



LATIN AMERICA AND THE CARIBBEAN SMALL ONLINE BUSINESS GROWTH REPORT

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INTRODUCTION

For the past six years, the eBay Public Policy Lab has collaborated with a team of economists at Sidley Austin LLP (Sidley) to research the trade and growth opportunities afforded to Micro, Small and Medium-sized Enterprises (MSMEs)¹ through technology and globalization.

We have studied more than 50 countries, spanning six continents, and irrespective of where we look, we have found MSMEs leveraging the online commerce platform to engage in expansive commerce, often on a global scale. This report extends our journey to Latin America and the Caribbean (LAC) and examines eBay marketplace data from 2011-2015. The econometric and statistical analysis carried out by Sidley for this report is based on eBay data sets covering transactions and small online businesses in seven markets: Argentina, Brazil, Chile, Colombia, Dominican Republic, Mexico and Peru. To ensure that the community of small commercial enterprises on eBay was properly captured, Sidley limited the data to transactions by sellers with sales of \$10,000 USD or more annually on the eBay Marketplace. These are called “Commercial Sellers” or “eBay-enabled MSMEs”.

The findings herein lend further confirmation to the revolutionary changes that have occurred within the global trading system whereby technology-enabled MSMEs, regardless of location, can now participate in activities once reserved for the largest corporations. Traditionally, the costs of conducting commerce over distance were so high they effectively eliminated nearly all MSMEs from directly connecting with international customers. This was also true of reaching most customers in very large national markets. The fortunes of MSMEs were tied to the health of their local markets and were very vulnerable to downturns in the economy. This was especially true for enterprises located far from economic hubs and in developing economies with lower income levels. Given that most business enterprises in countries of all economic development levels are SMEs², this daunting cost has created challenges for broad-based, balanced and inclusive economic development.

This report describes how the online platform model of commerce has neutralized many of the historical trade costs that impeded MSMEs from reaching foreign markets. Armed with new platform-

ABOUT THE EBAY PUBLIC POLICY LAB

The eBay Public Policy Lab seeks to address the public policy challenges that lie at the nexus of technology and commerce.

We conduct innovative research using unique data analytics methodologies and creative insights. We seek to inspire debate at the highest levels of public policy discourse about the future of commerce and how technology can be leveraged to achieve the best possible outcomes for all.

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¹ Although there is no single standard, SMEs are generally considered to be firms of less than 500 employees, although a standard of 250 employees is not uncommon. A subcategory of micro enterprises is also commonly used, often representing firms with fewer than 10 employees, although again ranges vary but generally fall below 20 employees.

² The World Bank Group's International Finance Corporation reports that SMEs account for about 90% of businesses and more than 50% of employment worldwide. http://www.ifc.org/wps/wcm/connect/277d1680486a831abec2fff995bd23db/AM11IFC+IssueBrief_SME.pdf?MOD=AJPERES

based marketing, shipping, payment and translation tools, these enterprises are embracing the opportunity to directly engage with global customers and export at unprecedented levels. Their geographical reach has also expanded to markets on nearly every continent. In the seven countries we researched, EVERY eBay-enabled MSME proved to be an exporter, and the majority of eBay-enabled MSMEs reached more than 10 markets with their goods. eBay-enabled MSMEs across LAC are effectively small global traders.

The research results presented in this report paint a picture of a much more inclusive model of commerce on multiple fronts. First, the export participation rates of eBay-enabled MSMEs far surpassed the level of MSMEs that have not embraced online commerce (traditional MSMEs). In addition, from a development perspective, the export participation rate and geographic reach of eBay-enabled MSMEs in LAC mirrored similar enterprises in advanced economies on which we have reported.³ Finally, and just as important, in the majority of countries covered in this report, the economic growth rates of eBay-enabled MSMEs exceeded their traditional economy averages.

LATIN AMERICA AND THE CARIBBEAN

The LAC region is at important economic and technological crossroads. Regional GDP is expected to have positive growth in 2017 and 2018 after posting back-to-back years of recession for the first time in three decades.⁴ Access to international markets and exporting are likely to be a key driver of this growth, as commodity prices remain low.⁵ This comes at a time in which the use of digital technology is expanding across the region and household internet penetration has more than tripled over the past five years.⁶ The Organization for Economic Cooperation and Development (OECD) and Inter-American Development Bank (IDB) also report that adoption of e-commerce is growing across the region as more consumers gain access to bank accounts and electronic payment methods, and as countries institute policies promoting refunds for goods purchased online and later returned.⁷ Additionally, roughly two-thirds of the population has expressed an intention to start a business in the next three years.⁸

³ eBay Public Policy Lab studies available at: <https://www.ebaymainstreet.com/lab>.

⁴ The World Bank (2017) *The World Bank in Latin America and the Caribbean*. Available at: <http://www.worldbank.org/en/region/lac/overview>

⁵ Breene, Keith. *5 Things to Know about Latin America's Economy*. World Economic Forum. January 19, 2016. Available at: <https://www.weforum.org/agenda/2016/01/5-things-to-know-about-latin-america-s-economy/>

⁶ Coleman, Gary. *Why Latin American Entrepreneurs are Ready for a Revolution*. World Economic Forum. June 16, 2016. Available at: <https://www.weforum.org/agenda/2016/06/why-latin-american-entrepreneurs-are-ready-for-the-revolution/>

⁷ OECD and IDB (2016) *Broadband Policies for Latin America and the Caribbean: A Digital Economy Toolkit*. OECD Publishing. Available at: <http://dx.doi.org/10.1787/9789264251823-en>

⁸ Global Entrepreneurship Monitor (2017) *GEM Global Report 2016/17*. Available at: <http://www.gemconsortium.org/report>

In short, there is fertile ground for the online platform model of commerce to potentially flourish and provide the economic and social benefits to strengthen and add to the millions that have joined the middle class over the last decade. However, ensuring widespread access to these opportunities will require policymakers to address many of the challenges presented by a global trading system not designed for technology-enabled MSMEs. This report concludes with country-specific policy recommendations to address these barriers and further empower these MSMEs to reach international markets.

ENABLING MICRO TO BE GLOBAL

The prototypical model for trade has involved a large and established domestic company targeting an export market, establishing overseas operations and eventually developing a multi-national supply chain with vendors and consumers located around the world. Globally, this continues to be the dominant model of trade. In Latin America, large firms account for less than 5% of enterprises, but their share of total exports is reported at 87%.⁹ The OECD and Economic Commission for Latin America and the Caribbean (ECLAC) also report that MSMEs in Latin America are internationalized at a lower level than those in Europe, Indonesia, Philippines, Laos, and Vietnam.¹⁰ The lower levels of exporting means that Latin American MSMEs are primarily serving their local and national markets, thus highly susceptible to the macroeconomic swings of the domestic economy.¹¹

Against this backdrop, the participation in Global Value Chains (GVCs) is promoted as a promising way for MSMEs to reap the benefits of global trade. GVCs are a fundamental concept in global trade and development economics, providing insight into the interrelationship between large Multinational Enterprises (MNEs), affiliates and independent suppliers, many of which are often MSMEs and can be located in many different countries.¹² For the most part, large MNEs are the main drivers of GVCs, acting as the supply chain leader, and determining the other enterprises that can participate.¹³

⁹ Inter-American Development Bank (2014) *Going Global: Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean*. Available at: <https://publications.iadb.org/bitstream/handle/11319/6412/Going%20Global.pdf>

¹⁰ OECD/ECLAC (2012) *Latin American Economic Outlook 2013: SME Policies for Structural Change*. OECD Publishing. Available at: http://repositorio.cepal.org/bitstream/handle/11362/1464/1/S2012085_es.pdf

¹¹ OECD/ECLAC (2012) *Latin American Economic Outlook 2013: SME Policies for Structural Change*. OECD Publishing. Available at: http://repositorio.cepal.org/bitstream/handle/11362/1464/1/S2012085_es.pdf

¹² Gereffi, Gary, John Humphrey, and Timothy Sturgeon. *The Governance of Global Value Chains*. Review of International Political Economy 12 (1): 78–104. 2005. Available at: http://www.fao.org/fileadmin/user_upload/fisheries/docs/GVC_Governance.pdf

¹³ See René A. Hernández, Jorge Mario Martínez and Nanno Mulder, *Global value chains and world trade: Prospects and challenges for Latin America*. ECLAC Books, No. 127 (LC/G.2617-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2014; and Kahn, Theodore, Antoni Esteveadoral & Mauricio Mesquita Moreira. *Bringing Down the Barriers: A Review of IDB Research on Trade Costs in Latin America and the Caribbean*. Inter-American Development Bank. 2015. Available at: <https://publications.iadb.org/handle/11319/6974>

MSMEs participate in the GVCs by providing their goods and services to the MNEs.¹⁴ This can expand MSME market opportunities and increase productivity, but, under this model, they are heavily dependent on the needs and health of larger firms.

