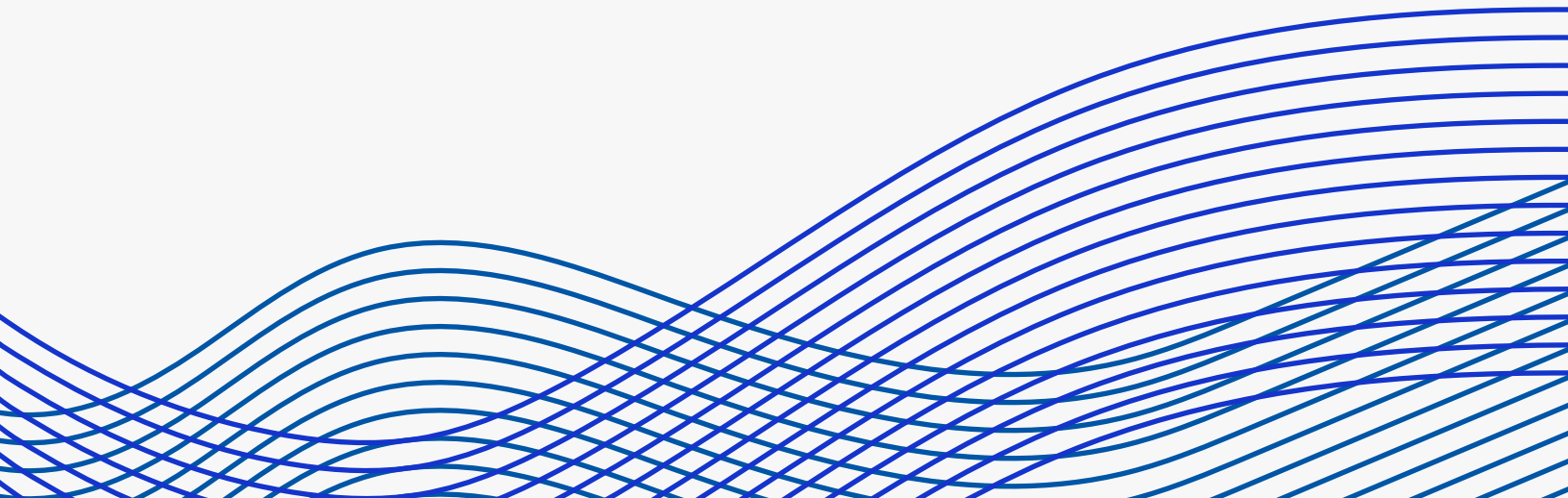


Fostering Digital
Equity and Inclusion

SMALL BUSINESS IN THE DIGITAL AGE

APEC micro and small enterprises: Digitizing toward a resilient and sustainable future



VEEI surveyed more than 5,000 firms in nine APEC economies in a quest to assess the performance of micro and small enterprises over the past few years, identify contributors to their success, and pinpoint areas where they require assistance. This study gave us ample reason to be optimistic, and we hope that it provides useful insights for the public and private sectors as they work together to craft a sound ecosystem for small business success.

CHAD HARPER, BARBARA KOTSCHWAR, JACOB LEVY, AND KATI SUOMINEN | NOVEMBER 2023



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About the Visa Economic Empowerment Institute

VEEI is a non-partisan center of excellence for research and public-private dialogue established by Visa.

VEEI's overarching mission is to promote public policies that empower individuals, small businesses, and economies. It produces research and insights that inform long-term policy within the global payments ecosystem. Visa established VEEI as the next step in its ongoing work to remove barriers to economic empowerment and to create more inclusive, equitable economic opportunities for everyone, everywhere.

