



Session Title: Cross-Border Trade: Moving Goods in a Digital Economy

Date & Time: 5 April, 11:35am – 12:25pm

Moderator: Lin Neumann, AmCham Indonesia

Speakers: Dato' Ng Wan Peng, Chief Operating Officer, Malaysia Digital Economy Corporation (MDEC)
Mark Shorney, Vice President, South Pacific, FedEx Express
Diono Nurjadin, President & CEO at Cardig Aero Services, Indonesia
Tracey Kuuskoski, Director, Asia Pacific Tax Centre, Indirect Tax Ernst & Young

Introduction & Purpose

As trade increases in the region, getting goods to customers is facing hurdles moving from traditional operations to incorporating new technology like e-commerce. While the rules of origin and trade compliance regulations need to be adhered to, what can be done to improve cross-border flow of goods?

Summary of the session

Moderator: What does your company do in the region? Give also a brief overview of some of the projects that it's involved in?

Speaker: Dato' Ng Wan Peng

As a government entity, MDEC drives the Malaysian digital economy by facilitating investment in the country and ensuring a conducive environment.

Besides exposing the local industries globally, it emphasizes on digital adoption and digital inclusion for the general public into e-commerce, a key component of digital economy.

MDEC's key initiatives include the National E-commerce Strategic Roadmap and Digital Free Trade Zone to promote cross-border trade. Manifold **benefits** with internet and digital technology seamlessly connecting suppliers and customers include **global access, cost efficiency and streamlining of the business process.**

Challenges arise when not all countries are at the level of development. Thus, the **digital divide** will impact how the communities can benefit from it. Developing and third world countries can't be compared with developed ones as you need to have the right maturity to take advantage of the benefits.

MDEC looks at restrictions to cross-border data flow and how to facilitate global flow without compromising on privacy and security. It is concerned about protection, cybersecurity, e-payment penetration and bankability as they will impact the digital economy.

Speaker: Mark Shorney

FedEx has a global network of over 220 companies, 660 aircraft and 170,000 road vehicles to ship everything using 425,000 employees worldwide, of which roughly 30,000 are in Asia Pacific.

Mark said, "We are in the business of trade," impacted by digitalization, changes in technology, mobilisation and mobility from smartphones. Supply chains are using technology and data analytics to make things more efficient. From the market perspective, **home shopping and ecommerce** have huge impact and **are the fastest growing.** Technology is driving competition locally from the overseas deliveries.

From delivery perspective, what customers require from providers delivering to residential address is very different compared to a business address. In the former's case, they may or may not have somebody at home. **Flexibility in delivery** is the answer and **technology has allowed FedEx to do it.**

The other big benefit is SMEs, which make up the majority of business and employ the majority of people worldwide. They use web-based technology, offering access to markets overseas. SMEs have growth opportunities to sell and import products as part of their supply chain. They can push and pull globally like large corporations despite not having representation around the world, thus providing competition in the markets.

At FedEx, we try to support SMEs with knowledge. We can give them advice. Mark cited how FedEx worked with Christie Ng's shoes in Malaysia through clearance and helped them grow in the US, Singapore and Australia very successfully. We can add value to improving SMEs' top line.

Speaker: Diono Nurjadin

In delivering goods, we have to return to the basic building blocks, which is to establish the right type of infrastructure. Cardig Aero Services business represents 40% of the ASEAN market. We are an integrated services company that has grown to provide also logistic services beyond the airport.

We service 81,000 flights, over 8 million meals a year and serve 40 airlines. In Indonesia, we operate within 16 airports but **our business growth is driven by cargo**. The government projected that passenger traffic will grow close to 40% this year to over 140 million passengers but cargo has been growing consistently in double digits the last decade.

Recently, it has been driven by digital trends and technology such as ecommerce. In terms of infrastructure development, Indonesia is ranked 60th among 103 countries and in terms of performance index, it's positioned 63.

Focused on building infrastructure, the government has a very ambitious and aggressive target to spend US\$350 billion between 2016 and 2019 but the state budget has only a third of that amount. The rest must come from the private sector, which includes domestic and foreign companies.

Unless the government is successful, moving goods and all this technology is going to be a hurdle. **Regionally, it has to be much more integrated in terms of the development given the size of the market and that of Indonesia.**

With most of Indonesia surrounded by water, aviation is very important to help move things in the most efficient way although the government also has a strategy to move goods via ports and by sea.

Three brand new greenfield airports are coming up, **a second one in Bali** known as the North Bali **and a new airport in Jogjakarta**. This is in line with the strategy to develop tourism as a forex earner and take advantage of the digital trend where it's now much easier to make travel bookings.

Its **government** is promoting both domestic and international travel besides **developing infrastructure in the eastern part of Indonesia** as 60% to 70% of the GDP is from the western part. The focus on the eastern part is in line with its overall strategy to balance the country's development.

Speaker: Tracey Kuuskoski

Everybody thinks of e-commerce when we talk about how domestic and international tax policies have been impacted by the digital economy. **Four key things impacting the tax policies landscape** we live in are:

1. Instant globalization

Any business can now access the consumer base instantaneously in as many countries they want to play in. This creates a **big problem for national tax administrations** in ensuring the quality of local businesses and how to enable them to get a fair share of the market.

