

Whitepaper on Enhancing MSME Participation in Trade

Considerations for the WTO Informal Work Programme for MSMEs



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Abstract

This whitepaper seeks to provide a birds-eye perspective on the growing role of MSMEs in the context of WTO and as such aims to support Governments and other stakeholders in advancing their interests in MSME related discussions in WTO context. The paper first provides a wider perspective on MSMEs in international fora, then introduces the reader to some of the specific challenges and opportunities for MSMEs (particularly in developing countries and LDCs) in international trade, whilst providing high-level recommendations for possible priority areas as a basis for constructive engagement in a WTO context.

SECTION 1

Micro, Small and Medium-sized Enterprises at the WTO

1.1 Background

With the Declaration on the Establishment of a WTO Informal Work Programme for MSME (hereafter: ‘the MSME Declaration’¹), agreed by a group of WTO Members² at the Eleventh Session of the WTO Ministerial Conference in Buenos Aires (10-13 December 2017), the MSME perspective has been brought to the multilateral trading system.

Since the Eleventh Ministerial Conference, when the group of signatory countries encompassing 48 WTO Members, more countries have signed up as supporters of the MSME Informal Work Programme amongst which are Cote d’Ivoire, Guyana, Nigeria, and Armenia³. As of December 2018, the group of countries participating in the WTO Informal Working Group on MSMEs, set up as result of ‘the MSME Declaration’, encompasses 88 countries (or 61 WTO Members when the European Union is counted as a single WTO member).

Until recently, a structural discussion around the role of MSMEs in international trade was largely reserved for academic studies and Aid4Trade related (technical assistance) debates and projects, with some active discussions present in certain domestic and regional spheres. Within a WTO context, MSMEs had not been structurally part of discussions. This is illustrated by the remarks made by the Director General WTO, Roberto Azavedo, in the foreword of a 2016 WTO report on ‘Levelling the trading field for MSMEs, in which he states: ‘The significance of MSMEs is beyond question, yet, to date, MSMEs have been largely absent from the broad trade debate’ and that ‘little attention has been paid to MSMEs in the WTO so far’.

The publishing of the WTO World Trade Report on ‘Levelling the trading field for MSMEs’⁴, in 2016, can be seen as an important step towards formalization of the MSME perspective in the multilateral trading system. As mentioned in the report, the publishing of a World Trade Report around the theme of MSMEs is ‘stimulated by increased attention from Governments, increasing

¹ WTO Joint ministerial Statement ‘Declaration on the Establishment of a WTO Informal Work Programme for MSMEs’ (Revision d.d. 20 December 2017), WTO document reference: WT/MIN(17)/58/Rev.1

² The current list of MSME Informal Working Group members as per 3rd December 2018 (WTO document reference JOB/GC/208) is as follows:

Afghanistan, Albania, Antigua and Barbuda, Argentina, Armenia, Australia, Bahrain, Kingdom of Belize, Brazil, Brunei Darussalam, Canada, Chile, China, Colombia, Costa Rica, Côte d’Ivoire, Dominica, Dominican Republic, Ecuador, El Salvador, European Union, Grenada, Guatemala, Guyana, Honduras, Hong Kong China, Iceland,

Israel, Japan, Kazakhstan, Kenya, Korea Republic of, Kyrgyz Republic, Lao PDR, Liechtenstein, Malaysia, Mexico, Moldova Republic of, Montenegro, Myanmar, New Zealand, Nicaragua, Nigeria, Norway, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Russian Federation, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Singapore, Switzerland, Chinese Taipei, The former Yugoslav Republic of Macedonia, Turkey, Uruguay, Viet Nam

³ Status as per 13 December 2018

⁴ WTO World Trade Report ‘Levelling the trading field for MSMEs, WTO, 2016

number of references to MSMEs in bilateral and regional trade agreements, and opportunities presented by technological developments and e-commerce'. Without referring to the potential shortcomings of the set-up and agreements underpinning the multilateral trading system as such, WTO DG Azavedo's foreword mentions thus 'it seems that we may be missing an opportunity to support this vital part of every economy'.

Inter alia, the report acknowledges the absence of MSMEs from WTO discussions, partly visible from the limited number of references made to MSMEs in WTO agreements.

Driving forces for MSME recognition in WTO context: inclusiveness, SDG's and WTO reform talks

The positive development towards a structural dialogue around the role of MSMEs in WTO context mirrors a dual trend.

On the one hand, the increased attention on MSMEs reflects the growing support for dedicated policies and support programmes that contribute to increasing *inclusiveness* in trade, towards a more equal spreading of the benefits of open trade, in order to further reduce global poverty and inequality. The 15th WTO Public Forum, held in September 2016, was dedicated to the theme of 'Inclusive Trade'.

In this context, regional efforts on MSME development, especially in the context of APEC and ASEAN, have proved exemplary and paving the way for increased attention for inclusiveness in the WTO. As the Philippines Statement during Eleventh Ministerial Conference mentions: 'Here at the WTO, his [Philippines' President Rodrigo Duterte] directive is to ensure that Inclusive Globalisation is at the front and center of our

agenda. Thus, it is important to ensure that in everything we do, there is conscious effort to empower and capacitate those who are weak and spread the gains to those who have less. We have to ensure that in Globalisation, everyone emerges as winners. No one should be left behind.'

On the one hand there has been increased recognition of the role of MSMEs in broader global policy debates, most notably the Sustainable Development Goals (SDG's).

The Sustainable Development Goals (SDG's), agreed upon in April 2017 by the UN General Assembly, recognized that to meet the aspirational SDG's, contributions from Micro-, Small- and Medium-Sized Enterprises (MSMEs) are crucial. The SDG's specifically seek to encourage the growth of MSMEs in order to promote inclusive and sustainable growth, full and productive employment and decent work for all. Also, significant emphasis is placed on the role of trade, with a recognition of the role WTO can make to the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs). While the SDGs entailed from the beginning significant emphasis on the role that *trade* plays in promoting sustainable development, the past years have shown a growing recognition that *MSMEs* are crucial to the achievement of SDGs.

Finally, the increased attention for MSMEs in the WTO, cannot be seen separately from the growing pressure on securing more inclusive growth in domestic societies and the international economy. In this context, the WTO is facing challenging times, as questions are being raised whether and how the multilateral trading system can be geared towards delivering equitable and inclusive growth.

Looking at the WTO as the multilateral institution that governs the global trade rules, it is clear that the underlying economic case for liberal trade

policies based on ‘commercial common sense’ is under pressure. With the dead-lock in negotiations for the Doha Development Round (DDA), dissatisfaction has grown with the progress made to support development through trade, especially amongst (African) developing countries.

In setting the priorities right for the on-going discussions on the future and potential reform of the multilateral trading system, towards a system that reflects a 21st century world, a focus on ‘inclusiveness’ has already been flagged as a key success factor. For example, in a Communication from the Government of Canada (circulated 21 September 2018), in addition to recognizing the need for a development dimension, the following is identified as important to be addressed under the theme ‘modernizing the rules of the WTO’: ‘to address the social dimensions of globalization, such as digital trade, inclusive trade, sustainable development, MSMEs, investment and domestic regulation’⁵.

Updating the WTO system to a more satisfactory set-up will demand engagement through the form of exchange of proposals and perspectives, including on how to advance the need for more inclusive trade towards a more equal spreading of the benefits from trade to those players in the global economy (especially MSMEs) that contribute to domestic economies and development. With a view to the upcoming Twelfth WTO Ministerial Conference (‘MC12’), and the ambition to agree on concrete deliverables on MSMEs in global trade, the expectations are set with regards to (thematic) proposals to be submitted by developing countries and LDCs to ensure MSMEs receive the right

support and treatment allowing them to contribute even more towards economic growth and development objectives in domestic societies and the global economy.

Main objectives sought for by proponents of the Informal Work Programme for MSMEs in the WTO

The ‘MSME Declaration’ agreed during the Eleventh WTO Ministerial Conference introduced a new perspective in the WTO system. The broad support expressed by a growing group of WTO Members reflects the key objective sought by proponents. These objectives are well reflected in the Statement made by Philippines Minister of Trade and Industry (H.E. Mr Ramon M. Lopez) during the Eleventh WTO Ministerial Conference in Buenos Aires: “On MSMEs, our economy is comprised mainly (that’s 99,6%) of small enterprises that serve as the backbone and the prime mover of both domestic and regional growth. The decisions we make must therefore be effective and meaningful to them. In this regard, the Philippines supports the establishment of a work programme on MSMEs that would further enhance their ability to participate meaningfully in international trade whether directly or as part of global value chains”⁶.