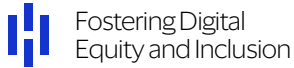
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Visa Inc. (NYSE: V) is the world's leader in digital payments. Our mission is to connect the world through the most innovative, reliable, and secure payment network—enabling individuals, businesses, and economies to thrive. Our advanced global processing network, VisaNet, provides secure and reliable payments around the world, and is capable of handling more than 65,000 transaction messages a second. The company's relentless focus on innovation is a catalyst for the rapid growth of digital commerce on any device for everyone, everywhere. As the world moves from analog to digital, Visa is applying our brand, products, people, network, and scale to reshape the future of commerce.

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SMALL BUSINESS IN THE DIGITAL AGE

APEC micro and small enterprises: Digitizing toward a resilient and sustainable future



Visa Economic Empowerment Institute



Introduction

Beginning in January 2021, the Visa Economic Empowerment Institute (VEEI) has undertaken an extensive study of micro and small enterprises (MSEs) around the world. As part of VEEI's Small Business in the Digital Age series, we examined the business environment and outlook for MSEs during the pandemic and the commercial adaptation strategies they employed in response (Harper et al., 2021), focused on small business dynamics in specific countries (Harper & Hulm, 2022; Harper & Kotschwar, 2022; Kotschwar, 2021), and assessed the phenomenon of increasing numbers of women-led MSEs, examining the challenges and opportunities they face (Kotschwar, 2022). In this paper, we turn our lens to a sample of the Asia-Pacific Economic Cooperation (APEC) economies. We surveyed more than 5,000 firms in nine APEC economies¹ in a quest to assess MSEs' performance over the past few years, identify contributors to their success, and pinpoint areas where they may require assistance to continue growing. The survey results gave us ample reason to be optimistic, and we hope that they provide useful insights for the public and private sectors as they work together to craft a sound ecosystem for MSE success.

One insight from across our prior studies is the importance of international trade to MSEs. This fact is also underscored in the recently published World Trade Report 2023 (World Trade Organization [WTO], 2023), which highlights the opportunities trade—particularly digital trade—offers to micro and small enterprises. Online platforms and digital payments enable even the smallest firms to reach customers in other parts of the world. Digital trade offers MSEs a springboard into global value chains by reducing the trade costs that are traditionally particularly burdensome for smaller businesses (see, for example, Fontagné et al., 2020). Online commerce also requires relatively less capital—a long-standing constraint for small businesses.

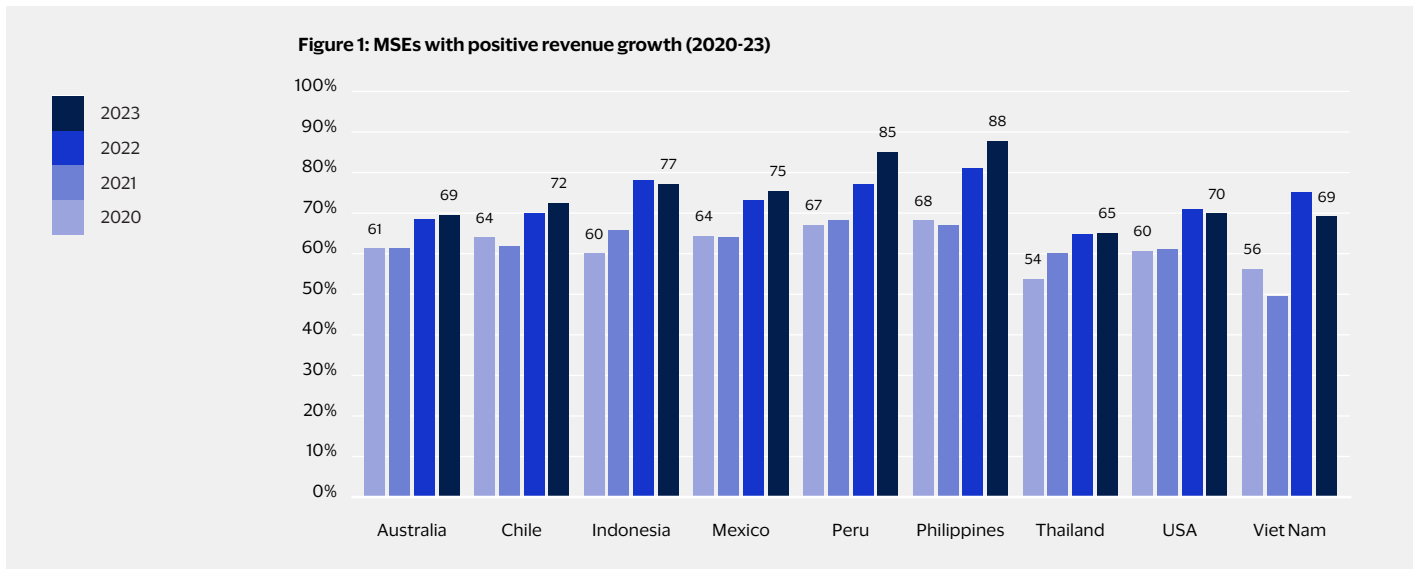
All these benefits point to the importance of supporting MSEs in their efforts to sell across borders. Currently, in developed economies, MSEs account for more than 90 percent of industrial firms but only 36 percent of direct exports (WTO, 2022), which suggests great room for gains. Measures that help MSEs enhance their participation in international trade can also contribute to greater trade inclusiveness. A recent publication by the APEC Group on Services (2023), for example, details opportunities for women in international trade.