Despite the emergence and evolution of GVCs, the share of traditional businesses, in particular MSMEs, that export, remains relatively small. In addition, the data available on GVC participation in Latin America points towards a lower participation rate across the region than in other developing economies.¹⁵ Of the countries where we are analyzing the trade activities of eBay-enabled SMEs, and where we have identified traditional business comparable statistics, shares of firms exporting range from 8% in Mexico and 11% in Brazil, to 18% in Colombia and 27% in Argentina (See chart on page 8). Taking stock of the current levels of internationalization, the IDB recently noted that LAC has yet to fully experience the growth and development opportunities provided by trade.¹⁶

A new model of exporting and MSME global commerce is emerging in parallel to the GVC model. It is driven by the Internet, a truly global digital network. When the Internet is combined with commercial services and efficient logistics, small businesses can connect

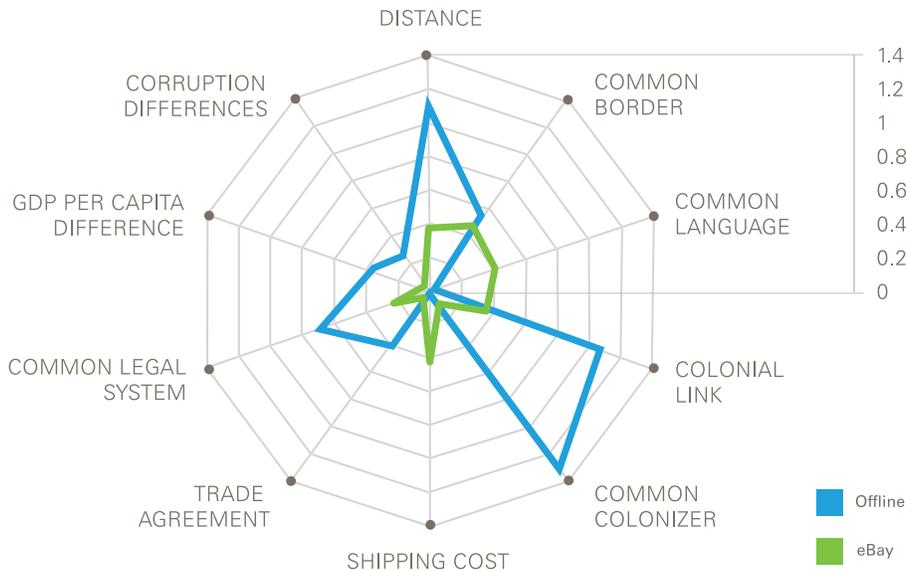


Figure 1.0

Most Trade Costs Matter More Offline Than Online¹⁷

¹⁴ OECD, WTO, and World Bank Group (2014) *Global Value Chains: Challenges, Opportunities, and Implications for Policy*. Available at: https://www.oecd.org/tad/gvc_report_g20_july_2014.pdf

¹⁵ Cadestin, C., J. Gourdon and P. Kowalski. *Participation in Global Value Chains in Latin America: Implications for Trade and Trade-Related Policy*. OECD Trade Policy Papers, No. 192. 2016. OECD Publishing. <http://dx.doi.org/10.1787/5jlpq80ts8f2-en>

¹⁶ Kahn, Theodore, Antoni Esteveadoral & Mauricio Mesquita Moreira. *Bringing Down the Barriers: A Review of IDB Research on Trade Costs in Latin America and the Caribbean*. Inter-American Development Bank. 2015, Available at: <https://publications.iadb.org/handle/11319/6974>

¹⁷ Olarreaga, Marcelo, and Sidley Austin LLP. *Enabling Traders to Enter and Grow on the Global Stage*. [See Page 12]. 2012. Available at: http://www.ebaymainstreet.com/sites/default/files/eBay_Enabling-Traders-to-Enter-and-Grow-on-the-Global-Stage.pdf

with consumers and establish trust across national and cultural borders.¹⁸ Small businesses are able to create a storefront online and compete in global markets through e-commerce platforms with vibrant customer bases. At the same time, they are able to maintain physical presence in their local community. The World Economic Forum recently noted that platform-based e-commerce has had a strong positive impact on many small businesses, both by opening up new export avenues and facilitating access to low-cost imported inputs, and that technology-based marketplaces have made selling and sourcing internationally much easier by reducing many non-tariff barriers to trade, most importantly, access to information.¹⁹ World Bank Enterprise Survey data (2009-10) provides evidence that internationalized firms also achieve higher levels of productivity than those just serving their domestic markets.²⁰

Figure 1.0, which was developed by Olarreaga (2012) as part of an initial study of the trade activity of eBay-enabled MSMEs, represents the various factors studied as part of a distance analysis of trade on the eBay platform. The transaction costs studied included traditional trade costs such as shipping costs and absence of a common language, as well as a range of traditional institutional differences between countries. The analysis determined that all the traditional trade costs and institutional factors, with the two exceptions of shipping costs and no common language, matters less for eBay-based trade than they do for offline trade. However, shipping costs and the lack of common language between buyer and seller are two barriers to cross border commerce impacting online businesses, especially small online businesses.

We have coined the term Global Empowerment Network to describe this model. The Global Empowerment Network combines a set of services and conditions that contribute to an emerging borderless system, which enables economic activity in forms. This system of building blocks is presenting an alternative business model to independently reach consumers on a global scale. While in no sense does MSME access to Global Empowerment Network services completely nullify the challenges of being MSMEs attempting to compete in global markets, the efficiencies created by these technology based platform services have significantly reduced the cost of MSME exporting.²¹ The rate of exporting by MSMEs using the platforms has consequently increased dramatically.

The Four Building Blocks of the Global Empowerment Network:

- 1 Connectivity to the global Internet at low cost and without gatekeepers
- 2 Global platform-based marketplaces
- 3 Global payment services
- 4 Efficient, modern and “connected” package-level logistics and delivery services

¹⁸ Meltzer, Joshua. *Supporting the Internet as a Platform for International Trade*. The Brookings Institute. 2014. Available at: http://www.brookings.edu/~media/Research/Files/Papers/2014/02/internet-international-trade-meltzer/02-international-trade-version-2_REVISIED.pdf?la=en

¹⁹ World Economic Forum (2015) *What Companies Want From the World Trading System*. Available at http://www3.weforum.org/docs/WEF_GAC_Trade_II_2015.pdf

²⁰ OECD/ECLAC (2012) *Latin American Economic Outlook 2013: SME Policies for Structural Change*. OECD Publishing. Available at: http://repositorio.cepal.org/bitstream/handle/11362/1464/1/S2012085_es.pdf

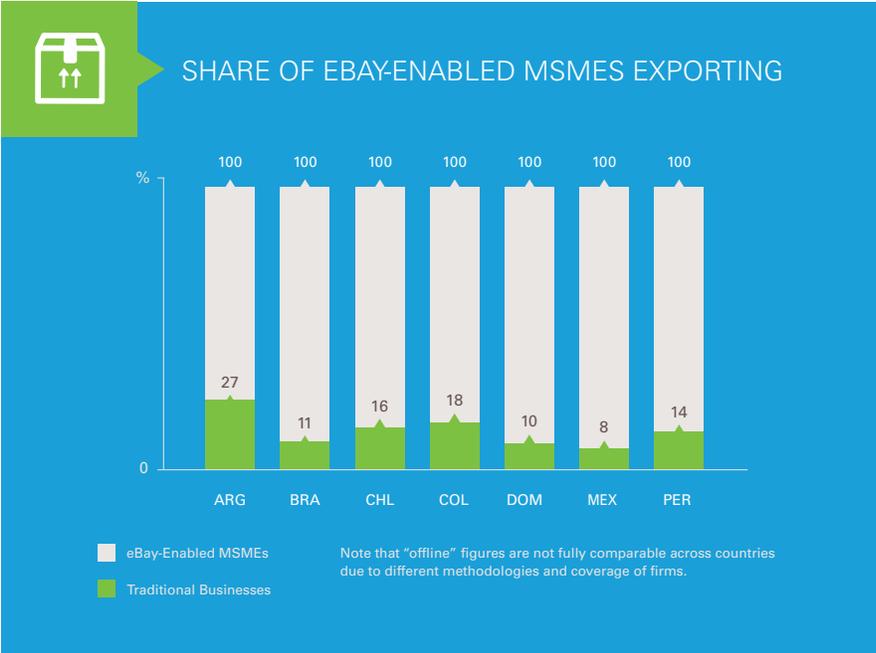
²¹ Olarreaga, Marcelo. *eBay Reduces Trade Costs Where it is Needed Most*. The World Bank - Let's Talk Development Blog. November 7, 2012. Available at: <http://blogs.worldbank.org/developmenttalk/eBay-reduces-trade-costs-where-it-is-most-needed>

The next section will use the findings from the eBay Marketplaces data to illustrate the level of export activity by eBay-enabled MSMEs in countries across LAC, and contrast the data with traditional business activity where available.

EBAY-ENABLED MSMEs ACROSS LATIN AMERICA AND THE CARIBBEAN EXPORT TO THE WORLD

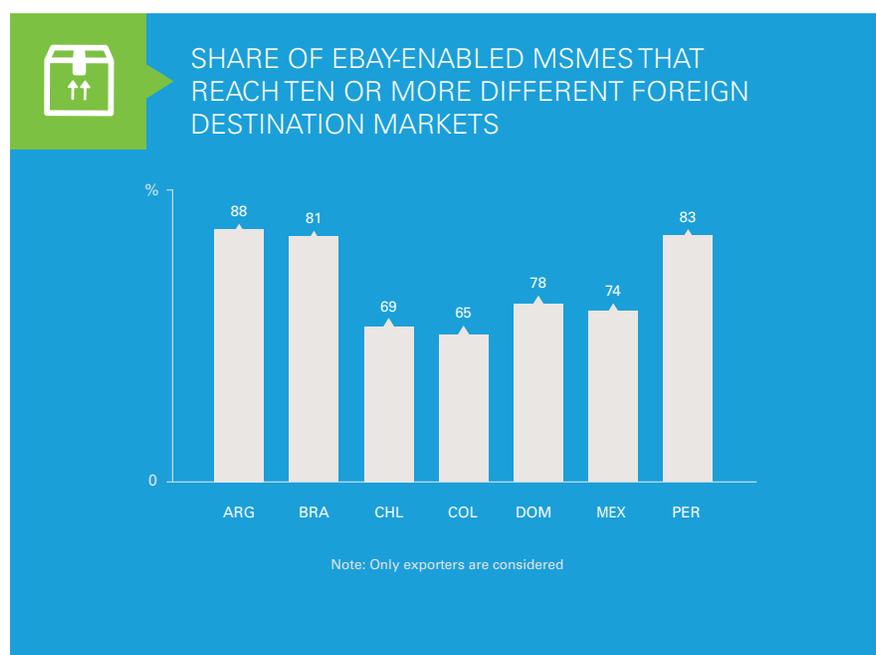
SHARE OF EBAY-ENABLED MSMEs EXPORTING

The share of eBay-enabled MSMEs that export is the clearest and most striking data point that illustrates the impact and reach of the Global Empowerment Network in comparison to the traditional model of trade. In each of the seven countries we analyzed, EVERY eBay-enabled MSME was an exporter. The World Bank provides survey data for numerous countries showing the share of businesses involved in export activities, even if one includes indirect exporting through GVCs. A review of this data for the seven countries reveals the share of traditional businesses that are exporters range from 8% to 27%.



