

PSM's Speaking Points

WTO Public Forum-2018 (Thursday 4 October, 8:30 to 10:00, in Room S1)

Session: Lower the costs! A step towards more inclusive trade

According to Hanne's email, there will be three parts of the session where PSM will be making his remarks:

PART-1

(Summarily describe what top key issues/challenges CUTS research identified across the three countries with regard to adopting e-commerce and selling in international markets by micro and small enterprises)

CUTS has recently conducted a study, which examines the role of e-commerce in internationalisation of Micro and Small Enterprises (MSEs), especially located in remote areas, while focussing on the effect of *de-minimis* threshold to create more inclusive trade.

- A. Major issues faced by MSEs in trading cross-border: (these observations are based on scenario in developing countries viz. India, Kenya, and Vietnam)
 - Limited production capacity
 - High shipping and logistics and shipping cost coupled with regulatory compliance cost
 - Incapable of bearing high advertisement cost and therefore, finding very difficult in reaching to international customers
 - Inadequate availability of credit/finance facilities. Additionally, the process of taking loans is very lengthy in countries like Kenya
 - Inadequate knowledge/information about export procedures and SPS/TBT standards
- B. Major issues faced by MSEs in adopting e-commerce platforms
 - Inadequate professional IT staff, high ICT infrastructure costs
 - No pick up facility in rural areas
 - Unable to serve small orders because of high shipping and packaging cost
 - Low internet penetration in rural areas, instability of internet connection at times

- Product returns and refunds are time consuming and costly

PART-2

(If you could describe the findings of the research into de minimis. A sufficiently high and broad scope of de minimis could be a 'milestone' to be reached towards change)

De minimis: a tool to create trade model that is more inclusive

Exports is a multi-factor phenomenon and is determined by a variety of socio-economic-cultural- and political factors. However, quantum of trade cost has substantial impact on exports. Large enterprises can manage their trade cost through economies of scale but it is very difficult for MSEs to bear trade cost and many times, it becomes a big barrier to their exports. Among various components of trade costs, customs duty, local taxes and customs clearance are significant ones, posing a high degree of difficulties/challenges to exports of MSEs.

- *De minimis* refers to the minimum value of the goods below which no duties and taxes are collected and streamlined border clearance is provided. This type of regime may in particular be relevant for online cross-border transactions as these consignments (especially business to consumer, B2C) often are low value.
- Various countries provide *de minimis* exemptions to small value consignments; however, its threshold limit varies from countries to countries. For example, zero in Saudi Arabia and Bahrain to US\$1000 or more in Azerbaijan and Georgia. Recently the United States has increased *de minimis* threshold from USD 200 to USD 800.
- Our analysis shows a positive relationship between *de minimis* threshold and exports by MSEs for export data on 13 exporting countries to *de minimis* level of 53 importing countries. However, the magnitude of impact of *de minimis* on exports by MSEs is quite low.
- This marginal impact may be explained by how (1) *de minimis* value threshold is considerably low in many countries, (2) many countries have excluded VAT and local tax from the scope of their *de minimis* regime, (3) many countries do not

permit benefits of *de minimis* to commercial exports, and (4) few exporters are aware about this incentive.

- Importantly, the scope of *de minimis* matters the most. Our study finds that the impact on MSE exporting is greater where the scope of a *de minimis* regime includes VAT along with customs duty. For instance, increasing the custom duty *de minimis* threshold by US\$ 1 may lead to an increase of approx. US\$ 5 million in average MSE exports of the selected countries, whereas increasing the VAT *de minimis* threshold by the same amount may lead to an increase of more than US\$ 115 million in average MSE exports of the selected countries, *ceteris paribus* (keeping other factors constant).

PART-III

(Final remarks)

- It is well said that unrestricted/less restricted trade is helpful in achieving higher economic growth but it is also important that trade should be more inclusive. Meaning that MSEs should have a level playing field and should be supported by policy parameters/programs to trade internationally.
- For more inclusive trade, policies should be designed to ensure full benefits of *de minimis*.
- It is true that governments lose customs revenue through giving *de minimis* exemptions but in many cases the cost of duty collection is much higher than the revenue collected.
- There is a need for country wise detailed analysis at firm level data for calculating cost and benefits of this important regime so that respective countries can review and revise their *de minimis* threshold.