The APEC forum aims to build a more interconnected, innovative, and inclusive APEC region. The main protagonists in this endeavor are the region's MSEs. Marisa Lago, US Under Secretary of Commerce for International Trade, and Chair of the APEC Small and Medium Enterprises Ministerial meeting, underscored the importance of MSEs—which make up 97 percent of APEC businesses—in the group's August 2023 communiqué, stating that one of APEC's key objectives is to “make business easier and more resilient, while fostering green, sustainable and innovative MSMEs.” These businesses are essential to APEC's 2023 theme of Creating a Resilient and Sustainable Future for All. In this short paper, we set out five lessons and one observation and recommend policy measures that APEC economies could consider as they work towards cooperation efforts that bring benefits to MSEs around the world.

¹ See Annex 1 for survey methodology. Economies in our sample include Australia, Chile, Indonesia, Mexico, Peru, the Philippines, Thailand, the United States, and Viet Nam.

Five lessons of digitization, growth, and outward expansion

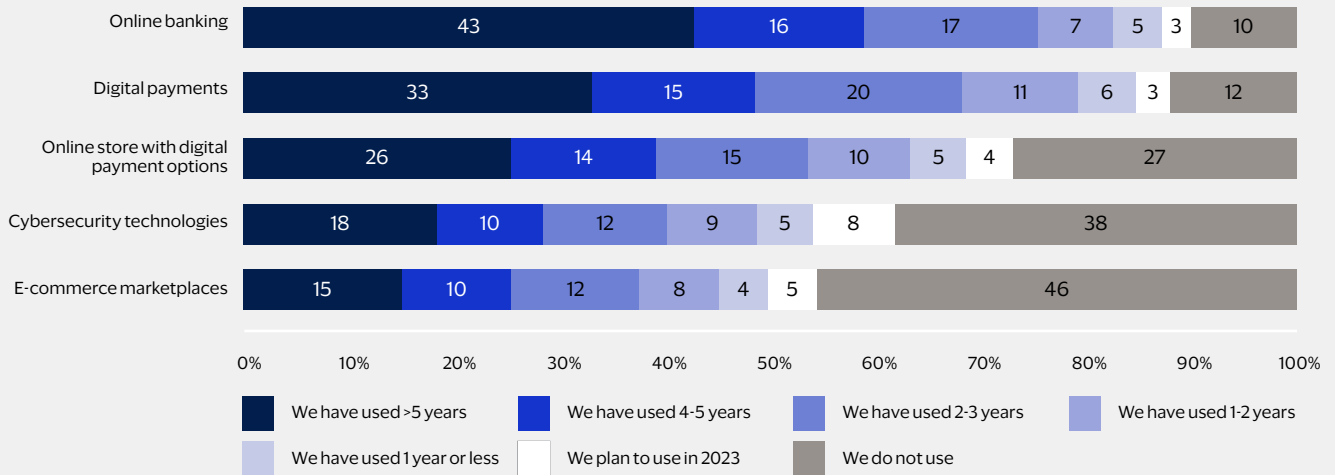
1. **MSEs are growing more than they were three years ago.** As Figure 1 illustrates, the MSEs in our sample are seeing their revenues grow. Across the sample, MSEs grew between 8 and 20 percent more in 2023 than they did in 2020. An unweighted regional average showed that 62 percent of surveyed MSEs experienced positive revenue growth in 2020; this grew to 72 percent by 2023. The Philippines and Peru saw the most dramatic increases, with 20- and 18-point increases, respectively.