SHARE OF EBAY-ENABLED MSMES THAT REACH TEN OR MORE DIFFERENT FOREIGN DESTINATION MARKETS

Another measurement of the scale and scope of exporting involves the number of country markets reached. It is generally believed that businesses considering exporting to a new country market face costs to entry, and therefore expanding their business by exporting to more country markets leads to higher entry costs.²² Escalating entry costs leads to the presumption that smaller firms will tend to export to fewer countries. As another measurement of the scale of eBay-enabled MSME exporting activity, we calculated share that exported to 10 or more country markets in 2015.

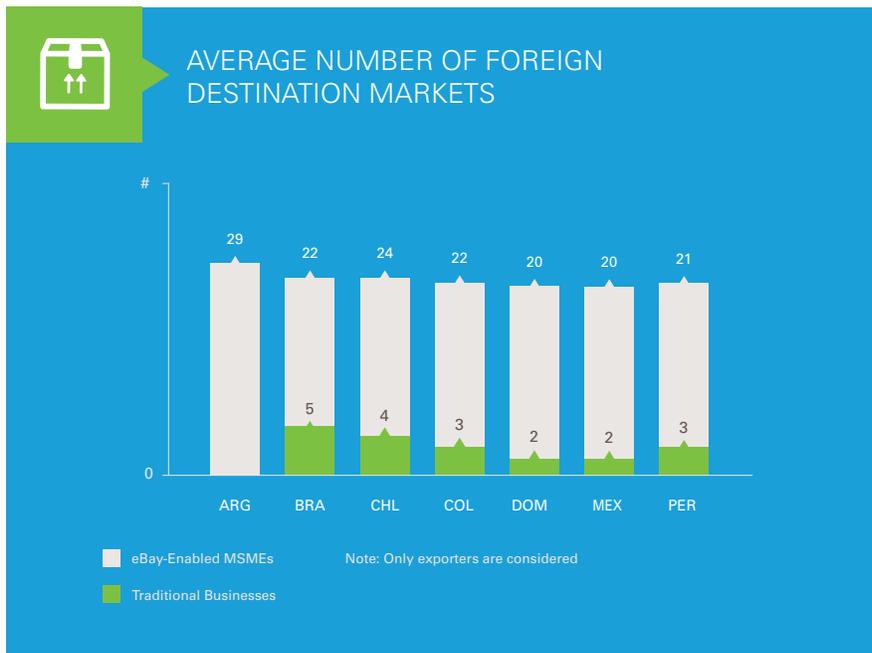


In all seven countries we reviewed, roughly two-thirds or more of the eBay-enabled MSMEs reached ten or more different foreign markets with their goods. Comparable data for traditional MSMEs is actually very difficult to find, potentially because so few traditional MSMEs export to 10 or more separate countries. However, it is worth noting that Colombia, which ranks last in the seven-country set in terms of share of eBay-enabled MSMEs reaching ten or more country markets, still outpaces Argentina, which ranks first in the share of traditional businesses reported to export to even one market.

²² For example, see Roberts, Mark J. and James R. Tybout. *Directions in Development: What Makes Exports Boom?* (Washington, D.C.: The World Bank, 1997a); Bernard, Andrew and Joachim Wagner. *Export entry and exit by German firms*. Review of World Economics (Weltwirtschaftliches Archiv), 137 (2001), 105-123.; Bernard, Andrew and J. Bradford Jensen. *Entry, Expansion, and Intensity in the U.S. Export Boom, 1987-1992*. Review of International Economics, 12 (2004b), 662-675.

AVERAGE NUMBER OF FOREIGN DESTINATION MARKETS

The average number of foreign markets reached on an annual basis provides a key measurement of export activity and market diversity. As with the previous data point, our findings show that eBay-enabled MSMEs defy the concept that entry costs are a barrier to exporting to additional countries.



In all seven countries, eBay-enabled MSMEs reach on average 20 or more foreign markets. This is a very different picture from what one can observe for traditional businesses. The World Bank Exporter Dynamics Database collects data for these exporters in six of the seven countries and reports they reach an average of only two to five markets. This clearly highlights the difference between the traditional model of trade and the Global Empowerment Network. Traditional commerce is shaped by a small percentage of large firms exporting to a few markets. The Global Empowerment Network empowers a multitude of MSMEs to reach a large number of markets.

SHARE OF EBAY-ENABLED MSMEs EXPORTING TO BUYERS ON FOUR OR MORE CONTINENTS

To capture the share of eBay-enabled MSMEs with a truly global customer base, we have calculated the continental reach of these enterprises. Though a non-traditional measurement, it provides another example of the revolutionary scale and scope of exporting activity through the Global Empowerment Network.



SHARE OF EBAY-ENABLED MSMES EXPORTING TO BUYERS ON FOUR OR MORE CONTINENTS



Note: Only exporters are considered

For the purposes of this analysis, sales were designated to buyers on one of six continents: North America, South America, Europe, Asia, Africa, and Australia. When an eBay-enabled SME exported to a buyer in a country on a continent, they were credited with an export to that continent. Additionally, when an export is made to a country on the same continent as the seller, that sale is counted as an export to that continent. (e.g. A sale from a Colombian seller to a buyer in Brazil is an export to South America.) The report considers an MSME with sales to four or more continents in a year to be a “Global Seller.” As the chart above demonstrates, nearly the entire world comes within reach of technology-enabled firms. In all seven countries, more than half of the eBay-enabled MSMEs are Global Sellers. And, in four of the seven countries, nearly 75% or more are Global Sellers.

TRANSLATING TRADE SUCCESS TO GROWTH PERFORMANCE

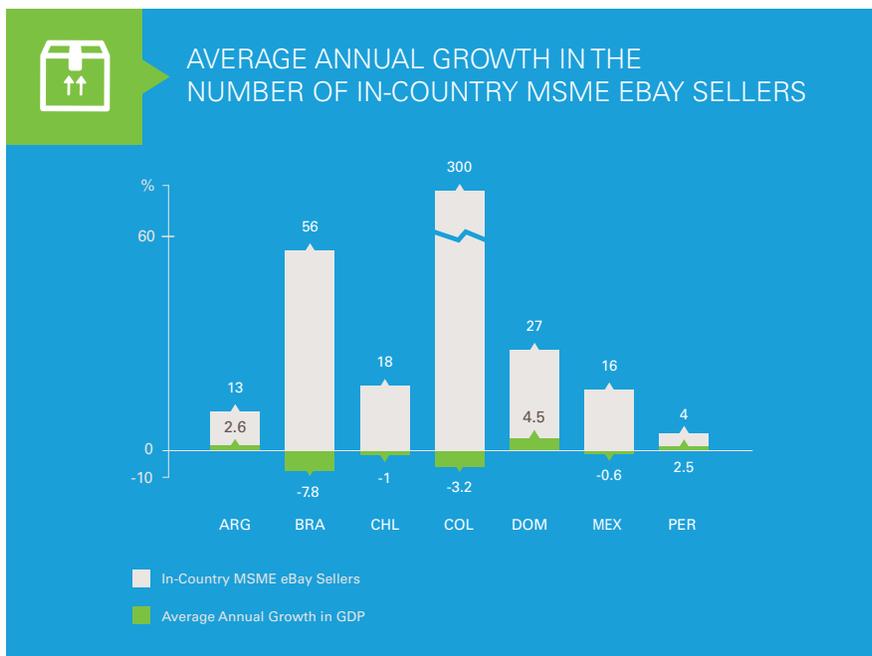
MSME access to the global trade regime is important for inclusiveness, but firms that export, including MSMEs, are also generally considered healthier and more robust than non-exporting firms. World Bank Enterprise Survey Data (2009-2010) presents evidence that firms exporting directly or indirectly experience higher production growth rates than those limited to just their home country markets.²³ In LAC, the OECD and ECLAC note that there is a large productivity gap between MSMEs and larger companies

²³ OECD/ECLAC (2012) *Latin American Economic Outlook 2013: SME Policies for Structural Change*. OECD Publishing. Available at: http://repositorio.cepal.org/bitstream/handle/11362/1464/1/S2012085_es.pdf

and that this relates to participation in international markets.²⁴ The IDB found that MSMEs in the LAC region that exported had higher levels of sales, productivity and wage rates than non-exporters.²⁵ Finally, a survey commissioned by DHL of MSMEs in the G7 countries, Brazil, Russia, India, China and Mexico, found that exporting firms were twice as likely to outperform their market than firms operating only in the domestic market.²⁶ As is clear from the data in the previous section, the overwhelming majority of eBay-enabled MSMEs are exporters. This section will look at measurements of the growth of various segments of the eBay-enabled MSME community to identify if they are growing at rates that exceed the national economy overall.