Despite the growing support from WTO members participating in the MSME Informal Working Group, there remains a large group of (especially developing country and LDC members) that is not ready to joining the MSME initiative, at this stage. In principle, it appears that most countries support reflections and sharing information around the theme of MSMEs in global trade,

⁵ Government of Canada ‘Strengthening and modernizing the WTO: discussion paper communication from Canada’ (Sept 2018), see: https://international.gc.ca/gac-amc/campaign-campagne/wto-omc/discussion_paper-document_travail.aspx?lang=eng

⁶ Statement by H.E. Mr Ramon M. Lopez, Minister, Department of Trade and Industry, Philippines, made during WTO Ministerial Conference Eleventh Session, 2017, WTO Reference: WT/MIN(17)/ST/18

similar to recognizing the importance of e-commerce or investment facilitation for economic growth and development. This said, the main reason for countries not to join the Informal Work Programme for MSMEs in the WTO concerns the belief that WTO negotiations should continue on the basis of the (single) undertaking agreed under the Doha Development Round (DDA), which places the needs and interests of developing countries at the heart of the work program. ‘Any agreed Ministerial Declaration at this Conference must make reference to the Doha mandate, even if it also recognizes the apparent differences amongst us on approach’, stated the South African Minister of Trade and Industry, Rob Davies, during the Eleventh Ministerial Conference in Buenos Aires⁷. As long as the DDA continues to be the agreed undertaking for negotiations, developing countries and LDCs are seeking assurances that discussing matters outside the DDA would not undermine this effort. Specific concerns with regards to the MSME declaration raised include S&D treatment. [See the part on ‘Talking MSMEs: access to basic data (and definitions)’.]

Over the course of 2018, and in line with the Joint Ministerial Statement, a series of thematic, open-ended discussions took place on issues identified [in the Joint Ministerial Statement] with a view to developing concrete outcomes and proposals by the end of the year.

Prior to the actual ‘MSME Declaration’ being agreed between a group of “friends of MSMEs”, WTO members discussed the theme of MSMEs on several occasions. Most concretely, in the context of the Committee on Trade and Development, the Philippines submitted a proposal related to MSMEs in July 2015 entailing

the main request for a more focused and sustained discussion on MSMEs in some of the regular (as opposed to negotiating) bodies of the WTO⁸. The proposal included the request for MSMEs to be discussed in different thematic bodies of the WTO (CTS, CTG, TRIPS, A4T councils), as well as a role for to the General Council to facilitate discussions on MSMEs in a *horizontal* manner, and for a supportive role by WTO Secretariat to take stock of discussions and initiatives on MSMEs.

Subsequently, Philippines together with Brunei Darussalam, Lao PDR, Malaysia, Singapore and Thailand laid out a road map for continuing the dialogue on MSMEs in 2016, culminating in a workshop on ‘Enhancing the Participation of Micro, Small and Medium Enterprises (MSMEs) in International Trade’ in June 2016 during the WTO Geneva Week⁹.

With the Philippines, together with other (mostly) Asian countries driving the MSME-initiatives in the years leading up to the ‘MSME Declaration’, it is worthwhile to recognize the alignment between their objectives sought in a WTO context and those sought in the context of their membership to APEC. The below box (1) provides the relevant context to understanding how the APEC regional MSME efforts have influenced the coming-about of an ‘MSME declaration’ in WTO context.

⁷ Statement by Mr Dr Rob Davies Minister of Trade and Industry, South Africa, WTO Ministerial Conference Eleventh Session, 2017, WTO Reference: WT/MIN(17)/ST/129

⁸ WT/COMTD/M/95 of 30 July 2015, Note of the meeting of 9 June 2015, and later JOB/GC/80 of 22 July 2015, Communication from the Philippines.

⁹ WTO Document reference: JOB/GC/95

Box 1: Prioritizing MSMEs in regional policy context: Asia-Pacific countries' efforts under APEC

APEC, as the premier Asia-Pacific forum, started its structural commitment on the topic of MSMEs from around the year 2000, when the MSME Working Group was set-up with the aim to foster the development of MSMEs. An important focus included eliminating and removing barriers and improving 'inclusive business ecosystems that support MSME growth' to enhance their integration into regional and global trade, including global value chains. Frequent reference is being made in APEC policy documents to the linkage between MSME development as a condition to 'building towards an equitable and inclusive APEC region'¹⁰.

Currently, under the APEC MSME Working Group Strategic Plan 2017 – 2020, the following 4 priority areas were agreed: **(i)** Entrepreneurship, innovation and the internet and digital economy; **(ii)** Financing for business expansion and capability development; **(iii)** Inclusive business ecosystem that supports MSME growth; and **(iv)** Market access for MSMEs.

Increased cooperation to support participation of MSMEs in global production chains culminated (in 2015) in the Boracay Action Agenda to Globalize MSMEs (BAA-MSMEs). The Boracay Agenda acknowledged: 'Despite our efforts at regional economic integration and cooperation, the issue of development remains a pressing concern, with inequity and inclusiveness remaining the biggest challenge across the region and within our economies.

In making growth equitable and inclusive, the goal of APEC has centered on the development of the region's small and medium enterprises (SMEs)¹¹. Concrete steps have been agreed to support MSME participation in global and regional markets, including: **(i)** Facilitate the access of MSMEs to FTAs / RTAs by simplifying and streamlining rules of origin (ROO) (members are encouraged to apply a threshold value for the waiver of certificates of origin and to encourage adoption of self-certification system for ROO), and by promoting greater use of IT and automated systems.; **(ii)** Streamline customs-related rules and regulations and assist in the compliance of MSMEs, including through encouragement of 'commercially useful de minimis values that will exempt low-value shipments from customs duties and certain entry documentation requirements'; **(iii)** Provide timely and accurate information on export and import procedures and requirements; **(iv)** Widen the basis of Authorized Economic Operators (AEO) and trusted trader programs (TTP) to include MSMEs; **(v)** Support measures to widen options on financing for MSMEs, including lending facilitation; **(vi)** Strengthen institutional support for MSMEs, including through cooperatives, data collection on MSME statistics, a network on MSME innovators and accelerators; **(vii)** Strengthen focus on MSMEs led by women.

The launch of the APEC MSME Marketplace (<https://apecmemmarketplace.com/>) was a major initiative, which includes for each country relevant (domestic and international) trade laws and commitments as well as best practice studies on selected themes.

In order to track progress on the common APEC goal (towards 2020) of growing dynamic, global MSMEs, indicators have been identified to track the region's and individual members' progress, and seek future actions to enable MSMEs in the region to 'go global'.

Sources: APEC MSME Working Group Strategic Plan 2017-2020 and APEC Boracay Action Agenda to Globalize MSMEs (2015)

¹⁰ APEC MSME Working Group Strategic Plan 2017-2020, p. 2

¹¹ APEC Boracay Action Agenda to Globalize MSMEs, 2015, see: https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Trade/2015_trade/2015_mrt_standalone.aspx

With a series of MSME events held over the course of 2016 and 2017, including an Aid4Trade review session on MSMEs (September 2016), the topic of MSMEs in global trade gained further momentum. Draft proposals were exchanged, culminating in the ‘MSME Declaration’ agreed upon by a group of WTO Members during the Eleventh Ministerial Conference in Buenos Aires in 2017. Whereas the Informal Working Group on MSMEs remains open to all members, the group indicated that they ‘aim for a multilateral outcome aimed at establishing a formal work programme for MSMEs at the next Ministerial Conference’¹².

Under this formal work programme, different levels of ambitions are possible to be pursued. Whereas the path towards a *binding* multilateral agreement on MSMEs seems unlikely given the current context, the informal discussions may envisage to reach agreement over alternative instruments that allow more flexibility and incremental progress amongst supportive countries. Outside binding multilateral agreements, the options of plurilateral agreements, or non-binding ‘soft law’ seem more in the context of MSME discussion in WTO context.

A plurilateral instrument, securing support from only a partial group of WTO members, could take the form of a statement of intention, to more ambitious binding legal agreements. For example, a plurilateral agreement could be envisaged with respect to the matter of e-commerce, where WTO members discuss towards a plurilateral agreement on the use of MSME supportive documentary requirements and/or certain de minimis value thresholds exempting low-value packages from customs and/or vat payments.

At the same time, there remains the possibility to agree on ‘soft law’ to be adopted by WTO bodies operating on the basis of multilateral agreements and consensus, which would likely need to entail statements that these are not intended to affect the interpretation of existing obligations. Such ‘soft law’ instruments could cover procedural aspects of the matters concerning the WTO body or even cover adjustments to existing commitments in an incremental manner. For example, MSME specific non-binding instruments could be agreed upon in the context of the Trade Facilitation Committee to encourage countries to widen the use of trusted trade program’s (and AEO) for MSMEs, or in the context of the Rules of Origin Committee to agree on MSME relevant encouragements or commitments by WTO Members. In addition, where existing obligations under WTO Agreements demand clarifications, there is the possibility to agree and adopt authoritative interpretations under Article IX.2 of the WTO Agreement.

For the above options and ambitions to be explored, there is a need to engage in a more thorough situation-analysis and mapping of the MSME relevant interests (‘offensive’ and ‘defensive’) and gaps in existing WTO Agreements as well as other areas of interest not currently covered in WTO agreements.

1.2 State of play: Outcomes from MSME Activities at the WTO

Exactly how WTO members could step up support to the role of MSMEs in international trade has been further explored during meetings over the course of 2017 and 2018. Whereas this whitepaper will show that the past meetings

¹² ‘MSME Declaration’, WT/MIN(17)/58/Rev.1, p. 2

served especially to exchange information and gain insights on topics of relevance to MSMEs, the year 2019 is expected to bring more clarifications regarding the concrete deliverables to be pursued.