Source: VEEI survey of businesses in nine APEC economies, 2023.

2. **Digital tools, particularly those that enable cross-border e-commerce, are key drivers of MSE recovery.** VEEI's first paper on small businesses underscored the importance of digital enabling infrastructure and subsequent analyses reaffirmed this point (Harper et al., 2021). This finding remains even more compelling today: Since 2020, firms have dramatically increased their use of digital payments. Our survey results indicate that among the nine APEC economies displayed in Figure 1, use of digital payments grew 54 percent between 2020 and 2023. E-commerce has also grown significantly: Among survey respondents, use of online marketplaces for selling goods has grown by more than 50 percent, and the use of service marketplaces has doubled in the past three years. The number of firms that derived revenues from online sources has seen a 10-point rise from 2020 to 2022. Also importantly, use of cybersecurity technologies grew by 88 percent. Figure 2 displays the length of time that MSEs had used key digital tools at the time they responded to our survey.

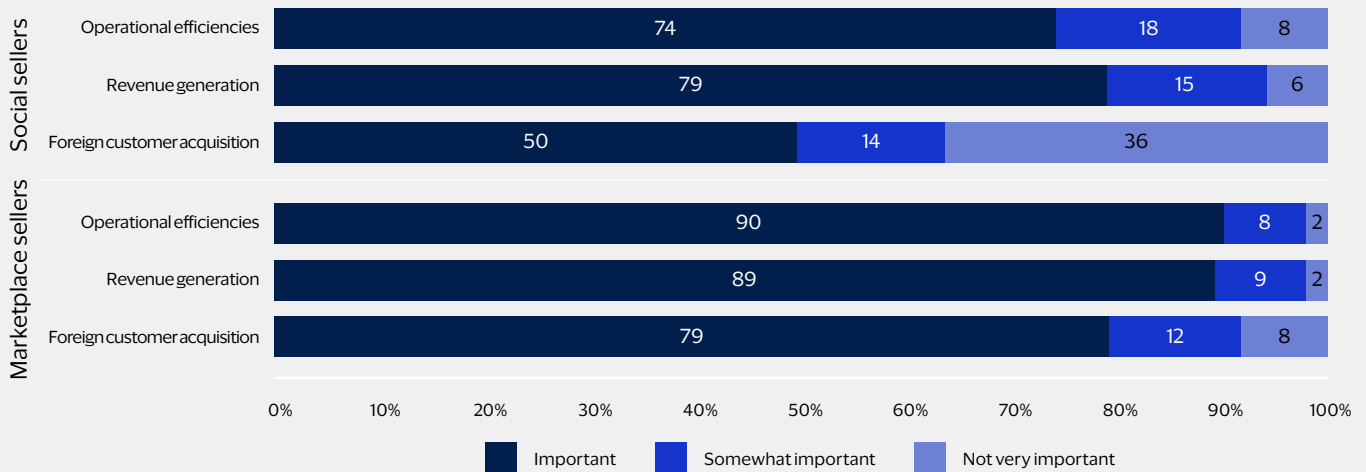
Figure 2: Key digital drivers of MSE recovery



Source: VEEI survey of businesses in nine APEC economies, 2023.

