

## **Silver Bullet to Fire Up Small Business Exports: Plurilateral Agreement on De Minimis**

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For governments seeking to harness the promise of ecommerce to catalyze entrepreneurship, small business exports, and job-creation in their economies, unburdening small online sellers from arcane customs procedures and duties should be a top priority. The quick-fix is to raise *de minimis* levels – the maximum value of an import that is exempt from customs duties, taxes, and formal customs procedures. High *de minimis* is pure free trade for small business.

Yet despite countless econometric studies on the benefits of higher *de minimis* rates on implementing economies, *de minimis* levels have remained remarkably low around the world – because *de minimis* is about two difficult policy issues, taxes and imports. Governments continue seeing higher *de minimis* as leading to loss of tax revenue and political backlash from domestic retailers fearful of foreign competition.

[This new report](#) I wrote turns this lousy equation around: a plurilateral agreement on *de minimis* among a coalition of countries that want to free their small business exporters from frictions in their key export markets.

There is no shortage of rigorous empirical studies that show that low *de minimis* is self-defeating for governments: often the collection costs of taxes and duties on low-value items outweigh more than the actual amounts collected. Nor is there a lack of first-rate econometric studies showing that higher *de minimis* levels would in practically every economy streamline customs clearance, increase welfare, lower small businesses' trade compliance costs, and boost trade in low-value items.

Low *de minimis* levels can also be seen as discriminatory. After all, large local retailers enjoy a greater speed to market than do distant foreign online sellers – and, unlike foreign retailers, consume local resources, such as water, roads, and infrastructure. It is thus only fair that they, rather than far-flung small foreign retailers, pay sales taxes. Taxing remote small retailers in developing countries is also poor development policy by advanced economies interested in job-creation and economic opportunity in developing countries.

Yet *de minimis* levels have remained largely unchanged with the exception of the United States, which in 2016 raised its *de minimis* from \$200 to \$800, and the Philippines, which raised its *de minimis* from less than \$1 to \$210. Most readily these measures reduce administrative costs in U.S. and Philippine customs and lower costs to their consumers and small businesses that use foreign inputs in their products. Surely Canadian companies that import parts and components would prefer an \$800 *de minimis* enjoyed by their U.S. competitors than Canada's *de minimis* of \$15. But, governments are sticking to their guns and some are going backward, essentially lowering or abolishing *de minimis* altogether.

The reason for this remarkable resistance to increasing *de minimis* is that many governments see it as a bad deal and unilateral disarmament with considerable financial and political costs – loss of tax revenue and political

backlash from domestic retailers.

Economists have not and will not win the argument for *de minimis* with graphs about the trade and welfare gains higher *de minimis* would deliver for implementing economies. This has been tried many times, mostly unsuccessfully. Instead, the political economy equation needs to be transformed, for governments to score a quick political win by raising *de minimis*.

A simple way I propose in my report to make *de minimis* politically attractive to government is to negotiate a [\*de minimis plurilateral\*](#). In such an agreement, each member government commits to ratcheting up its *de minimis* over a period of 5-7 years to \$1,000, in exchange to a similar commitment from the other members. As such, each member government gives a little market access at the lower rungs of trade *in order to* gain a lot more market access for its small businesses in return, just as in a tariff reduction agreement.

This approach turns the endless debates on *de minimis* on their head: rather than worrying about lost revenue and protectionist backlash, governments can now cast a higher *de minimis* as an instrument of greater foreign market access for their own countries' small businesses. They can use the *de minimis* deal to cater to thousands of small business online exporters and the ecommerce, IT, logistics, and services ecosystem that supports them. Governments may even gain the support of players that have resisted change in the past: many traditional retailers are today exploring omnichannel sales reaching foreign shoppers.