AVERAGE ANNUAL GROWTH IN THE NUMBER OF IN-COUNTRY MSME EBAY SELLERS

The year-over-year growth in the number of eBay Commercial Sellers in a country market provides a useful data point regarding the MSME growth opportunities on the eBay marketplace, in particular when compared to growth in the overall national economy.



²⁴ OECD/ECLAC (2012) *Latin American Economic Outlook 2013: SME Policies for Structural Change*. OECD Publishing. Available at: http://repositorio.cepal.org/bitstream/handle/11362/14641/S2012085_es.pdf

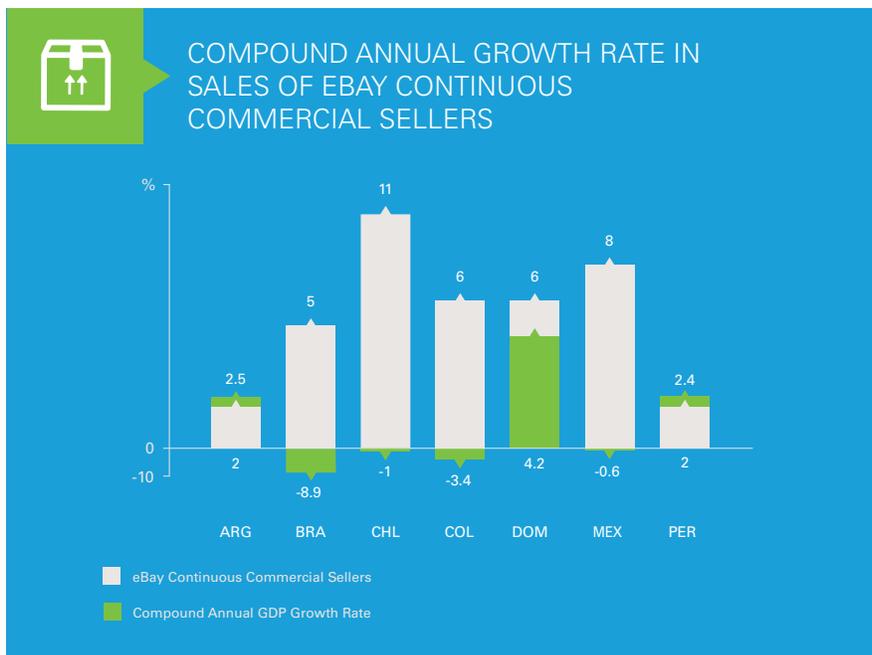
²⁵ Inter-American Development Bank (2014) *Going Global: Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean*. Available at: <http://publications.iadb.org/bitstream/handle/11319/6412/Going%20Global.pdf>

²⁶ DHL (2013) *Internationally-Focused Small and Medium Companies Prosper in 'Global Village'*. [Press Release] Available at: http://www.dhl.com/en/press/releases/releases_2013/express/new_dhl_express_sme_study.html

In this case, we are looking at the average annual growth rate in the total number of in-country eBay Commercial Sellers for the years 2011 to 2015. An eBay Commercial Seller is thereby defined as an eBay seller with sales of \$10,000 USD (at 2015 exchange rates) or more annually on the eBay Marketplace. For consistency purposes, we calculated a currency neutral number of eBay Commercial Sellers to address currency fluctuations.²⁷ Given the lack of consistent national statistics available related to the growth or decline of MSME numbers, we chose to compare the rate of growth of eBay Commercial Sellers in each national market with the overall growth of the national GDP over the same time period.²⁸ Although national GDP is not an exact comparable for the size or growth of the number of MSMEs overall, the overwhelming share of total enterprises in each country that are MSMEs does lend itself to GDP being somewhat of a proxy for overall MSME health. Although the results vary widely across countries, in all seven, In-Country MSME eBay Seller growth bested GDP growth by a significant margin.

EBAY CONTINUOUS COMMERCIAL SELLERS

In this report, the term “Continuous Commercial Sellers” refers to eBay Commercial Sellers in 2015—the final year of the report—who sold above the \$10,000 USD threshold throughout the five-year time period of 2011–2015.



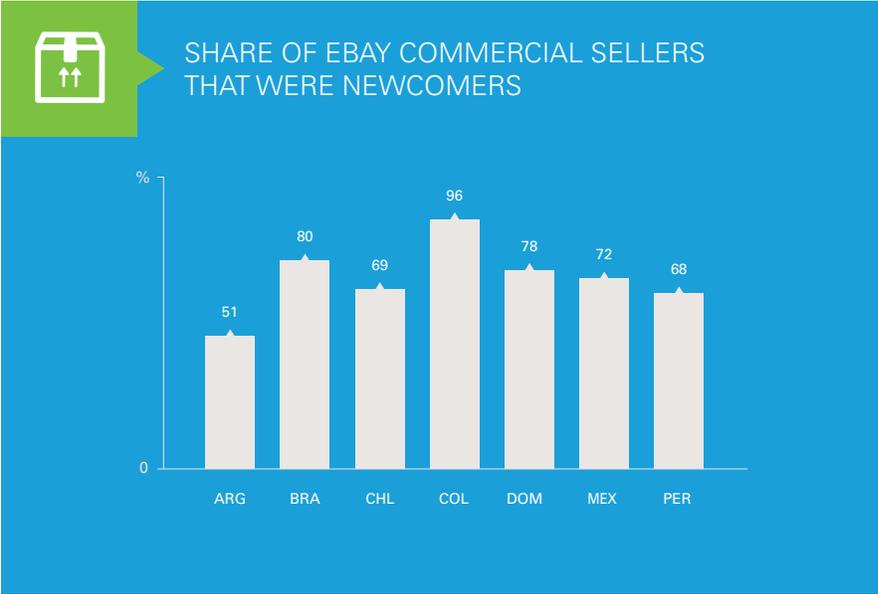
²⁷ Due to currency fluctuations that occurred during the period 2011-2015, in particular the appreciation of the US dollar to LAC currencies in 2015, we calculated a currency-neutral level of in-country MSME sellers in 2011 by using the same commercial seller threshold in the domestic currency that is also used in 2015. For example, the threshold for Brazilian Real is around 33,269 in 2015 (equivalent to \$10,000 USD in 2015), and that same threshold is also used for 2011, rather than using the Brazilian Real equivalent of \$10,000 USD in 2011 (which would be around 16,730). In this manner, the net change in the overall number of in-country MSME sellers from 2011 to 2015 is not distorted by exchange rate fluctuations of the USD against other currencies.

²⁸ The World Bank, World Development Indicators, last updated April 27, 2017. Available at: <http://data.worldbank.org/indicator/NY.GDPMKTPKD> Note: Average Annual GDP Growth Rate was determined using the following formula: $(2015 \text{ GDP} - 2011 \text{ GDP} / 2011 \text{ GDP}) / 4$

These MSMEs with five years or more of continuous operations selling above \$10,000 USD annually include the most established operators on the platform. We calculated the compound annual growth rate in sales for these Continuous Commercial Sellers in each country market and compared it to the compound annual GDP growth rate over the same timeframe.²⁹ We found that Continuous Commercial Sellers in all seven countries experienced positive growth rates over the five years we examined. In addition, in five of the seven countries, Continuous Commercial Seller growth exceeded the compound annual GDP growth rate. A particular contrast worth noting occurs in the cases of Brazil, Chile, Colombia, and Mexico. All four of these countries had a negative compound annual GDP growth rate for over 2011-2015. However, eBay Continuous Commercial Sellers experienced growth ranging from 4.9% to 11.3% during this time. This is a clear example of the Global Empowerment Network in full effect as Continuous Commercial Sellers in these countries were able to access outside markets to spur growth in the face of domestic economic headwinds.

NEWCOMERS

The ability of new enterprises to enter the market is a key element of economic growth. The birth of enterprises is thought to drive economic dynamism by increasing competition, generating efficiencies, promoting innovation and fostering new technologies.³⁰



²⁹ The World Bank, World Development Indicators, last updated April 27, 2017. Available at: <http://data.worldbank.org/indicator/NY.GDP.MKTP.KD> Note: Compound Annual GDP Growth Rate was determined using the following formula: $[(2015 \text{ GDP} / 2011 \text{ GDP}) ^{.25} - 1]$

³⁰ Eurostat (2016) *Business Demography Statistics*. Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Business_demography_statistics

In this report, we consider “Newcomers” in 2015 to be Commercial Sellers who are four years old or younger, in this case measured by the absence of any sales in 2011. In all seven countries, more than 50% of Commercial Sellers are in fact newcomers and this data suggests that the Global Empowerment Network is nurturing a new set of MSMEs across the region.

We also examined the average growth rate in sales of these firms as it offers a window into firm growth. For this section, we looked at Newcomers who made their first sale on eBay in 2012 and achieved Commercial Seller status in 2015. Given the hyper-growth of the sales in the first years of a start-up enterprise when measured as a percentage, we examined just their third year growth rate (2014–2015) to minimize distortions in the average.



In the countries for which we had third year growth data, the economic growth performance of Commercial Sellers proved to be robust, especially compared to the broader economic performance of the country market’s domestic economy over the time period studied. The third year growth rate for Commercial Sellers in Colombia, Brazil, and Peru are incredibly impressive and far outpace the results seen across numerous advanced economies.³¹ These two Newcomer performance metrics are evidence that Commercial Sellers are continuing to meet the test of promoting a more inclusive economy across LAC. In addition, the continued growth of these new enterprises will be an important factor as the region looks to jumpstart its economy after the recent slowdown.

