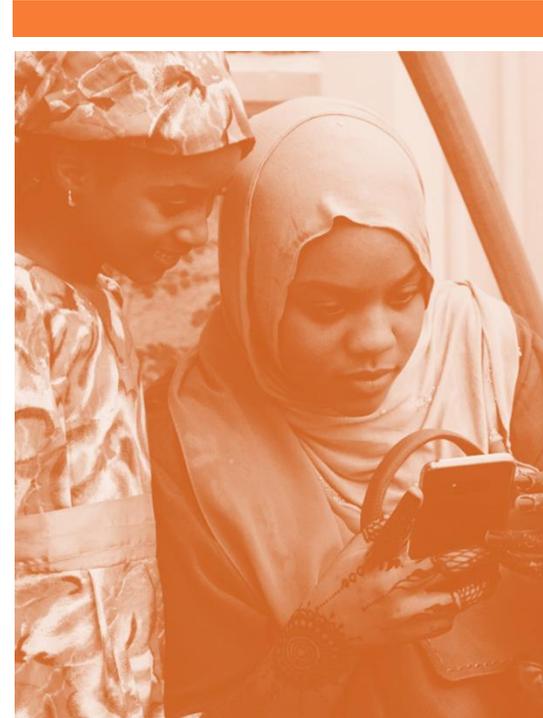




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ALLIANCE FOR ETRADE DEVELOPMENT

ACCELERATING MSME ECOMMERCE IN MEXICO

June 30, 2021

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ALLIANCE FOR ETRADE DEVELOPMENT

ACCELERATING MSME ECOMMERCE IN MEXICO

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I. INTRODUCTION

The COVID-19 crisis has hit Mexico hard. The country's death toll and drop in output are among the world's highest with over a million firms, about 20 percent of all registered firms, forced to close.¹ Almost 50 percent of Mexicans are in poverty, compared to 36 percent prior to the crisis.² Manufacturing was initially impacted by the global supply shock. Subsequently the tourism industry has taken a particularly heavy hit, further impacting the state which depends on tourism revenues.³

At the same time, ecommerce – the sale and purchase of goods and services online – is booming in Mexico and its key export markets, opening new opportunities for Mexican micro, small, and medium-sized enterprises (MSMEs) to grow their sales, exports, diversify their markets, and create new jobs. The U.S.-Mexico-Canada Agreement (USMCA) further expands opportunities for Mexican firms to use ecommerce to engage in trade. Ecommerce is also boosting growth in Mexican logistics, financial services, and IT sectors, and supporting Mexico's economic recovery from the COVID-19 crisis.

The purpose of this report, prepared in the context of the U.S. Agency for International Development-supported Alliance for eTrade Development II ("eTrade Alliance" composed of Cargill, DHL, Element, Etsy, Google, Latin American eCommerce Institute, Mastercard, PayPal, Ringier One Africa Media, UPS, and Visa), is to use census and survey data to explore how Mexican MSMEs are leveraging ecommerce in their businesses and growth, and contribute to Mexican government and private sector leaders' ongoing work on a digital strategy and MSME ecommerce development. This report will:

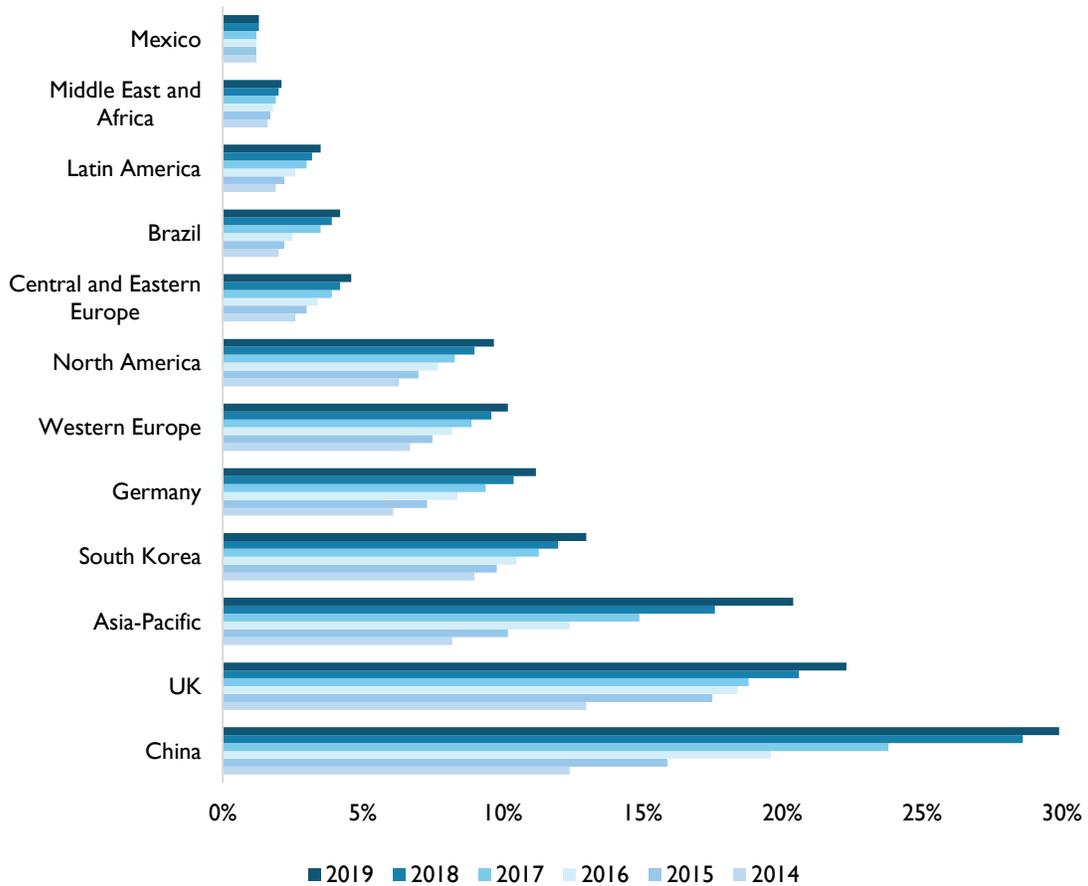
- Present new survey data on how different types of Mexican MSMEs engage in ecommerce, how they benefit from ecommerce, and the challenges they face in growing their domestic and cross-border online sales;
- Review Mexico's adoption of policies and regulations conducive to MSME ecommerce in a comparative perspective;
- Discuss the implications of USMCA, particularly its digital trade chapter, for Mexican MSMEs' ecommerce; and
- Put forth ideas on policy and technology solutions for enabling Mexican MSMEs' to grow through ecommerce.

The following section discusses the growth of ecommerce in Mexico, how Mexican MSMEs use ecommerce and digital services in their businesses, and the challenges they face to growing through ecommerce. Section three discusses how the Mexican government is already addressing these challenges and enabling MSME ecommerce. Section four concludes with policy proposals for accelerating Mexican MSMEs' use of ecommerce and growth of their online sales.

II. HOW MEXICAN MSMES ENGAGE IN ECOMMERCE AND WHAT CHALLENGES THEY FACE

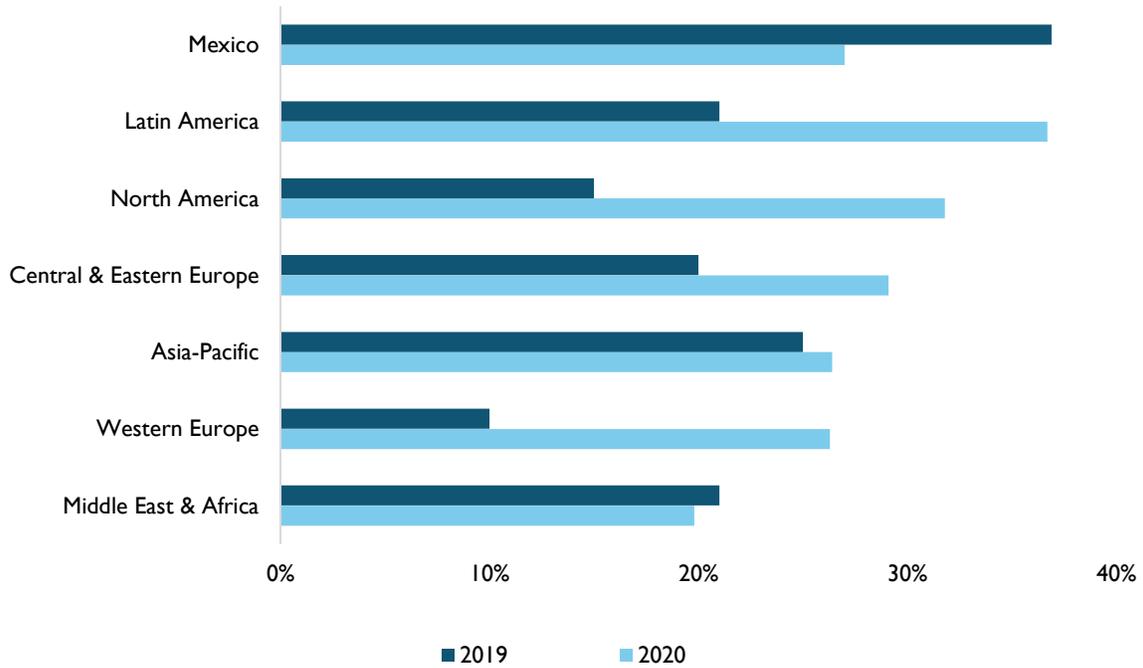
Compared to their peers in the world’s leading ecommerce markets such as China, UK, and Brazil, Mexican consumers have been cautious in using ecommerce. Online sales hovered below 2 percent of all retail sales in Mexico through 2019 (figure 1). However, these data are rapidly changing. Mexico has been amid an ecommerce boom in the past two years. In 2019, Mexico was the world’s fastest-growing ecommerce market, with 37 percent growth in retail commerce. Over 70 percent of Mexican consumers shopped online at least once that year.⁴ Online sales grew by another 27 percent in 2020, fueled by consumers migrating online amid COVID-19 (figure 2).

Figure 1: Online Purchases as % of Retail, by Country or Region



SOURCE: EMARKETER.

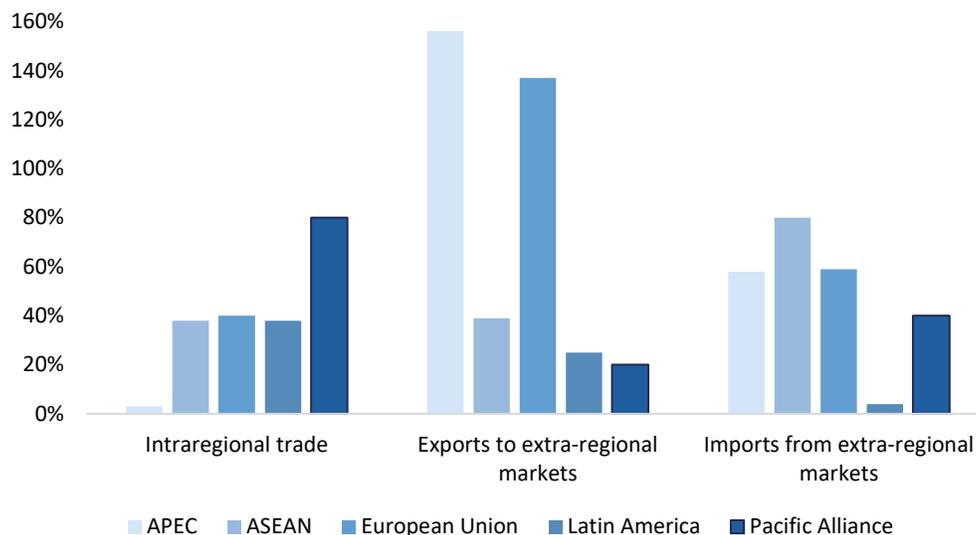
Figure 2: Growth of Ecommerce Purchases in 2019-2020, by country or region



SOURCE: EMARKETER.

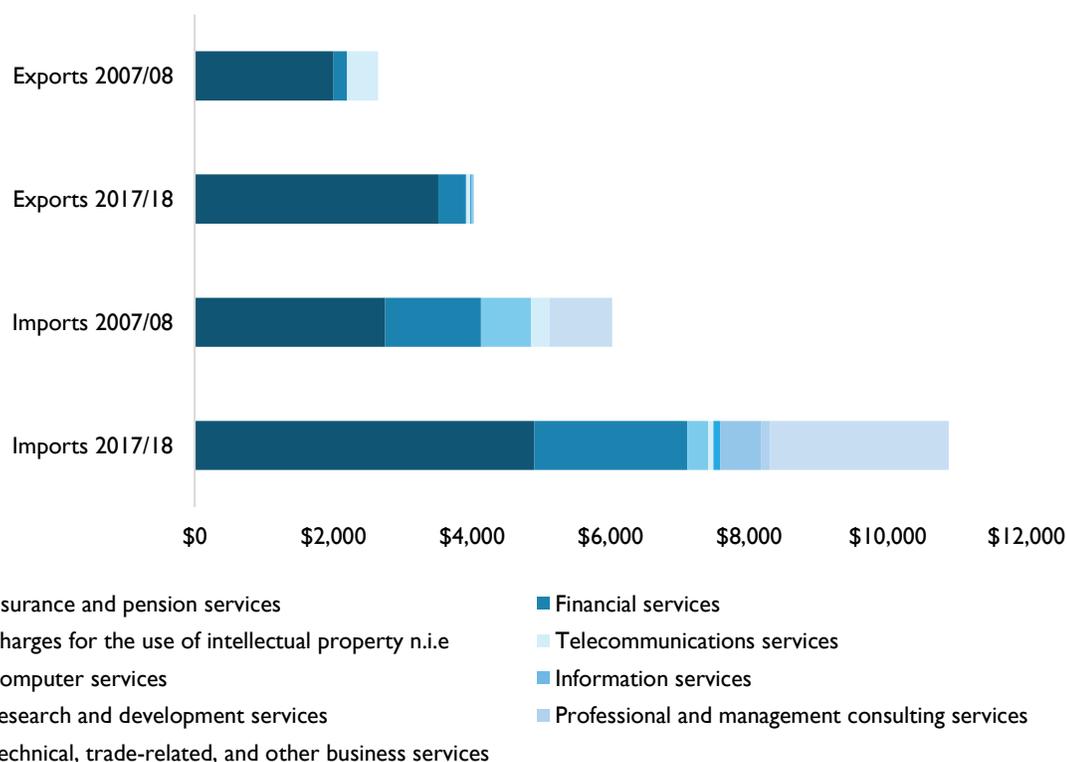
There is little comprehensive data on Mexico’s cross-border ecommerce in goods. However, postal data from earlier years in 2011-15 indicates that ecommerce in goods, proxied as tonnage of cross-border trade in parcels sent through the post, grew by 35 percent in Latin America’s intra-regional market. The Pacific Alliance, which is composed of Mexico, Chile, Colombia, and Peru, had particularly robust growth in intra-regional parcel shipments (figure 3).⁵ There is much more comprehensive data on Mexico’s cross-border ecommerce in digitally deliverable services. Digitally deliverable services imports grew at 6 percent per annum in 2007/08-2017/18 and exports at 5 percent, at a lockstep with total services exports. Professional and technical services trade has shown particularly fast growth (figure 4).⁶ The growth of ecommerce flows in Mexico is reflected by ecommerce’s increasing contribution to Mexico’s leading economic sectors’ gross value added (figure 5).

Figure 3: Growth in Tonnage of Cross-Border Parcel Flows in 2011-15, Selected Regions and Directions (Index where World in 2011 = 100)



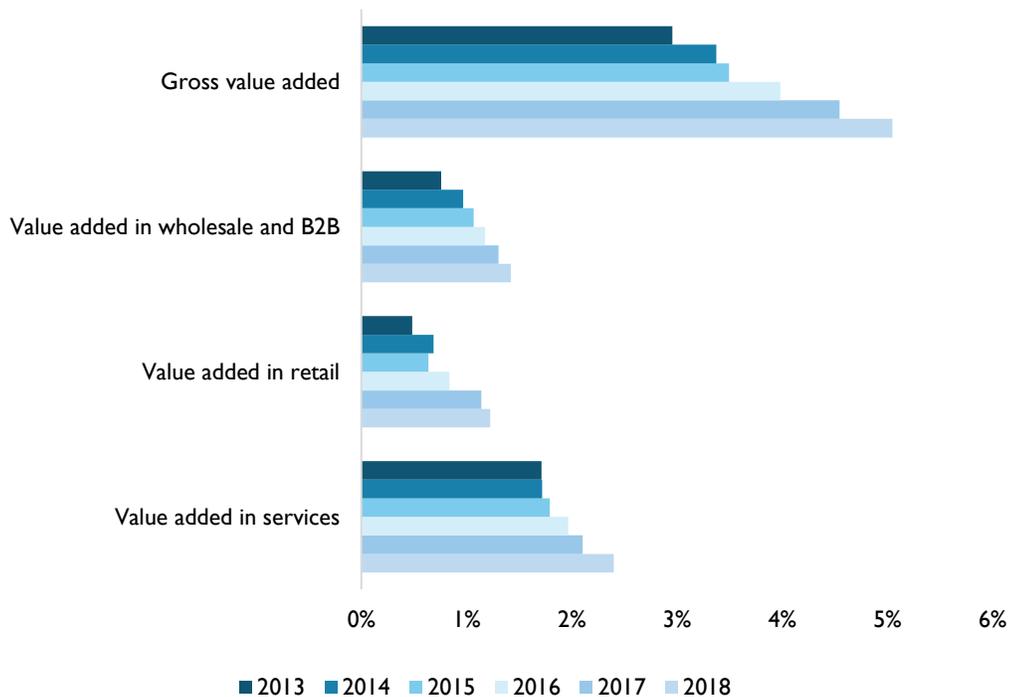
SOURCE: SUOMINEN, 2017. BASED ON UPU DATA.

Figure 4: Cross-border Ecommerce in Services in Mexico, 2007-18 (millions of USD)



SOURCE: AUTHOR. BASED ON WTO SERVICES TRADE DATA.

Figure 5: Value Added of Ecommerce in Mexico, by Broad Economic Sector, 2013-18



SOURCE: INEGI. SISTEMA DE CUENTAS NACIONALES DE MÉXICO.

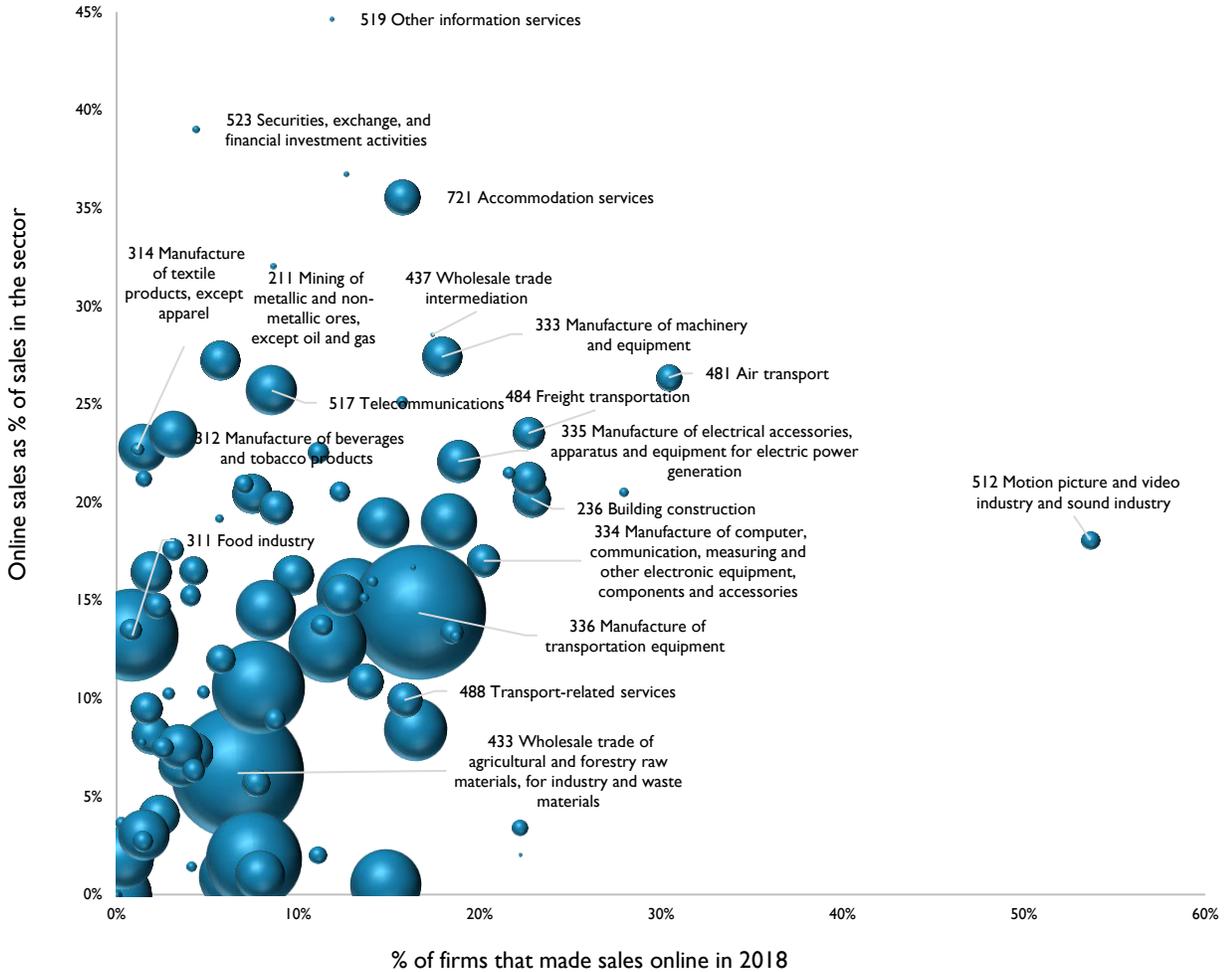
MEXICAN MSMEs' ECOMMERCE: II TAKEAWAYS

Behind these trends are tens of thousands of individual Mexican firms that have set out to sell and buy goods and service online. There are eleven stylized facts that summarize the characteristics of Mexican MSMEs' engagement in ecommerce:

I. MEXICAN MSMEs ACROSS SECTORS ARE ALREADY SELLING AND BUYING ONLINE

Ecommerce is often thought of as the sale of individual items to consumers by retail outlets, but in Mexico data shows that firms in B2B markets are using ecommerce as a growth lever. According to data from Mexican statistical agency *Instituto Nacional de Estadística, Geografía e Informática* (INEGI), Mexican firms are well on their way on using online sales channels – in INEGI's definition, sales realized through online stores and marketplaces, connections made via social media, and email. Firms in such sectors as electrical equipment manufacturing, freight and air transport, construction, and motion picture and video industries are avid users of online sales channels (figure 6). Ecommerce is also emerging as an important source of revenue in many economic sectors, making up over 30 percent of all revenue in the wholesale and accommodation sectors and over 40 percent in information services.

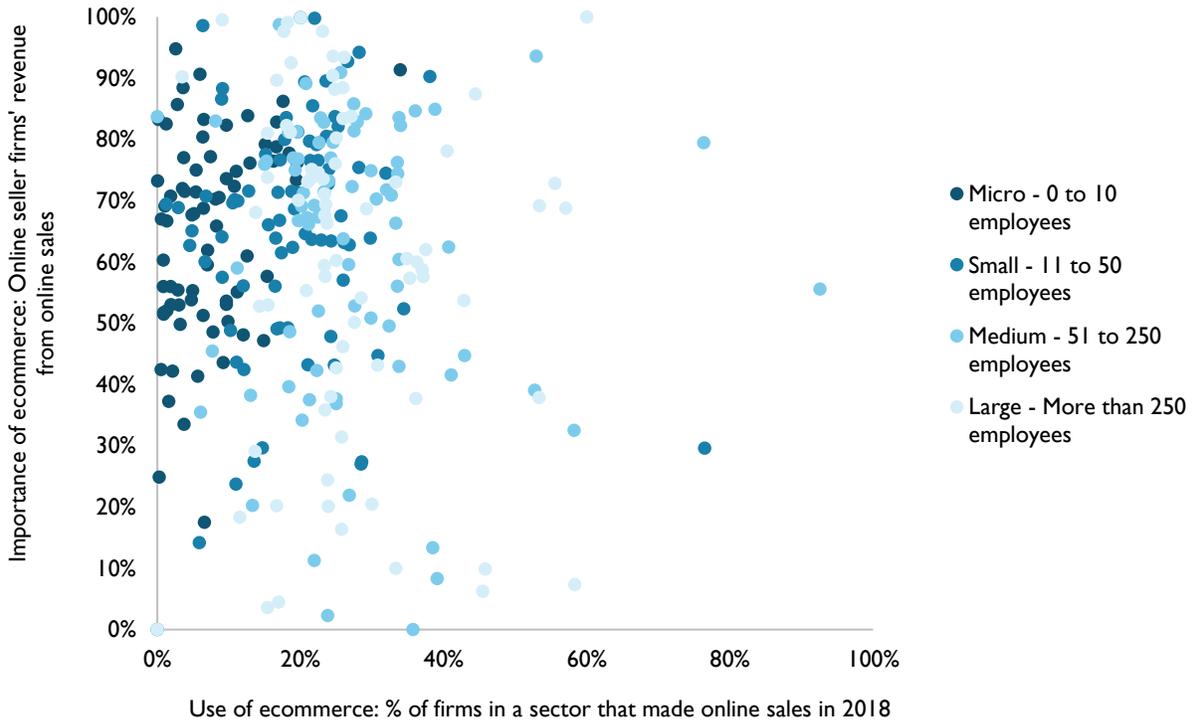
Figure 6: Mexican Firms Use of Ecommerce as a Sales Channel in 2018, by Sector (bubble size indicates annual output in a sector)



SOURCE: AUTHOR ON THE BASIS OF INEGI, 2019. CENSOS ECONÓMICOS.

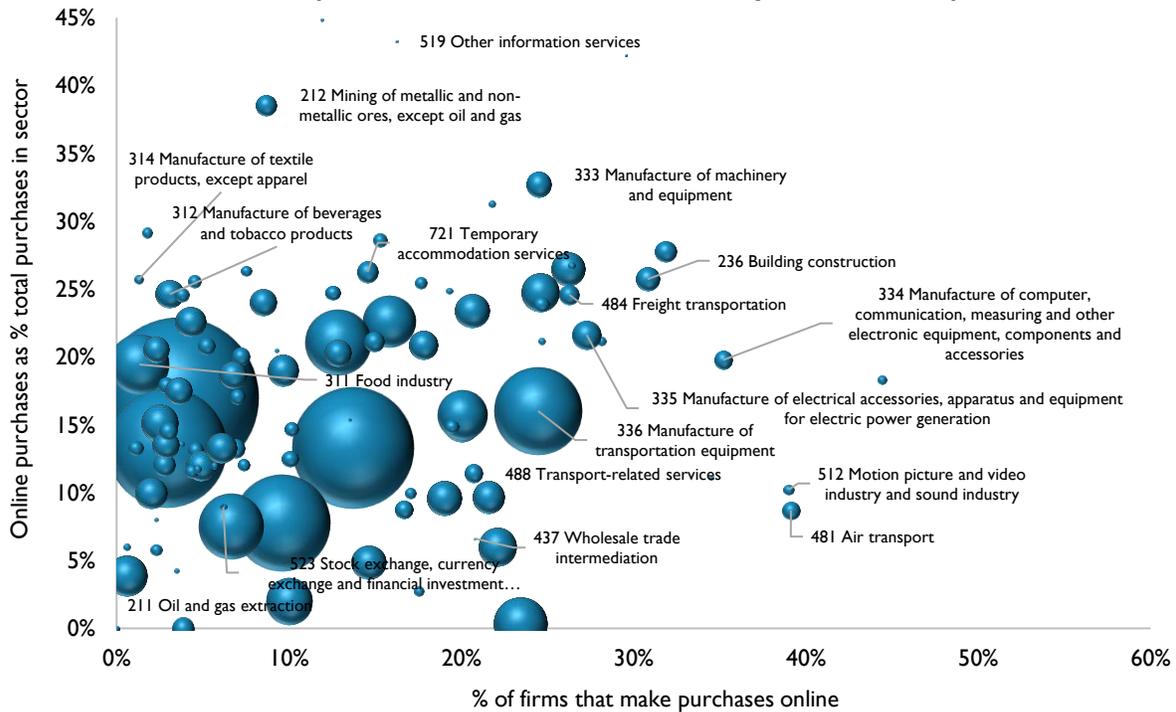
Disaggregating each sector by firm size reveals that some 10-30 percent of Mexican MSMEs, depending on the sector, made online sales in 2018, the latest year for which data are available (figure 7). Micro and small firms are somewhat less likely than large firms to have realized online sales. However, for both small and large firms in several sectors ecommerce is a key sales channel and source of revenue. Even larger shares of MSMEs bought online in 2018, with sectors such as manufacturing of transportation equipment, electronic equipment and machinery, and air transport and video industry featuring online purchases as an important share of total sectoral purchases (figures 8 and 9). Sectors with larger share of online sellers tend to share further characteristics: they have fewer and larger firms, higher sales, wages, and labor productivity levels (table 1).