3. Digital payments are transforming MSEs' participation in international trade. According to our survey, approximately 90 percent of marketplace sellers and 75 percent of social sellers—small enterprises that conduct most of their sales on social media—see digital payments as important for revenue generation and operational efficiency. Nearly 80 percent of marketplace sellers and 50 percent of social sellers also see digital payments as key to accessing customers in foreign markets. It is commonly recognized that small businesses have historically faced significant hurdles to becoming part of global value chains. However, digital payments can be a springboard to overcoming barriers and reaching customers in international markets.

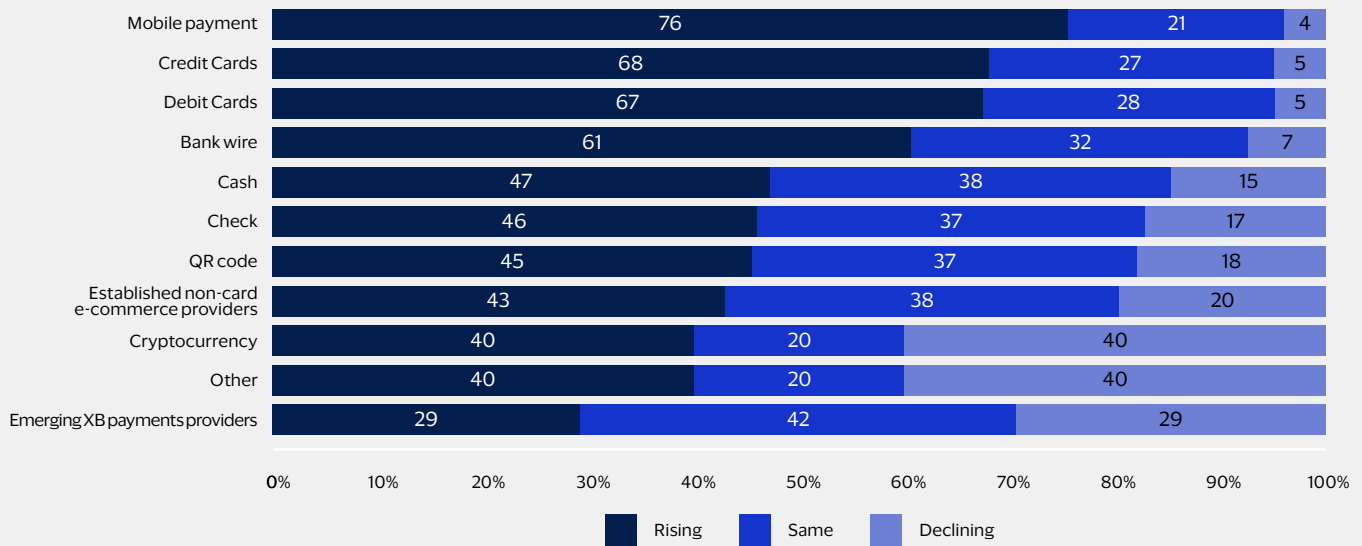
Figure 3: Importance of digital payments for MSEs (marketplace and social sellers)



Source: VEEI survey of businesses in nine APEC economies, 2023.

4. Digital payments will continue to propel MSE growth. Asked how they expect their acceptance of different payment methods to trend moving forward, more than 40 percent of surveyed MSEs see mobile and card payment acceptance “rising a great deal.” Cryptocurrency, checks, cash, and QR codes were most often projected to decline, along with some drop in the acceptance of cross-border payment providers. Figure 4 illustrates MSEs’ anticipated acceptance of different payment methods. Of those who accept the specified means of payment, 68 percent expect a rise in card acceptance (debit and credit) and 76 expect a rise in mobile payment acceptance. Fifteen percent of MSEs, especially digitized urban firms, expect their acceptance of cash to decline. Firms that see cash rising also expect digital payment acceptance to rise—in other words, these firms accept many types of payments and likely serve both walk-in customers and customers online. These firms also service less digitized customers, are typically concentrated in rural areas, and sell offline.