In practice, the *de minimis* plurilateral could contain the following elements:

- **Members:** The *de minimis* plurilateral should be formed among a “coalition of the willing” countries that assume the rights and obligations of the agreement. The agreement should ultimately cover a meaningful share of the world trade in low-value items. As such, it will ultimately require the membership of the largest traders – China, United States, EU, and Japan. However, there is no need to wait for all the large players to fall in line: a *de minimis* plurilateral can be championed among a subset of large traders and/or in integration groupings with ready inter-governmental negotiation platforms, such as the Pacific Alliance or ASEAN, and expanded from there to other economies.
- **Implementation schedule:** To accommodate the prospective member countries' different starting points and political concerns, the *de minimis* plurilateral should have different implementation schedules, as countries do when lowering tariffs or as was done in the Trade Facilitation Agreement. Developing countries could ratchet their *de minimis* levels up more gradually than developed economies.
- **Treatment of sales taxes.** The *de minimis* plurilateral negotiation should be comprehensive and cover VAT and GST as well as customs duties. And members to a *de minimis* plurilateral should be barred from increasing taxes on imported items above the *de minimis* threshold to “compensate” for the revenue losses from increased *de minimis*. Members should also consider enabling the collection and remit of taxes for goods above the *de minimis* level from away from the border and perhaps create harmonized tariff codes for low value items that in and of itself qualifies for clearance.
- **Most favored nation (MFN) treatment:** A major concern related to a *de minimis* plurilateral is whether it is implemented on an MFN basis – so that all WTO members receive benefit of members' increased *de minimis* levels – or on a non-MFN basis, where it applies only to the signatories. The latter offers network effects: outsiders are incentivized to join the agreement the larger the membership grows. However, it requires

applying common rules of origin among the parties – which points to negotiating the deal in an integration grouping that already applies rules of origin, such as the Pacific Alliance. Another choice is to negotiate the agreement on an MFN basis among countries that are the most important trading partners to each other. This approach would also implicitly help reinforce WTO principles of inclusiveness and multilateralism.

- **Capacity-building.** A *de minimis* plurilateral is pure free trade for small business. However, developing countries would likely be concerned of its impact on their trade and revenues. They can be assuaged by a comprehensive capacity-building package supported by global aid agencies and consisting of three elements:
  - **Impact assessments.** Multilateral development banks or other agencies could provide countries that consider joining the *de minimis* plurilateral technical assistance to assess the impacts of the agreement under different thresholds, timelines, and members, and assess net effects annually.
  - **Compensation for losses.** Development banks and donors could pledge to compensate governments for a share of net financial and economic losses, during the first 24 months of implementation. This takes risk off the table for governments, while unlikely resulting in any costs to donors.
  - **MSME capacity-building.** Countries acceding to the *de minimis* plurilateral could automatically become part of a rigorous MSME capacity-building program backed by donors and, possibly, private investors and impact funds. Such a program would have a pool of committed capital accessible for the plurilateral agreement members that both keep to their implementation schedule and design high-quality capacity-building projects.

### Who should get *de minimis* talks started?

The ultimate aspiration needs to be a broad-based plurilateral among developed and developing economies. For developed economies, raising *de minimis* is good development policy: such “sales tax-free” access helps developing country small businesses use global ecommerce platforms and grow and prosper on the back of ecommerce exports. But developed economies except for the U.S. have not shown signs of acting on this point. Thus the demanders of the deal should be developing countries intent on using it to gain broader access for their small businesses in advanced economy markets, especially Canada and the EU. They can do so without opening their own market immediately by building a more gradual treatment into the plurilateral for developing nations.

Of course, higher *de minimis* levels are not only for small business: they help any company selling and buying low-value items, from Nike to Walmart and thousands others. But the aspiration of many governments is to fuel small business ecommerce – and that aspiration has yet to be matched by a 21<sup>st</sup> century customs regime that accommodates small business. A plurilateral agreement on *de minimis* would go a long way to rectifying this. The rewards for those who join will be great – a boost in small business exports, along with saved resources, streamlined customs procedures, competitiveness gains for domestic firms, and increased welfare for domestic consumers.

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