Figure 7: Mexican Firms' Use of Ecommerce in 2020 across 3-digit sectors, by Firm Size



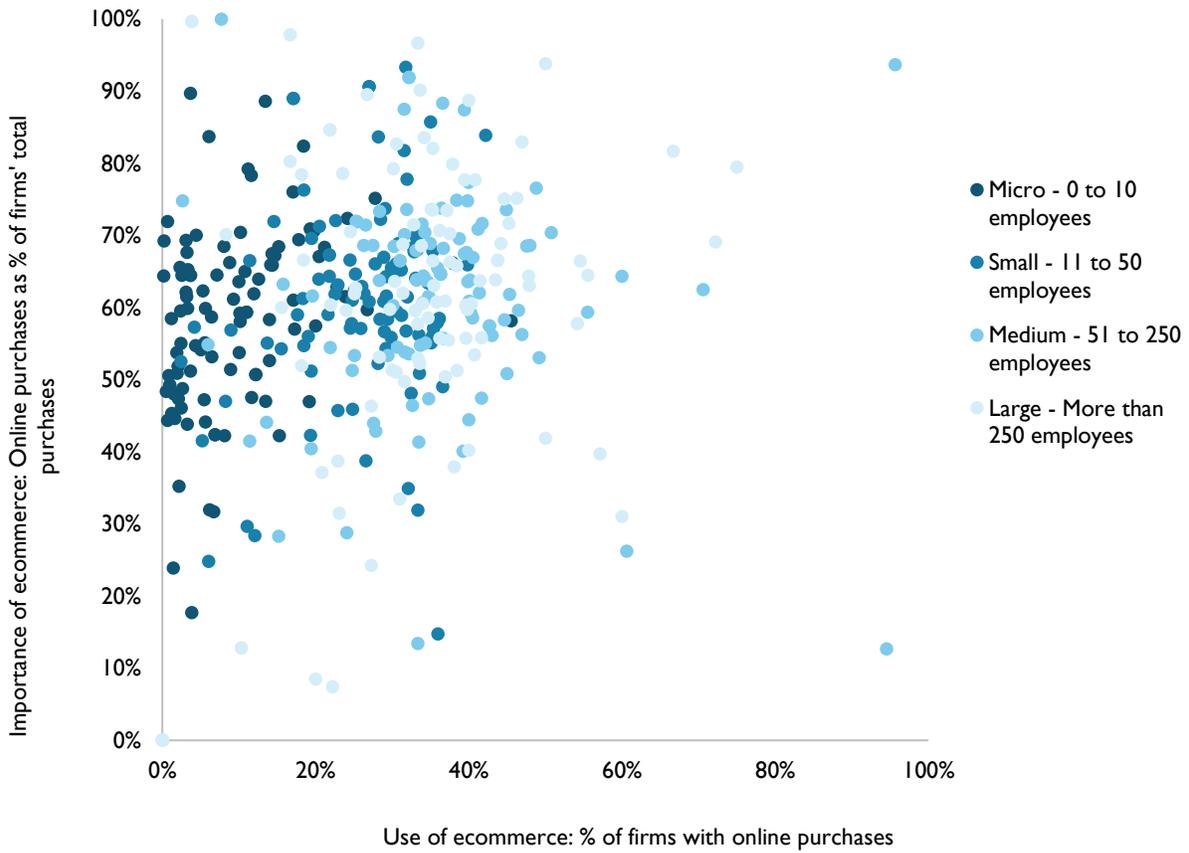
SOURCE: AUTHOR ON THE BASIS OF INEGI. 2019. CENSOS ECONÓMICOS.

Figure 8: Mexican Firms Use of Ecommerce to Purchase Goods and Services in 2019, by Sector (bubble size indicates annual output in a sector)



SOURCE: AUTHOR ON THE BASIS OF INEGI. 2019. CENSOS ECONÓMICOS.

Figure 9: Mexican Firms Use of Ecommerce across 3-Digit Sectors for Purchases, by Firm Size



SOURCE: AUTHOR ON THE BASIS OF INEGI. 2019. CENSOS ECONÓMICOS.

Table I: “Ecommerce Premium”: Characteristics of Quartiles of 3-digit Sectors, by Firms’ Use of Ecommerce in a Sector

	% of firms that use ecommerce in sector	Online sales as % of all firms' sales in sector	Number of firms	Number of employees	Employees per firm	Total revenue (in millions of Pesos)	Productivity per worker (in Pesos)
Top quartile of sectors in firms' ecommerce use	20%	19%	1,428	94,821	66	18.5	829,902
2nd quartile	12%	15%	4,760	126,692	27	15.3	721,936
3rd quartile	5%	10%	25,074	217,649	9	10.4	570,128
Bottom quartile	1%	8%	34,842	188,656	5	7.8	352,693

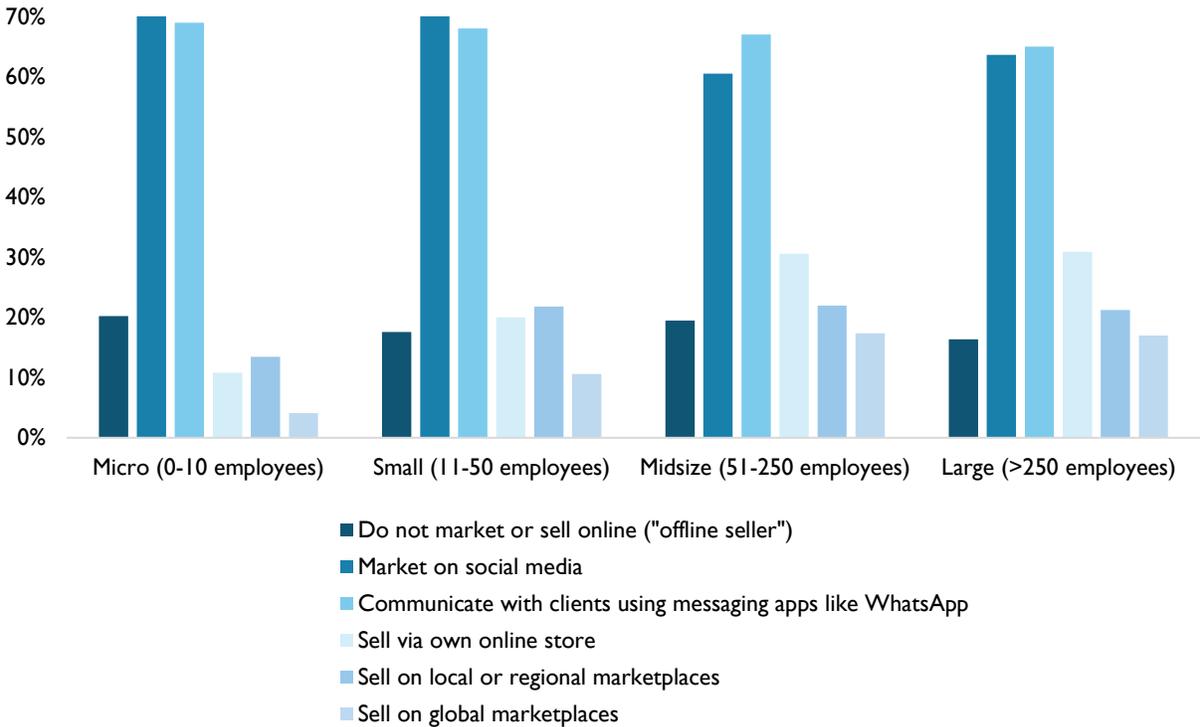
SOURCE: AUTHOR ON THE BASIS OF INEGI. 2019. CENSOS ECONÓMICOS.

INEGI’s data on how Mexican firms use ecommerce are an excellent example for many other countries that are seeking to measure firms’ digitization and ecommerce use. They do not however address such questions as how do firms that have not yet realized sales online behave online, or what challenges firms face in starting to do ecommerce and engaging in domestic and cross-border ecommerce. The following sections seek to answer these and other questions by complementing INEGI’s data with two eTrade Alliance-supported surveys, one fielded on 2-9 September 2020 with 2,034 firms, and another fielded on 5-24 September 2020 with 534 firms across firm size categories, sectors, and geographies.

2. ECOMMERCE CHANNELS VARY BY FIRM SIZE

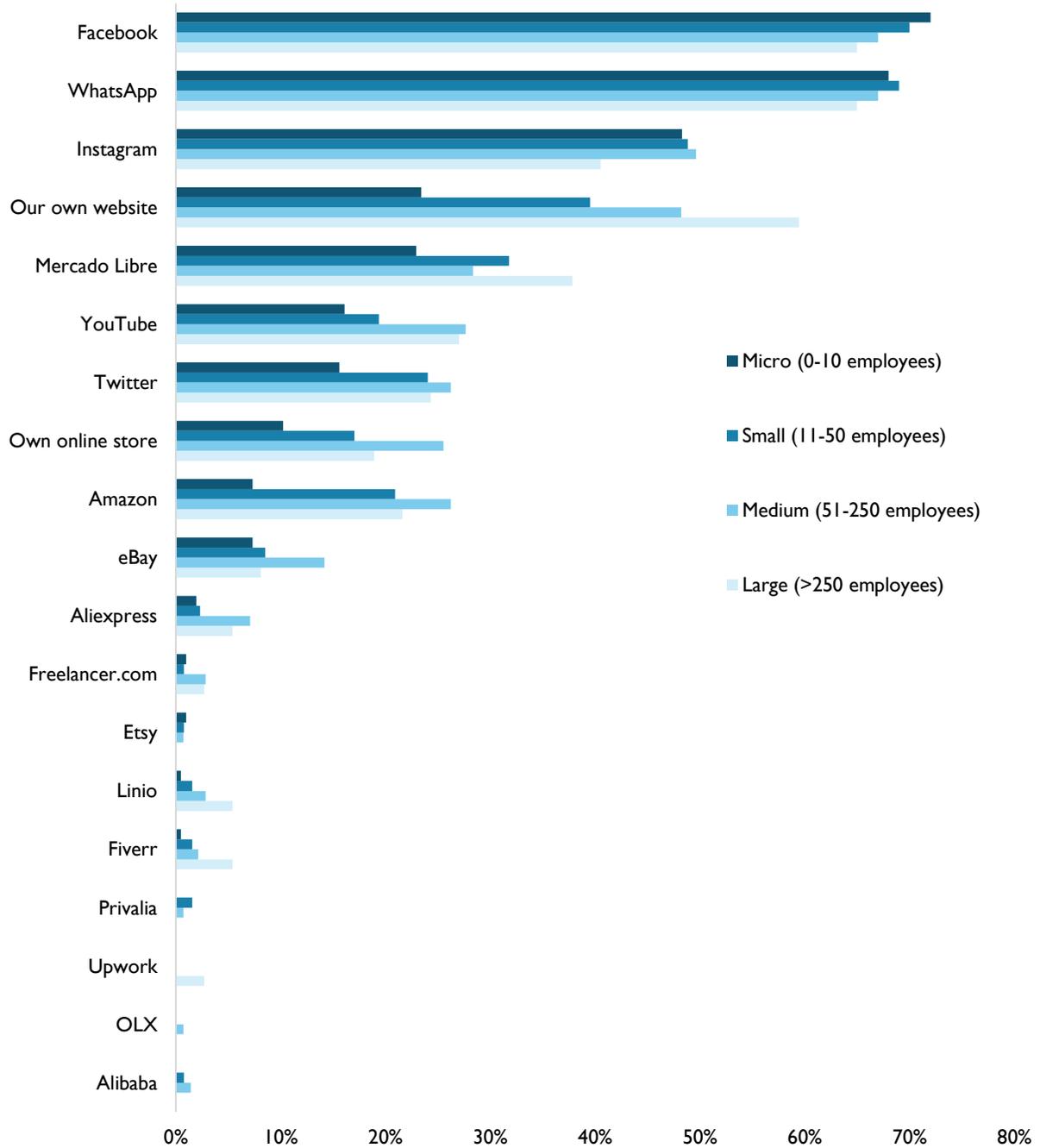
Consistent with INEGI’s data, the use of different online channels varies by firm size. Micro and small firms are likely to be social sellers that market their goods and services primarily on social media platforms and interact with customers using WhatsApp and other messaging tools, typically completing transactions with cash payments (figure 10).

Figure 10: Mexican MSMEs’ Use of Ecommerce in 2020, by Channel



Small firms are less likely than midsize and large firms to have their online stores and use regional and global marketplaces that enable firms to become visible to hundreds of millions of customers in new markets (figure 11). Some 15 percent of micro and 20 percent of small firms use local and regional marketplaces such as Linio and Mercado Libre, and fewer than 10 percent use global marketplaces such as eBay and Amazon. Meanwhile a third of midsize and large firms have already built their own online stores, and about a fifth use global online marketplaces.

Figure 11: Mexican MSME's Use of Platforms and Marketplaces, by Firm Size



3. MEXICAN MSMEs CAN BE CATEGORIZED IN FIVE ARCHETYPES BASED ON THEIR ECOMMERCE MATURITY

Mexican MSMEs vary quite notably in their ecommerce maturity. There are at least five “archetype” groups sellers:

- **As: Global marketplace sellers (about 10 percent of sample):** Established, fast-growing larger MSMEs and large B2B and B2C sellers that use global online marketplaces and derive more than 25 percent of their revenue from ecommerce. Nearly two-thirds of these firms export and over one-half derive more than 25 percent of their revenue from exports. These firms are typically located in first-tier cities and see growing their ecommerce sales as a priority. Only a fifth of these firms have majority female executive teams.
- **Bs: Local and regional marketplace sellers (about 18 percent):** Small to mid-size fast-growing B2C sellers that have their own online stores, use domestic or regional marketplaces such as Mercado Libre as well as social media, often derive 10-25 percent of their revenue from online sales, and typically export. These firms tend to see growing their ecommerce sales as a top priority and are willing to invest in their ecommerce development. These firms are typically located in first-tier cities.
- **Cs: Sellers with own online stores (20 percent):** MSMEs that have their own online stores to market their goods and services and transact online, and typically also use social media intensively. Over one half of these firms export, and a quarter derive more than 25 percent of their revenue from exports; a majority of firms in this group also import. These firms also tend to see investing on ecommerce capabilities as an important priority.
- **Ds: Social sellers (about 65 percent):** Micro and small firms that market their goods and services on social media such as Facebook and Instagram and may interact with their clients using WhatsApp, but typically close sales with cash. These firms see investing in ecommerce as important, but do not necessarily prioritize it. These firms are present nation-wide, including in rural areas.
- **Es: Offline sellers (19 percent):** Micro and small firms in second- and third-tier cities and rural areas that are often in B2C and B2B services and do not see ecommerce or exporting as a priority. Women-led firms tend to be smaller than men-led firms and are thus more prevalent in this category.

Table 2: Archetype Mexican MSME Sellers

Archetype	Appr. % of firms (overlapping categories)	Size	Typical sectors and clients	Located in	% of firms >5 years old & <2 years old	Technologies used	Firms that grow >10% annually (2019)
A Global marketplace seller	10%	Small, midsize and large; 20% are micro	B2B IT services, engineering services, electronics, office equipment	First-tier cities; 5% in rural areas	46% / 17%	ERP, CRM, SRM, cloud computing, mobile payments, accounting software, inventory management software, electronic payments, online banking, online job platforms for talent	41%
B Local and regional marketplace seller	18%	Small to midsize; 32% are micro	Electronics, office equipment, home décor, IT services, engineering services, business consulting services	First-tier cities; 8% in rural areas	43% / 28%	CRM, SRM, mobile payments, accounting software, inventory management software, electronic payments, online banking	46%
C Sell through online store	20%	Micro, small, and midsize; 24% are micro	B2C and B2B IT services, textiles and apparel, footwear, food products, electronics, beauty products	First- and second-tier cities; 10% in rural areas	46% / 28%	CRM, SRM, ERP, cloud, mobile payments, accounting software, inventory management software, electronic payments, online banking	41%
D Social seller	65%	Micro and small; 49% are micro	Primarily B2C food products, textiles and apparel, health and wellness services; B2C business consulting services	First and second-tier cities; 12% in rural areas	44% / 28%	Electronic payments, online banking	38%
E Offline seller	19%	Micro	B2C services, food products	First and second-tier cities, 17% in rural areas	61% / 6%	Electronic payments, online banking	16%

SOURCE: AUTHOR ON THE BASIS OF ISURVEY DATA.

Archetype	Export participation	% of firms with >25% of revenue from exports	Typical foreign markets	Import participation	% of firms seeing "much greater importance" to invest in ecommerce capabilities due to Covid	Women >50% of executive team	% of firms with no executive team members with university degree
A Global marketplace seller	61%	59%	USA, Canada, South America, Spain	74%	64%	18%	2%
B Local and regional marketplace seller	45%	45%	USA, Canada, Latin America	62%	67%	18%	3%
C Sell through online store	53%	24%	USA, Canada, Latin America, Spain, China	75%	70%	24%	2%
D Social seller	26%	6%	USA, Canada	40%	62%	27%	7%
E Offline seller	22%	11%	USA, Canada	22%	56%	44%	22%

SOURCE: AUTHOR ON THE BASIS OF SURVEY DATA.

These groups are not exclusive: except for offline sellers, practically all firms with their own online stores use social media as well, and most regional and global marketplaces sellers that sell goods almost inherently have their own online stores (figure 12). Marketplace sellers in general use ecommerce more intensively than firms in the other categories. While about 40 percent of social sellers derive more than 25 percent of their revenue online, over two-thirds of global marketplace sellers' revenues comes from online channels (figure 13).

Figure 12: Overlap among Surveyed Mexican Archetype MSME Sellers

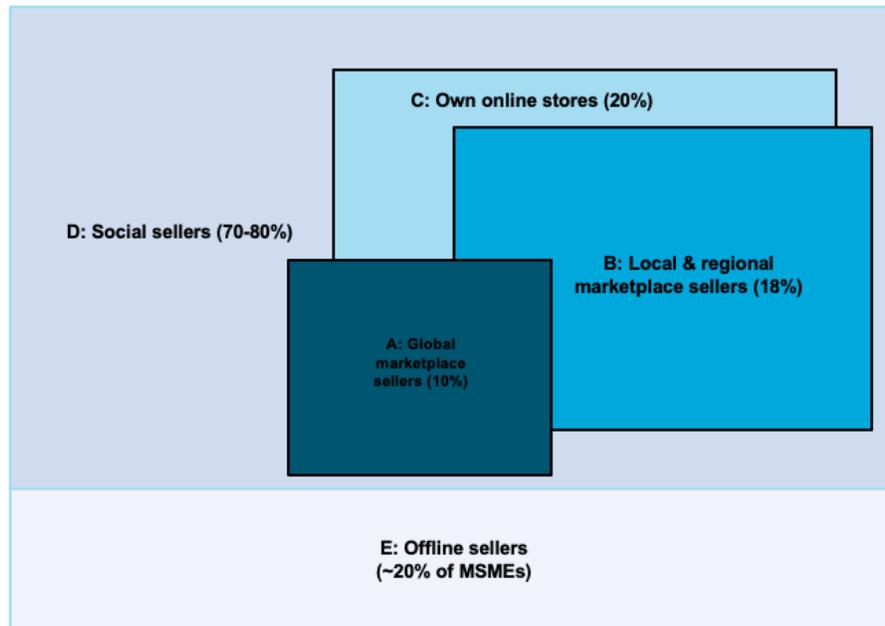
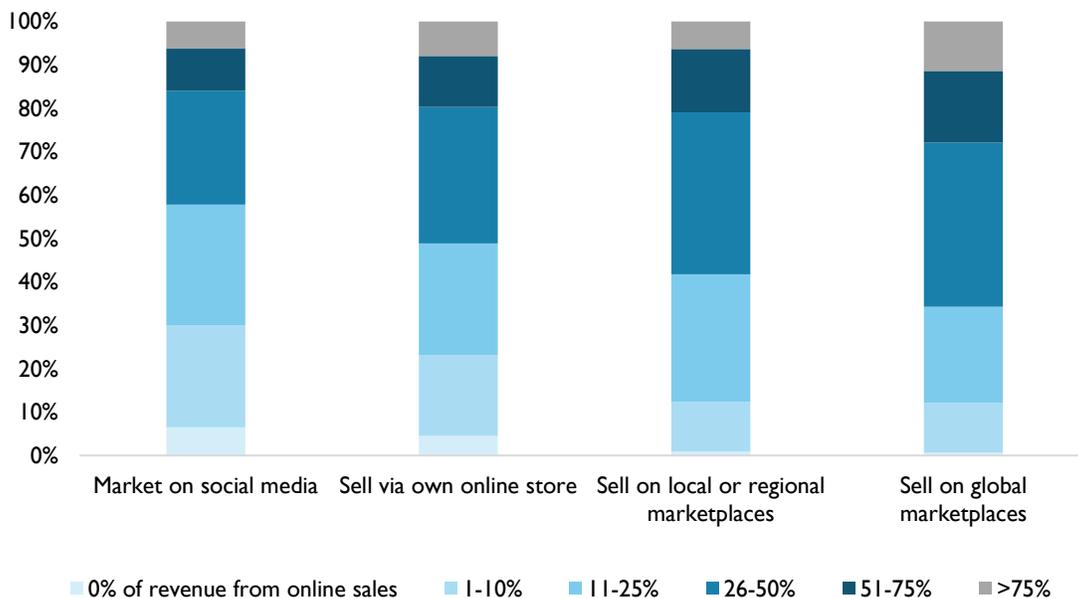


Figure 13: % of Surveyed Firms by Revenue from Online Sales and Sale Channel Used



4. FIRMS THAT SELL ONLINE ARE LIKELIER TO EXPORT AND GROW THROUGH TRADE

Firms of all sizes that have an online presence are much more likely to export compared to offline firms. More than 60 percent of micro enterprises that sell on global online marketplaces export (figure 14). Online seller-exporters are also likelier to export to many markets and to extra-regional markets than offline sellers (figure 15, table 3). Online sellers are also likely to use online channels for identifying vendors and suppliers; over three quarters of global marketplace sellers also import.

Granted, ecommerce use does not necessarily *cause* firms to export – the correlation between exporting and ecommerce use may simply mean that existing exporters have self-selected into ecommerce. However, 48 percent of surveyed online sellers stated they started to export *after* starting to use ecommerce, and another 19 percent stated they started ecommerce and exporting around the same time. Ecommerce enables MSME trade in part because it essentially reduces the geographic distance that has for centuries curtailed visibility, trust, and trade between buyers and sellers located far apart.⁷ Online stores and marketplaces’ customer reviews, payment tools, and dispute settlement mechanisms give the buyer a sense of trust, the lubricant of trade that previously took several repeated transactions between buyer and seller to build.

Bringing together hundreds of millions of buyers from around the world, global online marketplaces are a particularly powerful means for MSMEs to reach new markets. In the first USAID-supported eTrade Alliance (2017-19), we found that over 95 percent of developing country firms using global online marketplaces export and over 90 percent of them export to 10 or more markets and derive over 90 percent of their revenue from exports.⁸ These patterns are dramatically different from traditional patterns of firm internationalization where fewer than 10 percent of firms in any one country export and if they do, they export to only 1-3 markets. These patterns are not accidental: developing country firms intentionally use global online marketplaces *in order to* expand their markets and reach the hundreds of millions of foreign buyers that use these marketplaces.

