Accelerating SME Trade: *De Minimis* Plurilateral

Dr. Kati Suominen  
Founder & CEO, Nextrade Group; Founder, TradeUp Capital Fund  
Adjunct Fellow, Center for Strategic and International Studies (CSIS)  
24 April 2017  
Ecommerce Week, Geneva  
kati@nextradegroupllc.com
Problem: Very Little Action to Align Customs Procedures with Rise of Small Business Trade

- Customs procedures is among top-3 bottlenecks to SME trade
- SMEs have higher fixed costs of trade compliance
- SMEs’ compliance capabilities are less
- Countless econometric studies: low *de minimis* levels are counterproductive – bring in less than cost
- Raising *de minimis* is found to fuel customs revenue and boosts welfare
SMEs in 15 Developing Countries: Customs and logistics among worst challenges to ecommerce

Same in Latin America

Challenges Experienced as “Very Significant” by LAC Companies to Cross-Border Online Sales, by Type (cross-border sellers)

- Market access limitations
- Poor logistics in other markets
- Uncertain legal liability rules
- Compliance with customs requirements
- Problems with online payments
- Data localization requirements
- Privacy or data protection requirements
- Limited or poor connectivity
- Overly burdensome intellectual property rules
- Intellectual property rights infringement
- Censorship

Source: Suominen (2016), Accelerating Digital Trade in Latin America and the Caribbean (for IADB, forthcoming).
And the United States

<table>
<thead>
<tr>
<th>Issue</th>
<th>Some burden</th>
<th>Major burden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs procedures</td>
<td>[ ]</td>
<td>[ ]</td>
</tr>
<tr>
<td>Difficulty establishing affiliates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign taxation issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficulty in receiving or processing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient IPR protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign regulations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unable to find foreign partners</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Visa issues</td>
<td>[ ]</td>
<td></td>
</tr>
</tbody>
</table>

Silver Bullet: Raise *De Minimis*

- Fast-track SME trade
- Lower compliance costs for SMEs
- Save cost of duty and tax collection
- Lower prices for domestic companies and consumers
- Ease returns → domestic retailers’ competitiveness
- No tax discrimination against foreign small retailers
- Get rid of possibly unenforceable taxes (of distant domestic retailers)
## Net Economic Benefit from Increased *De Minimis* Levels, USD Millions

<table>
<thead>
<tr>
<th>Alternative Threshold USD</th>
<th>Canada</th>
<th>Indonesia</th>
<th>Japan</th>
<th>Malaysia</th>
<th>Thailand</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50</td>
<td>$30.20</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>$0.30</td>
<td>N/A</td>
</tr>
<tr>
<td>$100</td>
<td>$3,663.00</td>
<td>$28.48</td>
<td>0</td>
<td>0</td>
<td>$53.40</td>
<td>$6.90</td>
</tr>
<tr>
<td>$150</td>
<td>$4,511.00</td>
<td>$31.70</td>
<td>$101.00</td>
<td>0</td>
<td>$59.50</td>
<td>$8.60</td>
</tr>
<tr>
<td>$200</td>
<td>$5,268.00</td>
<td>$34.90</td>
<td>$296.00</td>
<td>$17.70</td>
<td>$65.80</td>
<td>$9.40</td>
</tr>
</tbody>
</table>

Source: CAPEC and Trade Data International Pty Ltd, estimates by ITS Global Asia Pacific, cited in Holloway and Rae. For Vietnam, source is Jeffrey Rae, “The Economic Impact of Increased De Minimis Thresholds on ASEAN Economies, ASEAN Regulatory Reform Symposium, Manila, The Philippines, 23 July 2012.
Yet: *De Minimis* Levels Largely Unchanged

- Many governments: wrong direction
Now: Turn The Lousy Equation Around

OLD PARADIGM

- Economists: “higher de minimis levels = welfare”
- Governments: “higher de minimis = less revenue, wrath from domestic retailers”

NEW PARADIGM

- Increase de minimis = more SME exports
- Vehicle: plurilateral agreement on de minimis
How Much Low-Value Item Trade is There?
Parcel shipments up 73% in 2011-15

Growth in Tonnage of Cross-Border Parcel Flows in 2011-15, Selected Regions and Directions (Index where World in 2011 = 100)

Source: Suominen based on UPU data.
Bulk of shipments <$100

Distribution of Shipments by Value

Mean and median shipments very small

Source: Suominen based on various industry sources.
Most growth in shipments <$100 (below *de minimis*)

**Growth of Shipments by Value Category**

Source: Suominen based on various industry sources.
Elements of *De Minimis* Plurilateral

- **Coverage:** customs duties, taxes (VAT, GST)

- **Thresholds:** everyone ratchets up to $1,000 in max 5-7 years, with minimum 10% increase per annum

- **LDCs can get SDT**

- **Members:** critical mass; open for outsiders to join

- “Soft-launch” pilot in a smaller group on non-MFN basis, e.g. within Pacific Alliance, ASEAN (already have RoO)

- **MFN treatment** as end-goal as coverage expands

- **Members get capacity-building:**
  - Impact assessments of de minimis thresholds for customs
  - SME ecommerce capacity-building for export promotion agencies
Steps to a *De Minimis* Plurilateral

- **Development banks:** Create ecommerce capacity-building program for willing countries
- **Help each economy assess net effects** (including SME exports) of scenarios
- **Stage intergovernmental negotiation** for 18-month pilot
- **Assess impact annually**
- **Who should drive:** developing countries that
  - Ask developed countries (Canada, EU) to work together
  - Get longer phase-out
- **Above thresholds:** Trusted eTrader Program
  - PPP with big data on ecommerce shipments for customs security assessments (like ACAS)
  - Simplified compliance
  - Fast-track clearance for Trusted eTraders
Accelerating SME Trade: *De Minimis* Plurilateral

Dr. Kati Suominen
Founder & CEO, Nextrade Group; Founder, TradeUp Capital Fund
Adjunct Fellow, Center for Strategic and International Studies (CSIS)
24 April 2017
Ecommerce Week, Geneva
kati@nextradegroupllc.com