³¹ eBay (2016) *Small Online Business Growth Report*. Available at: <https://www.ebaymainstreet.com/policy-papers/state-small-online-businesses-worldwide-results-ebays-5-year-study>

economies worldwide and retail ecommerce sales are projected to top \$7 billion USD in 2017, up over 40% from 2016.³⁴ The U.S. Department of Commerce reports that 70% of total online transactions used credit cards and this is up from 49% in 2014.³⁵ Argentina ranked 57 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.³⁶

Our analysis of eBay Commercial Sellers based in Argentina shows that the entire population are exporters compared to only 27% of traditional businesses. Argentinian eBay Commercial Sellers reach an average of 29 foreign destination markets, the highest number of the seven countries covered in our report. Argentina also led the group in the share of eBay Commercial Sellers that reached ten or more different foreign markets (88%) and exported to four or more continents – truly global sellers (86%). The compound annual growth rate in sales for Continuous eBay Commercial Sellers from 2011-2015 was 2%, roughly equal to the compound annual GDP growth rate over the same timeframe. The share of eBay Commercial Sellers in Argentina that were newcomers totaled 51% and their third-year sales growth rate was 10%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Argentina to access the global market:

Increase Customs Import Duty Exemption Thresholds

The de Minimis threshold is the monetary value below which goods can be shipped into a country and be exempt from customs duties, taxes, paperwork requirements and other customs procedures. The Argentinian de Minimis threshold is currently set at \$25 USD and is limited to five packages per year. The low de Minimis threshold raises the cost of products for consumers as well as domestic companies that buy foreign goods. According to an Executive Opinion Survey conducted by the World Economic Forum, in Argentina, “Access to imported inputs at competitive prices” ranked as the most problematic factor for exporting.³⁷ In addition, the low de Minimis limits the ability of Argentinian technology-enabled MSMEs to offer returns to their global customer base. Returns are a key element of the retail experience. Returned items that are valued at a level above a country’s de Minimis are subject to the

³⁴ eMarketer (2016) *eMarketer’s Digital Index for 2017: The 10 Fastest Growing Digital Economies Worldwide*.

³⁵ International Trade Administration (2016) *Argentina Country Commercial Guide: Argentina-Ecommerce*. Available at: <https://www.export.gov/article?id=Argentina-ecommerce>

³⁶ United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

³⁷ World Economic Forum (2016) *The Global Enabling Trade Report*. Available at: <http://reports.weforum.org/global-enabling-trade-report-2016/>

same duties, taxes, etc. that apply to any other imported item, but the responsibility now falls on the seller to comply. This is a major burden for MSMEs with a handful or zero employees trying to sell a wide range of products to multiple foreign destinations. Increasing de Minimis thresholds promotes trade and economic opportunities for MSMEs and allows them to offer duty-free return services to customers in other markets.

Upgrade Postal System to Facilitate MSME Trade

Postal systems are increasingly valuable as an economic and trade facilitator for MSME traders. One of the challenges to the ecommerce environment in Argentina is slow delivery – the average delivery time for online orders is one week.³⁸ In the Universal Postal Union’s (UPU) most recent analysis of country postal development, which takes into account reliability, reach, relevance, and resilience, Argentina scored 28.43 (Range of 0-100) and ranked 111th out of 170 countries in the index.³⁹ According to the UPU, a country can fully realize the benefits of e-commerce only by addressing all four dimensions of measurement, further defined as postal operation efficiency (reliability), internationalization of postal services (reach), competitiveness in all main markets (relevance), and adaptability of businesses models (resilience).⁴⁰ Focusing on these factors will help promote greater and more broad-based MSME commerce opportunities.

BRAZIL

According to the International Telecommunications Union, nearly 60% of the population was using Internet in 2015, up roughly 20% from 2010.⁴¹ In 2015, Brazilian consumers spent roughly \$2 billion USD in cross-border websites, an increase of 36% over 2013.⁴² In addition, 40% of Brazilians completed a purchase on an international website in 2015 and those figures are increasing.⁴³ The Ecommerce foundation reports that 66% of Brazilian online purchases used credit cards.⁴⁴ Brazil ranked 51 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index,

³⁸ Meola, Andrew. *This Latin American Country will be an e-commerce Power in the Next Few Years*. Business Insider. March 10, 2016. Available at: <http://www.businessinsider.com/argentina-will-be-an-e-commerce-leader-by-2019-2016-3>

³⁹ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁴⁰ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁴¹ International Telecommunications Union (2017) *Percentage of Individuals Using the Internet*. Available at: <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

⁴² International Trade Administration (2017) *Brazil Country Commercial Guide: Brazil-Ecommerce*. Available at: <https://www.export.gov/article?id=Brazil-e-Commerce>

⁴³ International Trade Administration (2017) *Brazil Country Commercial Guide: Brazil-Ecommerce*. Available at: <https://www.export.gov/article?id=Brazil-e-Commerce>

⁴⁴ Ecommerce Foundation (2016) *Brazil B2C E-commerce Report 2016*. Available at: https://www.ecommercewiki.org/wikis/www.ecommercewiki.org/images/4/42/Brazil_B2C_E-commerce_Report.pdf

which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁴⁵ Additionally, the OECD reports that navigating Brazil's customs procedures requires considerably more time than in other markets.⁴⁶

Our research shows that all Brazilian eBay Commercial Sellers are exporters in contrast to only 11% of the traditional businesses in the country. eBay Commercial Sellers based in Brazil reach an average of 22 foreign destination markets, compared to a reach of five markets for traditional businesses, and more than 80% reach ten or more different foreign markets with their goods. In addition, more than three quarters of Brazilian eBay Commercial Sellers export to four or more continents – a truly global reach. The compound annual growth rate in sales for Continuous eBay Commercial Sellers from 2011-2015 was 5%, far outpacing the -9.1% compound annual GDP growth rate over the same timeframe. The share of eBay Commercial Sellers in Brazil that were newcomers totaled 80% and their third-year sales growth rate was 98%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Brazil to access the global market:

Increase Customs Import Duty Exemption Thresholds

Brazil's de Minimis threshold - the monetary value below which goods can be shipped into a country and be exempt from customs duties, taxes, paperwork requirements and other customs procedures – is currently \$50 USD and limited to consumer to consumer transactions. For businesses, there are also multiple import taxes on all products. The low de Minimis for consumers and complete lack of one for businesses creates an unnecessary trade barrier through increased costs and limits consumer choices. According to an Executive Opinion Survey conducted by the World Economic Forum, in Brazil, "Access to imported inputs at competitive prices" ranks in the top five with regard to the most problematic factors for exporting.⁴⁷ MSMEs are also limited in their ability to offer returns to their global customer base, a key element of the retail experience. Returned items are subject to the same duties, taxes, etc. that apply to any other imported item, but the responsibility now falls on the seller to comply. This is a major burden for MSMEs with a handful or zero employees trying

⁴⁵ United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

⁴⁶ OECD (2015) *OECD Economic Surveys: Brazil 2015*. OECD Publishing. Available at: <http://www.oecd.org/eco/surveys/economic-survey-brazil.htm>

⁴⁷ World Economic Forum (2016) *The Global Enabling Trade Report*. Available at: <http://reports.weforum.org/global-enabling-trade-report-2016/>

to sell a wide range of products to multiple foreign destinations. Establishing a significantly higher de Minimis threshold for consumers and businesses promotes trade and economic opportunities and allows for duty-free return services to customers in other markets.

Maintain Balanced Internet Intermediary Policies

Balanced regimes governing intermediary liability are central to fostering the Internet-based services that enable MSMEs to engage in global commerce. In 2014, Brazil enacted the 'Marco Civil' law, which included protection against intermediary responsibility for domestic and foreign online services, helping to foster an environment conducive to the growth of the digital economy.⁴⁸ However, there have been recent attempts to alter key provisions of the legal framework that would weaken the liability protections and expose online companies to penalties for user communications and publications.⁴⁹ This would close off opportunities for MSME-based commerce, as platform-based businesses would likely avoid the market rather than risk being liable under the new policy regime.

Ensure MSMEs Throughout Brazil Have Access to Improved Transportation Infrastructure

Logistics platforms are a key element of platform-based trade (along with Internet access, e-commerce and payment platforms) that empowers MSMEs to reach global customers regardless of size and location. As such, adequate transportation infrastructure is necessary to ensure a package can get from seller to buyer efficiently and at low cost. Brazil has a wide range of transportation infrastructure challenges, resulting in globally high logistics costs and creating friction for MSME trade.⁵⁰ According to an Executive Opinion Survey conducted by the World Economic Forum, in Brazil, "High cost or delays caused by domestic transportation" ranked as the most problematic factor for exporting.⁵¹ The Brazilian government has made private sector infrastructure investment a key component of its economic growth strategy, and in the first quarter of 2017, announced a new round of concessions aimed at

⁴⁸ Angelica, Mari. *Brazil Passes Groundbreaking Internet Governance Bill*. ZDNET. March 26, 2014. Available at: <http://www.zdnet.com/article/brazil-passes-groundbreaking-internet-governance-bill/>

⁴⁹ McLaughlin, Andrew. *Brazil's Internet is Under Legislative Attack*. Medium. April 4, 2016. Available at: <https://medium.com/@mcandrew/brazil-s-internet-is-under-legislative-attack-1416d94db3cb>

⁵⁰ International Trade Administration (2016) *Brazil Country Commercial Guide: Brazil-Transportation Infrastructure*. Available at: <https://www.export.gov/article?id=Brazil-Transportation>

⁵¹ World Economic Forum (2016) *The Global Enabling Trade Report*. Available at: <http://reports.weforum.org/global-enabling-trade-report-2016/>

building and operating roads, ports, and railroads.⁵² Ensuring these improvements extend to urban and rural areas with a focus on enabling package deliveries will help connect MSMEs throughout Brazil to international markets and fuel inclusive economic growth.

