Making Small Businesses Mighty

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

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.
- The U.S. economic output could increase by $72 billion, as a result of making it easier to access Indo-Pacific markets.
- On average, Indo-Pacific small businesses surveyed would add 22 jobs to accommodate the increase in export sales over the next 3 years.

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.

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.