Figure 14: % of Surveyed Mexican Firms that Export, by Online Activity and Size

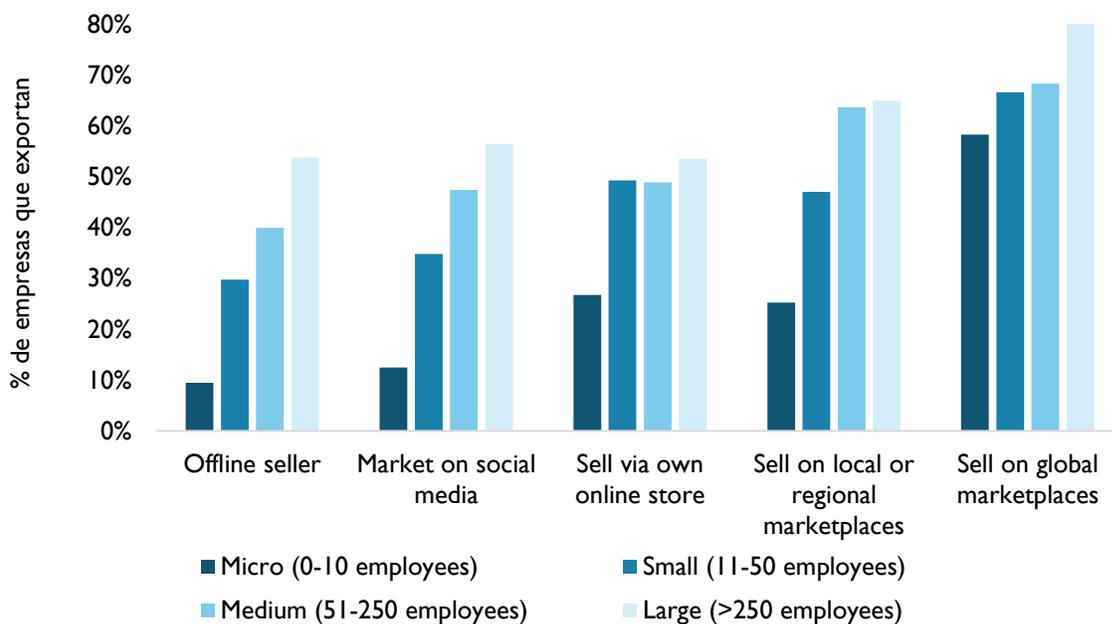


Figure 15: % of firms by Number of Export Markets and Sales Channels

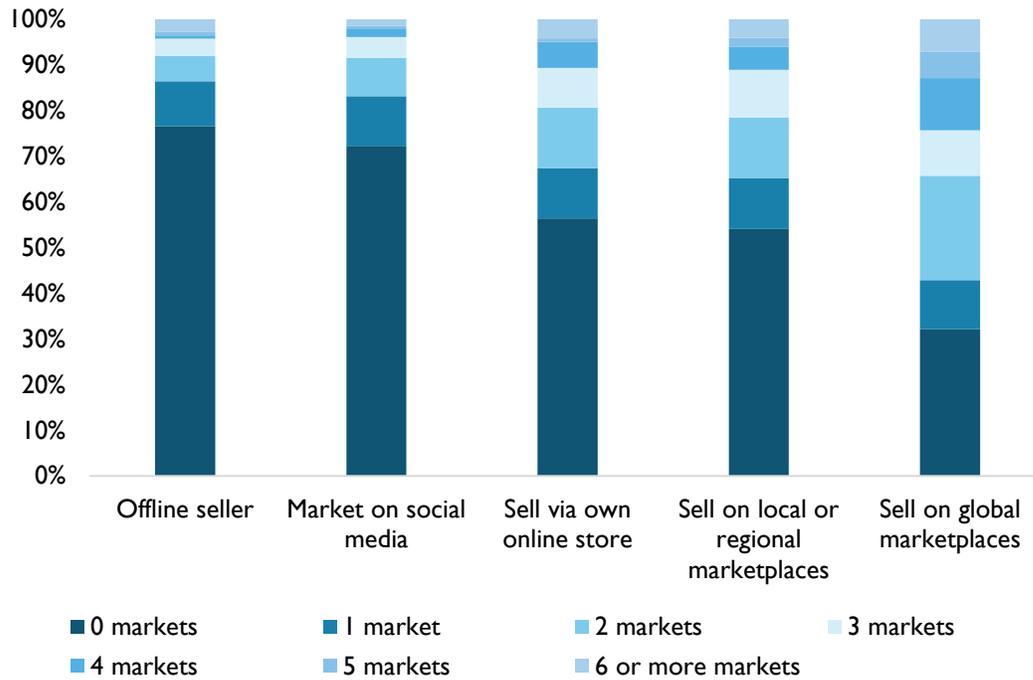


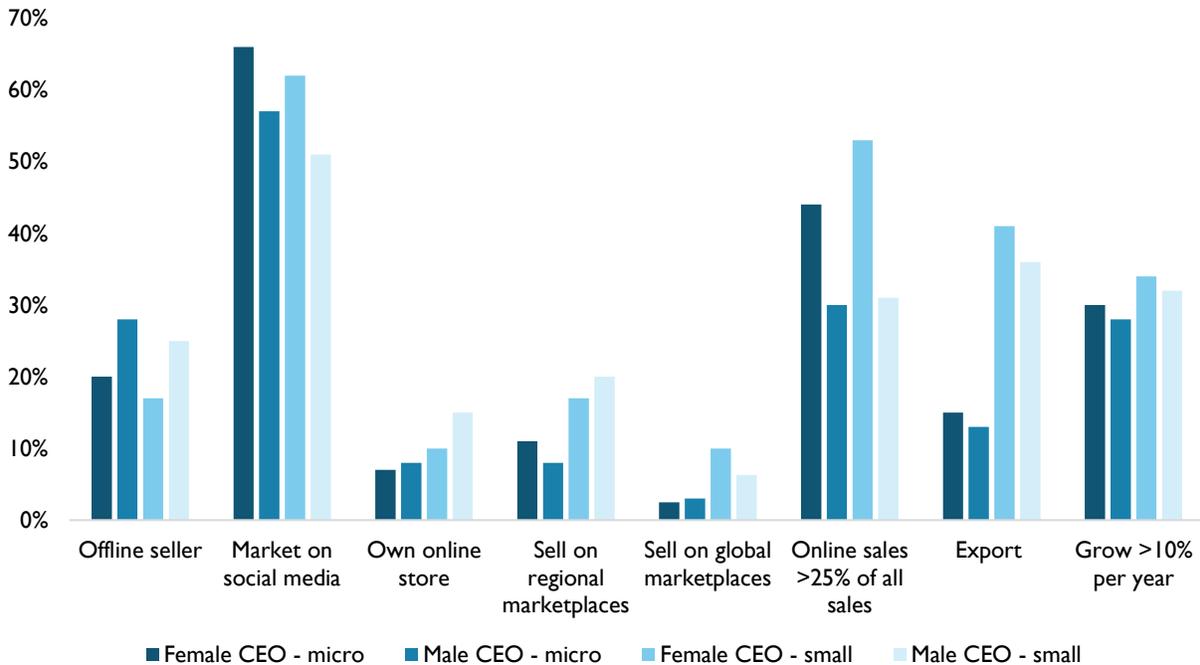
Table 3: Selected Export Markets, by Online Sales Activity (exporters only)

Country	Market on social media	Sell on local or regional marketplaces	Sell on global marketplaces
USA	69%	88%	84%
Canada	20%	32%	33%
Colombia	11%	14%	15%
Brazil	7%	11%	13%
Argentina	7%	9%	13%
Spain	10%	14%	22%
UK	2%	6%	7%
China	3%	11%	10%
Japan	6%	12%	10%
Korea	4%	5%	6%

5. WOMEN-LED FIRMS PERFORM COMPARABLY TO MEN-LED FIRMS IN ECOMMERCE USE AND GROWTH OF ONLINE SALES

Women are a latent asset in the Mexican economy. Fewer than one-half of Mexican women of working age are actively engaged in the labor market (compared to 82 percent of men), the second lowest rate among the members of the Organization for Economic Cooperation Development (OECD).⁹ In addition, the majority of Mexican women hold informal jobs with low pay and social protections. However, for the small subset of women who lead enterprises and engage in ecommerce, these disparities appear to be bridged. Comparable men- and women-led firms tend to use online channels in a highly similar manner and have similar ecommerce intensities, export participation rates, and annual growth rates (figure 16). This may suggest that ecommerce can be a great equalizer between men- and women-led firms, if only more women-led firms would be formed and access basic technologies to get and sell online.

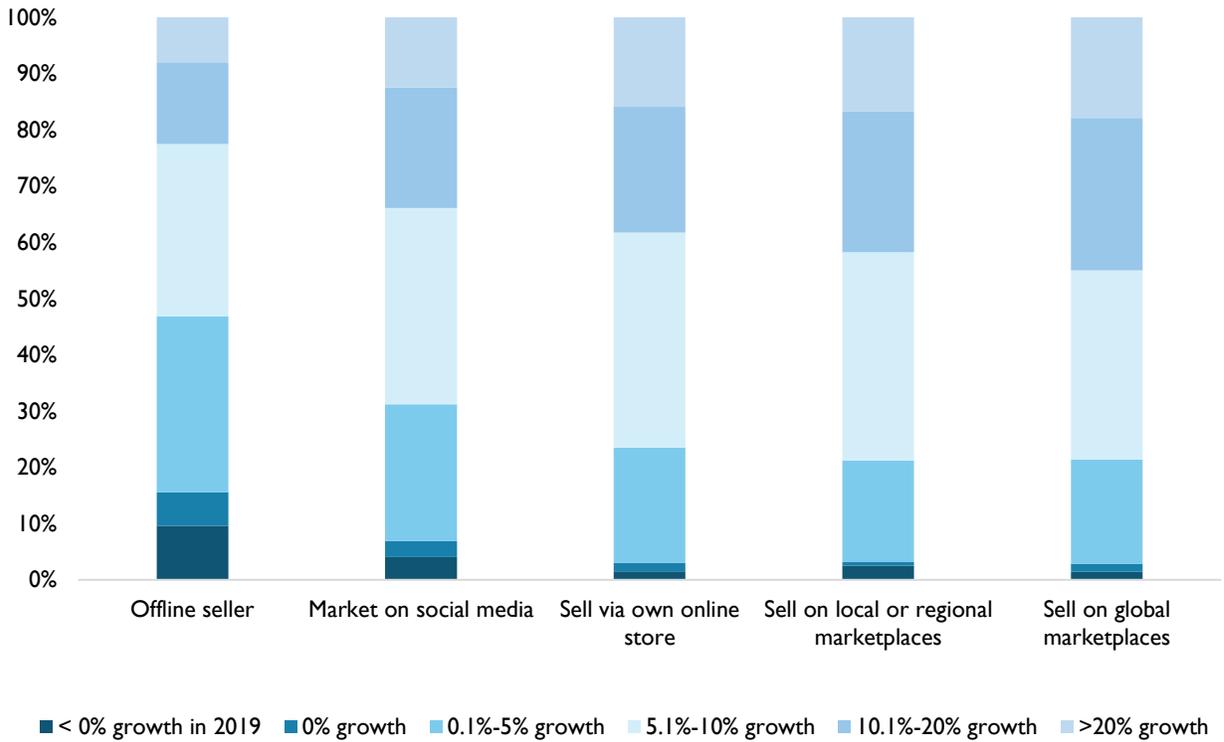
Figure 16: Online Channels and Performance of Firms led by Female and Male CEO



6. MEXICAN MSMEs REPORT SIGNIFICANT REVENUE AND EXPORT GAINS FROM ECOMMERCE

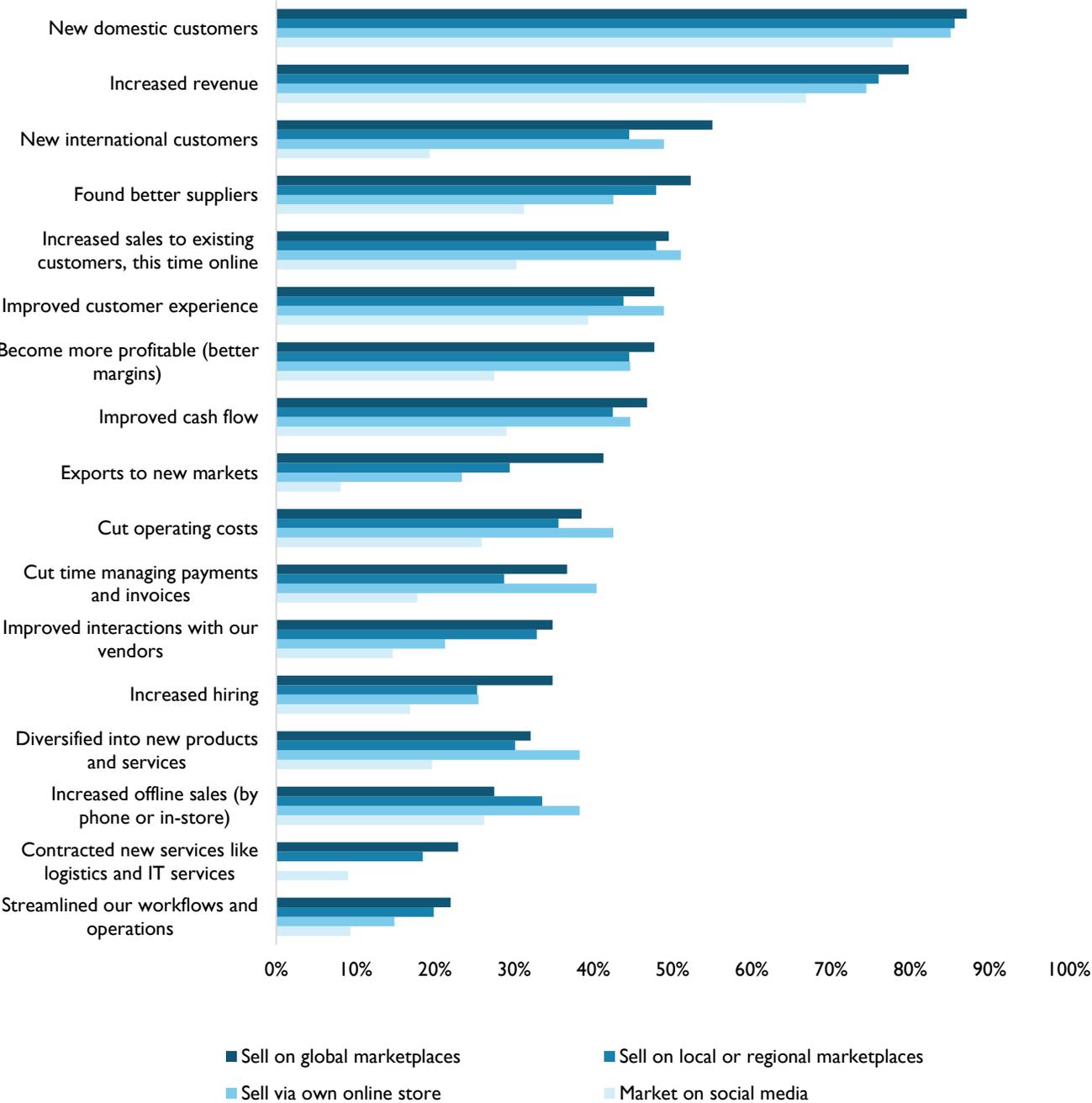
Marketplace sellers grow faster than firms that use analogue or social channels. More than 40 percent of regional and global marketplace users grew more than 10 percent from 2018 to 2019 (figure 17). Meanwhile only a third of social sellers and a fifth of offline sellers attained above 10 percent growth in 2019.

Figure 17: Surveyed Mexican Firms' Growth of in 2018-19, by Online Activity



Marketplace sellers and sellers with their own online stores also report strong gains from ecommerce, in terms of new clients, revenues, and export opportunities (figure 18). Social sellers are significantly less likely to have realized these gains. However, they too report having gained new customers, improved customer experience, and expanded sales to existing customers as a result of using online channels. Marketplace sellers also appear to generate benefits to their communities. About a third of marketplace sellers have increased hiring due to ecommerce and about a fifth have contracted new services in their domestic markets.

Figure 18: % of Surveyed Mexican Firms that Report Benefits from Use of Ecommerce, by Firm Size and Ecommerce Maturity



7. MARKETPLACE SELLERS ARE ALSO DIGITALLY MATURE ENTERPRISES

Mexican marketplace sellers are fast-growing, dynamic firms. This may simply mean that well-performing firms self-select to sell online. However, as suggested by survey data, selling on marketplaces has also enabled firms to reach new customers and grow their revenue. In addition, marketplace sellers outperform social sellers and offline sellers likely because marketplace sellers are avid users of technologies that streamline their operations and sales cycles and generate new efficiencies. Asked about the use of various technologies in their businesses, marketplace sellers were likely to report using online banking and digital payments, enterprise resource planning (ERP) systems, and other software and online tools for marketing, accounting, supply chain and inventory management, and human resources (figure 19). Marketplace sellers are also using PayPal for transacting online, Fintechs to access loans, and equity crowdfunding platforms to secure growth capital (figure 20).

The data can further be used to construct an index of firm digitization – where firms in the top quartile reporting use of the various technologies in figure 18 are grouped into highly digitized firms, and firms that use technologies infrequently are grouped into incipient digitizers. The highly digitized firms are significantly more likely than their peers to start selling online, and they report improvements in their invoicing and payments, cash flow management, and competitiveness (figure 21). They, unsurprisingly, also use ecommerce intensively and grow at a robust pace (figures 22 and 23).

These categories are of course not static – many firms start out as offline sellers or social sellers and “graduate” from one to the next on their digital journey. Looking at the data this way suggests that the gateway for Mexican firms into the digital economy is electronic payments and online banking. After adopting these tools, firms grow into more frequent users of online accounting tools and social media channels, followed by using software to automate and streamline their operations. To enable a larger set of firms to realize the gains from digitization, public policy should focus on enabling firms to move through this digital journey, such as raising firms’ awareness about available technologies and helping to finance their adoption of these technologies.

Figure 19: Use of Digital Technologies at Different Levels of Digital Maturity

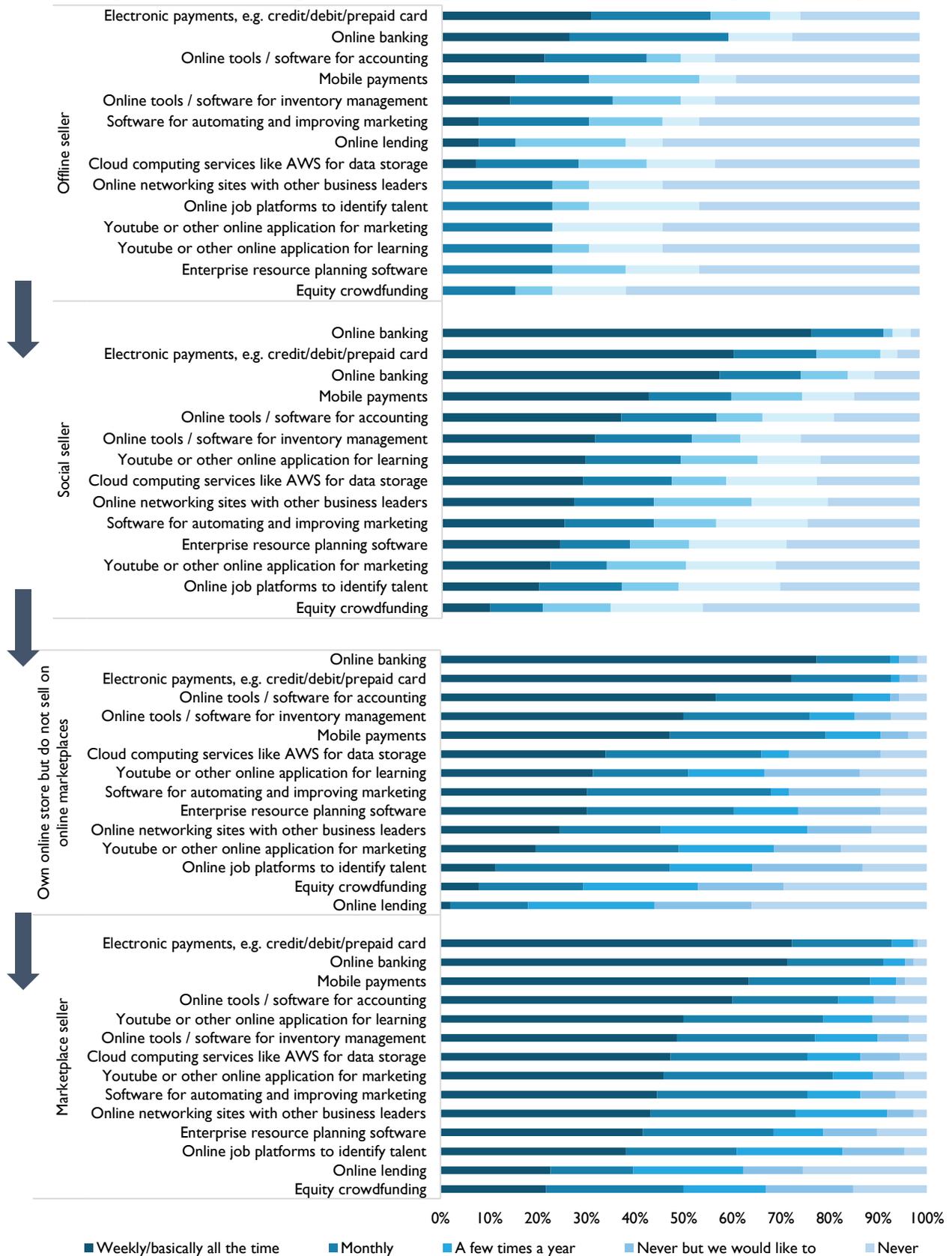


Figure 20: Payment Methods for Accepting Payments from Domestic and International Customers, Social and Marketplace sellers

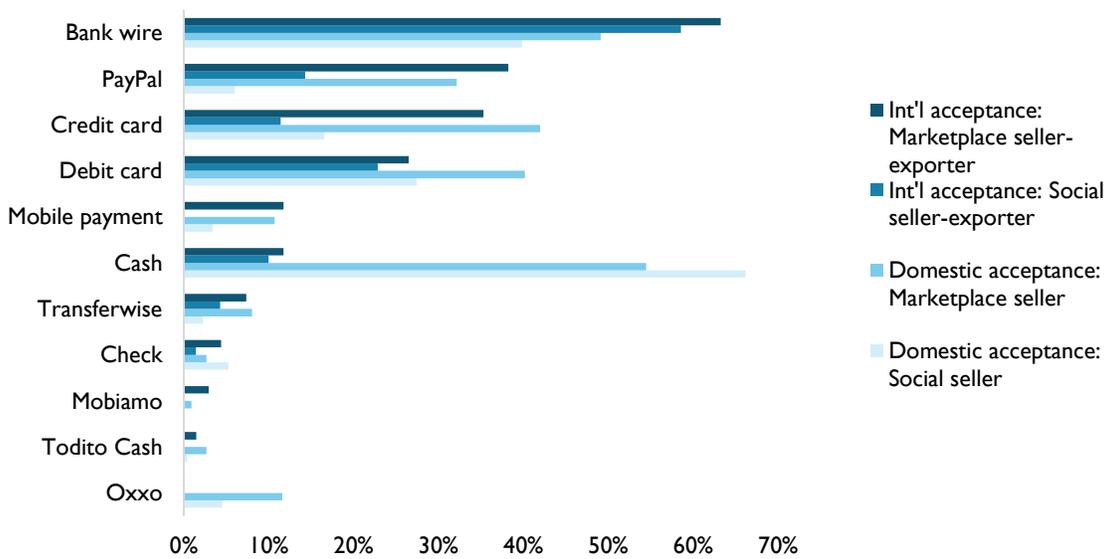


Figure 21: % of Firms Reporting “Very Significant Gains” from Using Digital Technologies and Online Tools, by Firms’ Digital Maturity

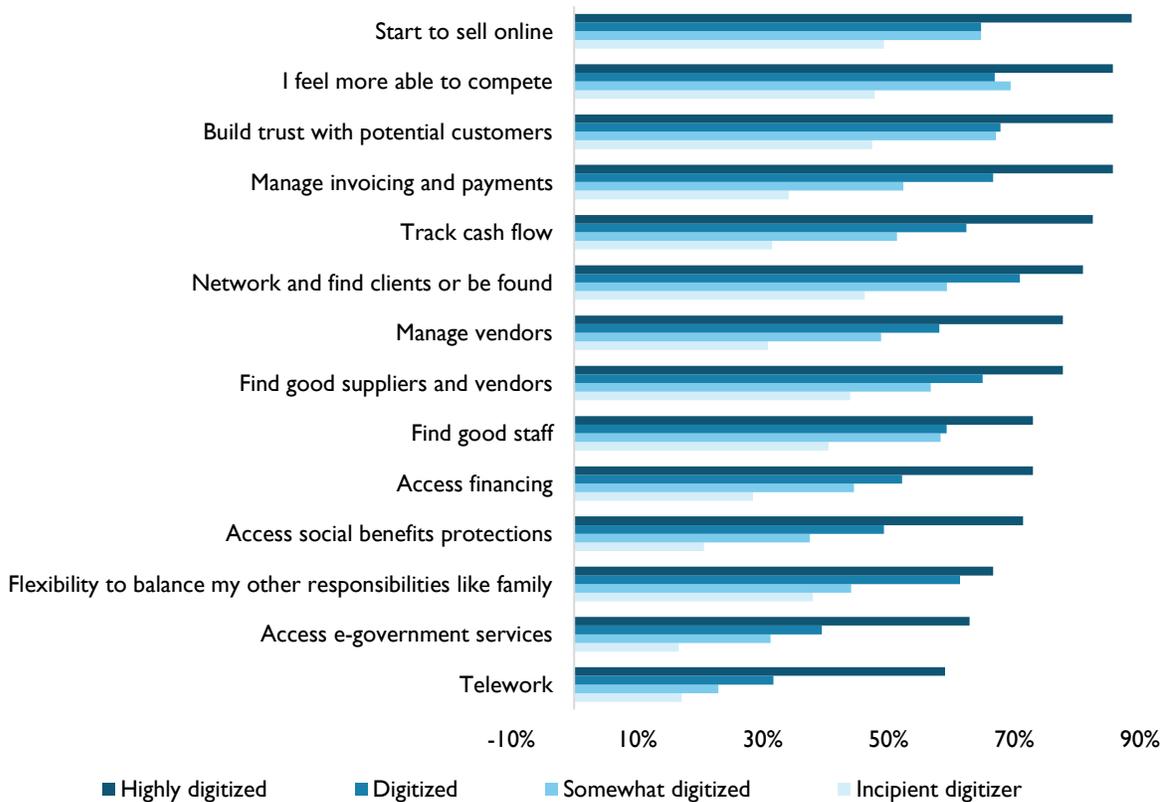


Figure 22: Use of Digital Technologies and Importance of Online Sales, by Firm Size

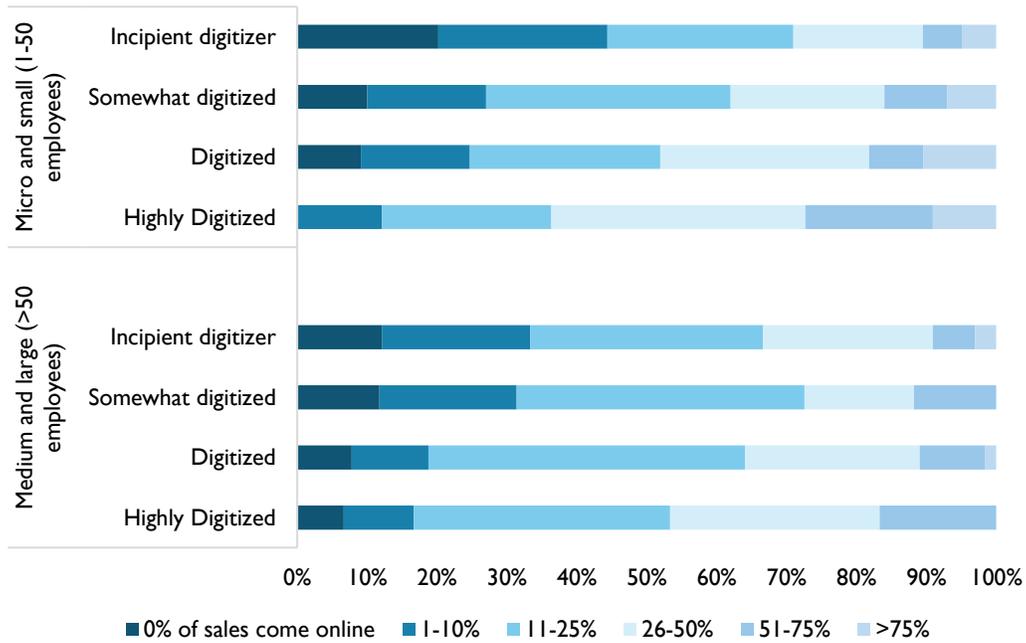
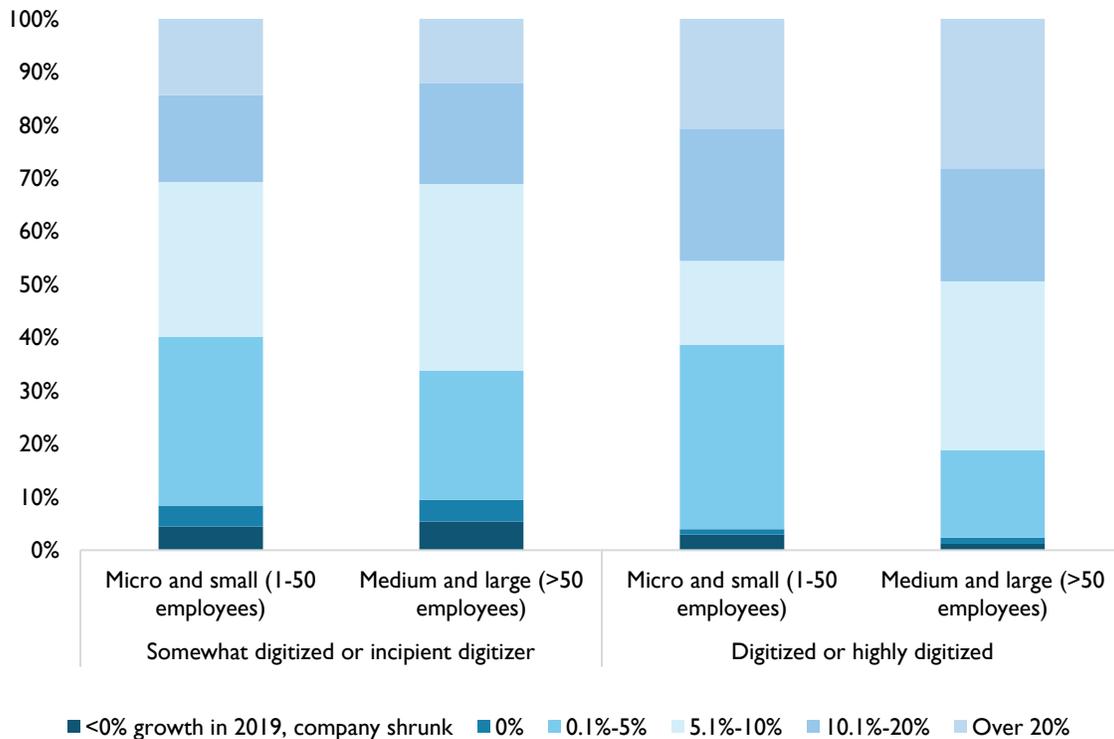