CHILE

Chile has 12.9 million internet users, representing approximately 73% of the population – a 15% increase since 2012.⁵³ Chilean e-commerce sales reached \$2.3 billion USD in 2015, a 20% increase over the previous year.⁵⁴ This dwarfed the increase in traditional store sales, which were up only 2% over 2014.⁵⁵ Chile ranked 43 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁵⁶ Chile is the highest ranked Latin American country in the Index.

The entire population of Chilean eBay Commercial Sellers are exporters compared to just 16% of traditional businesses. Chilean eBay Commercial Sellers reach an average of 24 foreign destination markets with their goods, six times the number of foreign markets reached by traditional businesses. Nearly 70% of the eBay Commercial Sellers based in Chile export to ten or more foreign markets and two-thirds export to four or more continents. The compound annual growth rate in sales for Continuous eBay Commercial Sellers from 2011-2015 was 11%, far outpacing the -1.1% compound annual GDP growth rate over the same timeframe. The share of eBay Commercial Sellers in Chile that were newcomers totaled 69% and their third-year sales growth rate was 9%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Chile to access the global market:

Increase Customs Import Duty Exemption Thresholds

Chile's de Minimis threshold - the monetary value below which goods can be shipped into a country and be exempt from customs duties, taxes, paperwork requirements and other customs procedures – is currently \$30 USD. The low de Minimis creates an unnecessary trade barrier through increased costs and limits

⁵² Alves, Lise. *Brazil to Invest R\$45 Billion in Privatized Infrastructure Concessions*. The Rio Times. March 8, 2017. Available at: <http://riotimesonline.com/brazil-news/rio-business/brazil-to-invest-r45-billion-in-infrastructure-concessions/>

⁵³ eMarketer (2017) *Internet Users in Latin America, by Country*.

⁵⁴ International Trade Administration (2016) *Chile Country Commercial Guide: Chile-Ecommerce*. Available at: <https://www.export.gov/article?id=Chile-eCommerce>

⁵⁵ International Trade Administration (2016) *Chile Country Commercial Guide: Chile-Ecommerce*. Available at: <https://www.export.gov/article?id=Chile-eCommerce>

⁵⁶ United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

consumer choice. MSMEs are also limited in their ability to offer returns to their global customer base, a key element of the retail experience. Returned items are subject to the same duties, taxes, etc. that apply to any other imported item, but the responsibility now falls on the seller to comply. This is a major burden for MSMEs with a handful or zero employees trying to sell a wide range of products to multiple foreign destinations. Establishing a significantly higher de Minimis threshold for consumers and MSMEs promotes trade and economic opportunities and allows for duty-free return services to customers in other markets.

Improve E-Payments Readiness

The ability to accept electronic payments is a key pillar in enabling MSMEs, regardless of location, to expand their market reach to a global level through fast and secure transmission of funds. In 2016, the Australian APEC Study Centre at RMIT University and TRPC, a specialist technology research consultancy, released an APEC Fintech E-payment Readiness Index and an accompanying report. This index provides a status of e-payment adoption for each of the 21 APEC economies and identifies areas on which policymakers can focus to accelerate this capability. Chile is the most advanced APEC Latin American country in terms of e-payment ranking, but comes in 14 out of 21 in APEC overall.⁵⁷ The report recommends that Chile focus on improving their legal framework to allow for more efficiency in dispute settlements and challenges to government action and regulations governing e-payments.⁵⁸ Chile could also improve its e-payments readiness by increasing opportunities to obtain affordable basic financial services and promote a regulatory environment to foster access to innovations in mobile and virtual currencies.⁵⁹

COLOMBIA

As of 2015, roughly 60% of the Colombian population was using the Internet, a 19% increase since 2010.⁶⁰ According to the Colombian Electronic Chamber of Commerce, ecommerce grew at an annual rate of 64% in 2015.⁶¹ However, ecommerce activity in Colombia is low when compared to other countries in Latin America and the Caribbean.

⁵⁷ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁵⁸ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁵⁹ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁶⁰ International Telecommunications Union (2017) *Percentage of Individuals Using the Internet*. Available at: <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

⁶¹ International Trade Administration (2017) *Colombia Country Commercial Guide: Colombia-Ecommerce*. Available at: <https://www.export.gov/article?id=Colombia-eCommerce>

Colombia ranked 72 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁶²

Our research demonstrates that 100% of eBay Commercial Sellers in Colombia are exporters while only 18% of traditional businesses participate in exporting. When examining reach, we find that eBay Commercial Sellers in Colombia sell to consumers in an average of 22 markets, compared to just three markets for traditional businesses. Two-thirds of Colombian eBay Commercial Sellers reach ten or more foreign markets and the nearly six in ten reach four or more continents. The compound annual growth rate in sales for Continuous eBay Commercial Sellers from 2011-2015 was 6% compared to a compound annual GDP growth rate of -3.4% over the same timeframe. Additionally, the share of eBay Commercial Sellers in Colombia that were newcomers totaled 96% and their third-year sales growth rate was over 300%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Colombia to access the global market:

Reduce and Eliminate Consumption Taxes That Drive Up Costs for MSMEs

Colombia instituted a tax package in 2016 that raised the country's VAT from 16% to 19% and lowered the VAT exemption cap for computers and tablets. It also increased the VAT on cross-border supply of digital goods and services and applied an additional consumption tax of 4% on mobile data services to certain income classes. These new provisions increase the cost and reduce access to digital technologies for MSMEs and consumers across Colombia. Policymakers should reduce or eliminate these taxes to ensure that technology and innovation can thrive and produce more inclusive economic growth.

Increase Customs Import Duty Exemption Thresholds

Colombia currently has a limited de Minimis exception - the monetary value below which goods can be shipped into a country and be exempt from customs duties, taxes, paperwork

⁶² United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

requirements and other customs procedures – available for most products where the non-originating materials do not exceed 10% of the adjusted value of the item.⁶³ The current policy creates an unnecessary trade barrier through increased costs and limits consumer choice. According to an Executive Opinion Survey conducted by the World Economic Forum, in Colombia, “Access to imported inputs at competitive prices” ranks third with regard to the most problematic factors for exporting.⁶⁴ MSMEs are also limited in their ability to offer returns to their global customer base, a key element of the retail experience. Returned items are subject to the same duties, taxes, etc. that apply to any other imported item, but the responsibility now falls on the seller to comply. This is a major burden for MSMEs with a handful or zero employees trying to sell a wide range of products to multiple foreign destinations. Establishing a significantly higher de Minimis threshold for consumers and MSMEs promotes trade and economic opportunities and allows for duty-free return services to customers in other markets.

Complete Fourth Generation Transportation Infrastructure Program

Reliable transportation infrastructure is crucial for MSMEs to connect with international customers via the Global Empowerment Network of Internet, commerce, payments and logistics platforms because packages need to reach consumers efficiently and at low cost. Colombia has numerous transportation infrastructure challenges compounded by low oil prices, the main source of government revenue to finance new projects.⁶⁵ The OECD notes that infrastructure gaps hold back productivity growth and exporting and improving the ability of less developed regions to benefit from access to foreign markets is highly dependent on the adequacy of transportation-related infrastructure.⁶⁶ According to an Executive Opinion Survey conducted by the World Economic Forum, in Colombia, “High cost or delays caused by domestic transportation” ranked as the most problematic factor for exporting and the second most problematic factor for importing.⁶⁷ The Colombia government has instituted an ambitious transportation infrastructure program, Fourth Generation, aimed at improving roads, which handle 80%

⁶³ International Trade Administration (2016) *Colombia Rules of Origin*. Available at: <https://www.export.gov/article?id=Colombia-Rules-of-Origin>

⁶⁴ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁶⁴ World Economic Forum (2016) *The Global Enabling Trade Report*. Available at: <http://reports.weforum.org/global-enabling-trade-report-2016/>

⁶⁵ International Trade Administration (2017) *Colombia Country Commercial Guide: Colombia-Infrastructure*. Available at: <https://www.export.gov/article?id=Colombia-infrastructure>

⁶⁶ OECD (2017) *OECD Economic Surveys: Colombia 2017*. OECD Publishing. Available at: <http://www.oecd.org/eco/surveys/economic-survey-colombia.htm>

⁶⁷ World Economic Forum (2016) *The Global Enabling Trade Report*. Available at: <http://reports.weforum.org/global-enabling-trade-report-2016/>

of travel within the country.⁶⁸ While numerous contracts have been awarded, this public-private partnership program is reported to be facing delays. Working with the private sector to address challenges with travel should provide an economic boost by facilitating MSME exports through ecommerce platforms.

DOMINICAN REPUBLIC

The International Telecommunications Union reports that in 2015, nearly 55% of the population was using the Internet, an increase of over 20% from 2010.⁶⁹ A 2013 national survey revealed that Internet use is far more concentrated in urban areas.⁷⁰ Although the Dominican Republic has a favorable legal environment for e-commerce, businesses have been slow to adopt these transactions into their operations and most e-commerce is business to consumer.⁷¹ The Dominican Republic ranked 83 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁷²

Our analysis of eBay Commercial Sellers based in the Dominican Republic shows that the entire population are exporters compared to only 10% of traditional businesses. These eBay Commercial Sellers reach an average of 20 foreign destination markets, a figure 10X that of the reach of traditional businesses. Nearly eight out of ten Dominican eBay Commercial Sellers reach ten or more different foreign markets with their goods and nearly two-thirds reach consumers on four or more continents. The compound annual growth rate in sales for Continuous eBay Commercial Sellers in the Dominican Republic was 6% from 2011-2015, roughly double the compound annual GDP growth rate over the same timeframe. The share of eBay Commercial Sellers in the Dominican Republic that were newcomers totaled 78%.

