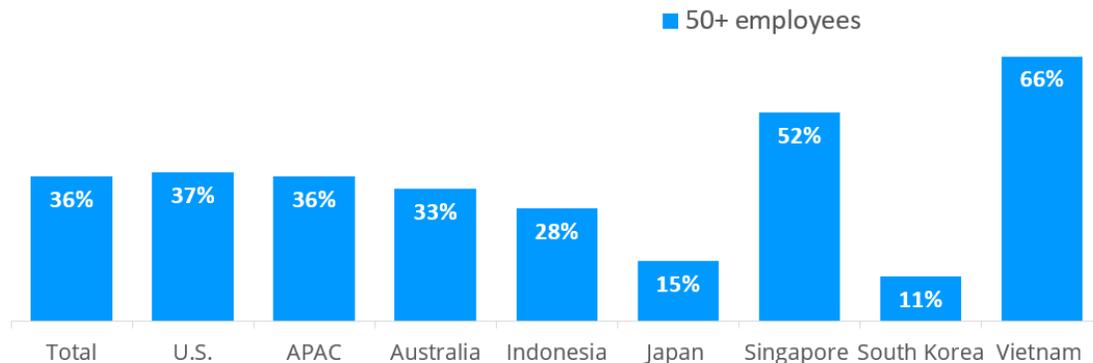
Source: GIF-commissioned survey 2022. Base: Currently or Plan to Export to U.S. / APAC. Responses to the question: "We realize that many of the features are important to you. Which one of these is most important to your company?"

Small businesses expect a digital trade agreement between the U.S. and APAC countries to help grow their exports

We surveyed small businesses across the U.S. and APAC on whether a digital trade agreement between the U.S. and APAC would help grow their exports. On average, U.S. small businesses expected to increase their exports slightly more than their APAC counterparts. U.S. small businesses projected a 35 to 44% increase in export sales with a digital trade agreement in place, while APAC small businesses anticipated an increase of 30 to 37% in export sales.

If governments were to ease burdens in the export process and adopt provisions that matter the most to small business owners, more small firms would be encouraged to engage in new markets. In 2020, the U.S. reported \$206 billion in exports to APAC from U.S. businesses with fewer than 500 employees. If an Indo-Pacific digital trade agreement were implemented, with better access to markets, United States small businesses surveyed anticipate a 35% increase in export revenue over the next 3 years to the Asia Pacific region—This would increase the United States' economic output to the Asia Pacific by \$72 billion.

Small Businesses Anticipate Needing to Add Even More Employees if a Digital Trade Agreement Were Implemented Today



An Indo-Pacific Digital Trade Agreement would increase U.S. exports by \$72 billion over the first three years.

Policy Recommendations

Small businesses across the U.S. and APAC are upbeat about the digital trade opportunity. They see digital tools and technologies as critical to helping them overcome traditional export barriers to grow and scale abroad.

Governments can help to create and facilitate opportunities for greater two-way digital trade amongst small businesses through cooperative government-to-government frameworks and mechanisms.

IPEF: An opportunity for an inclusive approach to digital trade

The Biden Administration's Indo-Pacific Economic Framework (IPEF) presents an excellent opportunity to make trade more inclusive, by addressing the concerns and issues that matter most to small businesses. Based on our survey of small businesses across the Indo-Pacific, the IPEF can best help small businesses by:

1. Making **digital trade rules that enable small businesses** to engage in international trade, and
2. Equipping small businesses with **digital skills and tools**.

Digital trade rules that enable small businesses to engage in international trade

Our survey has shown that small businesses who engage or want to engage in global markets do welcome and value the certainty and predictability that digital trade commitments between the U.S. and APAC countries will bring. There is also optimism that such rules can help to facilitate greater two-way digital trade, increase local economic activity and projected job growth. Digital trade rules that are high quality, open and interoperable will be most helpful in reducing and eliminating the barriers faced by small businesses in gaining access to the global digital economy.

Based on input from small businesses across the U.S. and APAC, digital trade rules in IPEF which address the following issues will help them to better engage in digital trade:

- **Eliminating the requirement for physical presence or a local representative as a condition of doing business.**
The internet has made it possible for small businesses with limited resources to scale globally without having to set up a physical presence in foreign markets. Eliminating local presence requirements will allow small businesses to fully benefit from the digital trade opportunity to reach global markets and customers.
- **Ensuring consistent data rules across economies which allow for cross-border data flows and prohibit data localization.** Data flows underpin the global digital economy, and companies of all sizes need to be able to move data securely across borders to maintain essential operations, connect with customers and compete globally. For small businesses especially, having to comply with inconsistent data rules across different economies, and having to localize data in different countries is both costly and challenging. Consistent data rules and mechanisms which promote cross-border data flows will help small businesses scale to more markets more efficiently, given their limited resources.