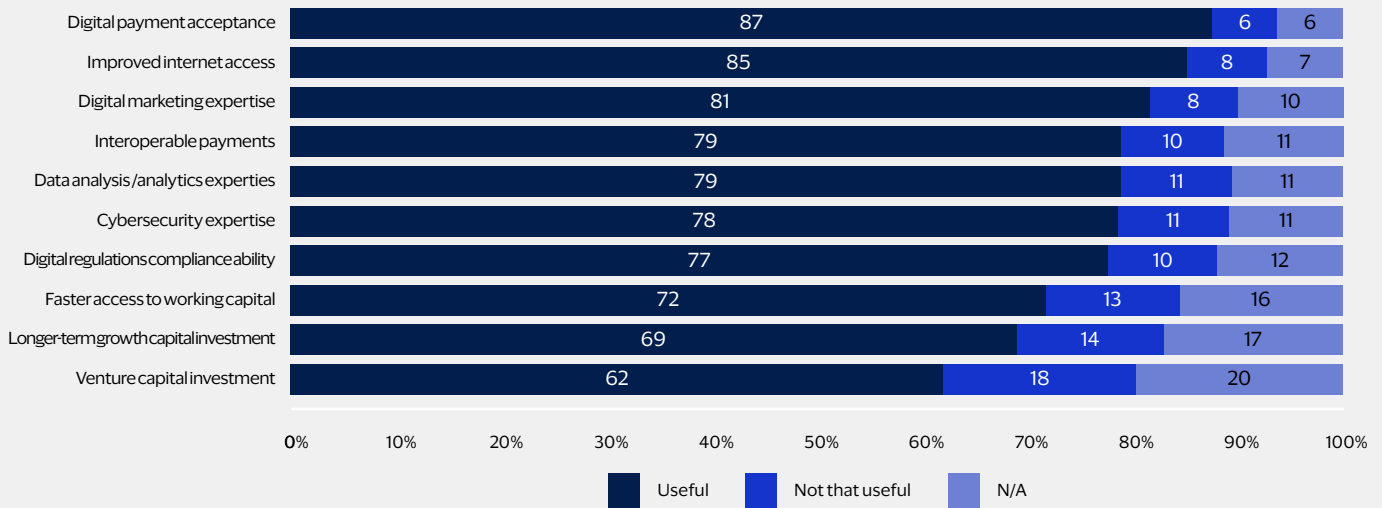
Figure 4: MSEs’ projected payment acceptance (2023-24)



Source: VEEI survey of businesses in nine APEC economies, 2023.

5. While their revenue has grown, MSEs in the APEC region continue to face challenges. Figure 5 sets out some of the needs identified by MSEs in the surveyed countries. Over 85 percent of the survey respondents indicated that enhanced digital payment acceptance was key to continued future success in exporting, followed closely by improved internet access. The survey results highlight one of the key findings of VEEI’s initial research on small businesses: While financing is important, access to digital transformation—through digital payments, better broadband, greater security, and digital skills—is a more immediate priority than access to capital.

