

# ***Setting Priorities Right in Trade Facilitation and Paperless Trade Insights from ARTNeT***

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# ***In Brief***

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# ***Introduction: IT in TF for SMEs***

- Robust knowledge base – sustained support for and interest by young scholars on TF issues inside and outside ARTNeT
- Development of NSW – concentrating on single portal nationally and regional interface
- Understanding impacts of TF on SMEs remains nascent and not-so-clear
- Use of IT for TF and impacts on SMEs also remains nascent and not-so-clear

- More empirical work and insights on distinction between SMEs in production and in trade
  - In the Philippines, for example, while SMEs (10-199 workers) account for only 9 percent of all enterprises (the bulk micro), they make up 70% of 10,000 firms exporting (2008) but less than 25% of export revenue comes from MSME
  - In the AP region international commerce is done through network firms and multinationals (large firms); SMEs have to overcome these existing barriers (Tulus 2013)

# ***Characteristics of SMEs in Trade***

- Size, being the primary definition of SME, is associated with many other characteristics
- GFPTT lists 14 barriers SMEs face in becoming internationalized – entrepreneurial/managerial skills, bureaucracy, information, finance/capital, technology, quality/standardization, language, risks, competition of indigenous SMEs in foreign markets, supply-supporting programs, documentation, incentives for internationalization, inadequate intellectual property protection

- Poor record-keeping, often manually organized
- Generic term to describe these characteristics – an *informal* system
- Relying on information and finance sources outside the formal structures available to large enterprises – in some countries (e.g. Mongolia) heavy reliance on family/friends for sources of finance and information
- In terms of engaging in international trade, SMEs undertake their own process of goods declaration (export and import), directly arrange for cargo release and transport, and comply or settle any dispute regarding classification, valuation, etc.

- SME characteristics are general across different countries – developed and developing

→US-Canada border trade characterized by many SMEs sorting through “...thousands of regulations and paperwork requirements, trying to find answers to specific border/trade questions, trying to fit into a program or policy designed for much larger firms, simply trying to understand the ‘language’ of importing or exporting without having to hire outside professionals, and worrying about the seemingly arbitrary application of rules by border officials...”

→At least 44 Canadian/US agencies have border jurisdictions and some 4,500 new/revised regulations are introduced by federal/provincial governments each year

→Even with a free-trade-agreement (NAFTA), barriers SMEs face remain formidable including classification of products, certificates of origin, duty drawback, and access to information, use of brokers and couriers, and infrastructure

→Same is true in the south side of the borders where traffic rights are stacked against Mexican cargo vehicles from crossing into US territory



# ***Prioritizing TF and Paperless Trade***

- Transforming trade requirements and procedures (especially as these become complex) into electronic mode is a natural progression
- NSW pursued by many countries that trade with each other part of the progression
- Electronic transmission and exchange makes trade more efficient and transparent and improves regulatory enforcement
- Mutual recognition of trade-related data and documents promotes cross-border trade