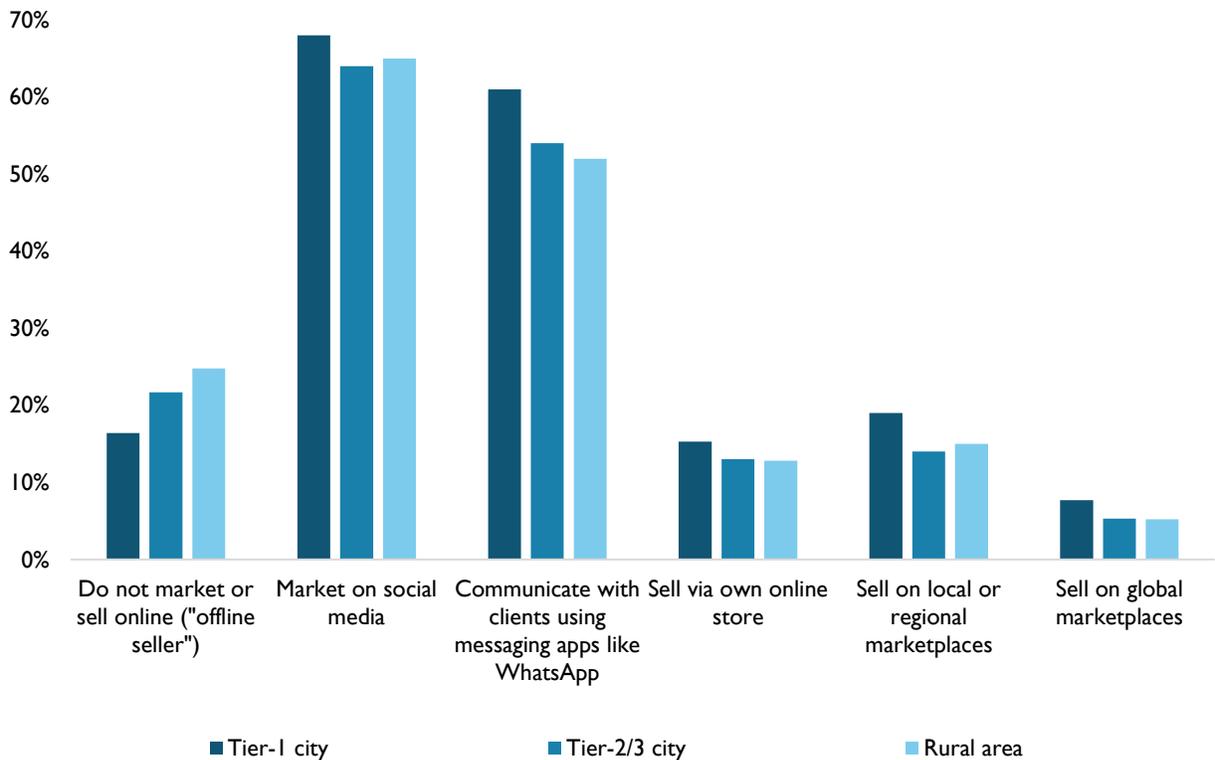
Figure 23: Use of Digital Technologies and Growth in 2019, by Firm Size



8. MEXICO'S REGIONAL ECONOMIC DISPARITIES ARE REFLECTED IN MSMEs' ECOMMERCE USE AND ONLINE SALES

There are considerable regional disparities within Mexico, correlated with regional development levels, in firms' ecommerce use and gains from ecommerce. Small firms in rural areas are more likely than their urban peers to be offline sellers, are somewhat less likely to sell on marketplaces, and face greater challenges with accessing high-quality Internet connections and world-class talent and digital services than their urban peers (figure 24). Less digitized and rural firms are also less likely to use and trust online services such as Fintechs (case 1). However, these disparities are not gaping – which possibly reflects the rapidly growing broadband adoption and proliferation of online transactions across Mexico in recent years. In part, it also reflects the fact that this survey was performed online and thus taken by firms that are inherently at least somewhat digitized.

Figure 24: % of Surveyed Mexican Micro and Small Firms' Use of Online Channels, by Firm Location



Case I: How Fintechs in Mexico Support Online Sellers

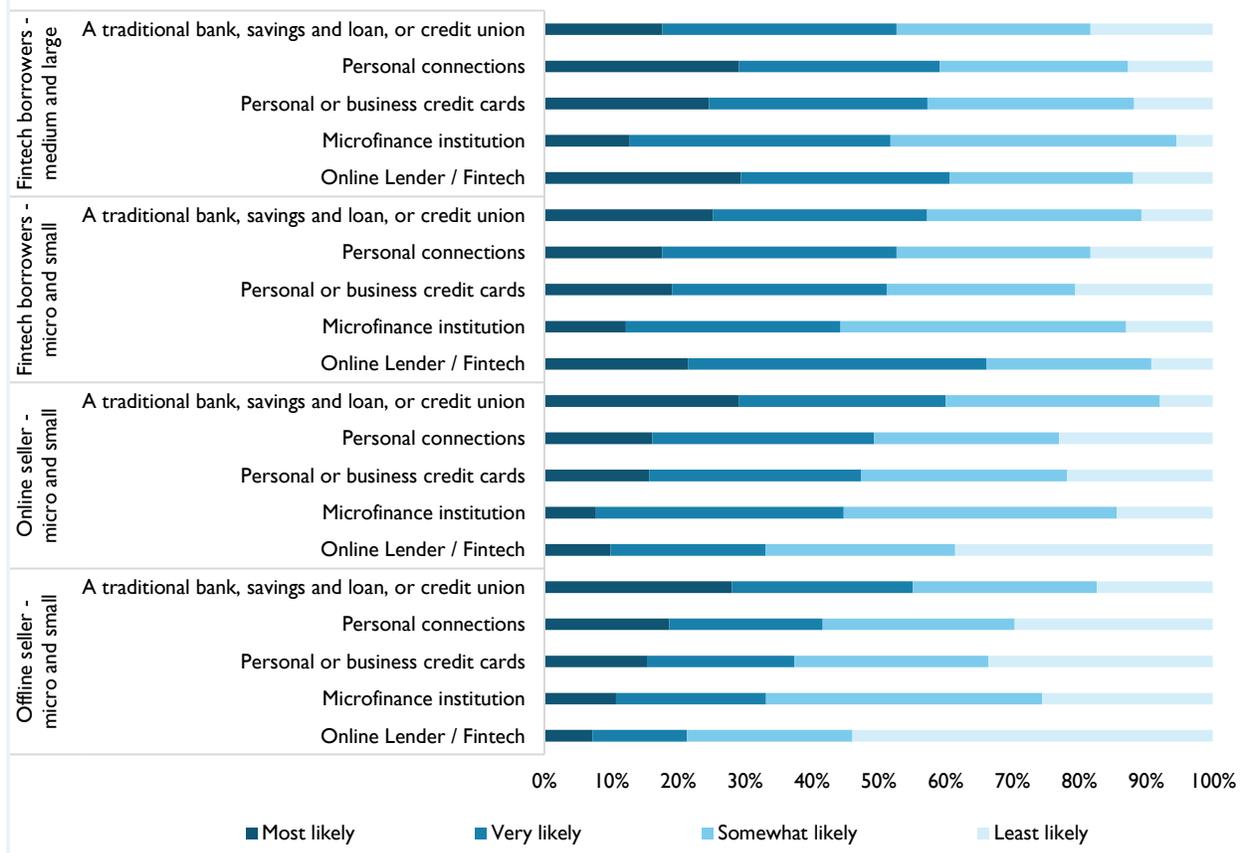
Financial technology companies or Fintechs offer potentially powerful solutions to MSMEs' financing gap. Fintechs that lend online tend to make lending decisions within seconds or minutes by leveraging a wide range of digital public and private data and automated algorithmic underwriting techniques.¹⁰ The Mexican Fintech market has grown more sophisticated and serious after the 2018 passage of the Fintech law, which set the parameters for market participants.¹¹ Among the market leaders are Konfio, which issues MSME loans of up to about US\$100,000, and Creditjusto that offers business loans up to US\$1.4 million.

Studies carried out in advanced markets suggest that Fintechs that lend to firms have helped credit-strapped micro and small firms access financing. For example, in the United States, online lenders such as OnDeck and PayPal Working Capital have enabled unbanked and remote firms in regions deserted by banks to access working capital loans. Evidence from Europe suggests that Fintechs can open access to finance to rural small businesses, women-led firms, and innovative firms light on collateral.¹²

A recent study supported by the eTrade Alliance similarly found that Fintechs support Mexican MSMEs to engage in online sales. The research concluded that while Mexican firms across size categories still favor banks as a source of commercial loans, midsize and large online sellers located in major urban areas have started to use Fintechs and appear pleased with the results. 14 percent of micro and small online sellers and 26 percent of mid-size and large online sellers have already accessed Fintechs for working capital, in contrast to 6 percent of micro and small offline sellers and 7 percent of mid-size and large offline sellers. Fast-growing online sellers in major metropolitan regions are especially likely to use Fintechs: 36 percent of surveyed micro and small online sellers in and 40 percent of midsize and larger sellers in first-tier cities identify Fintechs as their top-2 choice as a source of capital, alongside banks.

Additionally, firms that are most disposed to borrowing from Fintechs are ones that have borrowed from Fintechs in the past, which suggests they have benefited from borrowing from Fintechs. Of fast-growing online sellers in metropolitan regions that have used Fintechs, over 85 percent indicate Fintechs are their likeliest or very likely source of capital (figure 25). Meanwhile, only 25 percent of urban micro and small online sellers that have not used Fintechs consider Fintechs as the likeliest or a very likely source of commercial loans. Third-tier city and rural firms that have not used Fintechs are unlikely to prefer Fintechs to commercial loans; fewer than a tenth of them see Fintechs as a very likely choice of financing. Firms in the poorer southern states are less likely to have used Fintechs.

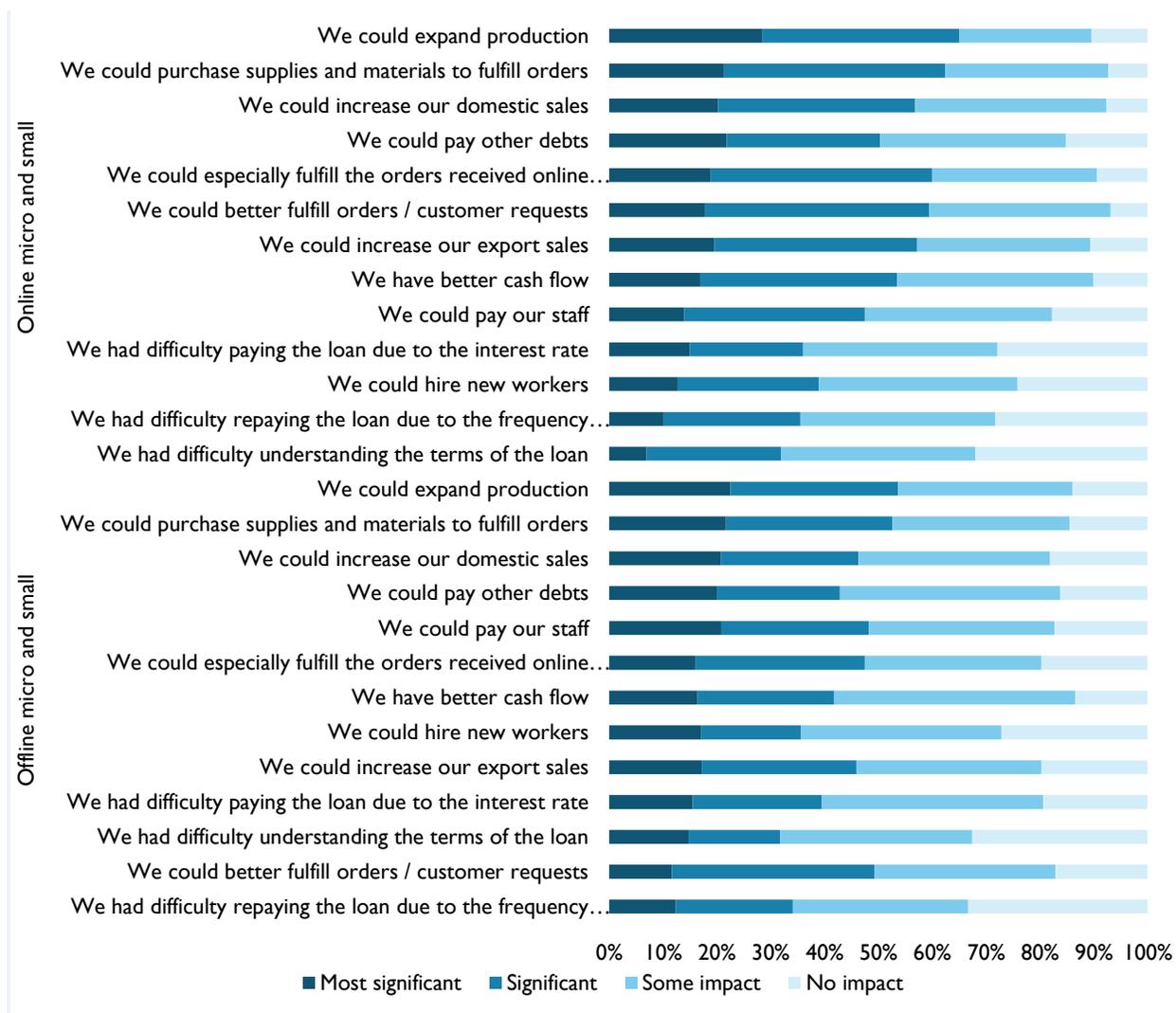
Figure 25: % of Surveyed Firms by Likelihood of Using Various Sources for Commercial Loans, by Current Fintech and Ecommerce Use and Firm Size



SOURCE: SUOMINEN, (FORTHCOMING IN 2021).

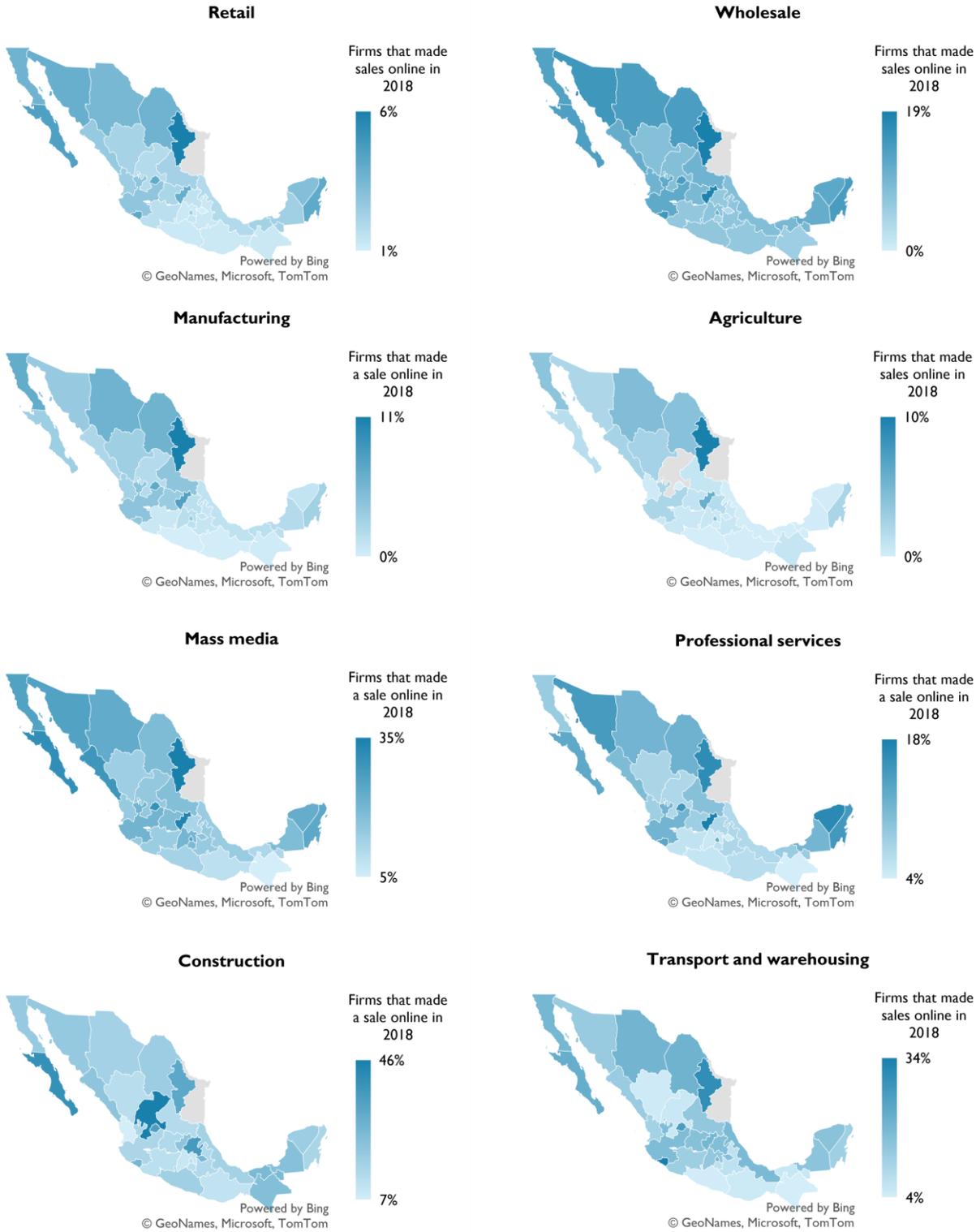
Finally, firms that have used Fintechs report important gains, including on their online order fulfillment and domestic and export sales (figure 26). Fintech borrowers typically borrow small sums, less than \$20,000, at a time, and use the proceeds primarily to purchase supplies and materials needed to fulfill orders or invest in marketing services or products and in new equipment or machinery. Mexican Fintech borrowers report that Fintech loans enabled them to expand production, purchase materials and supplies to fulfill orders, and to fulfill orders received online. In addition, 55 percent of the surveyed Fintech borrowers reported that Fintech loans have “very significant” or “significant” positive impacts on their exports and domestic sales. This suggests that Fintechs and ecommerce are symbiotic: ecommerce enables firms to reach customers much beyond their narrow geography in a scalable manner, while Fintechs enable them to service these customers in a timely manner.

Figure 26: Fintech Loans' Impact, by Fintech Borrower Firm Size and Ecommerce Use



There appear to be more significant differences across Mexican states and regions in firms' online sales behavior and in particular their success at realizing sales online. Firms in the more prosperous northern states, especially in Nuevo León, are generally more likely to have realized online sales across sectors than firms in the Southern states such as Guerrero, Oaxaca, and Chiapas (figure 27). As observed earlier, firms in the wholesale and media sectors are leading users of ecommerce, while firms in the agricultural and retail sectors are only starting to sell online. These ecommerce usage rates correlate with GDP per capita incomes and are reflected also by inter-state differences in the use of broadband, quality of transportation infrastructures, and availability of technical talent and digital services.

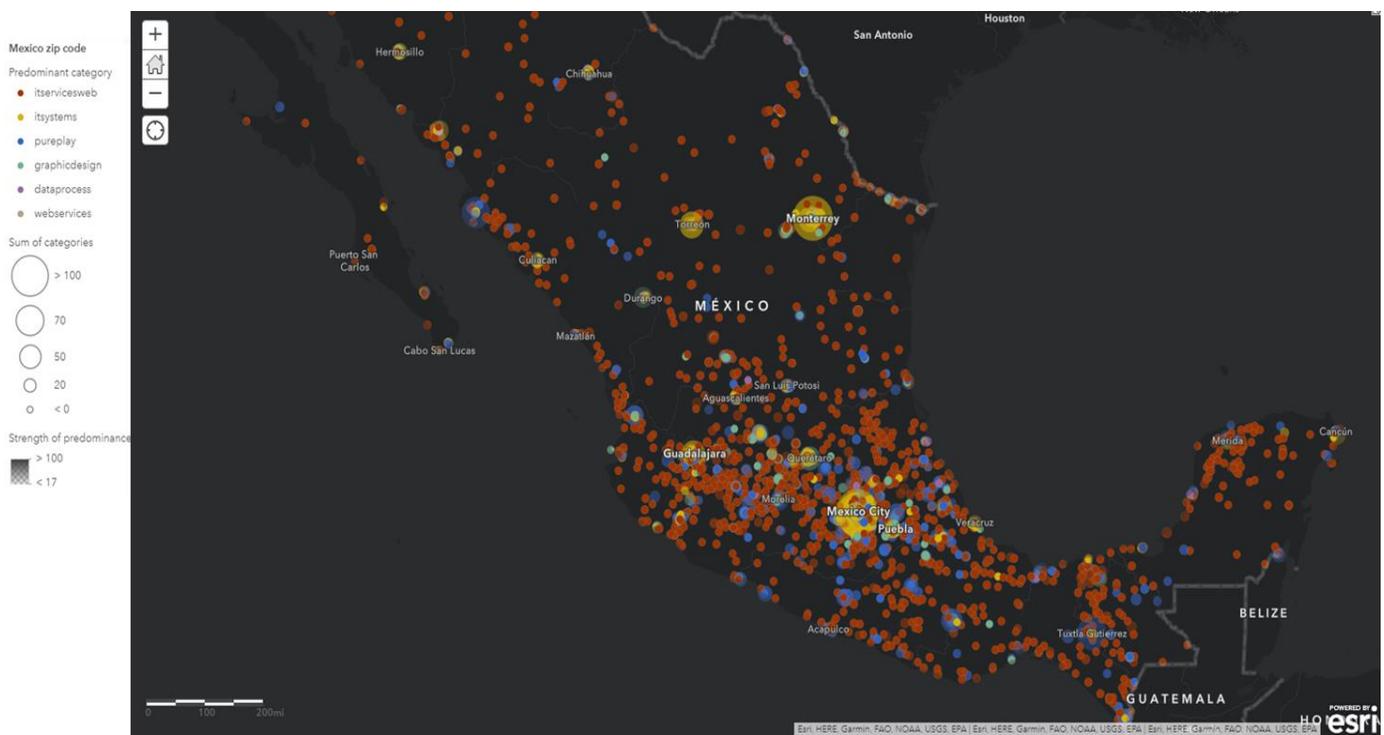
Figure 27: % of Mexican Firms that Have Made Online Sales Using Ecommerce for Online Sales, by State



SOURCE: AUTHOR ON THE BASIS OF INEGI. 2019. CENSOS ECONÓMICOS.

Mexico’s digital ecosystems that serve online sellers are also more heavily concentrated in wealthier states and regions. Postal code-level data from the Mexican enterprise registry shows that that digital hubs with concentrations of IT services, graphic designers, data processing services, and pureplay online sellers (retailers with no physical stores) are especially pronounced in Monterrey, Mexico City, Puebla, and Guadalajara regions (figure 28). There are more basic web design services across the country, but more sophisticated services are centered around a few hubs with strong Internet connections, technical talent, and superior services (that the talent can enjoy). This is true even in Mexico City, where the digital ecosystem is centered around the more prosperous neighborhoods like La Condesa. Of course, firms from any part of the country can access IT services provided by firms in, for example, Mexico City. However, proximity to hubs with robust digital ecosystems pays: such hubs typically have valuable talent, ideas, and knowledge spillovers that are still easier to capture in person – and they tend to be concentrated mostly in large metropolitan areas.

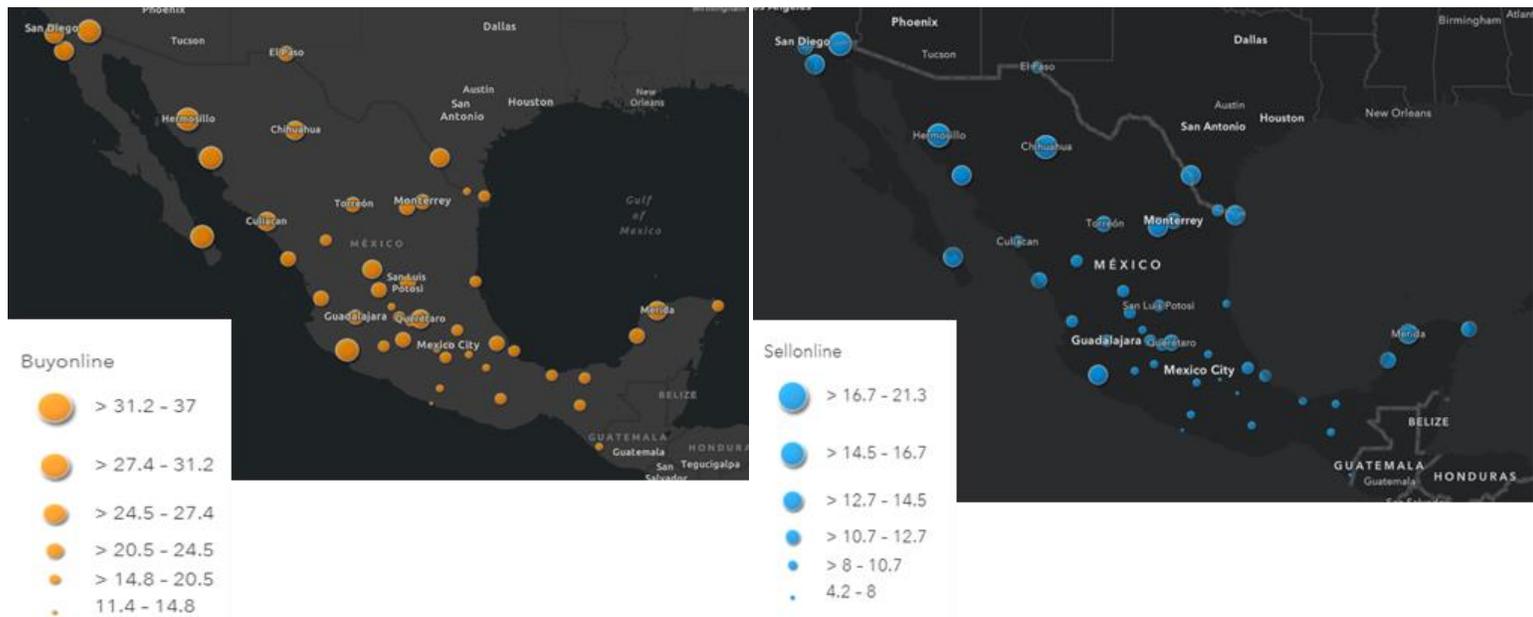
Figure 28: Digital Ecosystems in Mexico, by Number of Firms by Dominant Sectors



SOURCE: AUTHOR ON THE BASIS OF DIRECTORIO ESTADÍSTICO NACIONAL DE UNIDADES ECONÓMICAS, 2018. INEGI.