Figure 5: MSE needs in the APEC region

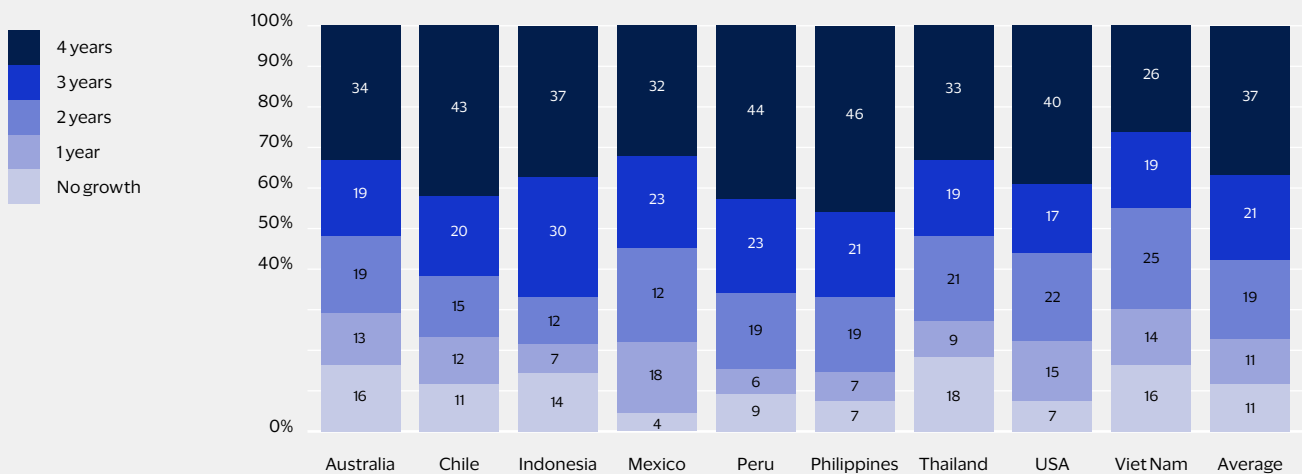


Source: VEEI survey of businesses in nine APEC economies, 2023.

**An observation:
MSEs still need
support from
governments**

Taking a deeper dive into the data, we found that about one fifth of MSEs have experienced either no revenue growth in 2023 or grew during only one year of the four years documented. Figure 6 displays growth consistency by economy. The MSEs that grew the least consist disproportionately of micro enterprises, rural firms, and non-exporters. Meanwhile, the fastest-growing firms are generally located in major cities, have strong talent pools, adopted digital technologies, expanded e-commerce sales as share of their revenues, and diversified their export markets.

Figure 6: MSE growth consistency by economy



Source: VEEI survey of businesses in nine APEC economies, 2023.

Recommendations

Continued MSE success requires enhanced access to digital tools, digital skills, and a secure and open environment for MSEs to trade across borders. These initiatives for improving small business growth require enhanced cooperation and the public and private sectors working in partnership.

- **Begin with digital enabling infrastructure if it does not exist.** The firms in our survey have access to the internet. But for millions of MSEs across many countries, basic infrastructure like electricity is a barrier to the digitization of business. For even more businesses, internet connectivity, and increasingly broadband connectivity, is crucial. Countries whose policymakers prioritize digital commerce infrastructure will have an advantage as consumers seek to use digital payments and MSEs look to expand their e-commerce capabilities.
- **Keep consumers in mind when driving digital ubiquity.** Payment methods may differ in functionality, convenience, consumer benefits offered, and other factors; Consumer and merchant payment preferences will often be driven by the use case.
- **Help MSEs connect to digital marketplaces to reach new customers and be more resilient.** Online platforms—like marketplaces and other e-commerce platforms—can serve as force multipliers for MSEs, enabling them to reach millions of customers.
- **Create a more open environment for digital trade.** As our survey results indicate, MSEs are gaining ground by going global. While large firms tend to participate more in international trade than small firms, MSEs also need market access to grow. However, policies that restrict digital trade, including data localization and similar measures, are spreading around the world. Restrictions on the free flow of data can negatively impact growth and productivity, which can be especially detrimental for small businesses. Policymakers should be careful to avoid such unintended consequences, which could cut off opportunities for MSEs to grow now or in the future.