Looking at the 5 open-ended thematic meetings held during 2018 (and a session organized during the Public Forum in October 2018), the following themes were deepened in the context of the Informal Working Group on MSMEs:

- Transparency
- Access to information
- Trade finance issues for MSMEs
- Trade costs and trade facilitation
- Technical assistance and capacity building initiatives
- Technological innovation and the internet as a tool to access global markets

As a result of the discussions and consultations held (by Ambassador Cancela of Uruguay as General Coordinator of the IWG on MSMEs) with delegations in Geneva, there seems to be a general agreement that concrete outcomes will need to be presented at the next WTO Ministerial Conference (MC12). The wrap-up meeting of the IWG on MSMEs, organized on 30 November 2018, to that end proposes a work programme for 2019 based on a standing agenda¹³: 1) to achieve concrete deliverables; 2) to expand the Group's membership; and 3) to secure commitment by Ministers at MC12 and aim for a ministerial declaration.

With regards to the ambition of achieving concrete deliverables, the three paths below are proposed along which deliverables could be discussed.

Thematic deliverables

First, thinking along trade thematic deliverables could aim at 'ensuring that trade rules are conducive to MSME integration in regional and global value chains'. Under this analytical strand of work, issues proposed for further investigation by the Secretariat include Trade Policy Reviews (TPRs), mapping national trade finance programmes and *de minimis* [in e-commerce]. Reviewing relevant MSME discussions in other WTO Committees, and preventing overlap and duplication with other WTO Committees is equally proposed as a focus of work for the coming year.

Capacity building

Second, the theme of technical assistance and capacity building was a recurring theme, to ensure that smaller firms are actually able to participate in international trade (as for example discussed during the ITC-WTO Workshop on 'Enabling MSMEs to participate in international trade' in June 2016¹⁴).

Transparency and outreach

In addition, the third theme of transparency and outreach / coordination appeared as frequently mentioned themes. Here, consensus on the need for more active engagement with the private sector seems to exist, and the proposal for regular meetings with representatives of the private sector was proposed.

¹³ Informal Working Group on MSMEs: End of year wrap-up session: summary of discussion, 6 December 2018, WTO Reference doc: JOB/GC/209

¹⁴ ITC news item on ITC-WTO workshop on 'Enabling MSMEs to participate in international trade', organized along with

missions of Philippines, Lao PDR, Malaysia, Brunei Darussalam, Singapore and Thailand (21 June 2016), see: <http://www.intracen.org/news/Enabling-MSMEs-to-participate-in-international-trade/>

SECTION 2

Promoting MSMEs in International Trade

Challenges, opportunities and perspectives on cooperation

2.1 MSMEs in Domestic Economies and International Trade

The important role played by small enterprises in the domestic economies and economic growth has been well documented, both for developing countries, LDCs as well as for developed countries. Micro firms and MSMEs account for the majority of firms in most countries (95 per cent on average), and for the vast majority of jobs. The below findings illustrate the important contribution of MSMEs in developing and developed economies:

- SME's account on average for about 60%-70% of employment in developing and developed economies alike. However, this may be understated, as many micro and small enterprises are part of the 'informal' economy, according to studies underlying ITC's flagship publication 'SME Competitiveness Index'¹⁵
- In emerging-market economies, MSMEs are responsible for up to 45% of jobs and up to 33% of national GDP. These numbers are significantly higher when informal businesses, which are often more than half

of the total enterprise population, are included in the count. Some estimates suggest that when the informal sector is included, MSMEs in emerging-market economies account for 90% of total employment.

When it comes to analyzing the role of MSMEs in international trade, a different picture arises, which shows a discrepancy between MSME contributions to domestic economies and their role in international trade. The 2016 WTO World Trade Report 'Levelling the playing field for MSMEs, which aimed to support an informed discussion on MSMEs in WTO context, analysed this discrepancy as one of the important findings.

- Whereas MSME contribution to domestic economies and employment is high, the participation of MSMEs in (global) trade is weak. For example, the report found that *direct exports* represent only 7.6 per cent of total sales of MSMEs in the manufacturing sector, compared to 14.1 per cent for large manufacturing enterprises. Among developing regions, Africa has the lowest export share at 3 per cent, compared to 8.7 per cent for Developing Asia. Participation by MSMEs in direct exports of services in developing countries is negligible, representing only 0.9 per cent of total

¹⁵ MSME Competitiveness Outlook 2015: Connect, Compete and Change for Inclusive Growth. Geneva: ITC, 2015, p. 13

services sales compared to 31.9 per cent for large enterprises. In all, the direct trade participation of MSMEs in developing countries is not in line with their importance at the domestic level.

- Research based on World Bank Enterprise Surveys showed that the ability to internationalize differs by region and by sector. For MSMEs in developing Asia, it took on average less time to start exporting compared with a firm of the same size in Africa or in Latin America. The longest time lag to export was found in the food sector, on average more than 14 years, twice the time necessary to begin exporting in the textiles and garments or office equipment and electronics manufacturing sectors. MSME compliance with sanitary and phytosanitary standards (SPS) and technical barriers to trade standards TBT) appears to be a key challenge for MSMEs in the food sector explaining this difference. Internet-enabled MSMEs are an exception to the rule of low trade participation, with very high rates of exporting approaching 100 per cent¹⁶.

Another finding is that MSMEs frequently opt for 'indirect trade' strategies as a step to internationalize, confirming the importance of global value chains (GVCs). Direct trade (occurring when a company sells goods or services directly to customers in another country) is in that sense often perceived as entailing burdensome costs regarding trade compliance and business development (finding clients in target markets etc). This leads MSMEs to opt for 'indirect trade' strategies being employed by MSMEs. Exporting indirectly is considered a less risky step to international markets, as compliance and business development costs are born by the

direct trader. Increasingly, MSMEs rely on intermediaries or other firms to undertake transaction sales and/or trade compliance services on behalf of MSMEs. These, however, come at a cost. In a changing global economy, MSMEs equally engage in international trade through other means, such as making outward foreign direct investment or attracting foreign investors to their business, outsourcing part of the production process, engaging in cross-border R&D and innovation collaboration, or licensing or franchising products or services.

Measuring the importance of MSMEs trade in global value chains (GVCs) remains a challenging task, especially when it comes to mapping indirect participation of MSMEs in trade. For example where an enterprise provides intermediate or final goods to a domestic enterprise that exports. However, data sets on developing economies confirm that indirect exports also show a discrepancy between MSMEs (2.4 per cent of total sales) and large manufacturing enterprises (14.1 per cent of total sales). Whereas in Africa both large firms and MSMEs are largely cut off from GVCs, the report mentions that even in Developing Asia most manufacturing MSMEs have both low forward and backward GVC participation rates compared to those of large enterprises¹⁷.

Whether MSMEs manage to export directly or indirectly, and move up the value chain depends to a large part on whether they are globally competitive in their chosen business activity. As mentioned in the MSME Competitiveness Outlook 2015: 'the recipe for successful MSME internationalization is therefore likely to boil down to the determinants of MSME **competitiveness**'¹⁸. Whether or not an enterprise is competitive in international markets equally depends on the

¹⁶ WTO World Trade Report, 'Levelling the trading field for MSMEs, WTO, 2016, p. 54

¹⁷ WTO World Trade Report 'Levelling the trading field for MSMEs, WTO, 2016, p. 6

¹⁸ ITC MSME Competitiveness Outlook 2015, p. XVII

capacity to deal with the challenges of trade. For MSMEs, these challenges are directly related to their size, and also are amplified when set in a global context.

2.2 Talking MSMEs

Different levels of development, definitions and access to basic data

Whereas several attempts have been made over the past years to quantify the contribution of MSMEs to the global trade and national economies, two aspects severely limit the value of the findings available. First, the diverging definitions of what constitutes an MSME. Second, the lack of reliable data on MSME contribution to international trade. Both issues are considered as key to redressing obstacles faced by MSMEs that hinder their effective participation in international trade.

First, there is no single definition of what constitutes an MSME. Definitions can differ according to factors such as country, geographic region, level of development and business culture. According to IFC (tracking MSME Country Indicators¹⁹), in some cases, the MSME definitions are not consistent within a single country (or may even be non-existent)—let alone a single region. Governments use different variables for defining an MSME. Whereas most definitions are based on the number of employees, other variables used include turnover and assets (and even alternative variables as loan size, formality, years of experience).

For example, whereas the (2008) MSME definition in Tanzania limits the number of employees to 20, this compares to: 50 employees per company in Egypt, 300 employees per

company in Vietnam, 200 employees per company in Thailand, and 100 employees per company in Ghana are considered as MSME²⁰.

OECD Trade by Enterprise Characteristics (TEC) database, which offers insights into type of enterprises engaging in trade in goods. The TEC database relies on the following definitions of enterprise size classes (also used in the 2016 WTO WTR Report on ‘Levelling the trading field of MSMEs’): firms with fewer than 10 employees are referred to as “micro” enterprises, firms with between 10 and 49 employees are classified as “small” enterprises, firms with between 50 and 249 employees are categorized as “medium-sized” enterprises, and firms with 250 or more employees are considered “large”²¹.