POLICY RECOMMENDATION

The following policy recommendations would enhance the ability of technology-enabled MSMEs in the Dominican Republic to access the global market:

⁶⁸ Bell, Amy and Andres Schipani. *Colombia Prioritizes Infrastructure Plans*. The Financial Times. September 25, 2015. Available at: <https://www.ft.com/content/39e07b96-4b3d-11e5-b558-8a972297189?mhq5j=e3>

⁶⁹ International Telecommunications Union (2017) *Percentage of Individuals Using the Internet*. Available at: <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

⁷⁰ Alliance for Affordable Internet (2015) *Case Study: Dominican Republic*. Available at: <http://1e8q3q16vyc81g8l3h3md6q5f5e.wpengine.netdna-cdn.com/wp-content/uploads/2015/03/Case-Study-Dominican-Republic.pdf>

⁷¹ International Trade Administration (2016) *Dominican Republic Country Commercial Guide: Brazil-Ecommerce*. Available at: <https://www.export.gov/article?id=Dominican-Republic-ECommerce>

⁷² United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

Expand Internet-Use Education Opportunities

A 2013 household survey conducted by the Dominican Republic National Statistics Office revealed that 51% of respondents indicated they are not using the Internet because they do not know how to use it.⁷³ In 2012, the Dominican Republic enacted a National Development Strategy, which reinforces the importance of Information and Communications Technology in socio-economic development and recognizes the need to improve digital literacy and provide universal and affordable Internet access.⁷⁴ Ensuring that Dominicans of all ages know how to use the global Internet and develop an understanding of its benefits will provide a wide range of new inclusive economic opportunities for the entire country, including the one in three below the poverty line.⁷⁵

Upgrade Postal System to Facilitate MSME Trade

Postal systems are increasingly valuable as an economic and trade facilitator for MSME traders. In the Universal Postal Union's (UPU) most recent analysis of country postal development, which takes into account reliability, reach, relevance, and resilience, the Dominican Republic scored 23.13 (Range of 0-100) and ranked 119th out of 170 countries in the index.⁷⁶ According to the UPU, a country can fully realize the benefits of e-commerce only by addressing all four dimensions of measurement, further defined as postal operation efficiency (reliability), internationalization of postal services (reach), competitiveness in all main markets (relevance), and adaptability of businesses models (resilience).⁷⁷ Focusing on these factors will help promote greater and more broad-based MSME commerce opportunities.

MEXICO

As of 2015, approximately 58% of the Mexican population was using the Internet compared to roughly 31% in 2010.⁷⁸ In 2016, eMarketer listed Mexico as one of the ten fastest growing digital economies worldwide and retail ecommerce sales are projected to top \$7.5 billion USD in 2017, a 25% increase from 2016.⁷⁹ Mexico ranked 63

⁷³ Alliance for Affordable Internet (2015) *Case Study: Dominican Republic*. Available at: <http://1e8q3q16vyc81g8l3h3md6q5f5e.wpengine.netdna-cdn.com/wp-content/uploads/2015/03/Case-Study-Dominican-Republic.pdf>

⁷⁴ Alliance for Affordable Internet (2015) *Case Study: Dominican Republic*. Available at: <http://1e8q3q16vyc81g8l3h3md6q5f5e.wpengine.netdna-cdn.com/wp-content/uploads/2015/03/Case-Study-Dominican-Republic.pdf>

⁷⁵ World Bank Group (2016) *Building a Better Future Together: Dominican Republic Policy Notes*. Available at: <http://documents.worldbank.org/curated/en/949151486105331993/pdf/112502-WP-P156995-PUBLIC-DRPolicyNotesenglishfinal.pdf>

⁷⁶ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁷⁷ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁷⁸ International Telecommunications Union (2017) *Percentage of Individuals Using the Internet*. Available at: <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

⁷⁹ eMarketer (2016) *eMarketer's Digital Index for 2017: The 10 Fastest Growing Digital Economies Worldwide*

out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁸⁰

Our research shows that all Mexican eBay Commercial Sellers are exporters in contrast to only 8% of traditional businesses in the country. eBay Commercial Sellers based in Mexico reach an average of 20 foreign destination markets, compared to a reach of just two markets for traditional businesses, and nearly three-quarters of the eBay Commercial Sellers reach ten or more different foreign markets with their goods. In addition, more than seven out of ten Mexican eBay Commercial Sellers reach consumers on four or more continents – a truly global reach. The compound annual growth rate in sales for Continuous eBay Commercial Sellers in Mexico was 8% from 2011-2015 compared to a compound annual GDP growth rate of -0.6% over the same timeframe. The share of eBay Commercial Sellers in Mexico that were newcomers totaled 72% and their third-year sales growth rate was 32%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Mexico to access the global market:

Increase Customs Import Duty Exemption Thresholds

Mexico's de Minimis threshold - the monetary value below which goods can be shipped into a country and be exempt from customs duties, taxes, paperwork requirements and other customs procedures – is currently \$300 USD for postal shipments and \$50 USD for express shipments. The low de Minimis, in particular to express shippers, creates an unnecessary trade barrier through increased costs and limits consumer choice. For MSMEs, it can dramatically reduce the ability to import inputs at competitive prices. MSMEs are also limited in their ability to offer returns to their global customer base, a key element of the retail experience. Returned items are subject to the same duties, taxes, etc. that apply to any other imported item, but the responsibility now falls on the seller to comply. This is a major burden for MSMEs with a handful or zero employees trying to sell a wide range of products to multiple foreign destinations. Establishing a significantly higher de Minimis threshold for consumers and MSMEs promotes trade and economic opportunities and allows for duty-free return services to customers in other markets.

⁸⁰ United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

Improve E-Payments Readiness

The ability to accept electronic payments is a key pillar in enabling MSMEs, regardless of location, to expand their market reach to a global level through fast and secure transmission of funds. In 2016, the Australian APEC Study Centre at RMIT University and TRPC, a specialist technology research consultancy, released an APEC Fintech E-payment Readiness Index and an accompanying report. This index provides a status of e-payment adoption for each of the 21 APEC economies and identifies areas on which policymakers can focus to accelerate this capability. Overall, Mexico ranked 17 out of 21 countries and is the lowest ranked Latin American country in the index.⁸¹ Mexico still predominately runs on cash, which is used in 90% of consumer transactions.⁸² As such, the environment for electronic payments has been slower to evolve. In June 2016, President Nieto presented a National Policy of Financial Inclusion (NPMFI), which recognized the importance of technological innovation for financial inclusion and the need to promote mechanisms that reduce the use of cash.⁸³ The implementation of NPMFI should take into account the recommendations that accompany the APEC Study Centre/TRPC E-payment Readiness Index. These include a focus on improving the legal framework to allow for more efficiency in dispute settlements and challenges to government action and regulations governing e-payments; and, continued investments in telecommunications and network infrastructure to ensure access to reliable and affordable Internet across the entire country.⁸⁴

Upgrade Postal System to Facilitate MSME Trade

Postal systems are increasingly valuable as an economic and trade facilitator for MSME traders. The rise in e-commerce has presented volume challenges for Correos de México, the Mexican national postal service. In the Universal Postal Union's (UPU) most recent analysis of country postal development, which takes into account reliability, reach, relevance, and resilience, Mexico scored 29.52 (Range of 0-100) and ranked 95th out of 170 countries in the index.⁸⁵ According to the UPU, a country can fully realize the benefits of e-commerce only by addressing all four dimensions of measurement, further defined as postal operation

⁸¹ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁸² Mazzota B, Chakravorti B. *The Cost of Cash in Mexico*. The Fletcher School. 2014. Available at: <http://fletcher.tufts.edu/~media/Fletcher/Microsites/Cost%20of%20Cash/CCMEX-final-web.pdf>

⁸³ National Council of Financial Inclusion (2016) *National Policy for Financial Inclusion, June, 2016, Mexico City*. Available at: https://www.gob.mx/cms/uploads/attachment/file/199615/Mexico_s_National_Policy_Financial_Inclusion.pdf

⁸⁴ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁸⁵ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

efficiency (reliability), internationalization of postal services (reach), competitiveness in all main markets (relevance), and adaptability of businesses models (resilience).⁸⁶ Focusing on these factors will help promote greater and more broad-based MSME commerce opportunities.

