

Maximizing the Benefits of the WTO Trade Facilitation Agreement for SMEs

– Mainstreaming Trade Facilitation in SME
Development Strategies

Preface and Acknowledgments

This reference document for policy makers and trainers provides a succinct overview of articles of the WTO Trade Facilitation Agreement (TFA) particularly relevant to Small and Medium Enterprises (SMEs) and identifies examples of SME-specific programmes, measures and interventions that can support the implementation of such provisions. In order to maximize the benefits of the TFA for SMEs, it is suggested that the trade facilitation measures featured in the TFA be mainstreamed in the broader SME development and internationalization initiatives and programmes that may already be in place.

This guidance document was produced as part of the development of training materials on trade facilitation and paperless trade for SMEs for the United Nations Network of Experts on Paperless Trade in Asia and the Pacific (UNNExT). It was prepared by Pamela Bayonna and Yann Duval, Trade Facilitation Unit, Trade and Investment Division (TID), ESCAP and Elisa Sabbion and Eric Roeder, Business Development Section, TID, ESCAP, under the overall guidance of the UNNExT Advisory Group Members on Trade Facilitation and Paperless Trade for SMEs and Yann Duval.

This document is a “living” document, i.e., it will continue to be updated as new ideas, case studies and good practices are identified by the UNNExT network participants.

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I. The WTO Trade Facilitation Agreement and SMEs: An introduction

The WTO Trade Facilitation Agreement (WTO TFA) finalized in December 2013 aims at increasing the transparency and efficiency of customs and other administrative procedures involved in moving goods across international borders (see Box 1). Implementation of the agreement is expected to benefit both developing and developed countries, with an overall reduction of in global trade costs of 11 to 15 per cent (OECD, 2014) and global potential gain in exports estimated by some at roughly one trillion dollars, producing 21 million jobs (PIIE, 2013). Moreover, trade facilitation is expected to also benefit consumers and Small and Medium-Sized Enterprises (SMEs) (ITC, 2013).

SMEs represent 95 per cent of global enterprises and at least two-thirds of all private sector employment (ITC, 2014), and are recognized engines of growth, innovation, social integration and employment. In high-income countries, they contribute nearly two-thirds of both employment and GDP, while in low-income countries (where SMEs are typically hidden in the informal sector), formal SMEs account for almost half (45 per cent) of employment and 33 per cent of GDP (IFC, 2013).¹ In developing countries, SMEs also play an important role in closing the development gap through their contribution to poverty reduction, women empowerment, and income distribution (ITC, 2014). Countries need them to strengthen their resilience in facing a competitive and challenging global environment.

However, SMEs face particular constraints in doing business, in particular in accessing international markets. It is generally recognized that policy interventions are needed to support internationalization of SMEs and enabling their more direct participation in international trade. One constraint faced by SMEs in this context is their limited capacity to deal with the complex administrative and regulatory procedures associated with moving and selling goods across borders. A recent firm-level study conducted by the UN Regional Economic and Social Commission for Asia and the Pacific (ESCAP) found that a reduction in customs and trade clearance times increased SMEs likelihood of participation in export or international production networks (IPNs) relatively more than that of larger enterprises (Duval and Utoktham, 2014). In principle, therefore, the WTO TFA provides a convenient policy vehicle for most countries to address this constraint to SME development.

However, much of the WTO TFA – and many other trade facilitation programmes - has been crafted by governments with existing importers and exporters in mind, i.e., predominantly large firms (OECD, 2013). Indeed, both in the Asia-Pacific region and in Europe, total SME contribution to national exports never exceeds 30 per cent of total exports despite comprising upwards of 95 per cent of all employment (Abe et al., 2012; EU Commission, 2014).²

¹ Abe & Dutta (2014) cite that World Bank figures place these at over 65% of total employment and 55% of GDP in high-income countries, over 95% of total employment and about 70% of GDP in middle-income countries and over 70% of total employment and 60% of GDP in low-income countries.

² It is important to note that these figures only consider direct exports, and would be significantly complicated by indirect SME participation in global value chains (GVCs) through subcontracts with partner multinational companies, traders, exporting companies, and other intermediaries.

Box 1 - The WTO Trade Facilitation Agreement

The WTO TFA was the ultimate achievement of the 9th WTO Ministerial Conference in Bali in 2013. This Agreement contains provisions for faster and more efficient customs procedures through effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It also contains provisions for technical assistance and capacity building in this area.

