

Regulating Facebook could hinder small businesses with overseas customers

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Credit: AI-generated image ([disclaimer](#))

Digital platforms provide a host of challenges for governments. Questions about how to best protect privacy, democracy, and speech online become more pressing every year.

But policies that affect online platforms also affect international trade.

Many Australian [small businesses](#) rely on [digital platforms](#) to stay on par with their international competitors.

As Australia starts tackling the challenges wrought by digital platforms, policymakers should be careful not to undo the good things that stem from an evermore connected world. That includes the critical role of these platforms in helping retailers sell their products to overseas customers.

Platforms facilitate exports

As my [new research](#) with colleague Danielle Parks shows, digital platforms appear to significantly reduce the economic distance and trade costs between buyers and sellers.

Take Facebook, for example. Facebook is both a social networking [platform](#) and digital market platform, where Facebook's Marketplace helps [business owners](#) connect with potential customers.

The social networking interface allows buyers and sellers to message each other and exchange information about what the seller has, and what the buyer wants. Meanwhile, Marketplace features like identity verification and buyer ratings help to facilitate connections more quickly, and with more trust, than might otherwise be possible.

There isn't a lot of large-scale data on cross-border e-commerce, so researchers must get creative to study digital platforms and trade. The findings are extraordinary.

One [study](#) found that 97% of US-based eBay sellers export product to overseas buyers. Another [found](#) the "economic effect of distance" to be 65% smaller on eBay. In other words, the digital platform reduces the challenges of selling to people in other countries.

Research conducted by PayPal [showed](#) that 79% of US small businesses on its platform sell to foreign markets. And PayPal merchants that exported, outperformed businesses in general. Interestingly, that finding held for coastal and non-coastal businesses, and for rural and urban businesses alike.

In our [new study](#), we surveyed Australian businesses on Facebook. We found that those with a Facebook presence were 63% more likely to export their products internationally than other businesses. The propensity to export was higher across all business sectors and nearly all company sizes.

This emerging pattern shows how world markets are opening up to smaller businesses that might not otherwise be able to compete with their larger, multinational rivals. These findings can partly be attributed to export-prone firms being more likely than others to use digital platforms. But there is no question that the platforms can also enable trade.

Most governments recognise the need to dismantle barriers to foreign market access, and any new policies regarding digital platforms should not make it harder for small and medium sized businesses to engage in trade.

How regulation could hurt small businesses

The Australian Competition and Consumer Commission (ACCC) is currently conducting an inquiry into digital platforms at the request of the treasurer.

The ACCC's [preliminary report](#) recognises how digital platforms have revolutionised the ways consumers and businesses communicate with one another. The report also highlights concerns over data privacy and the influence of bad actors producing and spreading misinformation.

The final report, expected in June, will make policy recommendations that aim to address these concerns. But these policies could also inadvertently threaten the revenue streams of businesses that advertise on these platforms or that use them to facilitate online sales.

Restrictions on the cross border flow of consumer information could interfere with everyday business practices. For example, a key advantage of e-commerce, especially for small businesses, is using search engine techniques to reach larger audiences, and target potential customers. So, search engine restrictions could limit the way businesses target customers with advertising, therefore limiting a business owner's ability to reach customers abroad.

Other regulations could restrict business owners from storing the personal information of customers – such as credit card information, consumer preferences and purchase history. That would then limit businesses in how they interact with customers at home and abroad.

What's happening at the moment

Australia is not alone in considering these tough issues. The landscape of digital data flows, data privacy, and e-commerce is a work in progress for governments across the globe.

The EU recently enacted data privacy regulation called the General Data Protection Regulation ([GDPR](#)), which is designed to: "[...] fundamentally reshape the way in which data is handled across every sector, from health care to banking and beyond."

Meanwhile, the United States Congress will likely consider [new internet privacy legislation](#) this year.

Provisions on digital data flows have been included in major recent

international trade agreements. Both the United States-Mexico-Canada Agreement ([USMCA](#)) and the Trans Pacific Partnership (TPP) bar data localisation requirements. That means foreign companies would only be allowed to work in a country if they built out or leased separate data infrastructures in that country – a costly endeavour, especially for smaller businesses.

On the other hand, USMCA and TPP do not allow participating countries to require that platforms disclose their source code or algorithms. These provisions do not necessarily preclude countries from adopting privacy protections, but they do make it easier for platforms like Facebook to operate without fear that they will be asked to handover important intellectual property.

As the government considers the Australian Competition and Consumer Commission report, one thing should be clear: any policy changes should not overlook the role of these platforms in helping Australian small businesses sell goods to customers in the global marketplace.

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