- **Improving transparency and promoting good regulatory practices in the formulation and publication of digital laws and regulations.**
It is challenging for small businesses to keep up with the ever-changing digital laws and regulations, especially given the growing volume and pace of regulatory activity in the digital economy. Good regulatory practices such as improving transparency around digital regulations, ensuring that small businesses are consulted when regulations are formulated, and improving small business access to the latest and most up-to-date information on digital laws and regulations will help.
- **Ensuring technology choice.**
Small businesses should be able to use and access technologies that suit their needs, and not be forced to use local and at times less competitive digital options.
- **Improving digital trade facilitation and simplifying licensing procedures.**
Digital trade facilitation measures such as the expanded use of electronic signatures, paperless trading, electronic authentication, and streamlining licensing procedures will help small businesses save costs and better navigate and benefit from digital trade.
- **Prohibiting customs duties on digital products and electronic transmissions.**
Small businesses will be disproportionately impacted should there be customs duties imposed on digital products and electronic transmissions. The increased administrative and financial burdens of such tariffs would create increased barriers to entry and will discourage more small businesses from engaging in the global marketplace.

Equipping small businesses with digital skills and tools

For small businesses to fully engage in and benefit from digital trade, they will also need to be equipped with digital skills and tools. Digital tools can help small businesses overcome export barriers such as the lack of tools to communicate with customers overseas, and the lack of information for marketing. And for small businesses to utilize these digital tools effectively, digital skilling is essential. The IPEF can help by:

Expanding government support to help small businesses adopt digital tools.

Indo-Pacific governments should explore avenues to assist small business adoption and use of digital tools. Policymakers should consider public-private partnerships and new opportunities to establish designated funds to offset the cost of adoption of digital tools by small businesses.

Promoting inclusivity in trade promotion programs.

By delivering cohort-based export and digital skills training programs, governments can advance underserved communities across the region, including by equipping such small businesses with tools, information, and skills that ensure digital competitiveness and participation in international markets.

Establishing a digital inclusion workstream and ongoing IPEF Digital SME Dialogue to promote cooperation.

Such an effort should engage various stakeholders including traditionally underserved groups, the private sector, and civil society to share best practices, industry solutions, and innovations for promoting digital inclusion.

Leveraging public-private partnerships (PPP) to establish a framework for digital skills-building initiatives.

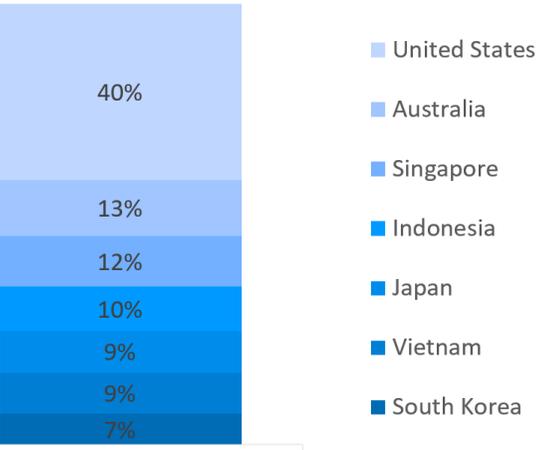
PPPs can play an important role in the development of high-quality skills, advancing expertise in key sectors, improving inclusion, and encouraging small businesses to invest in digital tools and skills. In partnership with the private sector, policymakers should create a regional framework to enhance SMEs' access to digital tools and support capacity building on the use of exporting technologies, enabling small businesses to reach their full digital potential.

Methodology

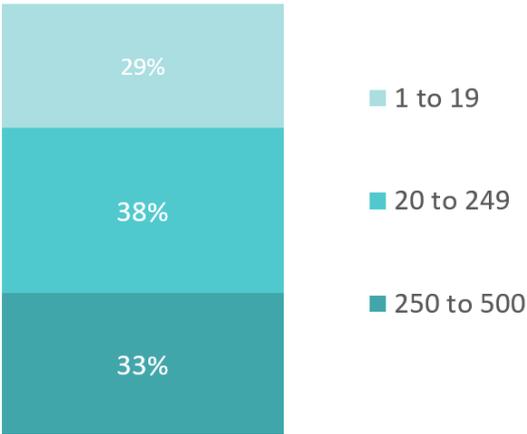
This survey of small businesses was conducted in March 2-17, 2022 by a third party research firm. Qualified respondents were small businesses (500 or fewer employees) that were currently or intend to export products and services to United States and Asia Pacific (n = 500 Total completed interviews, n = 200 US completed interviews, n = 300 APAC completed interviews)

Our findings are based small businesses in the United States, Australia, Indonesia, Japan, Singapore, South Korea and Vietnam.

Headquarters Country



Number of Employees



Company Profile by Industry