The agreement has three sections. **Section I** contains the **Substantive provisions** of the agreement. It covers areas on Transparency, Fees and Formalities, Transit and Customs Cooperation, and clarifies and improves Articles V, VIII and X of the 1994 General Agreement on Tariffs and Trade (GATT). The trade facilitation provisions (or measures) to be implemented are specified under 12 different articles:

1. Publication and availability of information
2. Opportunity to comment, information before entry into force, and consultation
3. Advance rulings
4. Procedures for appeal or review
5. Other measures to enhance impartiality, non-discrimination and transparency
6. Fees and charges
7. Release and clearance of goods
8. Border agency cooperation
9. Movements of goods intended for import under customs control
10. Formalities connected with importation, exportation and transit
11. Freedom of transit
12. Customs cooperation

Section II contains **Special and Differential Treatment (SDT) provisions** that allow preferential treatment for developing and least-developed countries (LDCs).

Section III contains **Institutional Arrangements and Final provisions** that establish a permanent committee on trade facilitation at the WTO, and require Members to have a national committee to facilitate domestic coordination and implementation of the provisions of the Agreement (Art. 23.2). To benefit from SDT, a Member State must categorize and notify each provision of the Agreement as either:

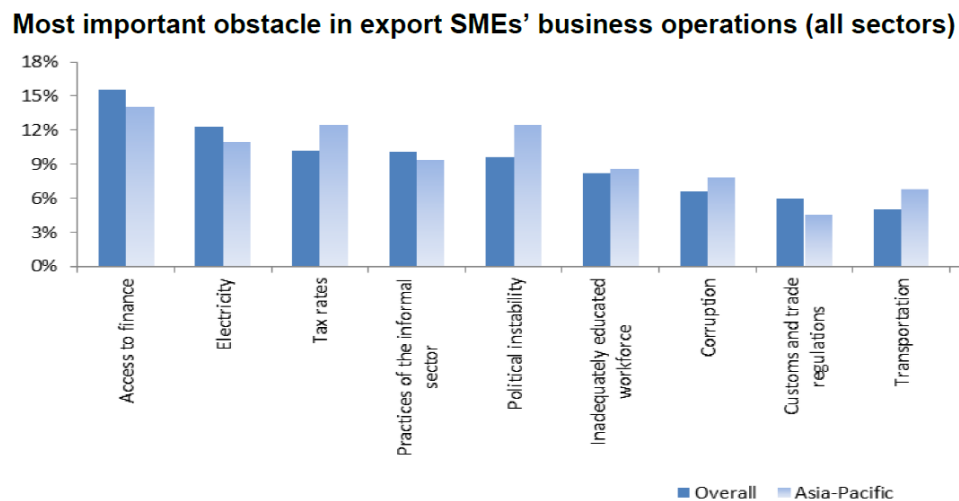
- **Category A:** implementation upon entry into force of the Agreement, or within one year after for LDCs;
- **Category B:** implementation after a transitional period following the entry into force; or
- **Category C:** implementation on a date after a transitional period following the entry into force and requiring the acquisition of assistance and support for capacity building.

II. Constraints to SME Internationalization and the TFA

SME Internationalization means engaging in global commerce through exporting, importing, investing abroad, cooperating internationally, or having international subcontractor relationships (European Commission, 2010). It is a broader concept than SME trade facilitation, which is essentially limited to making trade procedures and administrative regulations easier and less costly for SMEs.

The two concepts are however very much related and some literature already touches on this point: Li & Wilson (2009) find that for Asian countries, improvement in trade facilitation indicators increase the probability that SMEs will become exporters, and emphasize that – compared to larger firms – SMEs benefit more from improving regulatory predictability and enhancing information technology services rather than transportation infrastructure. Duval and Utoktham (2014) also find that customs and trade regulations feature among the most important obstacles faced by SME exporters in their operations (see Figure 1) and have a statistically significant impact on Asia-Pacific SME participation in International Production Networks (IPNs).³

(Figure 1)



Source: Duval and Utoktham (2014).

In this context, Joosep (2014) points out that the following WTO TFA articles are all concerned with increasing the predictability of customs and trade regulations and procedures: Article 1: Information Availability; Article 3: Advance Rulings; Article 6: Streamlining Fees & Charges; Article 7: Streamlining Release and Clearance of Goods; and Article 10: Streamlining Documentation and Administrative Procedures for Trade. As such, these might be of particular interest to policymakers for SME development.

³ Their study also highlights availability of supply chain financing, as well as access to modern information technology and international quality certification as most crucial to SME participation in IPN. All three aspects, while related to the broader concept of trade facilitation, are not directly addressed by WTO TFA provisions.