A second matter demanding priority attention is the need to enhance the availability of reliable data on the MSME role in and contribution to global and national economies, especially with regards to developing and least-developed countries’ context. Of the available research on the role of MSMEs, almost all studies place a footnote on the validity of findings, due to the fact that the amount of good quality MSME data is limited, particularly in developing countries. The reason for this is, on the one hand that MSME data is not always standardized across countries or by time period. Also, different institutions use different methods to collect MSME data, including different variables and scales.

Additional complexities surround the data collection and analysis regarding MSME role in international trade. These include the distinction between formal and informal MSMEs. According to ILO, the informal economy comprises more than 90% of Micro and Small Enterprises (MSEs) worldwide. Globally, 74% of MSMEs are

¹⁹ See: <https://www.smefinanceforum.org/data-sites/msme-country-indicators>

²⁰ Based on data included in ITC’s MSME Competitiveness Outlook 2015, p. 3

²¹ See: <http://www.oecd.org/sdd/its/trade-by-enterprise-characteristics.htm>

informal, rising to 77% for developing countries (according to IFC, 2013 quoted in 2015 ITC MSME Comp Outlook). Also, the fact that many MSMEs supply exporting firms in their domestic market – a form of indirect integration with Global Value Chains (GVCs) along domestic value chains – equally complicates the analysis of MSME participation in trade through GVCs.

Enhancing and rebuilding trust in the multilateral trading system requires data that provide robust and reliable insights on the role of MSMEs in international trade, as well as their contribution to domestic societies and economic growth. Improved insights with regards to the role played by MSMEs and other business in society, may equally support the (re-) building of trust and support for further trade integration and improved rule-making, such as realized through the successive rounds of WTO negotiations, with enhanced awareness of the (potential) impacts on society.

With regards to improving insights on the (various forms of) MSME participation in trade, it can be said that investing in better data collection and more research are needed to be able to characterize the various forms of MSME participation in trade²². To enhance value of data on MSMEs, in line with IFC MSME Country Indicators (2014) report, possible priority actions include:

- To develop standards and a unified and standardized method for data collection on MSMEs, by enhancing coordination between institutions gathering MSME data;
- Improve MSME data by focusing inter alia on: on the collection of time series data (crucial for evaluating business regulation reforms, for example), a wider collection of statistically representative data

encompassing all sectors of the economy (i.e. not only manufacturing), and to develop better differentiation between formal and informal enterprises,

- To initiate actions at regional level, ultimately expand to the global level;
- To allow on breakdown of MSME data based on gender.

2.3 Main Challenges Faced by MSMEs in Trade

Over the past years, a growing recognition has taken ground that not all companies benefit in the same way from open trade. The reasons for this can be found both in challenges faced by MSMEs in coping with capacity-related challenges at firm-level on the one hand, and policy and business environments on the one hand.

Internal challenges

At firm-level, larger firms are more likely to export than MSMEs, in part due to the fact that they are more productive and as result also pay higher wages (attracting higher educated workers). Firm level capability and capacity is crucial for firms' success; from managers' ability to the technology tools available in dealing with supply chain processes and external compliance demands.

In developing countries, the productivity gap between small and large firms tends to be much more pronounced than in industrialized countries. For example, in India enterprises with more than 200 employees have been found to be ten times more productive than enterprises with five to 49 employees. As argued in ITC's MSME Competitiveness Outlook 2015 (and based on

²² WTO World Trade Report 2016: Levelling the trading field for MSMEs, p. 180

literature research), the effects of a rise in MSME productivity, thereby closing the productivity gap, can lead to higher wages with positive and equitable distributional effects. Especially higher wages for female employees is said to have positive effects on the wider economy: women in developing countries are more likely to invest in their families and in the community at large, leading to positive impacts for the country as a whole²³.

One of the ways of closing the productivity gap is through engagement in trade through internationalization: internationally active firms tend to pay higher wages, employ more people and have higher productivity levels.

Whether or not MSMEs manage to become successful in international trade depends on many factors, with the broader term 'competitiveness' coming to mind. Whereas traditionally the larger MSMEs tend to engage in international trade, new types of MSMEs (so-called 'born-globals') are emerging, trading on regional and global markets from an early stage, tapping into new opportunities in the era of technological innovation and the digital economy.

However, international trade continues to be dominated by large firms, which are better able to cope with market conditions as well as market power. Larger firms equally have the ability to invest in costly advisory services for analysis and compliance, as well as in technology tools to manage supply chains (such as supplier relations tools), and automate (part of) their trade compliance processes, such as through applications (SAP Global Trade System, MIC or Amber Road trade compliance tools). Well-paid and relatively higher educated employees govern and coordinate complex supply chain processes. MSMEs on the other hand, rely on information

provided by trade support institutions (TSIs) and sometimes (subsidized) advisory support.

SMEs participating in an OECD survey (2006) considered problems "internal" to the firm to be more important barriers to access to international markets than barriers stemming from the home and foreign/host environment within which firms operate, including policy barriers (tariffs and regulations). For this survey, MSMEs listed 47 barriers according to the degree to which they acted as an impediment to their ability to access international markets²⁴.

Policy and business environment

Looking at the policy- and business environment related challenges, it can be said that small firms are adversely affected by tax, trade and access to finance policies, limiting their ability to fully harvest benefits from the open and rule-based trading system. To that end, the supporting countries of the WTO Joint Ministerial Statement from the "friends of MSMEs" referred in their statement to costs and obstacles for MSMEs in international trade, [we]:

- *note* that 'costs related to foreign trade operations represent a significant burden for the participation of MSMEs in international trade'
- *acknowledge* that 'MSMEs from developing countries and especially least developed countries among them face additional obstacles when participating in international trade'.

Policy and business-environment related challenges for developing country and LDC MSMEs, can be categorized into the following main themes:

²³ ITC MSME Competitiveness Outlook 2015, p. 4

²⁴ OECD, *The Role of Trade Barriers in MSME Internationalisation* (2016) Available from:

https://www.researchgate.net/publication/5206119_The_Role_of_Trade_Barriers_in_SME_Internationalisation

- Transparency and access to information
- Trade costs as result of NTM's: Standards and certification
- Trade costs as result of NTM's: Trade facilitation
- Access to finance

The above categorization of main obstacles to international trade for developing country MSMEs is in line with the obstacles identified in the 2016 WTO World Trade Report on 'Levelling the trading field for MSMEs'. In this report, the 4 main

categories are based on a ranking of major obstacles to enter and move up value chains which encompasses OECD and WTO survey results from 2013 from 524 firms and business associations in developing countries²⁵. This questionnaire focused on 5 key sectors: agrifood, textiles and apparel, tourism, and transport and logistics.

A brief description of the challenges faced by MSMEs, with some best practices and facts, are outlined in Table 1 below.

Table 1: Challenges faced by MSMEs, by category

Challenges faced by MSMEs	Facts and Best practices
Transparency and access to information	
<p>Transparency and information access are general and persisting challenges for MSMEs. 'Access to Information' was discussed during a dedicated meeting of the IWG on MSMEs in May 2018 (hosted by Switzerland)²⁶, During this meeting, the relevance of trade information for smaller companies was emphasized in the ambition to trade. The limitation of national and regional information portals for export on which MSMEs rely was also highlighted, and the opportunity for a possible multilateral level solution was raised. The launch of the Global Trade Helpdesk (GTH) (www.helpmetrade.org), an ITC-UNCTAD-WTO initiative, was celebrated in December 2018.</p> <p>With regards to access to information for MSMEs, this concerns mainly the working of the foreign markets; in particular accessing export distribution channels and in contacting overseas customers. A 2012 survey amongst 76 Iranian companies on barriers to export for Iranian exporters of fruits and vegetables, found that lack of information and access to knowledge about foreign markets is a key obstacle for MSMEs. This challenge was perceived more important for non-exporting companies than for exporting companies, pointing to 'the need for assistance programs to target educating MSMEs on how to enhance knowledge in the global marketplace'²⁷.</p> <p>For MSM's in developing countries and LDCs accessing information on trade rules, procedures (such as customs and clearance procedures) and market access conditions is perceived as especially burdensome.</p>	<p>The ASEAN Trade Repository (www.atr.asean.org) provides transparency on the trade and customs laws and procedures of all 10 ASEAN Member States. Through the portal, the Members' National Trade Repositories are accessible with one click. In addition to information regarding tariffs, rules of origin and non-tariff measures, administrative rulings are available as well as lists of authorized economic operators and best practices in trade facilitation.</p> <p>The recently launched Trade Helpdesk (www.helpmetrade.org) aims to improve the quality and transparency of trade-related information and strengthen public-private dialogue. Inter alia, the tool provides a unique entry point to several existing trade-related information sources, supports trade analysis and intelligence gathering and enhances awareness and capacity of MSMEs on the use of trade information.</p>

²⁵ Fourth Global Review of Aid for Trade, OECD and WTO, 2013

²⁶ See WTO document reference JOB/GC/191

²⁷ A survey on export barriers faced by Small and Medium Sized Enterprises in Iran, Kabiri and Mokshapathy, 2012, p. 4, see: <http://eprints.uni-mysore.ac.in/15146/1/27294.pdf>

Whereas **technology innovation** presents opportunities for companies to enhance efficiency in analyzing trade information, including through artificial intelligence (AI) and data analytics, these company-specific applications remain hard to access and costly for MSMEs meaning companies rely on employees to analyse trade information and possible compliance gaps.

