

## E-Commerce: The Great Equalizer in International Trade

### *New National Trade Policy Must Have Dedicated Section on Digital Trade*

**By Anushka Wijesinha**

The Global E-Commerce market has grown exponentially over the past decade, rising from a \$300 Bn in the 2000s to \$22,000 Bn in 2015. E-Commerce has now become a new driver of international trade; as it helps more firms participate in international supply chains, and reduce transaction costs and entry barriers. As the Asia-Pacific Region takes front stage in becoming the fastest growing region in the sector, it brings a tremendous opportunity for Sri Lanka, for its own e-commerce sector to play a stronger role in the trade development agenda of the country.

#### **A Great Equalizer**

For decades, much of the international markets were easily accessible by only the largest firms, while smaller firms tended to operate more on a domestic scale. The digitalization of business, however, has now enabled nimble mid-sized firms to take on newer markets on a much larger scale. Key barriers to doing international business, from scale economies to minimum order quantities, have now been broken down as a result of e-commerce. Even the smallest firms are now 'born global' – that is they are able to participate in international trade more directly and earlier on in their business lifecycle, leapfrogging steps that were traditionally needed to breach global markets. This has led to the proliferation of so-called 'Micro-Multinationals' – mid-sized firms taking on new markets and competitors by capitalizing on their ability to move quickly using e-commerce. Growing social media use and online marketplaces and platforms have helped to level the playing field.

#### **Enabling SMEs in Trade**

E-Commerce has become a new driver of international trade and can contribute strongly to inclusive private sector growth by helping trade-led SME development. The ease of access to markets for both suppliers and consumers has enhanced the ability for many small entrepreneurs to become part of large, international supply chains. Many online Business-to-Business (B2B) marketplaces are increasingly providing opportunities for suppliers in developing countries to access export markets and international supply chains. Websites such as Alibaba in China, EC21 in Korea, and IndiaMart have launched large-scale online platforms, giving access to a large number of suppliers both domestically and internationally. Alibaba's new 'SMILE' online platform now links over 1 million Indian SMEs to millions of Chinese suppliers. Meanwhile, in the B2C segment, Forbes expects the Asia-Pacific to grow faster than others, with E-Commerce (as a percentage of retail sales) growing from

8.2% in 2014 to 18% in 2018, beating expected growth rates in Western Europe (6.7% to 10%) and North America (6.3% to 9%).

### **Facilitating E-Commerce for Trade: Regulations and Internet**

The E-Commerce market is ripe with opportunity for Sri Lanka, but there are some key pain-points that need to be tackled. Firstly, institutional and regulatory frameworks are still not able to fully facilitate e-commerce activities. There is still poor national recognition of it as a driver of trade and economic activity. As many of the business models under e-commerce are very different to the more conventional firms, the sector is not well understood by government authorities, and are taxed and regulated with a traditional mindset. This needs to be reversed in order to help the proliferation of E-commerce and SMEs getting online to sell globally. Any future trade and investment policies and any reforms in the ease of doing business, must necessarily consider the role of E-commerce. In fact, the forthcoming National Trade Policy should have a dedicated section recognizing the role of E-commerce in international trade and the measures that would be taken to facilitate it in Sri Lanka.

Secondly, there needs to be continued efforts to improve digital infrastructure as well. Improved broadband internet and modern online and mobile payment systems (beyond the current outdated International Payment Gateways) will boost overall transaction efficiencies among E-commerce firms in Sri Lanka, and enable freer online trade. Current IPGs are not conducive to dynamic and future-oriented E-commerce. The benefits of improving digital infrastructure can extend towards international trade more broadly. A study conducted by CUTS-International shows that a 10% increase in fixed and mobile subscriptions leads to a 0.1% to 0.2% increase in the total exports of goods from a country; and a 10% increase in high-speed broadband subscriptions can directly lead to a 0.23 to 0.36% increase in bilateral trade flows.

Finally, as E-Commerce does not operate in a vacuum and is helped or hindered by broader trade facilitation, there must be simultaneous efforts at creating seamless and modern trade facilitation. Even if the digital space is created for it, a firm cannot leverage on E-Commerce fully if the supportive trade facilitation measures – like clearances from control departments, permits and approvals from regulatory bodies, etc – are not aligned. E-Commerce markets operate in an environment that is different to traditional businesses. This must be understood, and catered to. E-commerce can no longer be thought of as a different sector that operates in its own arena, but rather is an enabler of international trade across so many sectors; is an enabler of better access to international markets; and can be a great equalizer for Sri Lanka's SMEs.

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