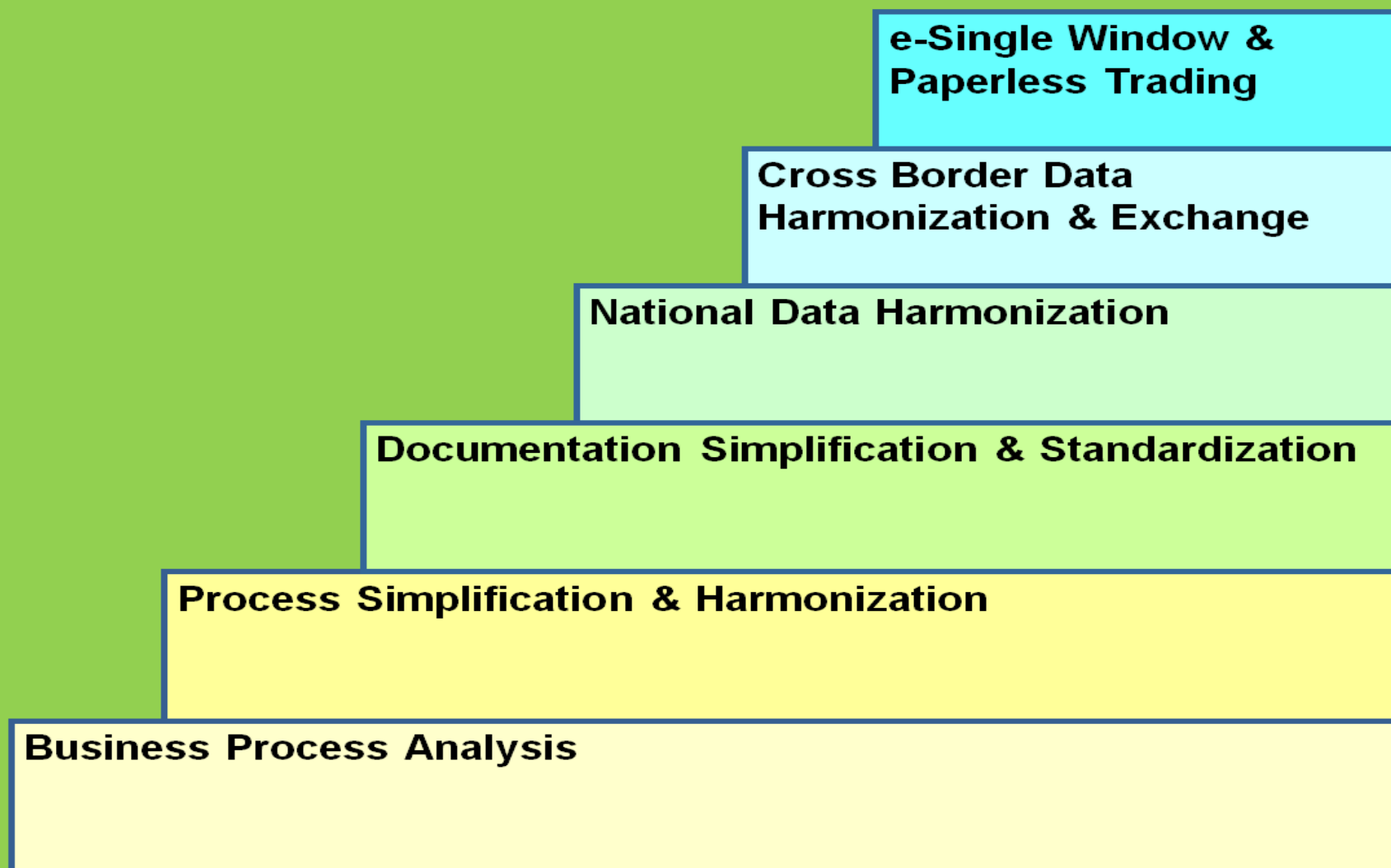
- Drawing in SMEs into a paperless trade system is a challenge – after all large firms are already electronically driven and are at operational stage for any paperless system
- The crucial question is what determines SME participation in a paperless trading system – and a later question what its readiness is?
- But Tulus (2013) RRL shows no evidence that MSMEs have increased their formal integration into international trading system or increased use of paperless trade irrespective of level of development

- Even if the trading system is fully automated its compliance is seen to be burdensome to MSME aside from a major shift to an e-culture
- The formal system must be made more attractive to them to embrace paperless trade
- Such paperless system of national trade has to be removed of its underlying (manual) complexities, simplified in understanding procedures, and impose no additional burden on small traders
- These mean, for example, reduced documentary requirements (even if electronically encoded), harmonized needed information, speedier customs clearance and release, moving trade controls to earlier date (i.e. allowing pre-arrival formalities), among others.

- What do these mean then for priorities for paperless trade to include SMEs?
  - A formal information system (portal) that caters to the needs of SMEs from technology to finance to customs requirements – the ASEAN Trade Repository may be one
  - A campaign for e-culture which may have to start from government institutions to be fully automated and inter-connected aside from sustained SME training
  - Tracking the behavior of SMEs that are indirect traders through large enterprises

- Re-examine trade-related procedures required by all border agencies for further simplification, consolidation, and harmonization
- Provide support to the micro-enterprises to grow out of and become small and medium enterprises that would have more formal systems in place including IT
- Ensure that broad policies are not perceived as additional burden to SMEs and would benefit them in the long-run and encouraging them to become part of the formal trading system
- These belong to the foundation of a paperless system and its strength builds the strength of etrade

# A Step Approach to Paperless Trade



***End...***