When it comes to information on national trade (customs, standards, administrative) rules and procedures, the most reliable remains to enter information directly provided by the domestic Government. To this end, the 2nd open-ended WTO IWG on MSMEs discussed the idea to map national information sources (country surveys), and to ensure national contact points (NCP's) on trade information and/or on MSMEs²⁸. WTO Members are invited to reflect on best practices and experiences as well as other initiatives.

Finally, the persistent infrastructure gaps – specifically **limited internet access** - in developing countries and LDCs, especially rural areas, remains a key obstacle to accessing relevant information and connecting with foreign markets.

Transparency on business regulatory environment

Transparency relates more to the ability to track policy changes, as well as to comment and engage with Government regarding the perceived impact of policy changes. MSMEs have difficulty in keeping track of policy developments, also due to the fact that announcements with regards to changing policies and new measures are not always noticed and comment periods not always respected. In a volatile trade environment, there is a need to step up accessible tools and instruments for MSMEs be able to comment, as well as to take note of new trade measures and understand their implications.

During the 2018 IWG on MSMEs, transparency appeared re-appeared in several meetings held as a cross-cutting and recurring theme. Inter alia, the need for national contact points (NCP's) was discussed, which could provide policy updates and help collect information. In addition, the role of the WTO Trade Policy Reviews (TPR) was discussed. The challenge of different definitions on what constitutes an MSME complicates the decision-making of MSMEs when it comes to outward investment (incentives), benefiting from subsidies and comparing trade data relevant to MSMEs.

Trade costs as result of NTM's - Standards and certification

MSMEs, particularly in developing countries and LDCs perceive costly product standards and certification procedures as a key obstacle to international trade, both for companies in goods and services.

Mainly used for the purpose of consumer protection, compatibility and sustainability, implications for enterprises go beyond the mere requesting of forms. In fact, the compliance processes needed to meet conditions set by Government and/or private standards raises costs of doing business.

Standards and regulations can be industry-specific (such as food safety regulations for fruits and vegetables or the car industry) or general (such as accounting standards), and can be governed by public or private sector actors.

Whereas standards and regulations (part of non-tariff measures or NTM's) mostly constitute legitimate trade policy instruments, used by Governments for reasons ranging from consumer protection to sustainability, they continue to pose a key challenge for MSMEs. According to ITC's Standards Map, there are on average 33 standards operating in a country, with more than 106 in the European Union and much lower amounts in Sub-Saharan Africa²⁹. In relative terms, this means MSMEs from countries with a lower number of standards, need to step-up compliance efforts in order to enter international markets (such as EU) with a higher number of standards.

For MSMEs, standards and regulations demand investments to comply, which raise fixed costs. Developing country MSMEs are less likely to have financial means to finance those investments. A study conducted by CUTS on NTB's faced by East African Community (EAC) exporters highlighted the fact that for agriculture exporters the EU market conditions of food safety standards and especially maximum residue level (MRL) of pesticides are extremely difficult for farmers from Kenya to satisfy³⁰.

An Africa-based **Non-Tariff Barriers mechanism** (www.tradebarriers.org) integrates trade measures from the Regional Economic Communities (RECs) of Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), Southern African Development Community (SADC). The tool allows

²⁸ IWG on MSMEs, communication from 26 June 2018, WTO document: JOB/GC/191

²⁹ International Trade Centre, MSME Competitiveness Outlook (2016), 'Meeting the Standard for Trade Executive Summary' (2016), Geneva, p. 13

³⁰ Non-tariff Barriers on selected goods faced by exporters from the EAC to the EU and USA, CUTS (2015), Guei / Schaap, p.

For MSMEs in goods, consumer protection regulation are especially strict, such as in agriculture and manufacturing, specifying product and process characteristics, and sometimes supplier characteristics. Increasingly, for MSMEs supplying companies in international value chains, labour and human rights related standards and regulations are of key importance (such as ILO core conventions on labour rights, ISO 26:000). In addition, downstream companies may have their company-specific supplier-relation conditions. Voluntary standards, such as Fair Trade Label Max Havelaar in the coffee, or MSC in fisheries, set the bar high for MSMEs. However, a visible trend towards new (voluntary) standards is that also developing country standards are introduced. According to ITC's MSME Competitiveness Outlook 2016, 36% of new standards introduced between 2010 and 2015 are located in emerging economies.

Recognizing the compliance burden for MSMEs, WTO members and national Governments have engaged in efforts to further harmonize regulatory standards and put in place mutual recognition to lessen the compliance burden (often through regional trade agreements or FTA's). Still, the complexity and fragmented nature of NTM's demands substantial and disproportional resources from MSMEs to ensure compliance. For example, there are sector-specific standards put in place by Governments (such as for the automotive industry), over-arching management standards (such as ISO), and private standards introduced by business, often for sustainability purposes (also referred to as voluntary safety standards or VSS).

business and government representatives to monitor, report and support elimination of non-tariff barriers (NTBs). Concrete timelines for elimination of NTBs are agreed, and complaints can be filed through mobile phone or online. So far, 634 complaints were registered, 565 complaints resolved, and 69 complaints unresolved.

Trade costs as result of NTM's – Trade facilitation

Whereas the WTO Trade Facilitation Agreement provides the framework to bring down costs related to cumbersome customs procedures and lack of transparency and coordination between customs administrations, which have been deemed especially harmful to MSMEs. Still, the implementation of the WTO Trade Facilitation Agreement will take time and depends on domestic Governments' capacity and willingness to address the required changes and reforms. And even with the WTO TFA implemented, customs and trade transaction costs and delays remain a key challenge for MSMEs to participate in international trade. Trade facilitation, according to the UN, can be defined 'the systematic rationalization of procedures and documents for international trade (trade procedures being the activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade'³¹. Still, trade transaction costs are highest in the poorest countries of the world. For instance, according to the World Bank Doing Business Index³² the average cost to move a container across the border is 43% higher in Least developed countries (LDCs) than in other developing countries. According to the OECD, the potential cost reduction from a "full" implementation of the TFA is 16.5% of total costs for low income countries (LICs), 17.4% for lower middle income countries (LMICs), 14.6% for upper middle income countries (UMICs) and 11.8% for OECD countries, based on analysis using the OECD Trade Facilitation Indicators (TFIs).

Simplification of customs procedures would particularly foster the entry into the export market of small firms that would otherwise only sell in their domestic markets (WTO, 2016b). Moreover, whereas increased automatization of customs procedures benefits MSMEs, the WTO TFA commitments with regards to for example Single Window mechanism remain 'best-endeavour' slowing down the pace of improvements that would particularly be of interest to MSMEs.

According to a 2013 OECD study on 'the potential impact of trade facilitation on developing countries' trade', the most significant trade facilitation measures (i.e. those that have the highest impact on trade volumes) are information

³¹ As included in ITC's 'SME's and the WTO Trade Facilitation Agreement manual' (2015), see:

https://tfafacility.org/sites/default/files/case-studies/cs_g_its_smes_and_the_wto_tfa_a_training_manual_december_2015_e.pdf

³² www.doingbusiness.org

availability, harmonisation and simplification of documents, automated processes and risk management, streamlining of border procedures and good governance and impartiality³³.

In the context of the ambition to work towards concrete outcomes in the context of the IWG on MSMEs, the specific SD&T provisions agreed upon under the WTO TFA agreement is equally of interest to be taken into account from the perspective of incorporating technical assistance commitments, and flexible (self-assessment based) commitments from developing countries and LDCs.

Access to finance

Access to finance is generally considered as challenging for MSMEs, particularly in developing countries and LDCs. The UN Global Goals agreement on Financing for Development (Addis Ababa, July 2015) opens with a concrete reference to MSMEs, 'which create the vast majority of jobs in many countries, but often lack access to finance'. As part of the agreement, countries agreed to work 'with private actors and development banks' to propose 'appropriate, affordable and stable access to credit by MSMEs'. Concrete suggestions are provided with regards to the design of financial regulations, to address constraints in obtaining finance, especially for women entrepreneurs³⁴. A WTO study demonstrated Access to finance is an acute problem for MSMEs: over half of trade finance requests by MSMEs are rejected, against just 7 per cent for multinational companies (WTO, 2016a). Whereas the growth of the platform economy is generally welcomed as bringing down trade costs for MSMEs, it is important to state that **restrictions on payment methods** available and/or allowed in certain geographies continue to constitute a particular limitation for MSMEs in developing countries and LDCs wishing to engage in e-commerce trade.

A key opportunity is offered by technological innovations that allow MSMEs to benefit from cross-border payment systems that are less burdensome. For example, the ability for MSMEs to conduct safe transactions through e-commerce platforms, circumventing traditional payment systems which have proven particularly challenging for MSMEs in developing countries and LDCs.

2.4 MSME Participation in a Changing Trade Environment

Looking at technological developments, the past years have seen a vast number of studies dedicated to the changing face of trade in times of digitization and growing technology innovations. As found by the WTO World Trade Report of 2018, new technologies may help reduce trade costs of MSMEs in developing countries and LDCs as well as developed countries. Most notably by decreasing the relevance of distance, matching consumer preferences to products and facilitating searches. Looking at the specific opportunity of e-commerce, innovations such as cross-border payment systems offer MSMEs in developing

countries and LDCs new opportunities to reduce trade costs.