2. Disruptive technologies

An US-based airline company recently announced it is not shipping spare parts around the world at airports where it's going into but is seriously investing in setting up regional 3D printing houses in certain areas. That's a **huge development in reducing cross-border trade and movements of physical products, and the taxes that come associated with it.**

3. Industry convergence

Every country around the world is now an app developer. Traditional healthcare companies are now using the data they have as an asset and becoming a research organization, sharing their data and insights. **Traditional manufacturing entities are moving far more into service revenue streams,** away from the corporates, brick and mortar, raw materials and packaged products.

4. Shift in global tax policy

The shift is **to remove concessions and try to take as much tax as possible and openly.** The existing tax policy isn't fit for purpose in the world we operate today. That's why OECD and the **national tax authorities** in Malaysia, Japan, Korea and Australia are **investing** a lot of time and money **to revamp the tax legislation to try to refit the purpose.**

A badly executed tax policy will ultimately contribute to an excellent business strategy becoming unprofitable.

Moderator: What kind of regulatory framework is still required?

Speaker: Mark Shorney

The biggest thing from the regulatory perspective is the **different import and export, the duty and tariffs and clearance regimes across Asia and specifically Asean.** Singapore is very straight forward, simple and transparent while other markets are far more complex. That drives complexities unless you have a simplified and consistent approach across markets like TPP, which will help reduce the cost in supply chains.

Mark believes the problem lies more with the SMEs, which face far more barriers since they don't have representation. That's why they need to work with providers like FedEx to get the best possible clearance.

FedEX is very strict on compliance. It's part of the brand. It's part of who we are and what we stand for. We are very stringent in terms of ensuring that when we clear on behalf of our customers, there is total compliance with local

regulations. **That's important as it's not just our reputation but also the reputation of our customers who are on the line.** Ultimately, with reputation, it's the value of the market.

If an authority starts increasing their inspection rate, that's another barrier for us as it shows down the clearance and the customer's ability to grow the market is reduced. A key area would be **streamlining the regulatory framework so that there's consistency across markets. It allows the data that we capture to be more easily processed and to get a better solution.**

Moderator: What are the top three things in order to provide the best logistics experience for your customers? Give a grade for Indonesian President Jokowi's infrastructure initiatives that have impacted your business and what are the top three things on the government's list that should be accomplished before the end of his first term in 2019?

Speaker: Diono Nurjadin

The current administration has been very effective in learning what needs to be done and has put together a very ambitious infrastructure development plan. Out of US\$327 billion, 30% has been disbursed but the implementation is not up to what it should be. The allocated state budget was automatically awarded to the state-owned companies in an opaque process.

The projects are largely done close to schedules but the end result is not the best of quality and at the right price. An example is the new terminal 3 in Jakarta where things aren't working properly. It's very frustrating for us who do business at the airports.

One of the **impediments** we have is they operate in their own world and are not used to acting on feedback. There are not many opportunities for the private sector to be involved in infrastructure development in Indonesia although it has a very progressive aviation law signed in 2009 to improve the standards and get more money into system. This is one area they need to improve.

Secondly, it's the **funding issue. They have to open up to the private sector to achieve the projects they set out to do. They have to accept input.** The discussions at the senior level are very open but at the bureaucracy, the bureaucrats are operating in their own traditional way. So, things don't move as much as they should be. **They need to fix the bureaucracy in order to move to the next step.**

Moderator: The Malaysian eco-system is so well developed. Your job as a government-owned agency is to facilitate positive outcomes for the private sector. How do you do that?

Speaker: Dato' Ng Wan Peng

To facilitate ecommerce for users, she said **MDEC ensures that the market places, financial or payment side and the fulfillment side all work seamlessly together.** We look at what we can do on the ground by mapping out every process and working with the local authorities to ensure its smooth running for the industries. Secondly, **we make it easier for them to buy online and help our SMEs' products to go global. We also provide lots of training** as some don't even know how address enquiries from the US.

Moderator: Is there an optimal model for a tax regime that can handle cross-border digital economy. Is there an emerging tax model or we haven't got there yet?

Speaker: Tracey Kuuskoski

There is no tax model that's highly effective in APAC. Looking at the kind of outcome and behaviour we want positive tax policies to drive, **they need to be proper economic analysis to quantify and identify the tax gap that's created in the digital economy** since we focus so much on the revenue being lost from domestic tax. I don't see enough of that economic analysis done except in Australia.

Besides branding, any country deciding to implement a tax policy should ensure that they can wholeheartedly implement it from the operations perspective in a way that will not bankrupt the returns and must have enforcement.

Moderator: If you had a magic wand, what's the one thing you would cause to happen in Europe in your respective industry that would make things better?

Speaker: Dato' Ng Wan Peng

We will bring the digital platform for everyone to use and ensure that the regulators support it.

Speaker: Mark Shorney

We are **working on a new digital platform for SMEs that will improve the whole user experience** and are waiting for it to come as soon as possible. Hopefully, to accelerate it to tomorrow.

Speaker: Diono Nurjadin

We would like to build and operate airports.

Speaker: Tracey Kuuskoski

I would like to see far **more cooperation between the individual ministries in the countries on how to tackle this within a tax perspective so that we get some clarity and consistencies across markets on how multinationals operate.**

Takeaway from the session

- Digital divide exists among countries at different stage of economic development.
- Home shopping, ecommerce and SMEs are potential growth areas. Need all aspects to work seamlessly together for the digital economy to be successful.
- Call for a focus on the basic, that is, returning to infrastructure to facilitate the efficient movement of goods even in the digital age.
- Red tape and other impediments need to be fixed for Indonesia's aviation industry to thrive.

- Need for more proper economic analysis to be done in other countries besides Australia to identify gaps in tax policies and more cooperation among ministries of various countries on tax policies.