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Annex 1: Survey methodology

During the summer of 2023, VEEI partnered with Nextrade Group to conduct an online survey of businesses across nine APEC economies (Australia, Chile, Indonesia, Mexico, Peru, Philippines, Thailand, the United States, and Viet Nam). In total, the survey included 5,119 respondents. Of these respondents, 97 percent were MSMEs (1-250 employees) and 58 percent were MSEs (1-50 employees). The respondents came from a variety of industries; The top three most common were manufacturing (9.7 percent), IT & tech services (8.9 percent), and grocery/food (7.4 percent). The table below summarizes the number of respondents by economy and firm size:

	Micro	Small	Medium	Large	Total
Australia	147	127	251	0	525
Chile	229	139	141	87	596
Indonesia	186	139	269	0	594
Mexico	246	125	213	0	584
Peru	227	144	140	63	574
Philippines	352	251	461	0	1064
Thailand	66	51	100	0	217
USA	261	162	249	0	672
Viet Nam	41	88	164	0	293
Total	1,755	1,226	1,988	150	5,119

Annex 2: Text descriptions of figures

Figure 1: MSEs with positive revenue growth (2020-23)

This bar plot displays the percentage of micro and small enterprises in our survey that experienced positive revenue growth in each year between 2020 and 2023, grouped by economy. Across all nine economies, a greater percentage of firms experienced positive revenue growth in 2023 than in 2020. The Philippines and Peru saw the most dramatic increases, at 20 and 18 percent, respectively.

Figure 2: Key digital drivers of MSE recovery

This stacked bar plot illustrates the length of time that micro and small enterprises in our survey have used five key digital tools: online banking, digital payments, online stores with digital payment options, cybersecurity technologies, and e-commerce marketplaces. The tool with the highest level of adoption is online banking, with 90 percent of enterprises having adopted it in total and 43 percent having adopted it over five years ago. Digital payments are a close second, at 88 percent adoption and 33 percent adoption over five years ago. The tool with the lowest level of adoption is e-commerce marketplaces, with 54 percent adoption and only 15 percent adoption over five years ago.

Figure 3: Importance of digital payments for MSEs (marketplaces and social sellers)

This stacked bar plot displays the percentage of micro and small enterprises in our survey who expressed that digital payments were important for operational efficiencies, revenue generation, and foreign customer acquisition. Among marketplace sellers, respondents found digital payments important or somewhat important for these outcomes at 98 percent, 98 percent, and 92 percent, respectively. Among social sellers—enterprises that conduct most of their sales on social media—these figures stand at 92 percent, 94 percent, and 64 percent, respectively.

Figure 4: MSEs' projected payment acceptance (2023-24)

This stacked bar plot illustrates how the micro and small enterprises in our survey expect their acceptance of different payment methods to trend moving forward. Mobile payments are the method that the greatest percentage of firms expect to rise moving forward, at 76 percent. Credit and debit cards come in second and third, with 68 and 67 percent of firms expecting them to rise, respectively. At the bottom of the list, only 29 percent of firms expect their use of emerging cross-border payments providers to rise moving forward.

Figure 5: MSE needs in the APEC region

This stacked bar plot displays some of the needs identified by micro and small enterprises in our survey. At the top of the list, 87 percent of firms indicated that enhanced digital payments acceptance will be useful for their continued success. Many enterprises also identified improved internet access and enhanced digital marketing expertise as useful, at 85 and 81 percent, respectively. Interestingly, only 62 percent of firms identified venture capital investment as useful, indicating that many firms appear to prioritize digital transformation over access to capital.

Figure 6: MSE growth consistency by economy

This stacked bar plot displays the number of years that micro and small enterprises in our survey have experienced positive revenue growth, by economy. While 37 percent of firms surveyed experienced growth during all four years between 2020 and 2023, an additional 22 percent experienced either no growth or growth during only one of the past four years. The Philippines and Peru had the greatest percentage of firms experience revenue growth during all four years, at 46 and 44 percent, respectively.



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