Whereas the potential of new technologies to facilitate trade for MSMEs and developing countries disproportionately can be large, how exactly the changing trade environment should translate to new trade rules that are supportive for MSME development is yet to be fully understood and demands further research.

Within the context of the WTO (and other international fora such as ICC), e-commerce is an area gaining substantial interest when looking at the interests of MSMEs. Whereas rule-making in a WTO context is not supported by all WTO members (especially developing countries and LDCs wishing to keep to the agreed undertaking

³³ OECD study, Moisé, E. and S. Sorescu, "Trade Facilitation Indicators: The Potential Impact of Trade Facilitation on Developing Countries' Trade" (2013), OECD Trade Policy Papers, No. 144, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5k4bw6kg6ws2-en>

³⁴ ITC MSME Competitiveness Outlook (2015), p. 13

under the DDA), e-commerce has also been discussed in the context of the IWG on MSMEs (most notably the *de minimis* matter).

Nonetheless, a selected group of members (71 members) agreed on a “Joint Statement on Electronic Commerce,” signed at the Eleventh WTO Ministerial Conference (MC11) in December 2017 in Buenos Aires, Argentina³⁵. Whereas ACP-group WTO members are largely absent from this initiative around e-commerce, the Asian developing countries and some LDCs are signatories (including for example Lao PDR and Cambodia).

The statement mentions “[We] reaffirm the importance of global electronic commerce and the opportunities it creates for inclusive trade and development. We share the goal of advancing electronic commerce work in the WTO in order to better harness these opportunities”. With a view to the identified potential of e-commerce for MSMEs, the proposals tabled in this area are of interest to the work undertaken in the IWG on MSMEs. Currently, proposals include references to a variety of topics with potential overlap, including trade facilitation, market access commitments, consumer protection, and data flows.

Exploratory work includes the call for “flexibility for developing countries in binding market opening and undertaking new obligations on regulatory issues.”, with suggestions to explore potential synergies with the Aid for Trade initiative or drawing on the experience of the WTO’s Trade Facilitation Agreement (TFA).

Making use of the increased connectivity between business and consumers, e-commerce and the platform economy have already proven to offer

MSMEs abilities to trade and internationalize. Key benefits of cross-border e-commerce include the possibility to diversify and mitigate compliance risks (due to logistic service providers offering trade compliance services, for example), increased access to geographic markets and/or to goods and services inputs.

Clearly, new technological innovations and applications making use of Artificial Intelligence (AI) offer the opportunity to benefit trade in goods and services: to optimize route planning, reduce logistics costs through cargo and shipment tracking or use smart robots to optimize storage and inventory. Customs compliance costs and time spent by MSMEs are expected to further reduce costs thanks to blockchain and AI developments.

Challenges in e-commerce

On the other hand, MSMEs engaging in e-commerce cross-border trade continue to face a diverse range of challenges – some of which are unique to e-commerce, others that are more widely perceived. Some common e-commerce related challenges, as outlined in literature and research, are reviewed below.

Firm-level capabilities for e-commerce

Firm-level capabilities continue to be determinants for success, with not all MSMEs showing ‘e-commerce readiness’. Specific challenges include branding and marketing, especially with a view to the ‘global marketplace’ with different languages and consumer preferences. A study by APEC Business Advisory Council (2015) shows the differences across economies; e-commerce MSMEs from Canada, Malaysia and Singapore are relatively more

³⁵ WTO Joint Statement on Electronic Commerce, 13 December 2017, WTO document ref: WT/MIN(17)/60. See also WTO news item:

https://www.wto.org/english/news_e/news17_e/minis_13dec17_e.htm

competitive in terms of cross-border e-commerce than those from Mexico, Peru and Viet Nam. For Vietnamese MSMEs wishing to engage in cross-border e-commerce, specific challenges are financing availability, and basic business intelligence and capabilities to run companies³⁶.

Regulatory challenges

MSMEs in e-commerce continue to face 'traditional' NTMs, such as in the area of customs and standards / certifications as well as tariffs and duties, increasing the landed cost of products. The increasing use of and reliance on courier companies means less compliance burden for MSMEs, but also the risk that outsourcing potentially raises costs as well as risks in terms of non-compliance.

De minimis in customs and VAT

A specific mention to be made here concerns the facility for consignments not exceeding de minimis threshold value to be exempt from paying customs and/or VAT duties, and in some cases also benefit from a simplified customs declaration. However, the lack of predictability and transparency regarding de minimis thresholds and procedures continues to challenge especially MSMEs in developing and LDC countries.

The wide variations in de minimis thresholds and formats is reflected in the following comparison (based on WCO): Chili does not offer any 'de minimis' for customs nor taxes; EU countries maintain a 150 Eur / 45 Eur de minimis for customs duties, and 22 for VAT; Indonesia charges VAT of 10%; Japan de minimis thresholds for customs and VAT is 10,000 JPY,

and Mexico maintains different de minimis levels for postal operations versus courier operations.

It is to be noted here, that from a risk perspective, customs administrations are increasingly concerned with the rise in e-commerce packages. From a budget perspective, the de minimis thresholds seem equally under pressure, as Governments miss out on the customs and VAT collection. The following quote from a recent WCO report on e-commerce is telling: 'These [de minimis] thresholds have given sellers and buyers an incentive to undervalue or misdeclare consignments. Many consignments are sent from the commercial consignor as "gifts" even if they are normal sales/purchases. Also, there is a clear risk of prohibited goods entering the country by way of misdeclaration'³⁷. As

Data (privacy) restrictions

MSMEs in e-commerce rely on big data analysis to target advertising for online sales. The increase in data privacy related legislation, and restrictions on access to customer browsing data for analysis limits the ability for MSMEs to increase their competitiveness online, poses 'business environment' challenges that impede MSMEs to enhance e-commerce competitiveness according to a recent APEC report (2017). In addition, in some countries, so-called 'geo-blocking' limitations also may limit consumers from certain economies to sell on websites or marketplace platforms (such as Chinese Taipei MSMEs being unable to sell to consumers in economies that block Chinese Taipei websites)³⁸.

³⁶ Promoting e-commerce to globalize MSMEs, APEC (2017), see: <https://www.apec.org/Publications/2017/11/Promoting-E-commerce-to-Globalize-MSMEs>

³⁷ WCO Study report on Cross-Border E-commerce, WCO, March 2017, see:

<http://www.wcoomd.org/~media/wco/public/global/pdf/topics/facilitation/activities-and-programmes/e-commerce/wco-study-report-on-e-commerce.pdf?la=en>

³⁸ Idem, p. 32

Competition and market power

The growth of e-commerce platforms in multinational enterprises offers benefits as well as challenges for MSMEs by reducing bargaining power. Most notably, a platform such as Alibaba group has developed into an entire e-commerce ecosystem offering payment system, financial services, logistic data, data management services and marketing technology, connecting over 10 million annual active sellers and 439 million annual active buyers (end of 2016).

Opportunities

With diverse levels of economic development, any negotiation on e-commerce will likely entail a recognition of the ‘digital divide’ limiting developing countries business to benefit from the opportunities created by technological advancements, mainly as result of lacking infrastructure and accompanying access.

Capacity building

Governments and private sector players increasingly engage in technical assistance and capacity building to support MSMEs in the digital age. Examples include the partnership between Government of Malaysia and Alibaba to set up ‘Digital free trade zones’, combining a physical zone and a virtual platform to connect MSMEs with potential export markets and facilitate cross-border e-commerce activities. The Government of Singapore launched “SMEs Go Digital” which aims to facilitate the adoption of digital technologies by MSMEs. Available best practices to support MSMEs to improve their related firm-level capabilities needed for e-commerce cross-border trade include the dedicated APEC CBET eLearning platform. The growing role of platforms such as Alibaba Group in partnering with the technical support.

Special and Differential Treatment

Finally, looking at the possibility to negotiate flexibilities in a WTO context, the different levels of development amongst WTO Members, which are taken into account in WTO Agreements and partly addressed through special and differential treatment provisions (SDT), is a matter to be considered. SDT provisions give developing countries and LDCs special rights and allow developed countries to grant more favorable treatment to developing countries and LDCs. Future WTO negotiations and agreements will likely be influenced by the ‘innovative’ solution found to reach a multilateral consensus for the WTO Trade Facilitation Agreement, which respects differences in levels of development in implementing trade obligations and allows technical assistance support for those countries needing it.

Discussing SDT in the context of MSMEs faces particular challenges. Due to the differences across geographies in definition of what constitutes an MSME, agreeing on any concrete rules that would imply MSMEs, whether be it SDT or ‘regular’ WTO provisions seems more complicated.

For example, whilst respecting the underlying non-discrimination principle of the WTO, one could imagine that so-called special and differential treatment (SDT) provisions could be developed to grant Governments certain flexibilities or exemptions for implementing obligations to safeguard interests of MSMEs, or to support developing countries build capacity of MSMEs. In addition, due to the fact that MSMEs definitions in developing countries often are much narrower than MSME definitions in OECD countries (often up to 300 employees), there is the fear that benefits from S&D treatment would de facto ‘erode’ for developing countries and LDCs.