These patterns are also reflected with Mexican consumers’ use of ecommerce. In 2018, over a quarter of Mexicans in northern wealthier states bought online, while fewer than 10 percent in poorer states like Chiapas made online purchases, and many consumers have also commenced to sell online (figure 29).

Figure 29: % of Consumers in Mexico that Use Ecommerce to Buy and Sell Online, by Largest City



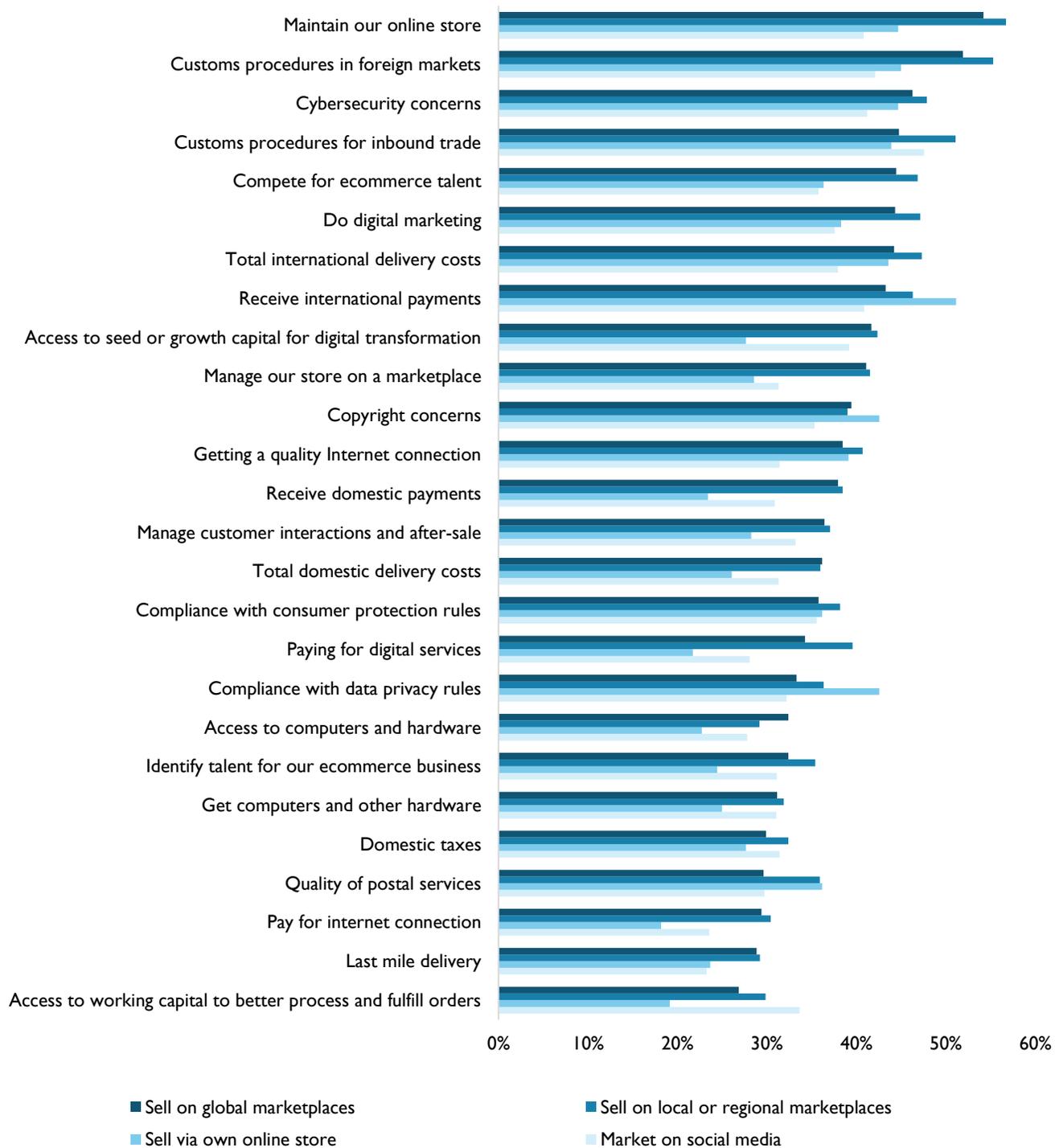
SOURCE: AUTHOR ON THE BASIS OF INEGI, 2019. ENCUESTA NACIONAL SOBRE DISPONIBILIDAD Y USO DE TECNOLOGÍAS DE LA INFORMACIÓN DE LOS HOGARES (ENDUTIH).

Promoting ecommerce in more remote and rural areas can have high payoffs in terms of rural firms and consumers' access to products that have traditionally been available only to their urban peers.¹³ Mexico has an opportunity to bridge regional disparities by improving Internet and infrastructure connectivity and cultivating technical talent across the country. Places in the world where firms have thrived as online sellers against the odds have met these preconditions. For example, the secret of the over 4,000 Chinese "Taobao Villages", which have generated significant outbound ecommerce sales from diverse locations in rural China, is that they had access to digital technologies as well as internet connectivity, logistics networks, and educated talent able to use marketplaces to generate and grow online sales.¹⁴

9. DIGITAL MARKETING, CUSTOMS PROCEDURES, AND CYBERSECURITY CONSTRAIN ONLINE SALES GROWTH

Asked about their main impediments to doing ecommerce, Mexican online sellers of all sizes report challenges to maintain a strong online presence, deal with customs procedures, address cybersecurity challenges, and do digital marketing (figure 30). For mature online sellers that engage in trade, customs procedures, market access issues, and international delivery costs are especially challenging. These firms also struggle to attract talent. Social sellers also report challenges with customs procedures in inbound trade, as well as with cybersecurity, cross-border payments, and funding their digital transformation.

Figure 30: % of Surveyed Mexican Firms Citing Areas in the Enabling Environment for Ecommerce as “Huge Challenge” or “One of the Main Challenges” for Growing their Ecommerce Business, by Online Channel Used



10. COVID-19 CRISIS HAS FUELED INVESTMENT IN ECOMMERCE BUSINESSES

COVID has taken a heavy toll on Mexican MSMEs, but it has also cemented Mexican firms' interest in building online capabilities (figure 31). Nearly one-half of firms of all sizes look to invest in better Internet connections and digital marketing capabilities and a third wants to invest in ecommerce capabilities in 2021 (figure 32).

Figure 31: How has Covid-19 impacted your interest in investing time and money in ecommerce and digital capabilities?

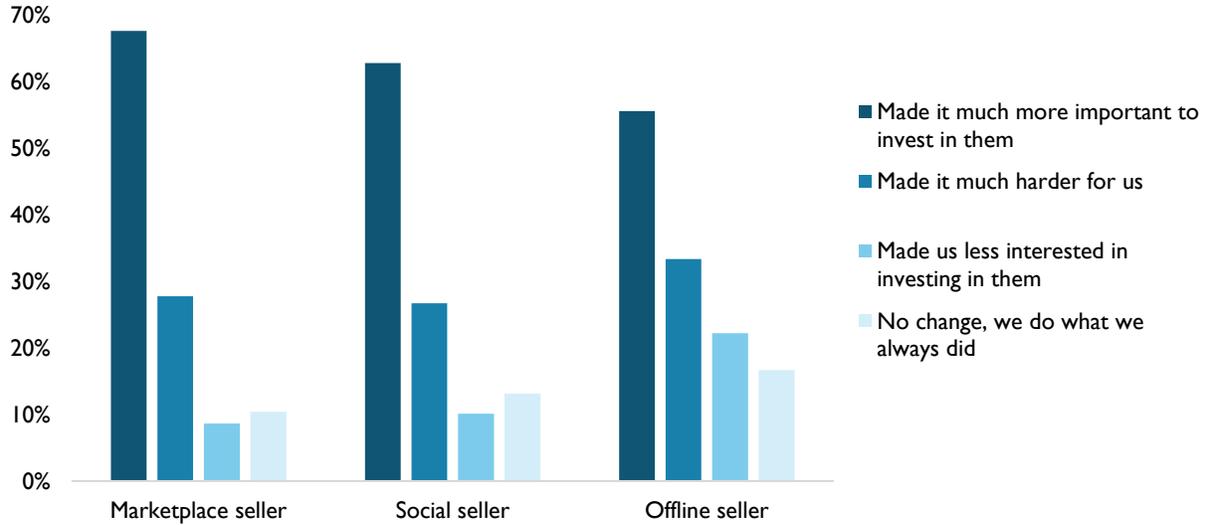
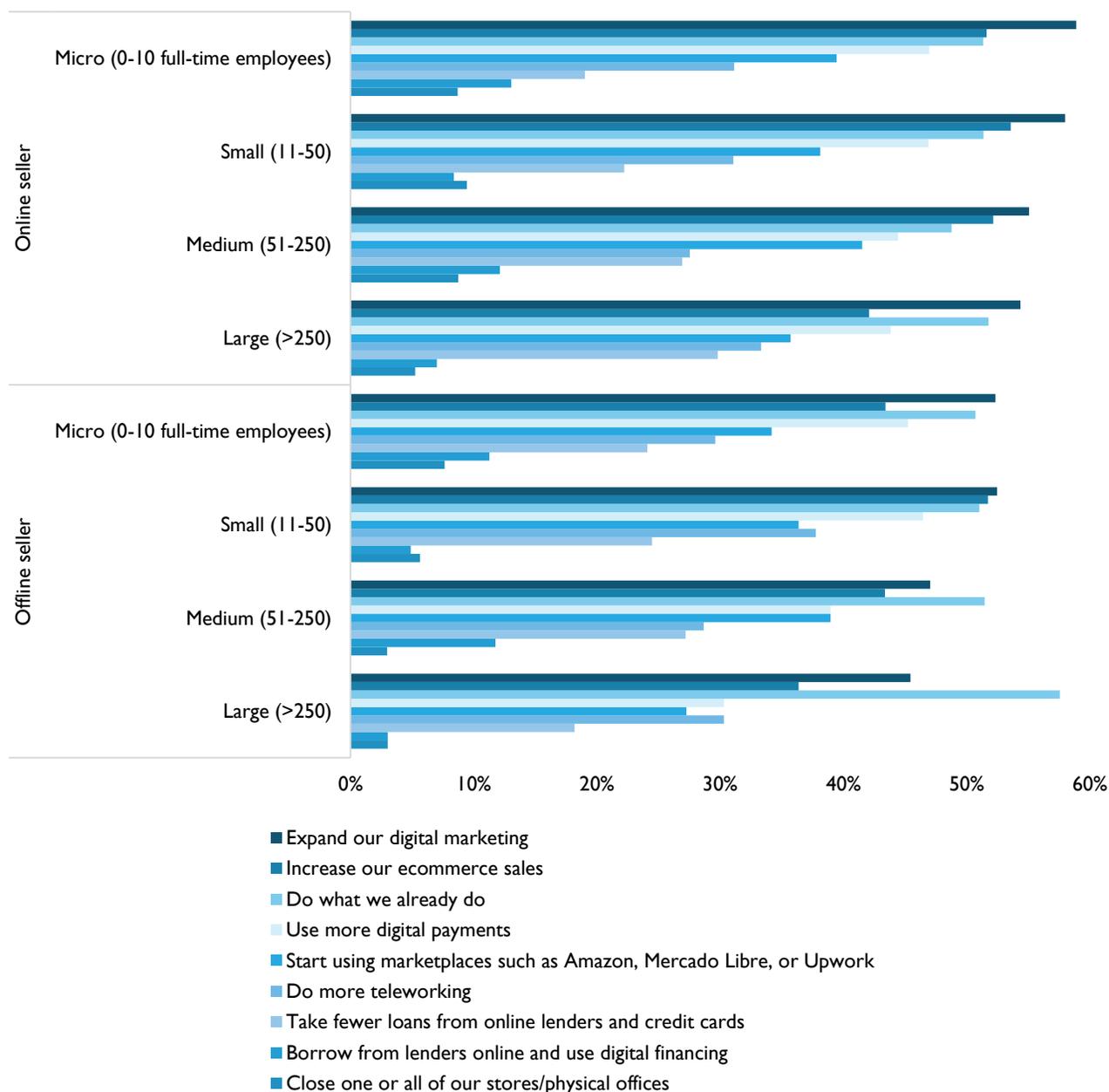


Figure 32: Firms' Main Plans in Response to Covid-19, by Firm Size and Ecommerce Use



II. DIGITAL MARKETING, TRUST MARKS, AND HIGH-QUALITY CONNECTIONS ARE NEEDED TO FURTHER GROWTH

Asked about their needs for new capabilities, online and offline sellers of all sizes highlighted a need for enhanced digital marketing capabilities, digital identities or trust marks that enable consumers and vendors to trust them, better internet connections, and enhanced knowledge about doing ecommerce (figures 33 and 34). Over a third of firms expressed a need for working capital and for seed and growth capital for digital transformation. However, the need for capabilities to reach and transact with the

customer online overwhelm firms' financing needs. These needs are echoed in questions around firms' needs to respond to Covid. The need for grants and loans pales before the need to digitize sales channels and operations (figure 35). The needs are similar across geographies and genders of management teams.

Figure 33: % of Social Sellers Needing a Capability a “Great Deal” to Grow Ecommerce Sales, by Firm Size

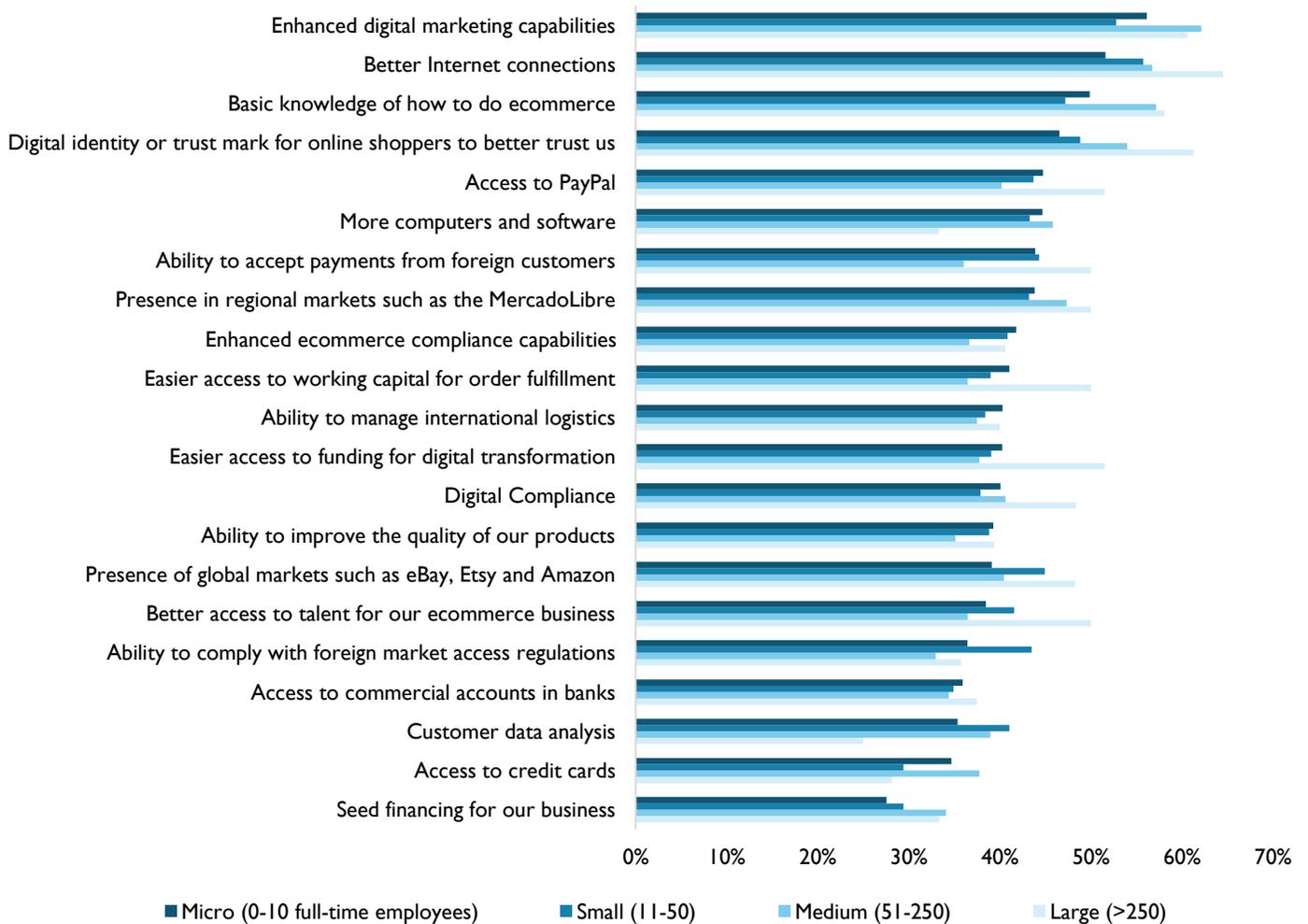


Figure 34: % of Marketplace Sellers Needing a Capability a “Great Deal” to Grow Ecommerce Sales, by Firm Size

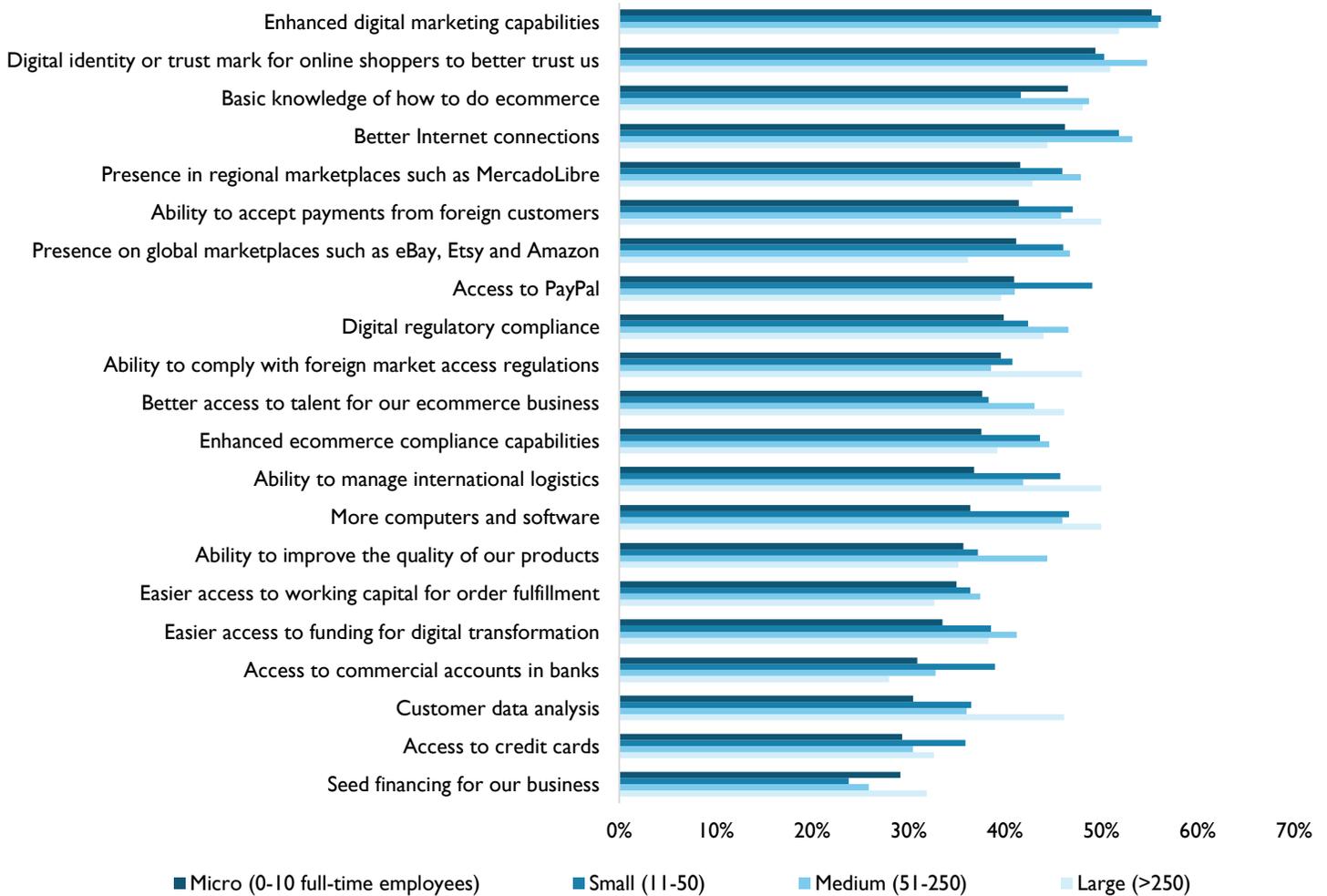
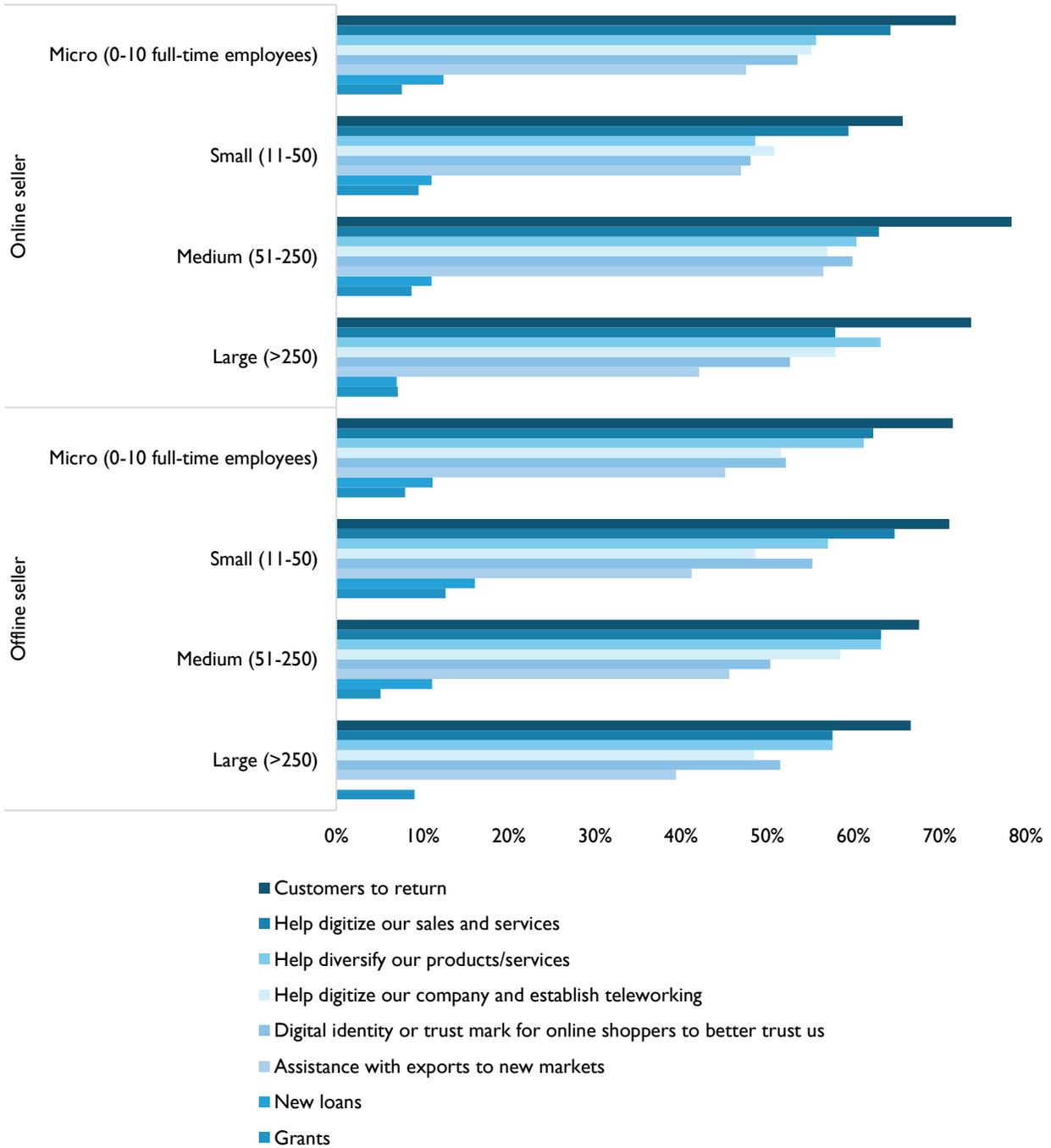


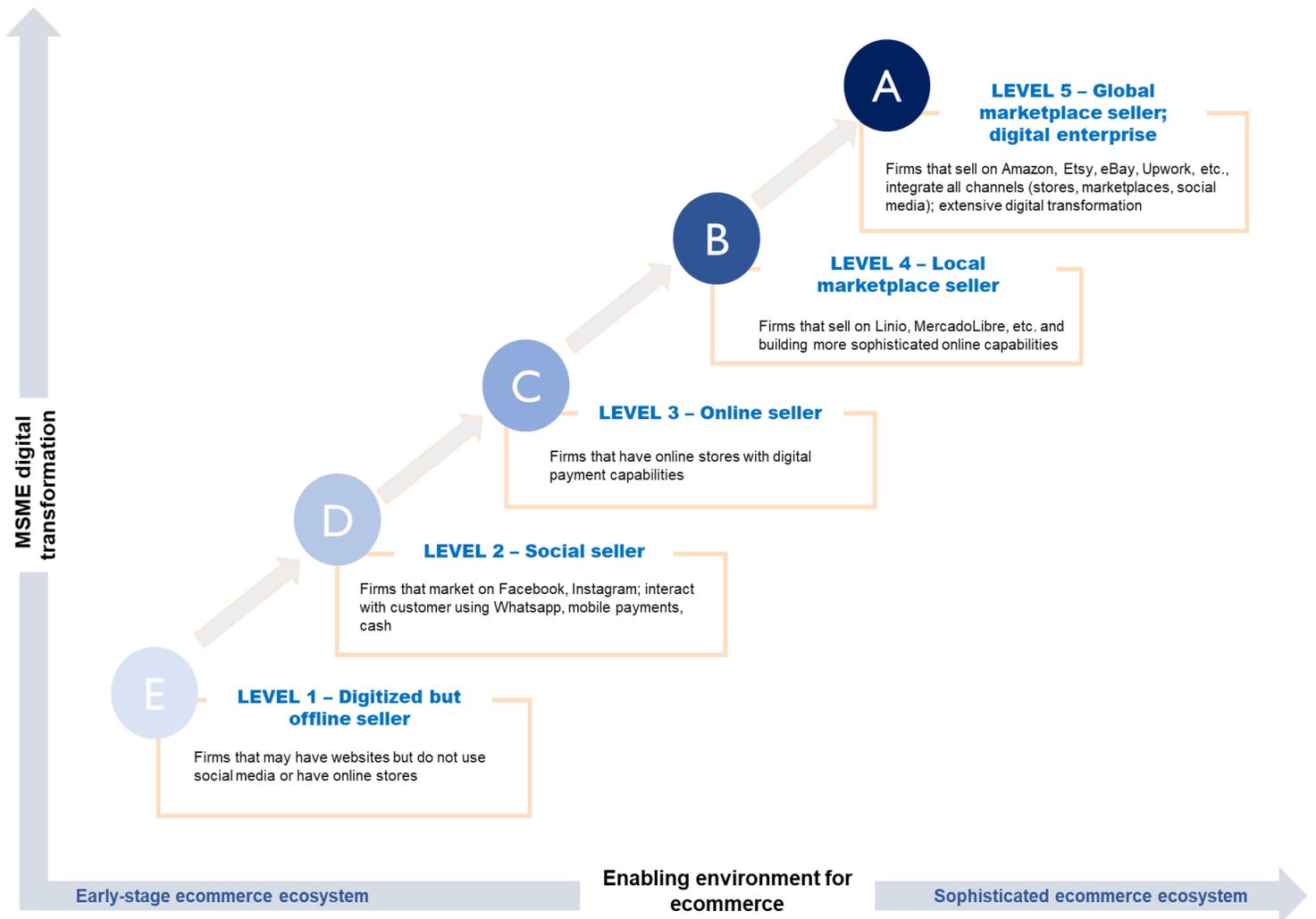
Figure 35: Firms' Main Needs to Respond to Covid-19, by Firm Size and Ecommerce Use