Implement a Comprehensive ISP Safe Harbor Framework

Given the key role that Internet platform services play in promoting MSME trade, a 'safe harbor' system that protects the interests of copyright holders, online service providers, and users – imposing responsibilities and rights on each - helps to provide a strong foundation for a country's Internet economy. Safe harbors are critical to the functioning of cloud services, social media platforms, online marketplaces, search engines, and Internet access providers.⁸⁷ Mexico does not have a comprehensive ISP safe harbor framework covering the full range of service providers and functions, with prohibitions on monitoring duties.⁸⁸ Strong copyright safe harbors from liability for online service providers should be enacted to reduce market access barriers that limit the growth of new online services beneficial to the Mexican economy.⁸⁹

PERU

As of 2015, approximately 40% of the Peruvian population was using the Internet, a slight increase over the roughly 35% using the Internet in 2010.⁹⁰ While this figure ranks low for Latin America and the Caribbean, Peruvian users spend about 18 hours a month on the Internet, which ranks second across Latin America, exceeded only by Argentina.⁹¹ There has been a dramatic increase in recent years with regard to the number of transactions with a credit card in virtual stores; there were 4.1 million in 2014 compared to 2.2 million in 2012, a growth rate of 89%.⁹² Peru ranked 76 out of 137 countries in the 2016 United Nations Conference on Trade and Development B2C E-Commerce Index, which takes into account, internet use, secure servers, credit card penetration and postal reliability.⁹³

⁸⁶ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁸⁷ Internet Association (2016) *Modernizing NAFTA for Today's Economy*. Available at: https://cdn1.internetassociation.org/wp-content/uploads/2017/06/InternetAssociation_Modernizing-NAFTA-White-Paper.pdf

⁸⁸ Internet Association (2016) *National Trade Estimate Report Comments on Digital Trade Barriers*. Available at: <http://internetassociation.org/wp-content/uploads/2016/10/NTE102816.pdf>

⁸⁹ Internet Association (2016) *National Trade Estimate Report Comments on Digital Trade Barriers*. Available at: <http://internetassociation.org/wp-content/uploads/2016/10/NTE102816.pdf>

⁹⁰ International Telecommunications Union (2017) *Percentage of Individuals Using the Internet*. Available at: <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx>

⁹¹ International Trade Administration (2016) *Peru: Preparing for eCommerce*. Available at: <https://www.export.gov/article?id=Peru>

⁹² International Trade Administration (2016) *Peru: Preparing for eCommerce*. Available at: <https://www.export.gov/article?id=Peru>

⁹³ United Nations Conference on Trade and International Development (2016) *UNCTAD B2C E-Commerce Index 2016*. Available at: http://unctad.org/en/PublicationsLibrary/tn_unctad_ict4d07_en.pdf

The entire population of Peruvian eBay Commercial Sellers are exporters compared to just 14% of traditional businesses. Peruvian eBay Commercial Sellers reach an average of 21 foreign destination markets with their goods, seven times the number of foreign markets reached by traditional businesses. More than eight out of ten eBay Commercial Sellers based in Peru export to ten or more foreign markets and 85% export to four or more continents – a truly global reach. The compound annual growth rate in sales for Continuous eBay Commercial Sellers in Peru was 2% from 2011-2015, roughly equal to the compound annual GDP growth rate over the same timeframe. The share of eBay Commercial Sellers in Peru that were newcomers totaled 68% and their third-year sales growth rate was 77%.

POLICY RECOMMENDATIONS

The following policy recommendations would enhance the ability of technology-enabled MSMEs in Peru to access the global market:

Upgrade Postal System to Facilitate MSME Trade

Postal systems are increasingly valuable as an economic and trade facilitator for MSME traders. In the Universal Postal Union's (UPU) most recent analysis of country postal development, which takes into account reliability, reach, relevance, and resilience, Peru scored 28.24 (Range of 0-100) and ranked 101 out of 170 countries in the index.⁹⁴ According to the UPU, a country can fully realize the benefits of e-commerce only by addressing all four dimensions of measurement, further defined as postal operation efficiency (reliability), internationalization of postal services (reach), competitiveness in all main markets (relevance), and adaptability of businesses models (resilience).⁹⁵ Focusing on these factors will help promote greater and more broad-based MSME commerce opportunities.

Improve E-Payments Readiness

The ability to accept electronic payments is a key pillar in enabling MSMEs, regardless of location, to expand their market reach to a global level through fast and secure transmission of funds. In 2016, the Australian APEC Study Centre at RMIT University and TRPC, a specialist technology research consultancy, released an APEC Fintech E-payment Readiness Index and an accompanying report.

⁹⁴ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

⁹⁵ Universal Postal Union (2016) *Integrated Index for Postal Development*. Available at: <http://www.upu.int/en/the-upu/strategy/2ipd.html>

This index provides a status of e-payment adoption for each of the 21 APEC economies and identifies areas on which policymakers can focus to accelerate this capability. Overall, Peru ranked 16 out of 21 countries, but moved up three spots compared to 2015, the biggest jump within the index.⁹⁶ However, Peru ranked last in the portion of the Index focused on the regulatory and policy environment for Information and Communication Technology as well as the businesses sector.⁹⁷ Peru could improve its e-payments readiness by implementing regulations and policies that foster market entry and bolster business and consumer confidence. Peru should also focus on improving their legal framework to allow for more efficiency in dispute settlements and challenges to government action and regulations governing e-payments.⁹⁸

⁹⁶ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁹⁷ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf

⁹⁸ RMIT and TRPC (2016). *APEC Fintech E-Payments Readiness Index: Ecosystem Assessment and Status Report*. Available at: https://www.rmit.edu.au/content/dam/rmit/documents/college-of-business/industry/apec/APEC_Fintech_E-payment_Readiness_Index_2016.pdf



APPENDIX

COUNTRY CODES

ARG ARGENTINA

BRA BRAZIL

CHL CHILE

COL COLOMBIA

DOM DOMINICAN REPUBLIC

MEX MEXICO

PER PERU

DATA DEFINITIONS

SHARE OF EBAY-ENABLED MSMES EXPORTING

The eBay data reflects the share of 2015 eBay-enabled MSMEs (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, who exported in that year.

TRADITIONAL BUSINESS SOURCES

ARG: The World Bank (2010) Argentina Country Profile 2010.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/argentina-2010.pdf>

BRA: The World Bank (2009) Brazil Country Profile 2009.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/brazil-2009.pdf>

CHL: The World Bank (2010) Chile Country Profile 2010.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/chile-2010.pdf>

COL: The World Bank (2010) Colombia Country Profile 2010.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/colombia-2010.pdf>

DOM: The World Bank (2016) Dominican Republic Country Profile 2016.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/dominican-republic-2016.pdf>

MEX: The World Bank (2010) Mexico Country Profile 2010.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/mexico-2010.pdf>

PER: The World Bank (2010) Peru Country Profile 2010.

Available at: <http://www.enterprisesurveys.org/~media/GIAWB/EnterpriseSurveys/Documents/Profiles/English/peru-2010.pdf>

SHARE OF EBAY-ENABLED SMES THAT REACH 10 OR MORE DIFFERENT FOREIGN DESTINATION MARKETS

The eBay data reflects the share of exporting 2015 eBay-enabled MSMEs (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, who exported to 10 or more different foreign markets in that year.

AVERAGE NUMBER OF FOREIGN DESTINATION MARKETS

The eBay data reflects the average number of different foreign markets reached by 2015 eBay-enabled MSMEs (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, who exported in that year.

TRADITIONAL BUSINESS SOURCES

BRA: The World Bank, Exporter Dynamics Database, Latest Available Year (2014).
Available at: <http://go.worldbank.org/KZGM120470>

CHL: The World Bank, Exporter Dynamics Database, Latest Available Year (2012).
Available at: <http://go.worldbank.org/KZGM120470>

COL: The World Bank, Exporter Dynamics Database, Latest Available Year (2013).
Available at: <http://go.worldbank.org/KZGM120470>

DOM: The World Bank, Exporter Dynamics Database, Latest Available Year (2014).
Available at: <http://go.worldbank.org/KZGM120470>

MEX: The World Bank, Exporter Dynamics Database, Latest Available Year (2012).
Available at: <http://go.worldbank.org/KZGM120470>

PER: The World Bank, Exporter Dynamics Database, Latest Available Year (2013).
Available at: <http://go.worldbank.org/KZGM120470>

SHARE OF EBAY-ENABLED MSMEs EXPORTING TO BUYERS ON FOUR OR MORE CONTINENTS

The eBay data reflects the share of exporting 2015 eBay-enabled MSMEs (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, who exported to four or more continents in that year.

AVERAGE ANNUAL GROWTH IN THE NUMBER OF IN-COUNTRY MSME EBAY SELLERS

The eBay data reflects the annual average growth (total growth / 4) in the number of in-country eBay Commercial Sellers from 2011 to 2015. An eBay Commercial Seller is thereby defined as an eBay seller with sales of \$10,000 USD (at 2015 exchange rates) or more annually on the eBay marketplace. For consistency purposes, we adjust the number of eBay Commercial Sellers for currency fluctuations.⁹⁹

⁹⁹ Due to currency fluctuations that occurred during the period 2011-2015, in particular a significant appreciation of the US dollar to the Euro in 2015, we calculated a currency-neutral level of in-country MSME sellers in 2011 by using the same commercial seller threshold in the domestic currency that is also used in 2015. For example, the threshold for Euro is around EUR 9,000 in 2015 (equivalent to \$10,000 USD in 2015), and that same threshold is also used for 2011, rather than using the Euro equivalent of \$10,000 USD in 2011 (which would be around EUR 7,200). In this manner, the net change in the overall number of in-country MSME sellers from 2011 to 2015 is not distorted by exchange rate fluctuations of the USD against other currencies.

COMPOUND ANNUAL GROWTH RATE IN SALES OF EBAY CONTINUOUS COMMERCIAL SELLERS

The eBay data reflects the compound annual growth rate in sales $[(2015 \text{ sales} / 2011 \text{ sales})^{.25} - 1]$ for eBay Commercial Sellers (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, that reached this sales threshold in all the following years: 2011, 2012, 2013, 2014, and 2015.

SHARE OF EBAY COMMERCIAL SELLERS THAT WERE NEWCOMERS

The eBay data reflects the share of 2015 eBay Commercial Sellers (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country, who had zero sales on eBay in 2011.

2014-2015 GROWTH RATE FOR EBAY COMMERCIAL SELLERS THAT BEGAN SELLING IN 2012

The eBay data reflects the 2014-2015 growth rate in sales $[(2015 \text{ sales} - 2014 \text{ sales}) / 2014 \text{ sales}]$ for 2015 eBay Commercial Sellers (those with \$10,000 USD or more in sales annually on the eBay Marketplace) in each country that registered on eBay in 2012.

ebay