This matter (i.e. the possible value of SDT provisions for advancing MSME interests) demands additional research and follow-up discussions towards possible solutions. Also, coordination with the WTO Committee on Trade and Development (CTD) is important, due to the CTD role in considering ways in which developing countries, particularly the LDCs, may be assisted to make best use of special and differential treatment.

2.5 Cooperation

MSME provisions in Regional Trade Agreements (RTAs)

With the dead-lock in DDA negotiations, the ability for the multilateral trading system to set rules in new areas has been partly overtaken by bilateral and regional trade agreements. Whereas RTAs reflect bilateral and/or regional dynamics and interests, their MSME provisions can nonetheless prove relevant in guiding possible discussions on introducing and/or enhancing MSME references in WTO rules.

With regards to MSMEs, a tendency is visible towards RTA's including dedicated provisions on MSMEs, with over half of all 136 RTAs analyzed (notified to WTO as per June 2016) have incorporated explicit MSME provisions. Some RTAs refer explicitly to micro enterprises. The insights from MSME coverage in RTA's may prove useful in advancing discussion towards concrete deliverables in a WTO context with regards to MSMEs.

A brief description on the nature of these provisions, based on a WTO paper (2016), provides guidance to possible attention areas for the WTO IWG on MSMEs to possibly overcome the growing fragmentation of such provisions across trade agreements through multilateral provisions.

Most notably, it is recognizable that, 65% and 31% of the RTAs incorporating MSMEs-related provisions were agreements negotiated, respectively, between developed and developing countries (88 North-south RTAs) and between developing countries (42 South-South RTAs). Only 6 RTAs negotiated between developed countries incorporate MSMEs-related provisions. The main forms of MSMEs-related provisions in RTAs are cooperation, followed by exemptions / flexibilities, and recognitions / agreement. Some RTAs include institutional arrangements related to MSMEs, such as a dedicated MSME body or committee to monitor, discuss and oversee implementation of the agreement.

Key findings of the WTO working paper on 'Provisions on small and medium-sized enterprises in regional trade agreements' included the following:

- SME-related provisions often take the shape of chapters on MSMEs or dedicated articles, whereas the types of commitments are highly heterogeneous and differ in terms of scoping and commitments;
- Commitments remain mostly 'best endeavors language'
- Most common categories of MSMEs-related provisions in RTAs are provisions 1) promoting cooperation on MSMEs and 2) specifying that MSMEs and/or programs supporting MSMEs are not covered by the RTAs' obligations provisions
- Relevant MSME-references in regulatory provisions are less frequent but may concern government procurement, trade facilitation, e-commerce, intellectual property, transparency.

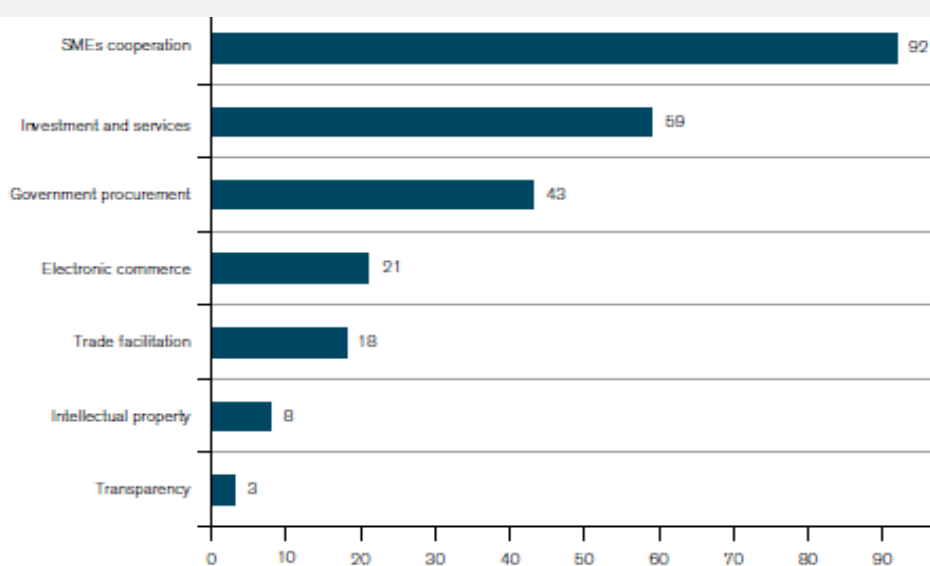
Examples on specific articles on MSMEs are included in different ways in different RTAs (as captured below in Box 2, based on WTO analysis of WTO RTA database):

- **SME Cooperation:** for example stating that ‘cooperation in the field of trade development shall focus on the development of the private sector, in particular MSMEs engaged in trade’ (EU – South Africa), or establishing MSME National Contact Points (EU-Japan)
- **Investment and services:** MSME-related reservations (such as in financial services allowing extended loans for MSMEs, in the EU-Korea RTA, or in fishing and mining sector) specific reference to facilitation of MSMEs in tourism services in some RTAs
- **Government procurement:** Specific articles on MSMEs included in some RTAs (such as between Colombia, El Salvador, Guatemala and Honduras)
- **Intellectual property:** RTA Japan-Thailand has a specific article on MSMEs in the intellectual property chapter
- **Trade facilitation:** MSME-related provisions in RTA’s that refer to trade facilitation are found in a number of RTA’s. Most commonly, these provisions recommend

taking into account the interests of MSMEs, or that parties shall consult respective business communities on their needs with regards to trade facilitation (FTA between EFTA states and Canada). More specific provisions are also found, such as whereby parties agree that ‘procedures guaranteeing the right of appeal against customs administrative actions shall equally be accessible for MSMEs’ (FTA between EU – Colombia and Peru, as well as EU – Cote d’Ivoire).

- **E-commerce:** an increasing number of RTA’s encompasses a specific chapter on e-commerce, with provisions promoting and facilitating e-commerce that are generally not specifically applying to a firm of any size. However, specific and different types of MSME-related provisions on e-commerce are found in RTA’s, for example: recognizing the importance of cooperating to overcome the obstacles encountered by MSMEs in e-commerce (FTA Singapre and Chinese Taipei).

Box 2: Main areas of MSME-related provisions in RTAs



Note: Total number of RTAs with at least one MSME-related provision belonging to the respective category.

Source: WTO RTA database analysis as captured in World Trade Report 2016, p. 121)

Finally, an interesting RTA currently under negotiation is the EU – Indonesia FTA, where the EU proposal with regards to MSMEs has been shared through an explanatory note, showing the intention to incorporate the following elements on MSMEs: ‘Provisions in various chapters of the agreement will simplify trade in goods and services and reduce export related costs per unit, which will enable more small firms to do business in both markets. The benefits will include less burdensome technical rules, compliance requirements, customs procedures, rules of origin, protection of intellectual property’.

The EU explanatory note also states that: *‘In addition to other provisions of the agreement serving the interest of smaller companies, the EU proposal on MSMEs aims specifically to: (i) Ensure that small companies are provided with accessible information about requirements to access both markets; (ii) Help small firms to benefit fully from the trade agreement through an appropriate institutional setup appropriately linked to the bodies created under other chapters of the agreement.’*³⁹.

In conclusion, it can be said that MSME provisions in RTAs provide an interesting overview of possible formats (exemptions, agreements, best endeavor vs hard commitments) and themes (from trade rules in goods and services as well as new areas to institutional coordination) that could be considered by WTO members wishing to discuss how to advance and possibly incorporate MSME development in a WTO context.

Cooperation: technical assistance and capacity building targeting MSMEs

For what reasons do Governments intervene and support MSMEs? There are generally two dimensions to the answer. First, the belief that supporting MSMEs will improve the distribution of income as MSMEs are in many economies key to household incomes and employment and hence contribute to alleviating poverty. Second, the view that certain market failures (such as the risk-averse banks not easily lending to MSMEs) affect MSMEs adversely and require public intervention.

At domestic level, most Governments provide targeted services to support MSME (and general business) development and engagement in international trade, such as through chambers of commerce and Trade and Investment Promotion Organizations. In addition, Governments increasingly put in place MSME dedicated policies (such as under ‘Small Business Acts’), and engage in bilateral arrangements to support MSMEs (see chapter 1.2 h).

At international organizational level, several international organisations provide technical assistance to MSMEs, complementing the role of domestic Governments and WTO, and with main efforts focused on advancing internationalization of MSMEs. Whereas valuable work is undertaken, the 2016 WTO World Trade Report mentions the need to ‘reduced unnecessary duplication and enhanced complementarity between efforts’.

In addition, with a fast changing (digital) economy, the question arises whether current technical assistance efforts fulfill the actual and changing needs of MSMEs? Little research sheds

³⁹ EU Explanatory note on ‘the EU Proposal on Small and Medium-sized Enterprises (SMEs)’, February 2017,

light on this matter, although there are noticeable efforts to understand better what the digital economy implies for MSME success in international trade (such as by ITC's dedicated MSME Competitiveness Outlook Report for 2018 on 'Business ecosystems for the digital age').