III. MEXICO'S ADOPTION OF PRO-MSME ECOMMERCE POLICIES

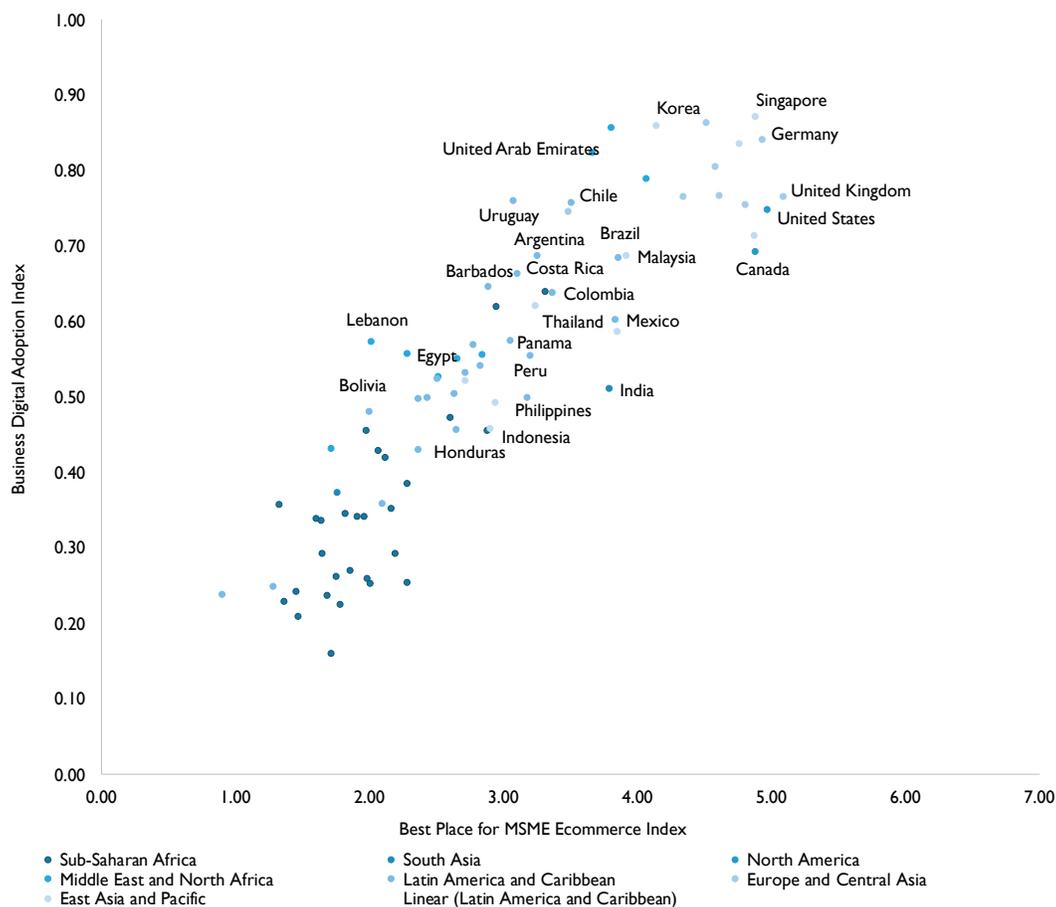
Countries that succeed in ecommerce development will see growth in the number of online sellers and in firms' online sales volumes. Conceptually, there are two main success drivers in ecommerce development. The first is firms' digital transformation and evolution into global online sellers – as in from Ds to As in figure 36. The second success driver is a policy environment conducive to firms' use of ecommerce. Overall, Mexico does quite well across these axes, but lags its OECD peers in the digital transformation of firms and robustness of ecommerce ecosystems (figure 37; see Appendix II for variables in our Best Place for MSME ecommerce-index).

Figure 36: Online Sellers' Journeys and Their Drivers



Source: Nextrade Group.

Figure 37: Firms' Digital Transformation and Enabling Environment for MSME Ecommerce, Selected Economies

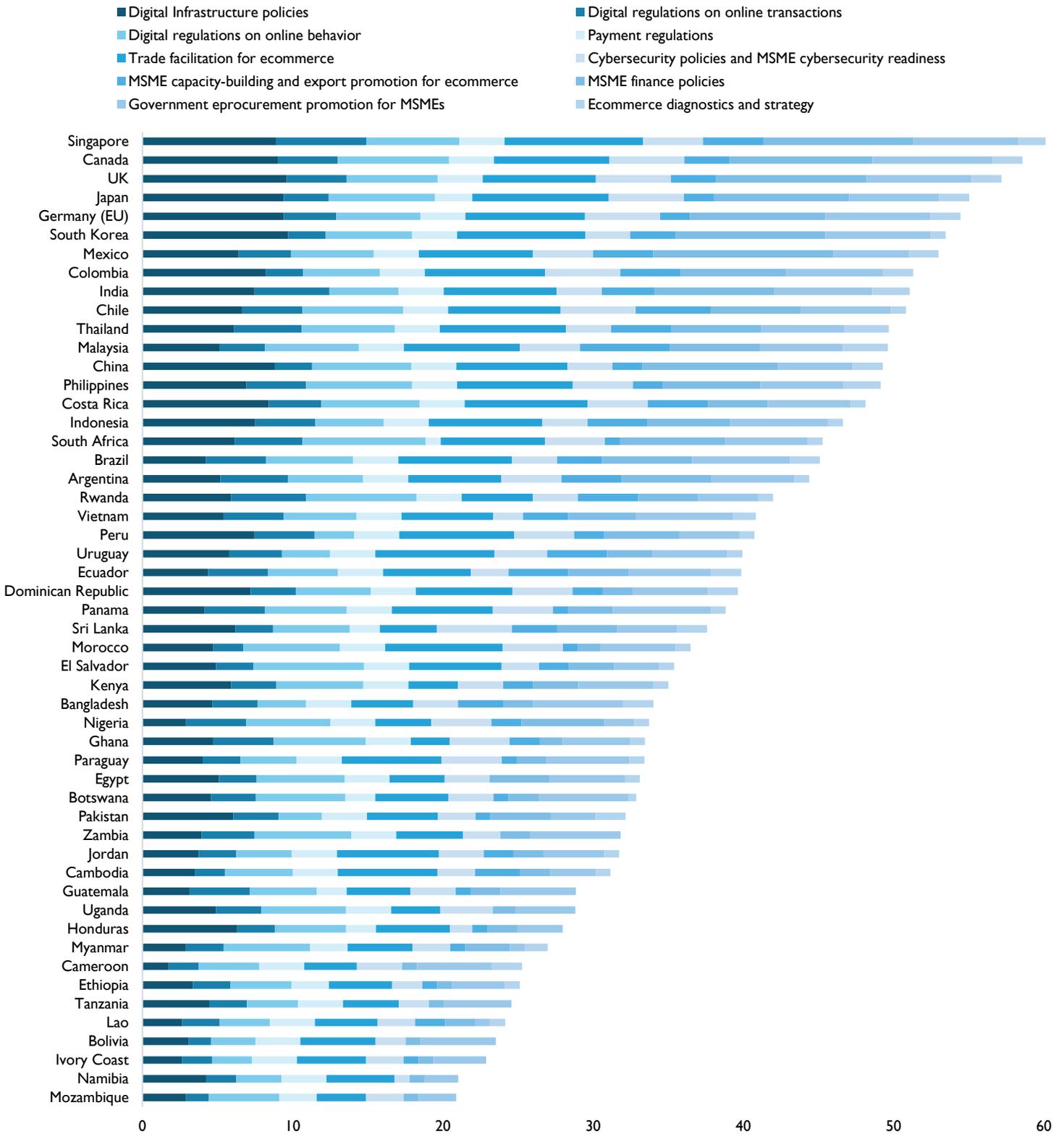


SOURCE: DIGITAL ADOPTION INDEX: WORLD BANK; BEST PLACE INDEX: AUTHOR'S COMPOSITE INDEX BASED ON VARIOUS SOURCES LISTED IN ANNEX

The eTrade Alliance’s comparative mapping of the adoption of over 100 policies in 10 major policy domains in 52 countries shows that Mexico is in the top quartile of countries, along with such Latin American economies as Chile, Brazil, and Costa Rica (figure 38; please see variables in Appendix III).¹⁵ Mexico is among global pioneers in such areas central to ecommerce as electronic invoicing, e-government services, and online dispute resolution (ODR), by way of Concilianet housed at the Mexican consumer protection agency Profeco.¹⁶

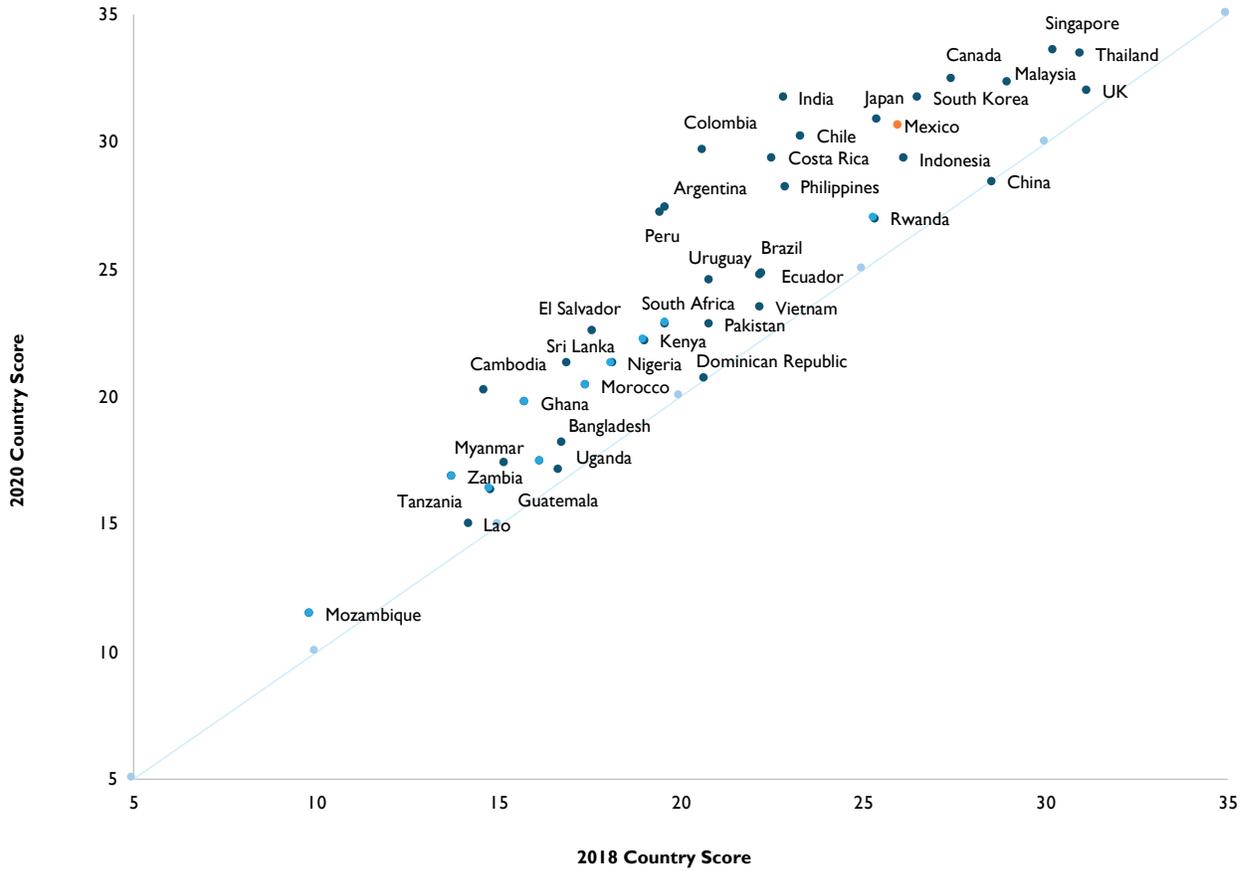
Mexico has also made important progress since the first eTrade Alliance’s 2018 mapping by adopting good policies and practices conducive to MSME ecommerce. Some examples of progress include implementation of the global Trade Facilitation Agreement, adopting Fintech solutions, sandbox and open banking practices, and, by way of USMCA, cementing its commitment to free cross-border data transfers and safe harbors for internet intermediaries (figure 39). Mexico has also piloted various innovative initiatives to facilitate trade in recent years. For example, using the CADENA blockchain platforms supported by the Inter-American Development Bank, Mexican customs is sharing data on authorized economic operators with the customs agencies in Colombia, Costa Rica, Peru, and Uruguay, thereby accelerating border clearance times. In addition, in January 2021, Mexico launched a National Committee for Trade Facilitation as a permanent body to facilitate coordination among government offices and authorities for designing and assessing trade facilitation initiatives, including with the private sector.¹⁷

Figure 38: Draft Digital Policy and MSME Ecommerce Index 2020-21 (maximum: 75)



SOURCE: SUOMINEN, VAMBELL AND FURTEK (FORTHCOMING IN 2021).

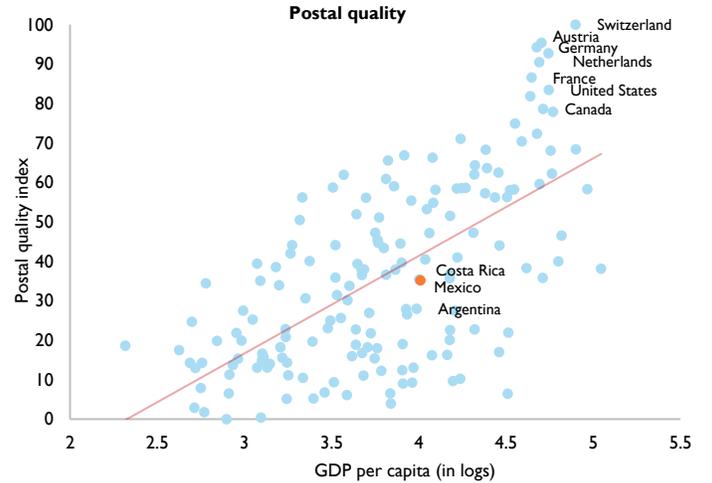
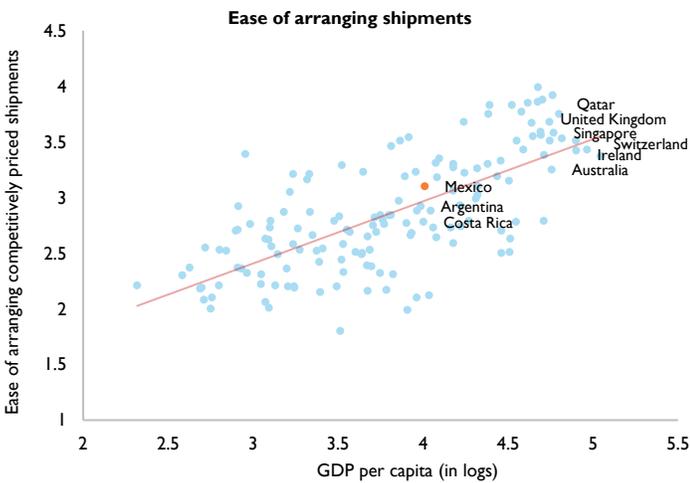
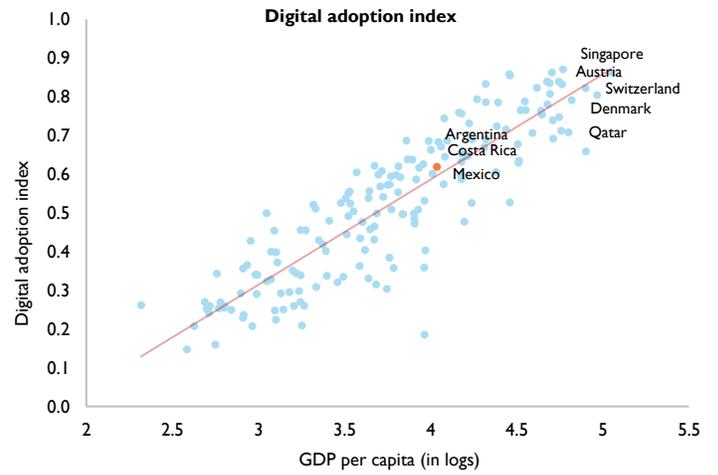
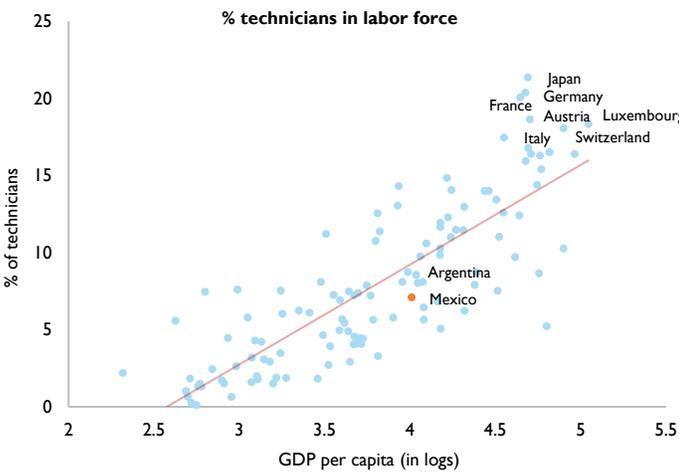
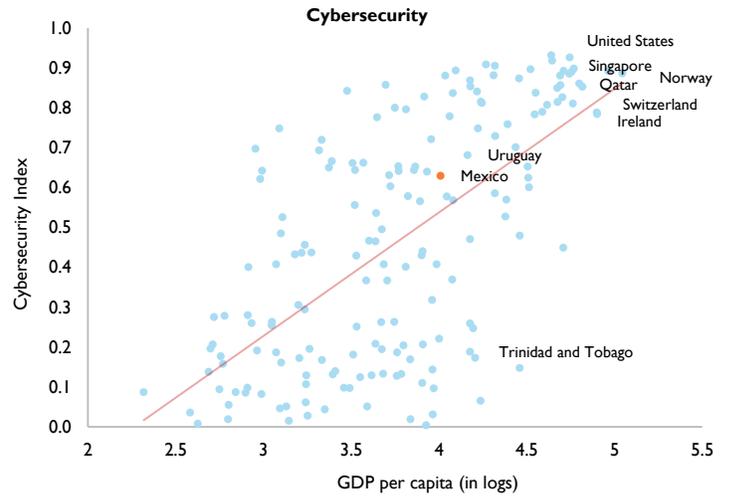
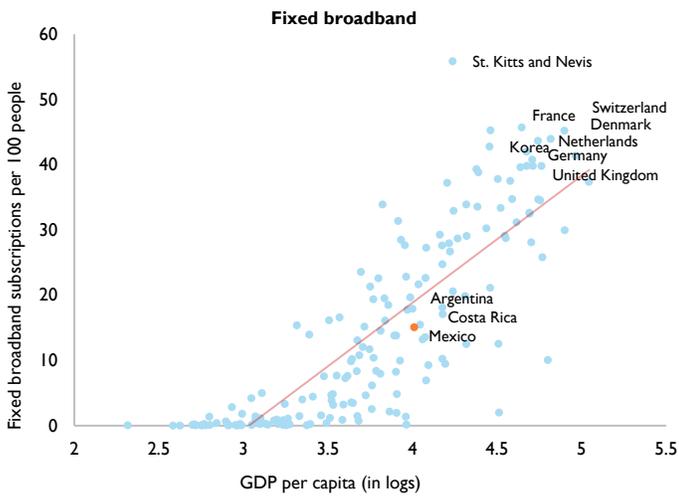
Figure 39: MSME Ecommerce Policy Index 2018 and 2020 (countries and policy areas mapped in 2018 only)

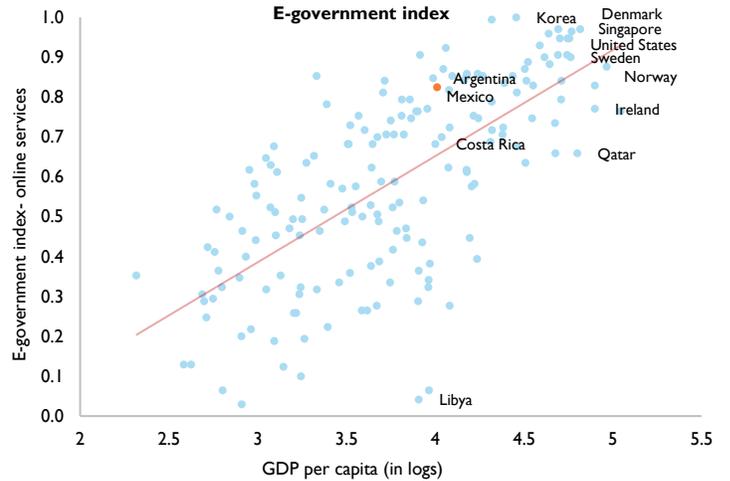
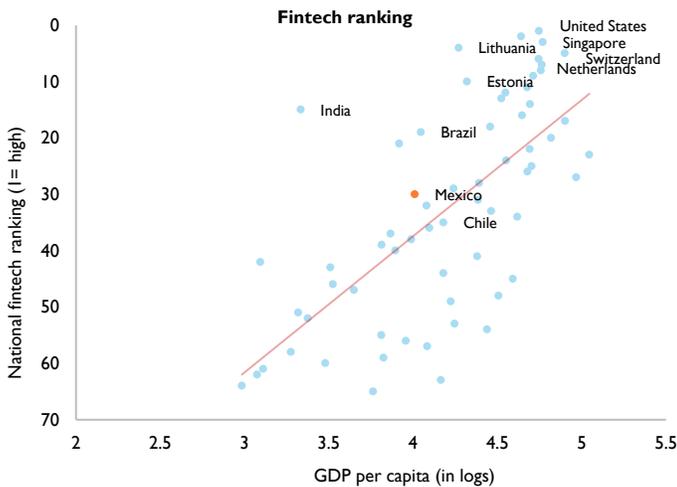
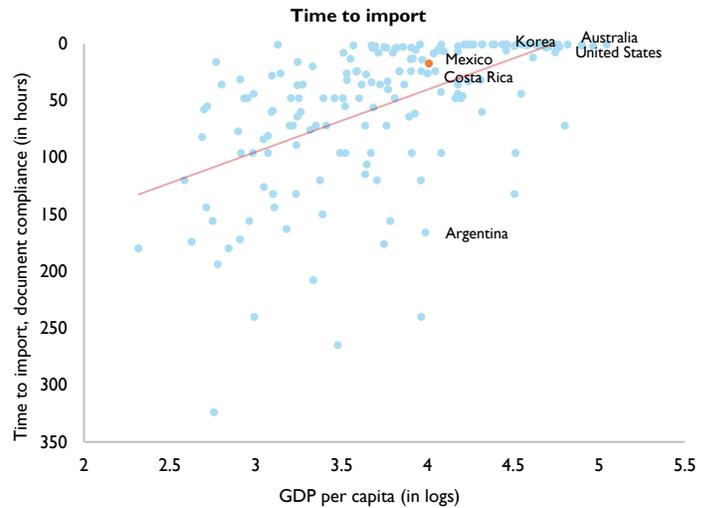
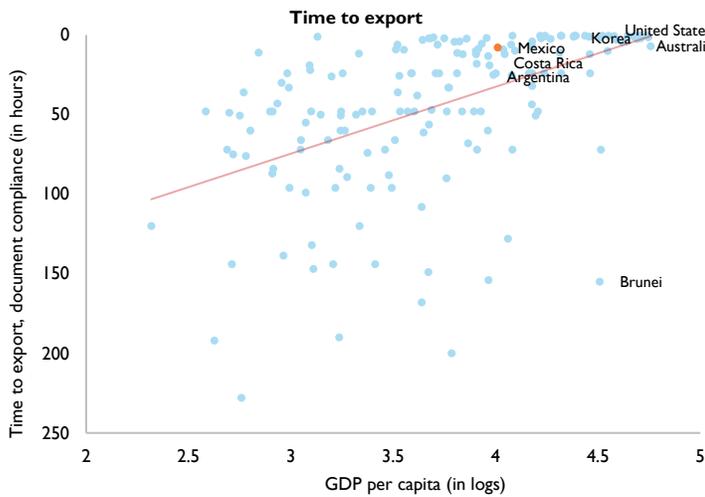


SOURCE: SUOMINEN, VAMBELL AND FURTEK (FORTHCOMING IN 2021).

Various outcome indicators of these policies are also quite positive. For example, Mexico is among the top performers in offering e-government services to citizens and firms and has made good progress on trade facilitation indicators (figure 40). At the same time, Mexico still lags well behind its OECD peers in postal quality, cybersecurity, and robustness of Fintech ecosystems. It also trails its peers at the same level of development in fixed broadband subscriptions (though broadband adoption did accelerate in 2020), and availability of technical staff in the labor force. The policy recommendations in the next section are focused on improving Mexico’s performance in these areas.

Figure 40: Performance of Mexico vis-à-vis Peer Economies on Selected Areas Key to Ecommerce





SOURCES: FOR FIXED BROADBAND, WORLD DEVELOPMENT INDICATORS (2018); FOR CYBERSECURITY, ITU (2018); FOR TIME TO EXPORT AND IMPORT, WORLD BANK DEVELOPMENT INDICATORS (2019); FOR EASE OF ARRANGING SHIPMENTS, LOGISTICS PERFORMANCE INDEX (2018); FOR POSTAL QUALITY, UPU (2020); FOR FINTECH RANKING, FINDEXABLE (2019); FOR E-GOVERNMENT INDEX, UN E-GOVERNMENT KNOWLEDGEBASE (2020).

Mexican MSMEs have a particularly unique and important asset in growing their exports through ecommerce – Mexico’s network of numerous free trade agreements that provide MSMEs duty-free access to and imports from leading Asian, European, and Latin and North American markets. Mexico’s flagship agreements, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) of 2018 and USMCA ratified in 2020, are especially important as they have digital trade chapters and deter future barriers to the exchange of digital goods and data among the members. For example, USMCA’s digital trade chapter ensures that:¹⁸

- No customs duties and other discriminatory measures are applied to digital goods (such as e-books, videos, music, software, games, 3D printable designs, etc.);

- Parties provide internet intermediaries such as social networks and marketplaces a “safe harbor” from liability for user-generated content that such platforms host or process;
- Data can be transferred across borders while respecting each signatory country’s data privacy laws (case 2);
- Suppliers are not restricted in their use of electronic authentication or electronic signatures, thereby facilitating digital transactions; and
- Consumer protections, including for privacy and unsolicited communications, apply to the digital marketplace.¹⁹

In the trade facilitation chapter pertaining to trade in physical goods, USMCA calls for both U.S. and Mexico to apply a new informal shipment level of \$2,500 to simplify trade compliance and expedite border clearance for low value items below that threshold.²⁰

These and many other provisions provide certainty to Mexican MSMEs that sell and buy goods and services across borders, and are important from Mexico to implement. They also facilitate the operations of the many U.S. and Mexican companies that service MSMEs such as payment, finance, and cloud computing service providers. And they are helpful for firms in Mexico’s traditional industries such as manufacturing and agriculture that are digitizing and will increasingly depend on the cross-border exchange of digital goods, digitally deliverable services, and data.

