



Supporting MSMEs' Digitalization Amid COVID-19

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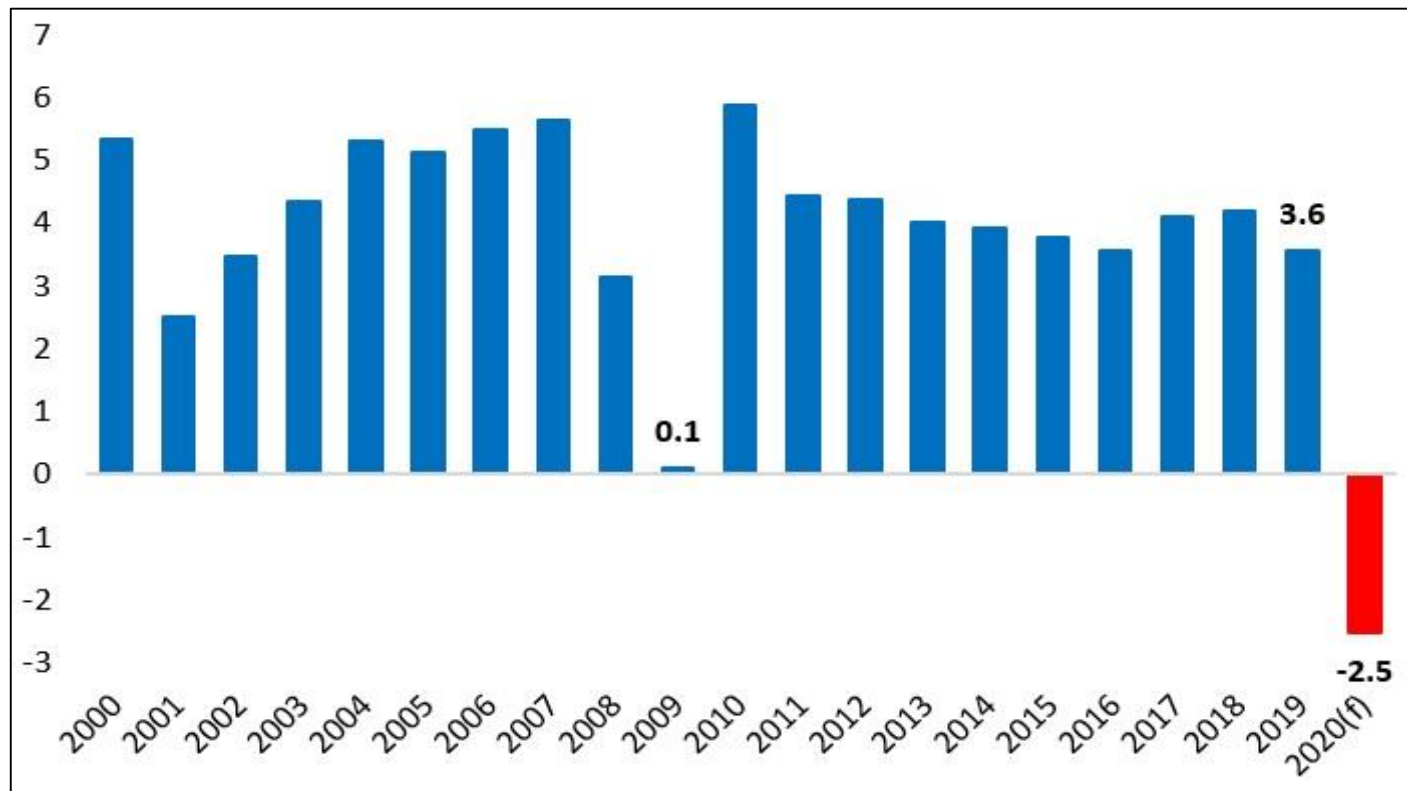
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Advancing Free Trade
for Asia-Pacific **Prosperity**



COVID-19: A Grave Threat to Health and Economy

APEC GDP growth, 2000-2020 (%)



Note: f = forecast.

Source: IMF World Economic Outlook (October 2020) and economy sources; APEC PSU staff calculations.



MSMEs Hit the Hardest

- MSMEs are generally more vulnerable to economic shocks than their larger counterparts.
- MSMEs' significant contribution across various metrics added to the challenges (e.g., employ over 60 percent of all workers in the region).
- Critical pain points include: 1) labor shortages; 2) lack of raw materials; 3) weak consumer demand; and 4) significant stress on balance sheets and cash flow.
- Lack of support could lead to insolvency and subsequent, lasting spikes in unemployment and societal stress.
- Persistent containment measures and non-synchronous lifting compound the challenges.



Supporting MSMEs to Weather the Pandemic

- Targeting MSMEs for relief is a critical component of policy interventions by APEC economies.
- Range of fiscal and monetary policies.
- Many also supported adoption of digital solutions by MSMEs:
 - China: B2C e-commerce solutions.
 - Malaysia: Support business operations digitalization via the government's Digital Economy Corporation.
 - Singapore: Food delivery booster package.



Digitalization Amid COVID-19

Managing transactions at a distance

- Help to lock in transactions.
- Facilitate payments while minimizing transmission potential.

Delivering goods efficiently

- Help to maintain on-time delivery.
- Reduce delivery times at critical points.



Digitalization Amid COVID-19

Maintaining cash flow

- Leverage blockchain to verify invoices instantly.
- Overcome liquidity crisis via 'contactless loans'.
- Access range of banking services in absence of physical branches.

Engaging with new and existing customers

- Present products and services.
- Meet clients and business partners remotely.



Digitalization Challenges

Cyberattacks and data privacy concerns

- Threats increase significantly.
- Illegal access to data and its implications.

Exposure to digital fraud

- Increase in a variety of online fraud.
- Pros and cons of fast-tracking.

Online misinformation

- Fertile ground to spread false information.



Digitalization Challenges

Market power and dominance

- Exercise of market power to the detriment of different stakeholders.

Persistent digital divide and infrastructure-related issues

- Access remains out of reach for significant share of population.
- Strain on bandwidth.

Cross-border issues

- Variation in laws and regulations between economies.
- Issues may not be restricted to digital ones.



Policy Recommendations

1. Focus on overcoming digital divide and onboarding.
2. Promote lower data costs.
3. Promote digital literacy.
4. Support access to mobile money and fintech.
5. Enhance trust in digital solutions.
6. Address competition issues.
7. Promote regional cooperation and public-private partnerships.



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