As part of the Public Forum 2018, a dedicated session was organized by El Salvador and the Philippines on the theme of "Enabling Global MSMEs: How technical assistance and capacity building initiatives could take into account the trade needs and challenges of MSMEs?"⁴⁰.

Whereas technical assistance and capacity building has not previously been the core business of the WTO, the MSME-related discussions may lead to connections being explored between agreeing and implementing trade rules and obligations on the one hand, and agreeing on targeted support to developing countries and LDCs to meet those commitments. The unique SDT provisions agreed upon under the WTO Trade Facilitation Agreement may provide inspiration and pave the way for other (new) MSME relevant topics to be agreed upon, be it on the condition that flexibilities exist and technical assistance and capacity building is provided to developing countries and LDCs (or a specific selection of countries).

⁴⁰ See WTO document JOB/GC/205 on the outcomes and

SECTION 3

WTO Informal Working Group on MSMEs: Ways Forward

Different ways and means exist to integrate MSMEs in the multilateral trading system, be it through governance and coordination processes, enhanced rule-making, or considering assistance and support – especially targeting developing countries and LDCs.

Recommendations are put forward along three major themes: thematic and analytical discussions towards trade rules that support MSMEs in international trade (1), transparency and data availability (2), coordination and outreach (3), and SDT, technical assistance and capacity building (3).

Confirming key interests and positions, as well as possible coalitions on certain MSME-relevant themes in old and new WTO discussions...

First, an analytical strand of work is expected from WTO Members to work towards trade thematic deliverables which would aim for trade rules that are conducive to MSME integration in regional and global value chains.

This paper provided an overview of key challenges and opportunities for MSMEs which could figure as a reference point to exploring concrete thematic deliverables on MSMEs in a WTO context. The past year of discussions in the IWG on MSMEs put forward issues for further investigation, including national trade finance programmes and *de minimis* [in e-commerce]. Based on WTO membership engagement and proposals, other

topics may equally be introduced such as presented in this paper as key challenges and/or key opportunities for MSMEs (chapters 1.2c and 1.2d). Reviewing relevant MSME discussions in other WTO Committees, and preventing overlap and duplication with other WTO Committees is equally proposed as a focus of work for the coming year.

The outcomes from the past years of MSME-related discussions, paves the way for WTO members (especially from developing countries and LDCs) to continue mapping specific thematic areas of interest, deepen understanding on (priority) interests and engage actively on those matters where the impact can be meaningful and viable progress can be achieved.

In this exercise, inspiration and guidance for setting objectives towards concrete and feasible deliverables to be reached in the context of MSME discussions in WTO can be found in: MSME-relevant provisions in RTA's (see chapter 1.2e) and agreements reached in the context of regional and/or domestic settings (such as APEC, see chapter 1.1b box 1). A summary of findings from the WTO analysis on MSME related provisions in RTAs (up to 2016) is provided in chapter 1.2e.

On the basis of a first prioritization of (thematic) issues, efforts should concentrate on collecting additional data and analysis from different regions and sources (existing and to be undertaken studies) to be used as a basis for formulating positions and developing proposals. MSME interests will encompass *all* areas of trade, both old and new.

This means, that efforts to advance MSME development in a WTO context may entail proposing MSME provisions in *existing* WTO Agreements (commitments, flexibilities, exemptions), as well as ensuring MSME interests are reflected as members discuss *new issues* in WTO context (such as e-commerce or investment facilitation). Similarly, based on priority themes identified, the feasibility and desirability of the various WTO instruments are to be explored; ie multilateral and plurilateral agreements, binding and non-binding instruments.

Furthermore, as building coalitions is a key facet of WTO negotiations, there is a need for each WTO member with an interest in MSMEs to clarify own positions, as well as in dedicated group format (LDC-group, ACP-group etc). Questions to be asked include: what is the willingness of our Government and/or coalition to engage in WTO discussions on old and new matters to advance MSME interests on selected priority topics?

Revisiting transparency mechanisms in the WTO and the value of data with a view to advancing MSME interests...

Second, with regards to transparency, the new structural perspective on MSMEs in a WTO context calls for a revisiting of instruments available in relation to transparency. Currently, the WTO system foresees in mainly two transparency mechanisms: updating WTO members' on regulatory changes through notifications (SPS, TBT, TRIPS, new RTA's etc) and Trade Policy Reviews (TPR) of domestic and/or regional economies. The question to be asked here is: are current transparency mechanisms sufficient to support insights on and advancing of MSME interests in international trade? Adjustments may be needed, and/or new transparency-related initiatives could be proposed.

For example, as an existing transparency instrument, the TPR's could be used to provide more information regarding the role of MSMEs in the domestic economy as well as in international trade, to share specific challenges faced and opportunities tapped into by MSMEs, and to provide information regarding MSME specific regulatory tools. To provide improved transparency on how domestic Governments support and facilitate MSME contribution to growth and trade, WTO members could consider how to enhance these mechanisms to reflect changes in MSME-relevant regulations or procedures that affect their participation in international trade.

In this context, and with a view to the growing interest in understanding how trade impacts on societies, and MSMEs in specifically, this paper confirmed the need for improved value of data related to MSMEs in the domestic, regional and global context (see chapter 1.2b). Without improved (and aggregate) data on MSMEs, there is no basis to comparatively monitor and report on MSME participation in domestic economies and international trade.

Hence, within a WTO context, the Informal Working Group on MSMEs could explore how the need for improved data could be encompassed in current and/or new arrangements. For example; could WTO TPR's be used to encompass MSME-relevant data and information? Or: could WTO members be encouraged to conduct (yearly or bi-annual) 'SME Performance assessments' with a specific focus on MSME participation in international (regional and global) trade, and with

(partly) agreed data and definitions as basis for analysis?⁴¹

Ensuring coordinated approaches and building alliances inside WTO, whilst ensuring support from and engagement with external stakeholders outside WTO...

Third, this paper confirmed that in order to advance MSME interests (both challenges and opportunities) in a WTO context, solid coordination and outreach is needed to re-confirm old and perhaps explore new WTO coalitions, and engage with outside stakeholders where needed.

Within WTO, building alliances is key for advancing the interests of MSMEs in a WTO context. As the matter of fact MSMEs is highly horizontal of nature, touching upon a variety of existing and new matters discussed within the WTO context, this means that proposals may entail different alliances of WTO members. Exploring possible support and alliances will require a commitment to coordinating and following-up on the areas identified for development of concrete proposals. For priority themes identified in *existing* WTO Agreements, there is a need to ensure MSME relevant interests are monitored and pursued through a coordinated approach, through participation in existing WTO Committees (and new discussion fora) where an interest was identified.

Outside WTO, cooperation with the private sector has been identified as a possible area to be explored in the context of the WTO IWG on MSMEs, proposing more frequent and/or even structural engagement of certain private sector stakeholders in the WTO discussions on MSMEs Governments from developing countries

and LDCs can channel this recommendation back to the national context so as to leverage on insights and ideas within the multilateral setting. For example, initiatives (such as the ICC and WTO 'Small business champions' initiative launched in 2017⁴²) could be leveraged and set-up in a national context to seek MSME inputs and ideas, and stimulate public private dialogue on how to use the WTO to advance MSME interests in global trade.

Ensuring MSME interests are supported through a combined approach of improved rule-making and (up to date) technical assistance and capacity building efforts that reflect a changing economy....

Fourth, with regards to the technical assistance and capacity building angle to MSME discussions in WTO context, this paper highlighted the innovative connection between (WTO) trade rule-making and the availability of support recognizing the differences in development between WTO Members. With a view to the rapidly changing economy (see chapter 1.2 c on Opportunities for MSMEs), there is a need for donor organisations and developing country and LDCs Governments to revisit whether the supply of technical assistance targeting MSMEs actually matches the demand.

In a WTO context; whereas the WTO TFA can provide inspiration on the way it incorporates a unique SDT mechanism linked to flexible obligations for developing countries and LDCs, there may be other means to connect MSME-relevant technical assistance and capacity building with more traditional WTO rule-making.

⁴¹ Possible example can be found in EU annual MSME Performance reviews

⁴² See: https://www.wto.org/english/forums_e/business_e/sbc_e.htm

Whereas on-going discussions on WTO reform provide uncertainty, they may equally prove a window of opportunity to reconfirm the importance of inclusiveness (and the role of MSMEs) in the multilateral trading system.

Finally, whilst the introduction of the MSME perspective in WTO through the 'MSME Declaration' constituted a result in itself, the coming year(s) will demand more structural engagement of WTO members, especially developing countries and LDC governments, to ensure meaningful outcomes in a WTO context that will impact positively upon MSME roles in domestic societies and international trade. To achieve true 'system change' in favor of MSMEs, solid and creative engagement is needed.

The growing attention for MSMEs in the context of WTO reflects growing interest to deliver on a inclusive growth and equal development. As WTO members continue reflections and discussions on WTO reform, and need to update the WTO to meet 21st century realities, a window of opportunity exists to put forward proposals concerning the renewal and updating of visions on the underlying principles of the WTO (such as inclusiveness and transparency). Whereas the outcomes of WTO reform discussions remain highly uncertain, the discussions around inclusiveness of the multilateral trading system may equally support concrete outcomes that support the role of MSMEs in international trade.