Case 2: What does USMCA mean for data privacy and data transfer in Mexico?

Many countries are in the process of reforming their data privacy laws, to address Internet users’ privacy concerns, and many are also joining free trade agreements with increasingly robust digital trade and ecommerce chapters that discuss data privacy and data transfer across borders. In some cases, these international agreements can have implications for national data privacy laws.

The relationship between the 2019 U.S.-Mexico-Canada Agreement (USMCA) and Mexican privacy law is one example. Mexico’s 2010 Data Privacy Law is one of the most advanced and frequently enforced privacy laws in Latin America. This law obligates data owners to provide detailed information in the privacy notice regarding the data transfers the data subject, or “owner,” is willing to make, including personal information about the data subject, name of the data processor, purpose of transfer and type and category of activity sector of the processor. The same terms that apply to the data owner also apply to the third party receiving the transferred data.

The law stipulates that international data transfers can be performed without the consent of the data subject when the transfer is allowed by a law or treaty signed by the Mexican government.²¹ USMCA is such a treaty. Its digital trade chapter states, “No Party shall prohibit or restrict the cross-border transfer of information, including personal information, by electronic means if this activity is for the conduct of the business of a covered person.”²² Parties to USMCA can adopt or maintain a measure “inconsistent” with that principle, though, if “necessary to achieve a legitimate public policy objective”, provided such a measure does not present “unjustifiable discrimination or a disguised restriction on trade.” The USMCA also explicitly bars data localization, “No Party shall require a covered person to use or locate computing facilities in that Party’s territory as a condition for conducting business in that territory.”

Legal experts interpret USMCA to be liberalizing – to permit cross-border data transfer and clarify potential exceptions countries can make to cross-border data transfer rules under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreement that both Mexico and Canada are member to.²³ The U.S. withdrew from the CPTPP before its signing.

However, USMCA also cements the principle of data privacy. It requires member countries “adopt or maintain a legal framework that provides for the protection of the personal information of the users of digital trade.” In other words, while USMCA calls on countries to allow data transfers in North America, it allows each member to maintain and adopt new privacy laws. The agreement furthermore calls on members to develop interoperability and compatibility between their different privacy regimes.

The USMCA formally recognizes the validity of the Asia-Pacific Economic Cooperation (APEC) Cross-Border Privacy Rules (CBPR) system as the baseline data transfer mechanism should any USMCA member restrict cross-border data flows based on a “legitimate public policy objective” permitted in USMCA. CBPR is a government-backed data privacy certification that private companies voluntarily join to demonstrate compliance with international data privacy protections.²⁴ Businesses and organizations that opt into the CBPR system must submit their privacy practices and policies for evaluation by an APEC-recognized “Accountability Agent” such as TRUSTe in the United States. Upon certification, the practices and policies become binding for that organization and enforceable by a privacy enforcement authority (such as U.S. Federal Trade Commission).

Unlike EU’s GDPR that applies across EU countries, CBPR does not displace or change a country’s domestic laws and regulations, nor does it determine whether a country’s privacy protections are “adequate.” CBPR is recognized by Canada, Mexico, the U.S., as well as Japan, South Korea, Australia, and Singapore.²⁵ Japan recognized CBPR as a valid data transfer regime in its 2017 data privacy law. Thus, CBPR-compliant U.S companies transferring data from Japan do not need an adequacy decision from the Japanese government they would otherwise need under the Japanese law.

There are still some question marks. Some legal experts argue the USMCA provision citing CBPR means that America’s eventual federal privacy law would recognize the CBPR to be consistent with the USMCA.²⁶ Others argue that CBPR participation does not and cannot displace local law when local law is more demanding.²⁷

However, in general to many observers, USMCA successfully created a flexible data privacy and transfer approach that accommodates local needs and national laws, such as that of Mexico, within a global framework.²⁸ USMCA also provides a clear signal to the private sector that the U.S., Mexico, and Canada, along with Japan, are committed to creating a unified cross-border data transfer regime.

USMCA is recent and its trade effects will only come into view after the trade shock created by Covid passes. The impact may be moderate in general as the North American Free Trade Agreement (NAFTA) liberalized regional trade a long time ago. However, as NAFTA did not have USMCA’s comprehensive digital trade provisions, USMCA should have additional benefits in this area, perhaps especially in cementing the parties’ adherence to open data regimes, duty-free electronic transmissions of digital goods, and safe harbor regimes. Together, these provisions and the USMCA trade facilitation chapter help advance North America’s digital integration – creation of a single market where physical and digital goods, digitally deliverable services, content, and data can flow freely across borders. Such

digital integration would fuel MSMEs' cross border ecommerce, technology startups that are seeking to scale across North America, and businesses seeking to digitize and streamline their supply chains.

There are however three recent developments that are likely inconsistent with USMCA's digital trade and financial services provisions and would be detrimental to Mexican MSMEs' access to cost-effective and secure digital and payment services. The first is the October 2020 proposal by Central Bank Banxico and the National Banking Commission (CNBV) for a regulation that could undermine Mexican MSMEs and Fintechs' access to foreign cloud computing services, and mandate data residency for electronic payment services providers that use cloud computing services.²⁹

The second is the December 2020 approval of the so-called "kill switch" law that would enable Mexico to block foreign digital service providers (such as Facebook or YouTube) from offering their services in Mexico if they failed to comply with Mexico's digital tax rules.³⁰ The law is first of its kind in the world and likely inconsistent with USMCA's provisions of national treatment and non-discrimination. If activated, it would undermine the hundreds of thousands of Mexican MSMEs that rely on digital services like WhatsApp for their day-to-day business, as well as Mexican consumers that use digital services daily.³¹ The law is likely also difficult to comply with due to Mexico's complex tax registration processes for non-resident digital services. Mexico could readily rectify part of the complex registration problem by applying Chile's simplified, online procedures for registering non-resident providers.³²

Third, there is some discussion in Mexico about Internet intermediary liability. USMCA does call for safe harbor laws to protect internet intermediaries from liability of their users' postings and potential copyright infringements, but Mexico has yet to adopt a safe harbor law. Safe harbor protections are not unique to the United States, but increasingly widely adopted around the world in such countries as Brazil, Chile, Morocco, South Africa, Indonesia, and Malaysia. In the Americas, Brazil's safe harbor regime is widely viewed to set appropriate limits on the responsibility of providers for hosting or transferring third-party content (case 3). Safe harbor regimes are important means to enable platforms and marketplaces to better service small firms, for example to accept content that is innovative and protected by free speech. They also provide confidence to investors that look to invest in startup platforms, as investors know their investees cannot be held liable for all user-generated content.³³

Case: Safe Harbor for internet intermediaries³⁴

Internet intermediaries such as ecommerce, payment, and social media platforms help individuals and companies find, share and access content as well as interact and transact with one another. This improves growth and productivity of other firms in the economy. Copenhagen Economics found internet intermediaries increased EU GDP by €430 billion in 2012, or about 3.3 percent of EU's GDP. This increase in GDP is made up of €220 billion in investment, private consumption, and export gains, €210 billion indirect productivity increases in firms serviced by intermediaries.³⁵ The EU also gained €640 in consumer benefits from free services, increases in online advertising, and B2B platform revenues.

Unclear and restrictive liability and copyright regulations deter investors. Regulations holding internet services liable for user-generated content are found to reduce the pool of investors for such services by 81 percent.³⁶ Clarifying copyright regulations allows websites to resolve legal disputes quickly and expands the pool of interested investors by 111 percent. Limiting penalties for websites acting in good faith expands the pool of interested investors by 118 percent.³⁷

Several countries have sought to clarify the liabilities of platforms and their users by establishing liability laws, known as “safe harbors”, that provide internet intermediaries partial immunity from the conduct of their users, such as posts with content that violate third-party copyrights.

The Brazilian safe harbor established in the 2014 Marco Civil Internet “Bill of Rights” is widely viewed as a global best practice. The regime is analogous to Section 230 of the Communications Decency Act in the United States, which is considered critical to the growth of American online platforms.³⁸ It protects Internet service providers (ISPs) and Internet application providers (IAPs), such as social media websites and search engines for third-party content, from civil liability arising from damages related to hosted content.³⁹

Internet intermediaries are seen under the Brazilian law as conduits of information, not its generators. The law establishes that ISPs providers are not liable for content generated by a third party unless they fail to act upon specific judicial notice to remove infringing or other content.⁴⁰ Sexual content and nudity are exceptions – internet providers are liable if they fail to remove this type of content at the request of the injured party.

Marco Civil is a hard-won compromise between various interest groups, such as Internet companies and civil society. The two groups engaged in a participatory, multi-year drafting procedure that was partially carried out online.⁴¹ The process is considered the key to the law’s success and implementation: every interest group gave something and got something in return. The law also provided a clear template to courts which had previously issued conflicting rulings on online copyright infringements.

The law has also been applauded for striking a balance between copyright enforcement and freedom of expression, and for protecting citizens’ rights by preventing the government from pressuring platforms or regulating content without judicial due process that proves content infringes on other rights.⁴²

Many countries in the Americas such as Canada, the United States and Chile have similar laws. For example, Chile’s copyright law of 2010 also specifies that internet intermediaries are not liable for user content on their sites if they take appropriate actions in response to judicial orders.⁴³

Critics might claim that safe harbors limit innovation by smaller creators whose content may seem infringing. At the same time, there are also significant concerns, including in Europe, that the erosion of safe harbors as in Europe will limit innovation and competition. For example, some worry that removing safe harbors would make copyright holders overreach to suppress potential competitors and request platforms take down content that is not necessarily infringing. There are also concerns that without safe harbors, platforms will refuse content from smaller less-known content creators and instead accept content from larger, better known companies that are less likely to post infringing content. These types of concerns incited protests in Europe against mandatory upload filters.⁴⁴

IV. ENABLING MSME ECOMMERCE IN MEXICO

Ecommerce use is growing rapidly in Mexico. Most firms are already marketing their goods and services on social media, and a growing share of MSMEs are building their own online stores, onboarding to marketplaces, and transacting across borders. Mexico also has a vibrant ecosystem of IT firms, Fintechs, and logistics service providers that support firms' digitization and online transactions. These patterns are partly the result of Mexico's efforts over many years to expand internet connectivity, digitize government services, and adopt digital and trade policies conducive to ecommerce. Thanks to this work, today Mexican companies have an extraordinary opportunity to leverage technologies to digitize their sales, operations, and supply chains, and use Mexico's vast network of trade agreements, particularly USMCA, to sell goods and services online across borders.

At the same time, Mexico can also take new steps to accelerate MSMEs' use cross-border ecommerce, including by considering good policies and practices that have been adopted by its emerging market and OECD peers, as follows:

- **Provide scalable online capacity-building and financing for social sellers to build online stores and onboard to marketplaces.** Most Mexican MSMEs market their goods and services via social media, messaging apps, and classifieds, but do not yet sell on online stores or marketplaces that could enable them to scale their customer bases and export. Mexico can leverage technology to offer social sellers scalable and customized online capacity-building, for them to learn step-by-step how to build their own online stores and start selling online and to select appropriate international marketplaces for their offerings and price points. The UK Department of Industry and Trade has operationalized this type of channel management platform, to enable local MSMEs to identify the best-fit platforms for their products and target markets. A complementary strategy is to offer services discounts and other incentives for firms to sell online, as done by the Malaysia External Trade Development Corporation (MATRADE). Some years ago, ProMéxico created programs and public-private partnerships of this kind, but the model needs to be revived. In a positive step, the Secretary of the Economy has recently launched a platform Comercio.mx with the Inter-American Development Bank's ConnectAmericas, to enable Mexican firms to identify international sales opportunities; now it needs to be scaled. More mature MSMEs sellers could also benefit from peer learning and executive education-type approaches on ways to manage thriving omnichannel businesses.
- **Enable B2B sellers to adopt direct-to-consumer business models.** Mexico has a huge opportunity to enable its vast segment of B2B manufacturers in such sectors as food processing, apparel, appliances, and furniture to use ecommerce to reach consumers directly, instead of selling via distributors, and to grow their margins. For example, U.S. consumers are increasingly buying directly from manufacturers and brands, bypassing marketplaces and retailers; by 2022, over 100 million Americans are expected to buy directly from brand and manufacturer without offline or online middlemen.⁴⁵ Mexican sellers looking to move to a direct-to-consumer model will today have access to an ecosystem and players such as Shopify that enable B2B sellers to set up their online stores, accept payments, and orchestrate logistics, and reach customer directly.⁴⁶ There are also new models for B2B sellers to connect directly to retailers, for example though such platforms as Faire that identifies and curates products for some 170,000 America retailers in the home décor, beauty, jewelry, clothing and pet space and helps sellers set up their store to interact with the retailers.⁴⁷

- **Support MSMEs’ digital transformation and use of new technologies.** Successfully selling online is not just about marketing a product online and accepting online payments; it is about digitizing a company’s operations, workstreams, and supply chains. Mexican government agencies can usefully partner with local and global technology companies that can help MSMEs learn about, test, and acquire technologies and new solutions. The public sector could also step in and co-finance firms’ digital transformation initiatives, as done for example in the Spanish cities of Madrid and Barcelona. Mexico could also learn from the experiences of Asian economies such as Thailand and Malaysia in creating ecommerce parks that bring together essential talent, services, and capital to support online sellers to grow and export.
- **Facilitate border clearance for ecommerce.** Mexico has made significant strides in paperless trade and piloting and adopting technologies such as blockchain to facilitate trade. An exciting next step could be to learn from Singapore, Japan, and Thailand in creating national trade platforms – essentially “turbocharged” single windows that enable MSME traders to comply with market access requirements and secure G2B and B2B trade services for their trade operations. Mexico can also test AI for risk management of inbound ecommerce shipments, as done in Japan, Singapore, and Netherlands, among others.
- **Fuel interoperability among ecommerce logistics providers.** The boom in ecommerce amid Covid-19 is accelerating demand for ecommerce logistics, for firms to manage the growth in volumes and diversity of stock keeping units and customer demands for fast delivery. In Mexico, there are promising startups that service this demand – and a wide range of existing B2B and B2C delivery providers, warehouse operators, fulfillment centers, air carriers, terminal operators, port authorities, and last-mile delivery companies. However, the market is fragmented, and players interoperate poorly, which limits opportunities for scale economies. This calls for further automation of the many “handshakes”, document exchanges, and payment transactions among players in logistics supply chains. The growth of ecommerce is also highlighting the need for smart airports and logistics networks and more coordinated air-to-surface links.
- **Leverage Regtech solutions to enable MSMEs’ to understand and comply with market access rules in foreign markets.** Mexican firms are in an enviable position to export and import duty-free with the leading world markets. However, Mexican online seller MSMEs still tend to lack customized information about market access requirements for their products in various export markets. These challenges could be solved at scale by using regulatory technology, or Regtech, that uses structured and unstructured data and technology to help firms monitor and meet regulatory requirements. Used especially by banks to comply with financial regulations, Regtech use cases are proliferating; one application could be for a government to apply Regtech to help firms monitor trade compliance requirements in various export markets and automate regulatory compliance.⁴⁸ A national trade platform approach as used by Singapore could also enable MSMEs to meet market access requirements, for example by pre-populating the required trade documents for a given shipment with data from companies’ ERP systems.
- **Leverage Fintechs and guarantees to broaden online MSME access to working capital.** An important concern for Mexican firms that seek to engage in ecommerce is access to fast-disbursing working capital loans needed to fulfill orders received online. Survey data indicate that Mexican online sellers increasingly turn to local Fintechs to access loans of this kind, both the country’s leading Fintechs and embedded finance tools available on selected marketplaces. The public sector could support Fintech lending to a broader set of MSMEs that sell online through

various ways, such as (1) scaling awareness-building about Fintechs especially with MSMEs in smaller cities and rural areas where awareness about Fintechs' benefits is still limited, and (2) offering guarantees on Fintech-issued loans to enable Fintechs to lend to a broader set of firms and/or lower their cost of capital. The latter concept could also be applied over time to trade – for example, for the export credit agency Banco Nacional de Comercio Exterior to guarantee export working capital loans issued by Fintechs to MSME exporters.⁴⁹ Mexican government has already made some steps in these directions by developing a loan guarantee instrument to incentivize high net-worth individuals to capitalize Fintechs that finance MSMEs, but there is no data on its application or performance.⁵⁰

- **Promote safe harbors for internet intermediaries.** In USMCA, Mexico committed to providing safe harbors to internet intermediaries, an important provision to clarify who is liable for content and copyright infringements online. Safe harbor laws help ensure MSMEs can access digital services and to promote innovation, competition, and freedom of expression. Now Mexico can cement safe harbor provisions in domestic law. The Brazilian safe harbor regime and the consultative process by which it was built can be a useful model.
- **Promote digital payments.** There are important opportunities to expand MSMEs' access to electronic payment solutions, including by lowering MSMEs' costs of adopting and using digital payments. For example, Mexico could build on its Cobro Digital (CoDi) payment platform by following the example of Brazilian Central Bank's Pix, an instant payment solution that enables payments among banks, banks and Fintechs, and Fintechs and payment service providers. There are also opportunities to rebalance liability among players in Mexico's payment processing system, to reduce MSMEs' burden in the event of payment fraud.
- **Bridge stubborn digital divides and economic and gender disparities through digitization.** Mexico has significant economic and digital disparities between the prosperous north and poorer south. These disparities have been exacerbated amid COVID, as the northern states home to export-driven manufacturers have benefited from US consumers' turn to computers, TVs, and appliances. There are also disparities between men- and women-led businesses – the latter tend to be smaller and have little financial cushion. Today, Mexico has an opportunity to use digital technologies to enable MSMEs around the country, especially in the more underserved regions, to access new markets and customers, IT and financial services, and reskilling opportunities. Digital technologies and ecommerce can be a means to harness the significant latent economic potential of women and women-led firms in the Mexican economy. Our research in Mexico, as in many other markets, shows that once women have their own businesses and have access to technologies and online services, they do just as well if not better than men-led firms in selling online and exporting. In general, Mexican can use telemedicine, distance learning, and telework to address socio-economic disparities.
- **Use digitization and ecommerce to create new flexibilities in traditional supply chains.** COVID-19 was a major shock to Mexico's supply chains. Most companies have traditionally responded to supply chain shocks such as the Japanese tsunami by stocking up and building inventories. However, today ecommerce opens entirely new flexibilities for Mexican firms to identify and vet new suppliers and hedge against dependence on a large supplier, and overall build new flexibilities and hedge against dependence on a large supplier or customer. Additive manufacturing, telefacturing practice of relying on a globally distributed network of designed and

makers, and virtualization of inventories can further cushion against supply shocks, reduce inventory management costs, and reduce lead times.

There is also a set of crosscutting policies that critically enable MSMEs in ecommerce, facilitate their use of online services, and enable their customers and vendors to trust and transact with them online:

- **MSMEs' Cybersecurity.** Covid-19 has significantly increased fraud and cyberattacks in Mexico, from levels that were already among the highest in Latin America. Cybersecurity threats are a cancer on MSME ecommerce and undermine Mexican MSMEs' transactions threatening the viability of their businesses. In one calculation, 60 percent of European MSMEs who experienced cyberattacks never recovered.⁵¹ While Mexico has had a cybersecurity strategy since 2019, it does not yet have a comprehensive cybercrime law. There is a need for a cybersecurity law that consolidates regulations on information security management and on the prevention, detection, and response to cyber incidents. Mexico can also apply more practical responses to help digitizing MSMEs access cyber defenses tailored to their needs and budgets. As one approach that could be timely for Mexico, the New York City government has partnered with a venture capital fund to invest in businesses that develop and deliver affordable and scalable cybersecurity solutions to New York's MSMEs.⁵² Singapore funds MSMEs' cyber defenses by covering up to 70 percent of the cost of pre-approved cybersecurity products and services, such as subscription, license, and installation fees.⁵³
- **Corporate Digital Identity for MSMEs.** Mexican MSMEs struggle to build trust with online shoppers – that in turn worry about online fraud. One solution is to arm companies with a data-rich corporate digital IDs. Such a corporate digital ID would help MSMEs to be quickly authenticated by their customers and service providers such as marketplaces, banks, border agencies, and logistics service providers. It could be built as a private sector-led decentralized, self-sovereign solution drawing on publicly available and private data on corporate vitals and transactions – and readily build on Mexico's extensive open corporate registry data and recent successes toward developing a digital identification system for individuals.
- **Open access to data for MSMEs.** MSMEs that sell online and all service providers to MSMEs' doing ecommerce – financial, logistics, and payments services and online marketplaces – require fluid access to data on their operations and customers, and ability to store, process, and analyze data in a cost-effective manner. Mexico has made significant and constructive commitments to free transfer of data across borders in CPTPP and USMCA as well as in the APEC Cross-Border Privacy Rules system. These good policies need to be upheld – they balance the objectives of free flow of data that is essential for MSME ecommerce with the objectives of data security and privacy.
- **Human capital.** Mexico has pockets of technological excellence for example in the advanced manufacturing sector in the northern states and hubs like Monterrey and a variety of tech startups in places like Monterrey, Mexico City, Puebla, and Guadalajara. Technology-driven sectors and firms have entered a virtuous cycle where workers learn to apply technologies and reap greater returns from education and work and are likeliest to exploit online channels and digital transformation opportunities. However, there are still skills gaps and labor market mismatches where talent is not optimally sorted into the right jobs: in Mexico, 50 percent of workers are in jobs for which they are either underqualified (12 percent) or overqualified (38 percent), the worst levels among OECD members.⁵⁴ In this area too technology opens new opportunities for

governments to offer scalable and personalized continuous learning; match the right talent to the best-fit jobs, and enable firms to retain talent.⁵⁵

- **Formalizing MSMEs.** Most MSMEs in Mexico are informal and as such unable to access bank accounts, formally transact online, or scale through exporting online. Informality also deters economic productivity. Reducing barriers to formalization and reducing the fiscal burdens for small online sellers would both increase the ranks of formal firms and reduce the still significant number of informal workers used in formal firms' employee pools.⁵⁶ Positively, Mexico is among many countries using digital technologies to simplify and facilitate business registration for small businesses. Mexico can also help firms formalize with incentives such as tax holidays in exchange for registration, drawing on peers like Singapore that provides a tax holiday for the first three years for start-ups, and Panama that exempts microenterprises that formalize from income tax for the first two years.

An equally critical question as to “what” to do to enable MSMEs in ecommerce is “how” to do it. Mexico can support its enabling environment for ecommerce through:

- **Building public-private partnerships to support MSMEs' digital transformation.** Public-private partnerships with marketplaces digital marketing, fintechs, logistics technology, and payment providers are essential to raise MSMEs' awareness about and use of solutions and services for ecommerce, and fashioning and supporting sustainable MSME ecommerce development initiatives, as done in the eTrade Alliance supported by USAID. There can also be excellent opportunities to empower Mexican women-led firms through such marketplaces as Canasta Rosa and Etsy, both of whom work with artisan women, in particular. The Latin American eCommerce Institute also has a range of ecommerce training programs and a women's leadership program called eWomen. Working with the private sector will also increase policymakers' awareness of MSMEs' pain points to doing ecommerce, and to ideate effective solutions.
- **Engagement with state and local governments in ecommerce development.** Mexico has excellent opportunities to create partnerships between national, state, and local governments and other subnational stakeholders such as local chambers of commerce to support MSMEs' ecommerce development across the country. For example, the municipal government of Mexico City offers capacity-building for MSMEs in ecommerce that other cities and regions could follow. Such partnerships with local governments and stakeholders could be aimed at bridging regional disparities and supporting small women-led firms that are quite prevalent in rural areas.
- **Using USMCA proactively to enable MSMEs' to sell and buy online and transact with U.S. customers and vendors.** The power of ecommerce is in expanding firms' markets and supplier pools beyond their regions and countries. Cross-border ecommerce is still quite new for Mexican firms – but offers great potential for growth. Mexico is extremely well-placed to use its proximity and market access to the U.S. market and its vast networks of free trade agreements, including the USMCA, to enable MSMEs to accelerate their growth through cross-border ecommerce. In light of the rapidly growing importance of ecommerce for MSMEs across North America, the pioneering SME Chapter and SME Committee established in the USMCA can be used to promote activities that enable MSMEs to engage in ecommerce across the North American region.

V. CONCLUSION

Ecommerce is booming in Mexico and its key export markets, opening new opportunities for Mexican MSMEs to recover from Covid, grow their sales, and export – but relatively little is known to date about which Mexican MSMEs engage in ecommerce and how, what barriers they face, and how public and private sector leaders can support MSMEs’ ecommerce and online exports. This report has sought to bridge this knowledge gap with sector-level census data and the eTrade Alliance’s survey data on nearly 2,700 Mexican firms, new policy analytics, and the Alliance’s March 2021 Digital Trade Dialogue with Mexico.

This report has shown how firms across sector in Mexico are digitizing their sales channels and gradually onboarding marketplaces that enable them to reach hundreds of millions of customs around the world. The report has also put forth a comprehensive policy agenda – stressing the importance for Mexico to uphold its key USMCA and other trade agreement commitments such as free crossborder data transfer and safe harbor rules for internet intermediaries *as enablers of MSME ecommerce*, and many opportunities that technology offers in many areas key to scale support for MSMEs, such as in trade compliance, export promotion, and access to finance.

An equally critical question as to “what” to do to enable MSMEs in ecommerce is “how” to do it. Mexican stakeholders are well on their way to leverage creative models, such as public-private partnerships that support MSMEs’ digital transformation; engagement with state and local governments in ecommerce development; and using USMCA’s SME Chapter and Committee to proactively enable Mexican MSMEs to connect with and transact with customers, suppliers, and service providers across the North American market.

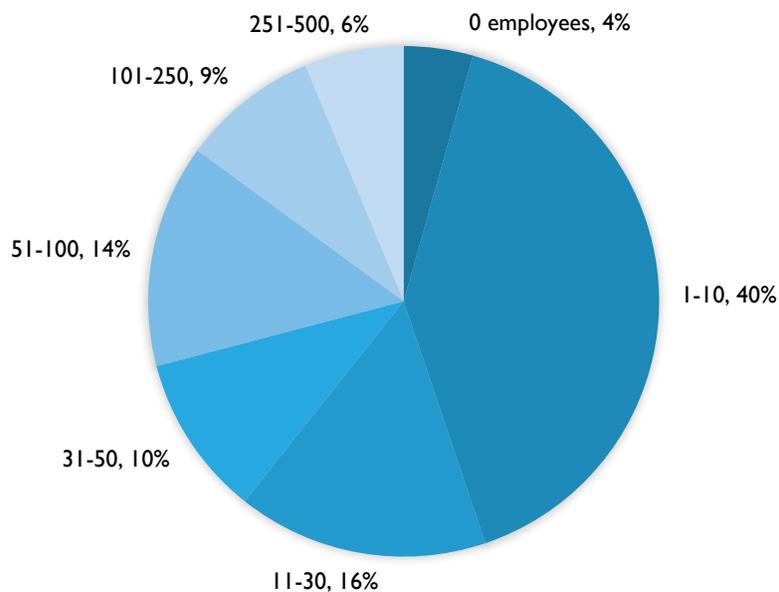
Annex I: Survey Sample

Survey fielding

There were two surveys, survey A fielded on 2-9 September 2020 with 2,034 firms, and survey B fielded on 5-24 September 2020 with 534 firms across firm size categories, sectors, and geographies. Unlike in a traditional survey process where we would first draw up a sample frame of firms in a country and then randomly select firms from it for phone interviews, here we leveraged online surveys relying on Centiment’s proprietary panel of respondents. The survey takers will take the survey on their laptops or computers, online, on their own time. This online survey method is scalable and saves considerable amount of time and resources. compared to computer-assisted telephone interviews (CATIs). Nextrade Group has found in several prior work utilizing both CATI and online surveys in a country simultaneously that online surveys as executed as here have minimal tradeoffs: they produce very similar patterns as CATI surveys, and, even if the surveys are unsupervised, produce robust, high-quality responses by serious survey takers. This in part owes to robust quality control before, during, and after the survey, through such practices as questions to identify inattentive survey takers and digital fingerprinting to prevent duplicates. A mix of further solutions ensure that even users that may have multiple accounts and devices attempt a specific survey only once.

