GLOBALIZING MSMEs VIA B2B E-COMMERCE: CONSIDERATIONS FOR THE PHILIPPINES
by Jovito Jose P. Katigbak

2015 was a fruitful year for Philippine micro, small and medium enterprises (MSMEs) as they witnessed and experienced strong momentum towards their development and eventual integration into the regional and global economies. Notably, several initiatives and efforts aiming to link Philippine MSMEs into the Global Value Chains (GVCs) through the digital platform were simultaneously launched last year at the domestic and regional levels. Given the increasing recognition of e-commerce as a significant tool in globalizing MSMEs, it is important to note key points in the country’s push towards deeper involvement of Philippine firms in the global marketplace via the online platform. Tapping the B2B e-commerce, as exemplified by China’s Alibaba, and developing a robust local online ecosystem present great potential in further integrating MSMEs into the global economy.

MSMEs and e-commerce: a domestic snapshot

MSMEs in the Philippines have contributed substantially to the country’s over-all goal of inclusive growth by catalyzing economic growth and employment generation. In 2013, they accounted for 99.6 percent of all businesses and hired almost five million workers but only contributed 25 percent to the country’s total exports revenue. Capitalizing on the internet economy can possibly intensify the global presence of Philippine MSMEs, but they are still saddled with problems of slow internet speed, high costs of broadband connection, weak infrastructure and lack of necessary technical skills crucial in operationalizing online business platforms.

The inaugural Philippine E-Commerce Roadmap (PECR) 2016-2020 seeks to resolve the cited barriers as it acknowledges the pivotal role of e-commerce as an ‘equalizer’ which will enable MSMEs to have better access to regional and global markets. The Roadmap identifies the challenges faced by the country in fully exploiting e-commerce and lays out six key recommendations for the next four years. The recommendations are as follows: infrastructure, investment, innovation, intellectual capital, information flows, and integration. With the right mix of policies and industry-specific measures, the country expects e-commerce to increase its share of the gross domestic product (GDP) to 25 percent by 2020, from just 10 percent in 2015.

To equip MSMEs with the basic technical skills, the Department of Trade of Industry (DTI) launched in January 2016 the largest e-commerce activation roadshow which will capacitate around 2,500 to 5,000 domestic MSMEs. The DTI has also partnered with telecommunications companies (i.e., Globe and SMART) and online retail companies (i.e., Lazada and Singapore-based Tack This) to provide enterprises with e-commerce training and online applications and solutions. The country has participated in APEC’s Cross Border E-commerce Training (CBET) workshops and the localization of this program can serve as a supplement to DTI’s activation roadshow.

E-commerce in the Philippines: making a case for B2B

The e-commerce market in the Philippines is mainly characterized by two segments: business-to-consumer (B2C) and business-to-business (B2B). B2C refers to the electronic selling of products by businesses (especially manufacturers and retailers) to consumers while B2B is the commercial transaction of goods, services or information between businesses over the internet. Of the two categories, B2C has a larger share of the Philippine e-commerce market and offers more opportunities for domestic MSMEs in the medium-term. Over 46 percent of MSMEs are engaged in wholesale and retail trade and small and medium businesses still dominate the B2B market; thus, tapping the latter means a more targeted ap-
Improving capacities and infrastructure related to B2B e-commerce can also advance regional cooperation. In September 2015, the Asia-Pacific Economic Cooperation (APEC) adopted the APEC Iloilo Initiative: Growing Global MSMEs for Inclusive Development which prescribes for the establishment of a virtual APEC MSME Marketplace by 2017. One of the pillars of the online portal is facilitating business networking and matching involving MSMEs, which directly embodies the primary objective of B2B e-commerce. The Philippines has voluntarily committed to operationalizing the MSME Marketplace by 2017.

As a starting point, the country’s Export Marketing Bureau (EMB), under the DTI, compiled and made available a directory of Philippine exporters which can be accessed and downloaded on the internet. The yellow pages-like service certainly helps international buyers to locate and contact Philippine exporting firms, but enabling direct communication and convenient exchange of details between domestic and foreign businesses entails better online mechanisms and shared values of trust and confidence. In developing a successful B2B strategy, the country can learn a thing or two from China’s Alibaba.

Learning from the best: the Alibaba model

A globally recognized exemplar in maximizing the benefits of e-commerce is China’s private sector-driven Alibaba Group. The company originally launched its website Alibaba.com in 1999 to fill the B2B industry gap before eventually venturing into B2C and consumer-to-consumer (C2C) e-commerce. Pursuing major upgrades in its structure and services, Alibaba’s B2B platform became the world’s largest virtual one-stop marketplace for cross-border buyers looking for Chinese products sold in wholesale. The company’s global B2B platform offers massive opportunities for Chinese SMEs aiming to penetrate the global market as it currently hosts 1 million domestic suppliers and over 100 million overseas buyers.

Tan et al. (2009) writes that one of the e-commerce giant’s main agenda was to become China’s ‘de facto’ B2B platform by focusing on meeting the untapped, exclusive needs of SMEs. Alibaba offered a distinct value proposition to domestic firms interested in e-commerce with its advanced technical know-how and personal insight of local SMEs. Some of the unique services provided by the company during its early years include an instant messaging mechanism to enable parties to haggle over prices (Wangwang), a third-party online payment system (Alipay), and collating, organizing and publishing relevant information about their members and products to boost search functionality.

Perhaps what made Alibaba.com even more appealing and intriguing to domestic SMEs is the fact that these services were initially free of charge, in effect eliminating service fees and lowering commodity prices. Only a few years later did Alibaba charge its subscribers and members for other additional services. Chinese suppliers can likewise apply for loans for cross-border activities and are given credit ratings through the Trust Pass Membership. These online services, along with the company’s consistent commitment to supporting SMEs, have in turn created a culture of confidence and mutual trust among Alibaba, Chinese suppliers, and international buyers, thereby making its e-commerce ecosystem wider and more intensive.

Beyond 2016: challenges and optimism

The signing into law of Republic Act 10844 creating the Department of Information and Communications Technology (DICT) augurs well for the country’s realization of the PECR and its efforts in globalizing MSMEs via e-commerce. However, the DICT should address domestic challenges such as the absence of a robust digital ecosystem, the presence of counterfeit goods, and the prevalence of cyber-security crimes and attacks on individuals, businesses, and the government. The example of Alibaba underlines the role of the private sector as an indispensable partner in mitigating these concerns and in realizing the enhanced participation of local MSMEs in the global marketplace. The Department of Foreign Affairs (DFA), through its Foreign Service posts, will play a critical part in supplying intelligence reports and related information on new foreign markets and overseas buyers looking for ‘niche’ as well as low cost Philippine suppliers.

The government’s task of integrating MSMEs into the digital economy is a novel and multi-dimensional challenge. Hence, it may be in the Philippines’ best interest, through its policymakers, to incorporate a multi-sectoral approach in designing policies covering MSMEs and the internet economy. The deepening entanglement among diverse economies prompts countries and firms to be competitive at a global level. To do so, there should be lower transaction costs, larger and dynamic networks, and agile business strategies. As the country charts its course toward an increasingly digital landscape, empowering domestic MSMEs engaged in e-commerce necessitates the implementation of the following initiatives: capacity-building activities related to e-commerce; reliable virtual B2B platforms founded on stable and inclusive online ecosystems; and better enforcement of cyber-security laws and regulations.
Endnotes