Gain (2014) also points to Article 5: Other Measures to Enhance Impartiality, Non-Discrimination and Transparency, as particularly relevant to SMEs, mentioning that accountability of Government, access to information, predictability and transparency are also key to SME participation in international trade. Meanwhile, Goh (2015) supports similar views, highlighting that SMEs' biggest concerns usually involve an understanding of technical regulations & standards, assurance and predictability of trade procedures, ICT infrastructure and transit, as well as transparency.

Table 1 shows a list of identified barriers to SME internationalization, adapted from both a more general listing by UNECE as cited by Albuero (2010), and a country-specific listing for Myanmar by Abe & Dutta (2014). TFA measures related to each identified barrier to SME internationalization are specified in the table, revealing that implementation of TFA measures may help address 5 of the 8 broad categories of barriers to SME internationalization specified in Table 1 (see also **Figure 1**).

Table 1: Bottlenecks to SME Internationalization and the WTO TFA

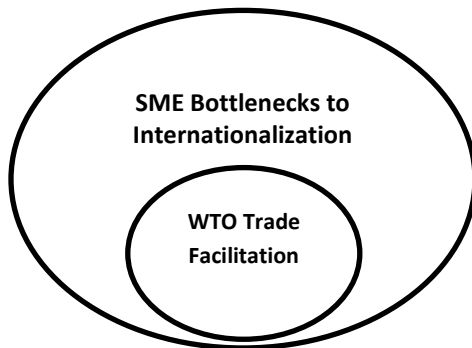
Bottlenecks to SME Internationalization⁴	Directly addressed by which TFA measures?
Absence of user-friendly legal and regulatory environment i.e. Business Enabling Environment (BEE) (Abe & Dutta, 2014)	All Articles
Lack of access to specialized information and knowledge on trade issues, including: <ul style="list-style-type: none"> • lack of familiarity with trade facilities and customs procedures • weak supply chain linkages in external markets, barring access and integration to Global Value Chains (GVCs) • lack of awareness of the benefits and implications of Free Trade Agreements (FTAs) 	Art. 1, 2, 13, supplemented by publication provisions under the rest of the articles, especially Art. 7 and 10
Poor institutional infrastructure between relevant government agencies and SMEs for coordination, consultation, and collaboration on trade issues	Art. 2, 13, 23.2
Inadequate and/or expensive access to financing	None
Non-conformity to international standards, lack of quality awareness and mutual recognition schemes (e.g. for packaging and labeling)	Art. 5, 10.3
Lack of access to and knowledge of the Internet and related emerging technologies for connectivity, including mobile technology, social networking, and other e-channels and e-commerce mechanisms	None
Socio-cultural barriers, such as the lack of an innovation or risk-taking culture in a society, language and culture barriers in foreign markets, or discrimination against entrepreneurs with underprivileged backgrounds (e.g. social, ethnic, gender and the like)	None
Lack of government-sponsored SME Business Development Services (BDS) provided by one-stop "SME Centres", including: <ul style="list-style-type: none"> • Research & Development and other innovation facilities (e.g., for technology prototyping and testing), and the commercialization thereof (e.g. Intellectual Property Rights) • entrepreneurial, managerial and marketing skills development services 	None

⁴ In no particular order

Source: Authors, modified from Albuero, 2010 and Abe & Dutta, 2014

Among the SME bottlenecks for internationalization that are specifically addressed by the TFA are: 1) the lack of access to specialized information and knowledge on trade issues; 3) lack of institutional infrastructure for public-private sector consultations with SMEs; and 4) non-conformity to international standards.

(Figure 2): SME Bottlenecks to internationalization vs. TFA



Notably, while all TFA articles – including the ones above – essentially address the ubiquitous SME problem of bureaucracy and red tape by collectively contributing to a better Business Enabling Environment (BEE), the second column highlights that not all major SME bottlenecks to international trade are specifically addressed by the TFA. Among these are: 1) the lack of government-sponsored Business Development Services (BDS) provided by “SME Centres”; 2) inadequate or expensive access to financing; and 3) socio-cultural barriers to entrepreneurship.

OECD-APEC’s 2006 SME internationalization survey of SMEs and policymakers notes that barriers to internationalization generally centre around capabilities, finance, and access. The business environment ranked only in the lower half of SMEs’ perceived top ten barriers to trade, and interestingly enough, barriers that trade facilitation measures are supposed to address were not viewed as highly important.

Likewise, Albuero (2010) cautions that on the whole there is a dearth of empirical evidence on the [positive] effects of trade facilitation and electronization initiatives (e.g. customs clearance automation and single portal interfaces) on SME internationalization per se. For instance, he notes that even though the

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