Figure I-1: Surveyed Firms, by Number of Full-Time Employees

Survey A with 2,034 Mexican firms fielded on 2-9 September 2020



Survey B with 534 Mexican firms fielded on 5-24 September 2020

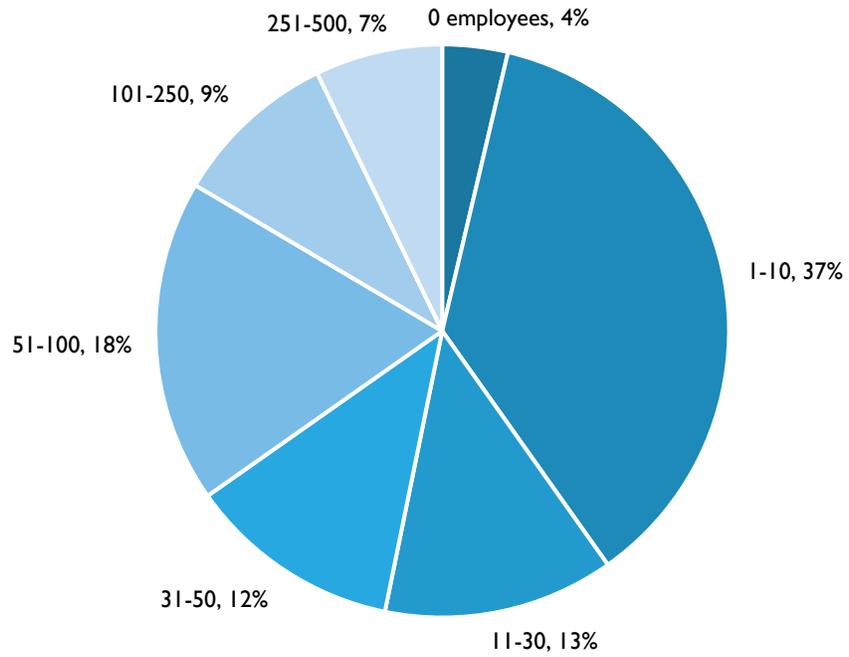
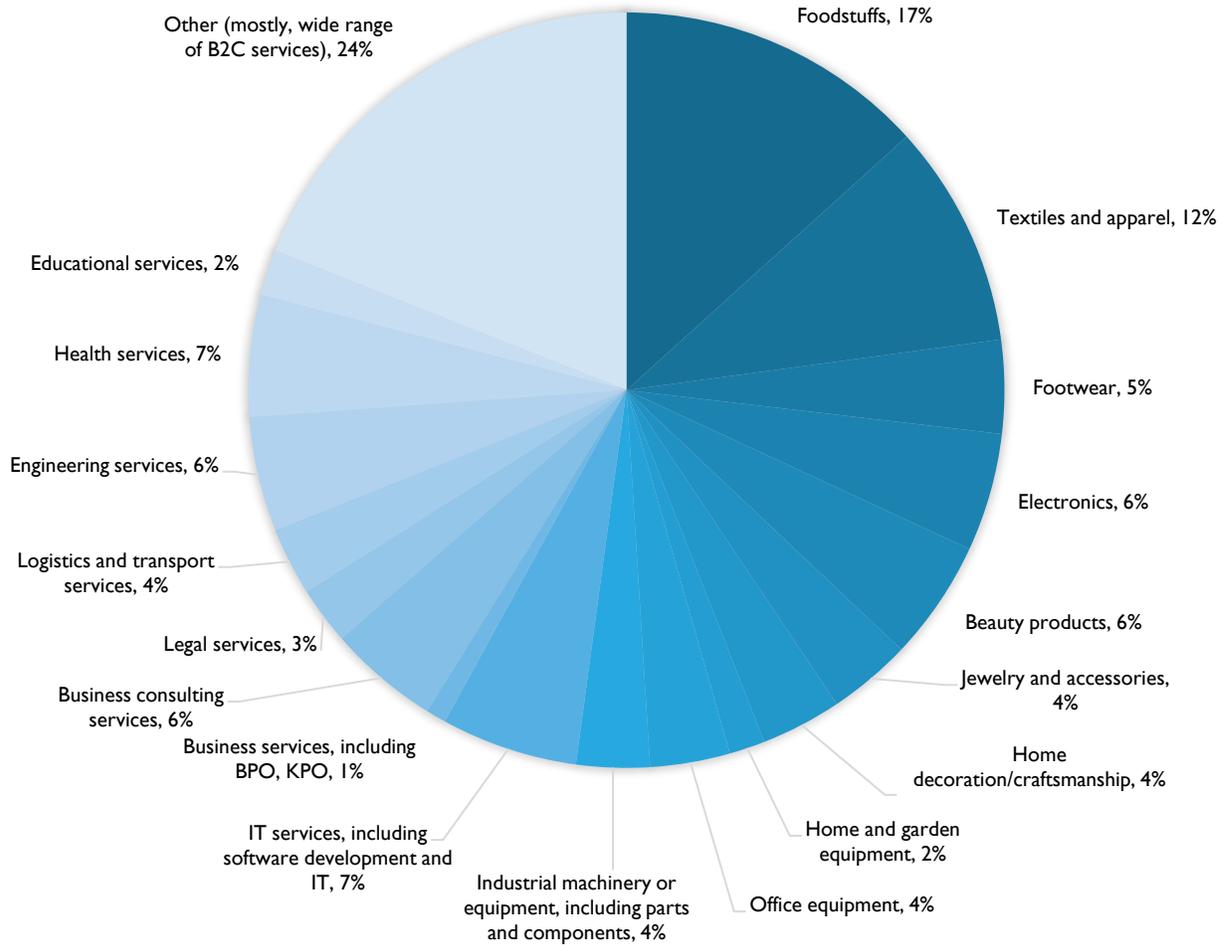
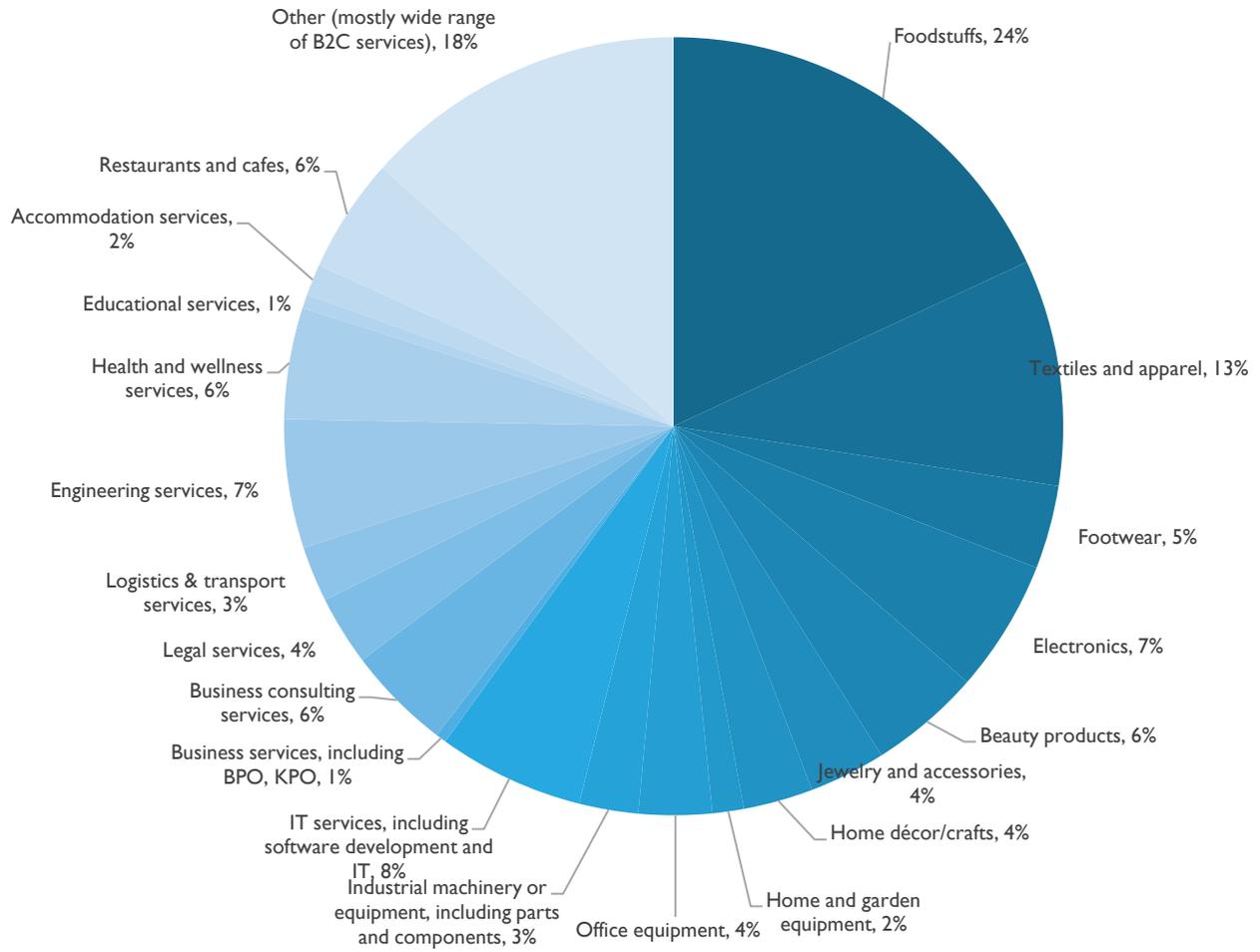


Figure I-2: Surveyed Firms, by Sector

Survey A with 2,034 Mexican firms fielded on 2-9 September 2020



Survey B with 534 Mexican firms fielded on 5-24 September 2020



Annex II: Variables for Best Place for MSME Ecommerce-Index

	Variable	Source
1	% of people connected to Internet	World Bank Data
2	Ratio of people with fixed broadband- subscriptions per 100 people	World Bank Data
3	Internet quality - speed	Fastmetrics
4	Broadband cost	Cable
5	Tariffs on ICT products	WTO
6	Taxes on digital services (VAT/GST on digital sales)	Various
7	PayPal is available	PayPal
8	Hourly labour costs in US dollars (converted using 2011 PPPs), latest year	ILO
9	Notice period for redundancy dismissal for a worker with 1 year (weeks of salary)	ILO
10	Severance pay for redundancy dismissal for a worker with 1 year of tenure (weeks)	ILO
11	Maximum length of a single fixed-term contracts (months)	ILO
12	GDP per person employed (constant 2017 PPP \$)	World Bank
13	Regional trade agreements (number)	WTO Regional Trade Agreements Database
14	Labor skills levels - % of technicians	ILO
15	English proficiency (score) (2019)	EF EPI
16	Digital talent - proxy: Patent applications, residents	World Bank
17	Digital talent - proxy: ICT service exports	World Bank
18	Office space cost (unit/month)	CBRE
19	Doing business - ease of doing business (score)	World Bank Doing Business
20	Total tax and contribution rate (% of profit)	World Bank
21	Time spent on tax filings	World Bank
22	Cybersecurity index	ITU Global Cybersecurity Index
23	Paperless trade score	UN Global Survey on Digital and Sustainable Trade Facilitation
24	Crossborder paperless trade score	UN Global Survey on Digital and Sustainable Trade Facilitation
25	Time to export - documents	World Bank Doing Business
26	Time to export - compliance	World Bank Doing Business
27	Commercial air connectivity	World Bank World Development Indicators
28	Logistics performance index: Ease of arranging competitively priced shipments	World Bank Logistics Performance Index
29	Logistics performance index: Ability to track and trace consignments	World Bank Logistics Performance Index
30	Lead time to export, median case	World Bank
31	Logistics performance index: Quality of trade and transport-related infrastructure	World Bank Logistics Performance Index
33	Collateral requirements	World Bank Enterprise Surveys
34	Depth of Fintech ecosystem - National fintech ranking 65 countries	Findexable
35	Doing business - credit bureau coverage (% of adults)	World Bank Doing Business
36	Openness of company data available through government	Open company data index
37	E-government index- online services	UN
38	Companies' digital technology adoption index	World Bank Digital Adoption Index
39	Policy index for MSME ecommerce	eTrade Alliance
40	UPU Postal Development Index	UPU Postal Development Report 2020
41	Crime rate (robberies per 100,000)	UNODC
42	Has Stripe	Stripe
43	Has at least 1 Google Office	Google
44	Has at least 1 Amazon Fulfillment Center	Amazon
45	Has at least 1 Amazon offices	Amazon
46	% of firms with majority female ownership	World Bank Enterprise Surveys
47	% of firms with female top manager	World Bank Enterprise Surveys
48	Made or received digital payments - female (% age 15+)	World Bank FINDEX database
49	Account ownership at a financial institution or with a mobile-money-service provider - female (% age 15+)	World Bank FINDEX database
50	Inclusive Internet Environment	The Economist
51	Made or received digital payments (% age 15+)	World Bank FINDEX database

Annex III: Variables and their Coding in Alliance's Draft Policy Mapping

Digital Infrastructure

Government national broadband plan or initiatives	1 = yes ; 0 = not in place (or not found)
Government initiatives for women-led firms to use and innovate in tech	1 = yes ; 0 = not in place (or not found)
5G strategy published or initiatives announced	1 = yes ; 0 = not in place (or not found)
<i>5G service has been rolled out</i>	<i>1 = yes; 0 = not in place (or not found)</i>
<i>5G spectrum auctioning has happened already</i>	<i>0.5 = spectrum assigned ; 0.25 = auction planned ; 0 = not in place (or not found)</i>
<i>5G piloted/trials have taken place</i>	<i>0.25= yes; 0 = not in place (or not found)</i>
<i>4.5G rolled out</i>	<i>0.5 = yes; 0.25 = in planning ; 0 = not in place (or not found)</i>
Competition among fixed wireless broadband providers	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition among fixed satellite services	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition among mobile cellular	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition among mobile satellite services	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition among internet services	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition in international gateways	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Competition in wireless local loop	0.2 = full ; 0.1 = partial ; 0 = monopoly, or N/A
Universal access/service policy adopted	0.25 = yes; 0 = no
Caps on FDI in wireless and fixed telecommunications	-0.5 = some limits or caps on FDI found, such as in certain sectors
Information Technology Agreement member	1 = yes ; 0 = no
2018 applied tariffs on cellphones	distance from frontier: 1 = best, 0 = worst or N/A
2018 applied tariffs on laptop computers	distance from frontier: 1 = best, 0 = worst or N/A

Digital regulations on online transactions

Fully digital business registration available	1 = yes; 0.5 = part of process can be done online, or only certain cities provide the service, or only certain kinds of companies can register online; 0 = not online at all, including even if there is a "one stop shop"
Electronic signatures admissible, legal, and enforceable	1 = yes ; 0 = not in place (or not found)
Digital or electronic invoice implemented	1 = yes ; 0 = not in place (or not found)
eID/digital ID in place (including for e-government services)	1 = yes ; 0.5 = in development/piloted ; 0 = not in place (or not found)
National digital corporate ID tested or in place	1 = yes ; 0 = not in place (or not found)
Tax exemptions for new businesses	1 = yes ; 0 = not in place (or not found)

Digital regulations on online behavior

Net neutrality: ISPs barred from limiting Internet content in their networks	1 = yes ; 0 = not in place (or not found)
Liability exemptions/safe harbors for internet intermediaries from copyright infringement	1 = yes ; 0.5 = in draft, or is party to treaty that requires safe harbor regulations though not in place (or not in place (or not found))to have adopted in national legislation yet ; 0 = not in place (or not found), law does not mention internet intermediary liability, or law implies high liability risk i.e. EU directive
Copyright limitations and exceptions - use of "fair use" standard	1 = yes ; 0.5 = not officially but abide by Berne Convention ; 0 = not in place (or not found)
Restrictive OTT regulations affecting Internet services	-1 = yes ; 0 = not in place (or not found)
Caps on FDI by foreign marketplaces	-0.5 = some limits or caps on FDI found, such as in certain sectors
Data transfer allowed (or no law in place)	1 = yes, allows data transfer, whether by law or implicitly because there is no law
<i>Data transfer limits to certain sectors</i>	<i>-0.2 = yes ; 0 = not in place (or not found)</i>
<i>Data transfer always requires jurisdictions to be branded "adequate"</i>	<i>-0.2 = adequacy always required ; -0.1 = adequacy can be required but not always i.e. if there is user consent, or a special exception ; 0 = not in place (or not found)</i>
<i>Data transfer always requires user consent</i>	<i>-0.2 = user consent always required ; -0.1 = user consent can be required but not always i.e. if there is adequacy standard in place, or a special exception ; 0 = not in place (or not found)</i>

Digital regulations on online behavior (cont.)

VAT/GST Tax	distance from frontier: 1 = best, 0 = worst
Digital tax/rate discussed or implemented	-1 = yes ; -0.5 = Proposed ; 0 = not in place (or not found)
Consumer protection regulation in place	1 = yes ; 0.5 = in draft
Consumer protection law explicitly applies to ecommerce	1 = yes ; 0 = not in place (or not found)
<i>Legal/regulatory prohibitions on companies using unfair or deceptive acts</i>	<i>0.25= yes ; 0 = not in place (or not found)</i>
<i>Anti-spam law in place</i>	<i>0.25= yes ; 0 = not in place (or not found)</i>
<i>Online contracts are to be drafted in clear and simple language</i>	<i>0.25= yes ; 0 = not in place (or not found)</i>
<i>Forms of redress - consumer's right to return items purchased</i>	<i>0.25= yes ; 0 = not in place (or not found)</i>
Companies have a Trust certificate or companies / governments certify trusted firms	1 = yes ; 0.5 = Planning ; 0 = not in place (or not found)
Consumer complaints can be filed online	1 = yes ; 0 = not in place (or not found)
Digital / video-based court proceedings for consumer issues	1 = yes ; 0 = not in place (or not found)

Payment regulations

E-payments law in place	1 = yes ; 0 = not in place (or not found)
Risk-based approach (RBA) KYC regime in place	1 = yes ; 0.5 = in process of implementing ; 0 = not in place (or not found)
<i>Regulatory requirements differentiated by type of service and its respective risks</i>	<i>1 = yes ; 0.5 = in process of implementing ; 0 = not in place (or not found)</i>
Demonetization programs to promote digital payments	1 = yes ; 0 = not in place (or not found)
Regulations or programs to fuel interoperability of online payments	1 = yes ; 0 = not in place (or not found)

Trade facilitation for ecommerce

<i>De minimis</i> threshold for entry of goods	distance from frontier: 1 = best, 0 = worst or N/A
Publication of existing import-export regulations on the internet	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Stakeholders' consultation on new draft regulations (prior to their finalization)	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Advance publication of new trade-related regulations before their implementation	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Advance ruling on tariff classification and origin of imported goods	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Risk management	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Pre-arrival processing	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Post-clearance audits	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Independent appeal mechanism	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Separation of release from final determination of duties, taxes, fees and charges	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Establishment and publication of average release times	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Trade facilitation measures for authorized operators	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Expedited shipments	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Acceptance of copies of original documents required for import, export or transit	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Electronic Single Window System	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Alignment of working days and hours with neighboring countries at border crossings	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Alignment of formalities and procedures with neighboring countries at border crossings	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Provides B2B and/or G2B services as shared trade ecosystem platform	1 = yes ; 0 = not in place (or not found)
Use of blockchain and/or AI in customs	1 = yes ; 0 = not in place (or not found)
Innovative postal services, such as drones, collaboration with ecommerce platforms	1 = yes ; 0 = not in place (or not found)
UPU Postal Development Index	distance from frontier: 1 = best, 0 = worst or N/A

Trade facilitation for ecommerce

<i>De minimis</i> threshold for entry of goods	distance from frontier: 1 = best, 0 = worst or N/A
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Post-clearance audits	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
Independent appeal mechanism	1 = Yes ; 0.5 = Partially ; 0.25 = Planning ; 0= No
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UPU Postal Development Index	distance from frontier: 1 = best, 0 = worst or N/A

MSME capacity-building and export promotion for ecommerce

Export promotion agency programs/guidelines for ecommerce available	1 = yes; 0.5 = planning to implement ; 0 = not in place (or not found)
Online ecommerce export services, such as channel management platform	1 = yes; 0 = not in place (or not found)
Subsidized digital transformation funding for firms to use ecommerce	1 = yes; 0 = not in place (or not found)
Public-private collaboration (e.g. with marketplaces) to build SMEs' capacity	1 = yes; 0 = not in place (or not found)
Programs for women-led firms to learn to export (ex: e-commerce)	1 = yes; 0 = not in place (or not found)
Programs for rural companies to engage in ecommerce	1 = yes; 0 = not in place (or not found)
Help with MSME logistics for cross-border ecommerce	1 = yes; 0 = not in place (or not found)

MSME finance

Regulatory sandboxes for FinTech	1 = yes; 0.5 = in development ; 0 = not in place (or not found)
Open banking regulations	1 = yes; 0.5 = in development ; 0 = not in place (or not found)
Regulatory framework for equity crowdfunding	1 = yes; 0.5 = in development ; 0 = not in place (or not found)
Government credit guarantees for micro and small working capital loans offered to banks	1 = yes; 0 = not in place (or not found)
Government credit guarantees for working capital loans offered to Fintechs	1 = yes; 0 = not in place (or not found)
Direct loans from government to small or micro firms	1 = yes; 0 = not in place (or not found)
Equity for tech and digital businesses (gov't as GP)	1 = yes; 0 = not in place (or not found)
Equity for tech and digital businesses (gov't as LP or fund of funds)	1 = yes; 0 = not in place (or not found)
Specific equity programs for exporters (or VC investments expressly for exporting)	1 = yes; 0 = not in place (or not found)
Programs to finance/guarantee ecommerce transactions	1 = yes; 0 = not in place (or not found)
Financing programs or entities for women-led companies - grants, debt or equity	1 = yes; 0 = not in place (or not found)

Government eprocurement promotion for MSMEs

Procurement tenders and bid documents available online	1 = yes; 0.5 = only tenders or bid docs online; 0 = not in place (or not found)
Procurement bid submission online	1 = yes; 0 = not in place (or not found)
Procurement bid process and notices electronic	1 = yes; 0 = not in place (or not found)
Online, transparent and/or simple bidding search for low-value procurement contracts	1 = yes; 0 = not in place (or not found)
Initiatives to increase SME procurement bids and contracts	1 = yes; 0 = not in place (or not found)
Initiatives to increase women-led SME procurement bids and contracts	1 = yes; 0 = not in place (or not found)
Complaint mechanism in place, for example about unfair procurement bidding process	1 = yes; 0.5 = observer status; 0 = no
Member or observer of plurilateral Agreement on Government Procurement	

MSME cybersecurity readiness

National cybersecurity strategy in place	1 = yes, including if standalone or part of larger strategy; 0.5 = in draft; 0 = not in place (or not found)
Cybercrime legislation in place	1 = yes, if standalone or part of a law i.e. Criminal Code; 0.5 = in draft; 0 = not in place (or not found)
Computer Emergency Response Team (CERT) in place	1 = yes; 0 = not in place (or not found)
Educational campaigns to SMEs on cybersecurity/SME focused assistance	1 = yes; 0 = not in place (or not found)
Cybersecurity capacity building for governments	1 = yes; 0 = not in place (or not found)
Ratified Budapest Convention	1 = yes, 0 = no

Ecommerce strategy and statistics

Government digital strategy in place	1 = yes; 0.5 = in draft/development ; 0 = not in place (or not found)
Government ecommerce strategy in place	1 = yes; 0.5 = in draft/development ; 0 = not in place (or not found)
Ecommerce flow and/or usage statistics collected	1 = yes; 0 = not in place (or not found)

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- ⁵ According to Societe Generale, Mexican shoppers avidly purchase from foreign markets – some 44% use Mexican sites for their purchases, 39% use Mexican and foreign sites, and 5% use foreign sites only. See Societe Generale, “Mexican Market: E-Commerce,” Import Export Solutions, accessed January 2021, <https://import-export.societegenerale.fr/en/country/mexico/ecommerce>
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⁵² JVP, “City Of New York And Jerusalem Venture Partners Launch ‘Cybersecurity Moonshot Challenge’ To Protect Small Businesses From Cyberattacks,” press release, November 19, 2018, <https://www.jypvc.com/press-releases/city-of-new-york-and-jerusalem-venture-partners-launch-cybersecurity-moonshot-challenge-to-protect-small-businesses-from-cyberattacks/>

⁵³ Ciaran Martin, “Exclusive: British Intelligence calls for ‘Security by Design’,” *GovInsider*, October 2, 2019, <https://govinsider.asia/innovation/exclusive-british-intelligence-calls-for-security-by-design/>

⁵⁴ Qualification mismatch arises when workers have an educational attainment that is higher or lower than that required by their job. If their education level is higher than that required by their job, workers are classified as over-qualified; if the opposite is true, they are classified as underqualified. Field-of-study mismatch arises when workers are employed in a different field from what they have specialized in. One widely examined set of explanations for labor market mismatches are structural and cyclical factors, such as labor market regulations that make it hard to fire poorly-performing labor, rent agreements that keep workers tied to a place, and recessions that make employers

pickier. See Suominen, Kati. 2019. “Perfect Match: How Can Workers Find Jobs That Fit Them Best?” A Report of the CSIS Scholl Chair in International Business (October) https://csis-prod.s3.amazonaws.com/s3fs-public/publication/191003_Suominen_PerfectMatch_WEB_1.pdf?ZDovajcuu0JpamiuAALvaNEdRBIIXaws

⁵⁵ See summary in Suominen, Kati. 2019. “Perfect Match How Can Workers Find Jobs That Fit Them Best?” A Report of the CSIS Scholl Chair in International Business (October) https://csis-prod.s3.amazonaws.com/s3fs-public/publication/191003_Suominen_PerfectMatch_WEB_1.pdf?ZDovajcuu0JpamiuAALvaNEdRBIIXaws See excellent literature on labor market mismatches in the United States; See, for example: Gary Burtless, “Unemployment and the ‘Skills Mismatch’ Story: Overblown and Unpersuasive,” The Brookings Institution, July 29, 2014, <https://www.brookings.edu/opinions/unemployment-and-the-skills-mismatch-story-overblown-and-unpersuasive/>; Peter Cappelli, *Why Good People Can’t Get Jobs: The Skills Gap and What Companies Can Do About It* (Philadelphia, PA: Digital Press, May 2012); and Andrew Weaver and Paul Osterman, “Skills Demands and Mismatch in U.S. Manufacturing,” *ILR Review* 70, no. 2 (March 2017): 275–307, <http://web.mit.edu/osterman/www/SkillDemandsAndMismatch.pdf>.

⁵⁶ Jorge Alvarez and Cian Ruane, "Informality and Aggregate Productivity: The Case of Mexico," IMF working Paper WP/19/257, November 2019
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